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Report to Congressional Requesters

April 1999

# BUDGET ISSUES

# Budgetary Implications of Selected GAO Work for Fiscal Year 2000

GAO/OCG-99-26

GAO

United States
General Accounting Office
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**Comptroller General**
**of the United States**

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April 16, 1999

The Honorable Pete V. Domenici
Chairman
The Honorable Frank R. Lautenberg
Ranking Minority Member
Committee on the Budget
United States Senate

The Honorable John R. Kasich
Chairman
The Honorable John M. Spratt, Jr.
Ranking Minority Member
Committee on the Budget
House of Representatives

As you requested, this report identifies in a single document the budgetary implications of selected program reforms discussed in our work but not yet implemented or enacted. This report is part of a special biennial series designed to help each new Congress identify options that could be used to reduce federal spending or increase revenues. Where available, budgetary savings estimates provided by the Congressional Budget Office (CBO) or the Joint Committee on Taxation (JCT) are presented for each of the options.

This report contains over 100 options. Twenty-three are new to this year's report; the remainder are updated versions of options that appeared in our March 1997 report.[1] All of these options are based on key findings and issues developed in our audits and evaluations. Each option represents one way to address in a budgetary context some of the significant problems identified in our reviews of federal programs and activities. The Congress has many available options for cutting spending or raising revenue, and inclusion of a specific option in this report does not mean we endorse it, nor does it mean that the option presented is the only or most feasible approach to a particular issue. In addition, this report is not intended to provide a comprehensive framework for addressing the major

[1]Addressing the Deficit: Budgetary Implications of Selected GAO Work for Fiscal Year 1998 (GAO/OCG-97-2, Mar. 14, 1997).

fiscal challenges facing the nation arising from such critical programs as Social Security and Medicare.[2]

This report is divided into four appendixes. Appendix I discusses the conventions used to estimate savings and revenue gains. Appendix II provides for congressional consideration an analytical framework in which to consider cost savings or revenue increases. This framework provides one set of criteria that may be used to assess goals, scope, and approaches for delivering federal programs. It is organized around the following three broad themes:

- reassess objectives—reconsider whether to terminate or revise services and programs provided;
- redefine beneficiaries—reconsider who pays for or benefits from a particular program; and
- improve efficiency—reconsider how a program or service is provided.

Appendix III presents narrative descriptions of the options including available estimates of budgetary savings as determined by CBO or JCT. This appendix presents reduced spending options first—organized by budget function—and then additional receipt options. Each option also includes a listing of relevant GAO reports and testimonies and a GAO contact.

Lastly, appendix IV lists options from the March 1997 report that were not updated for this year's volume based on our review of congressional and agency actions taken over the past 2 years. Over 60 options from our last report are not included in this report because (1) the option was fully or substantially acted upon by the Congress or the cognizant agency, (2) the option was no longer appropriate due to environmental changes or the aging of our work, or (3) the Congress or the cognizant agency chose a different approach to address the issues discussed in the option. We will continue to monitor many of these options to assess whether underlying issues are ultimately resolved based on the actions taken. For example, our work repeatedly has identified chronic problems with the space station in terms of cost increases. The Congress has decided to begin deployment. We will continue to monitor this and report periodically.

[2]For discussion of the fiscal and program issues facing Social Security and Medicare, see Social Security and Surpluses: GAO's Perspective on the President's Proposals (GAO/T-AIMD/HEHS-99-96, Feb. 23, 1999), Medicare and Budget Surpluses: GAO's Perspective on the President's Proposal and the Need for Reform (GAO/T-AIMD/HEHS-99-113, Mar. 10, 1999), and Social Security: Criteria for Evaluating Social Security Reform Proposals (GAO/T-HEHS-99-94, Mar. 25, 1999).

Although we derived the budget options in this report from our existing body of work, there are similarities with other proposals. For example, some options contained in this report have also been included in past editions of CBO's annual publication, Reducing the Deficit: Spending and Revenue Options, House and Senate Budget Resolution proposals, and the President's annual budget submission.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Appropriations committees and relevant subcommittees; the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs and the Committee on Finance; and to the Chairmen and Ranking Minority Members of the House Committee on Government Reform and the Committee on Ways and Means. Copies will be made available to others upon request.

This report was prepared under the direction of Paul L. Posner, Director, Budget Issues, who may be reached at (202) 512-9573. Specific questions about individual options may be directed to the GAO contact listed with each option. Major contributors to this report are listed in appendix V.

David M. Walker
Comptroller General
of the United States

# Contents

# Explanation of Conventions Used to Estimate Savings and Revenue Gains

CBO and JCT provided cost estimates for many of our options. As in our March 1997 report, a brief explanation is included with the option if specific estimates could not be provided. Where estimates are provided, the following conventions were followed.[1]

- For revenue estimates, the increase in collections reflects what would occur, over and above amounts due under current law, if the option were enacted.
- For direct spending programs, estimated savings show the difference between what the program would cost under the CBO baseline, which assumes continuation of current law, and what it would cost after the suggested modification.
- For discretionary spending programs the estimates show savings compared to the fiscal year 1999 appropriations in nominal terms (held constant for the next 10 years).

Specific assumptions made in estimating individual options are noted in the option narratives in appendix III.

Subsequent savings and revenue estimates provided by CBO and JCT may not match exactly those contained in this report. Differences in details of specific proposals, changes in assumptions which underlie the analyses, and updated baselines can all lead to significant differences in estimates. Also, a few of our options— involving the sale of real estate and other government-owned property— constitute asset sales. Under the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, proceeds from a non-routine asset sale may be counted only if the sale entails no net financial cost to the government. We have included those options that constitute asset sales whether or not they meet that test.

Finally, some of the options could not be scored by CBO or JCT under current scorekeeping conventions. Several of these involve management improvements that we believe can contribute to reduced spending or increased revenues but whose effects are too uncertain to be estimated. A few options are not estimated because they concern future choices about spending that is not currently in the baseline used to calculate annual spending and revenue. In other cases, savings are likely to come in years beyond the 10-year estimation period that CBO uses.

[1]For a complete discussion of the uses and caveats of the CBO estimates, see CBO's report, Maintaining Budgetary Discipline (forthcoming).

# A Framework for Considering Savings and Revenue Gains

The recent history of deficit reduction efforts suggests that basing decisions on explicit policy rationales, rather than considering separate program-by-program assessments, may improve chances for success. A consistent and systematic framework can be an effective means to formulate and package broad-based spending and revenue proposals. Also, this kind of approach can be used regardless of any other budgetary control mechanism (for example, discretionary spending limits or sequestration proced ures) or any given level of desired deficit reduction.

Our framework consists of three broad themes: reassess objectives, redefine beneficiaries, and improve efficiency. These three fundamental strategies are based on an implicit set of decision rules that encourage decisionmakers to think systematically, within an ever-changing environment, about

- what services the government provides or should continue to provide,
- for whom these services are or should be provided, and
- how services are or should be provided.

By using a policy-oriented framework such as this, choices can be made more clearly and the results become more defensible.

## Reassess Objectives

The first theme within our framework focuses on the objectives of federal programs or services. Our premise is that periodically reconsidering a program's original purpose, the conditions under which it continues to operate, and its cost-effectiveness is appropriate. Our work suggests three decision rules that illustrate this strategy.

- Programs can be considered for termination if they have succeeded in accomplishing their intended objectives or if it is determined that the programs have persistently failed to accomplish their objectives.
- Programs can be considered for termination or revision when underlying conditions change so that the original objectives may no longer be valid.
- Programs can be reexamined when cost estimates increase significantly above those associated with original objectives, when benefits fall substantially below original expectations, or both.

For example, the Comanche helicopter is intended to replace the Vietnam-era scout and attack helicopters that the Army considers incapable of meeting its existing or future requirements. However, real and probable development cost increases, uncertain operating and support cost savings, questions about the role of the Comanche compared to other more affordable Army helicopters, deferral of the production decision, and current defense budgets raise questions about the cost/benefits of this program.

## Redefine Beneficiaries

The second theme within our framework focuses on the intended beneficiaries for federal programs or services. The Congress originally defines the intended audience for any program or service based on some perception of eligibility and/or need. To better reflect and target increasingly limited resources, these definitions can be periodically reviewed and revised. Our body of work suggests four decision rules that illustrate this strategy.

- Formulas for a variety of grant programs to state and local governments can be revised to better reflect the fiscal capacity of the recipient jurisdiction. This strategy could reduce overall funding demands while simultaneously redistributing available grant funds so that the most needy receive the same or increased levels of support.
- Eligibility rules can be revised, without altering the objectives of the program or service.
- Fees can be targeted to individuals, groups, or industries that directly benefit from federal programs. Also, existing charges can be increased so that the direct beneficiaries share a greater portion of a program's cost.
- Tax preferences can be narrowed or eliminated by revising eligibility criteria or limiting the maximum amount of preference allowable.

For example, at a time when federal domestic discretionary resources are constrained, better targeting of grant formulas offers a strategy to bring down federal outlays by concentrating reductions on wealthier localities with fewer needs and greater capacity to absorb cuts. Federal grant formulas could be redesigned to lower federal costs by disproportionately reducing federal funds to states and localities with the strongest tax bases and fewer needs, as shown in our option on formula grants.

## Improve Efficiency

The third theme within our framework addresses how the program or service is delivered. This strategy suggests that focusing on the approach or delivery method can significantly reduce spending or increase collections. Our body of work suggests five decision rules that illustrate this strategy.

- Reorganizing and consolidating programs or activities with similar objectives and audiences can eliminate duplication and improve operational efficiency.
- Using reengineering, benchmarking, streamlining, and other process change techniques can reduce the cost of delivering services and programs.
- Using performance measurement and generally improving the accuracy of available program information can promote accountability and effectiveness and reduce errors.
- Improving collection methods and ensuring that all revenues and debts owed are collected can increase federal revenues.
- Establishing market-based prices can help the government recover the cost of providing services while encouraging the best use of the government's resources.

As an illustration of this theme, the federal government collects fees from private interests for the sale or use of natural resources on federal lands. A percentage of these fees is, under certain conditions, allocated to states and counties as an offset for tax revenues not received from the federal lands. Federal land management agencies typically do not deduct the full costs of their programs from the gross receipts that the programs generate before sharing the receipts with states and counties. Sharing federal receipts on a gross, rather than a net, basis often reduces the federal government's share of the revenues. Changing revenue sharing from a gross-receipt to a net-receipt basis would reduce net federal outlays and produce savings to the government.

# Options for Increased Savings and Revenue Gains

This appendix describes each of our options for increased savings and revenue gains organized by budget function and receipts. For each option, we provide, when relevant, information about the authorizing committee, appropriations subcommittee, primary agency, budget account, spending type, budget subfunction, and framework theme. We then provide a summary and description of budgetary implications, followed by an estimate (when available) of savings or revenue increases, relevant GAO reports, and a GAO contact.

## 050 National Defense

Guided Weapons
Aircraft Carrier Propulsion Cost-Effectiveness
F-22 Fighter
Army's Comanche Helicopter Program
C-130 and KC-135 Reserve Squadrons
Continental Air Defense
Carrier Battle Group Expansions and Upgrades
Air Force Bomber Force Requirements
Air Force Fighter Squadrons
Military Exchange Stores Consolidation
Army National Guard Divisions
Fiscal Year 2000 Military Personnel Budget Requirements
DOD's Fiscal Year 2000 Civilian Personnel Budget Requirements
DOD's Transportation Migration Systems
Navy Financial Management of Operating Materials and Supplies
Defense Infrastructure Reform
DOD's Finance and Accounting Infrastructure
Sizing the Military Health System
Copayment for Care in Military Treatment Facilities
Administering Defense Health Care
Uniformed Services University of the Health Sciences

## Option: Guided Weapons

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Account | Missile Procurement, Air Force (57-3020)<br>Weapons Procurement, Navy (17-1507)<br>Missile Procurement, Army (21-2032) |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

Following the Persian Gulf War, DOD identified a need to improve its arsenal of guided weapons. These improvements would increase target destruction while decreasing the number of missions and weapons used, unwanted collateral damage, and exposure of our aircraft to enemy defenses. Thus, in the early 1990s, the services initiated a number of programs to upgrade existing weapons and produce new guided weapons. The acquisition programs now underway are expected to cost about $16.6 billion (then year dollars) from fiscal years 1998 to 2007. These programs would almost double the existing inventory of guided weapons through the acquisition of about 158,000 new guided weapons. This does not include the undetermined quantities and costs for a number of guided weapons that are in early development. DOD already has enough guided weapons in its inventory to meet current national security objectives for deep attack missions.

To pay for all the new guided systems and upgrades, DOD will need to more than double the average annual amount it has been spending on guided weapons. According to DOD's fiscal year 1999 Future Years Defense Program, planned annual spending for guided weapons will need to increase from about $775 million in fiscal year 1998 to more than $2 billion in fiscal year 2003. Cost growth would result in further increases. These increases are planned as other major procurement programs are also forecasting large increases.

In a report issued in December 1998, we found (1) widespread overlap and duplication of guided weapons types and capabilities and (2) questionable quantities being procured for each target class. We concluded that DOD is not providing effective management oversight and coordination over the individual services' development and procurement of guided weapons. It also noted that DOD has no central oversight body to examine guided weapons programs in the aggregate and to assess the types and numbers of weapons needed to meet national security objectives. GAO recommended, among other things, that DOD reevaluate the planned guided weapons acquisition programs in light of existing capabilities and the current budgetary and security environment to determine whether the procurement of all planned guided weapon types and quantities (1) is necessary and cost-effective in the aggregate and (2) can clearly be carried out as proposed within realistic, long-term projections of procurement funding.

The large funding increases needed to support the services' plans for acquiring additional guided weapons capabilities may not be cost effective considering widespread overlap and duplication of guided weapons types and capabilities, questions regarding quantity requirements, existing capabilities and inventory levels, and other high priority defense requirements competing for funding. If the Congress directed DOD to maintain annual guided weapons funding at the already increased fiscal year 1999 level of $1.178 billion and adjust only for inflation, DOD could still achieve substantial improvements in its guided weapons capabilities with associated savings as shown below.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 318 | 590 | 495 | 792 | 903 |
| Outlays | 53 | 191 | 366 | 514 | 630 |

Source: Congressional Budget Office.

## Related GAO Products

Weapons Acquisitions: Guided Weapon Plans Need to Be Reassessed (GAO/NSIAD-99-32, Dec. 9, 1998).

Future Years Defense Program: DOD's 1998 Plan Has Substantial Risks in Execution (GAO/NSIAD-98-26, Oct. 23, 1997).

Aircraft Acquisition: Affordability of DOD's Investment Strategy (GAO/NSIAD-97-88, Sept. 8, 1997).

Weapons Acquisition: Better Use of Limited DOD Acquisition Funding Would Reduce Costs (GAO/NSIAD-97-23, Feb. 13, 1997).

Combat Air Power: Joint Mission Assessments Needed Before Making Program and Budget Decisions (GAO/NSIAD-96-177, Sept. 20, 1996).

Weapons Acquisition: Precision Guided Munitions in Inventory, Production, and Development (GAO/NSIAD-95-95, June 23, 1995).

## GAO Contact

Louis J. Rodrigues, (202) 512-4841

# Option: Aircraft Carrier Propulsion Cost-Effectiveness

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Accounts | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

Throughout the 1960s and most of the 1970s, the Navy pursued a goal of creating a fleet of nuclear carrier task forces. The centerpiece of these task forces, the nuclear-powered aircraft carrier, would be escorted by nuclear-powered surface combatants and nuclear-powered submarines. In deciding to build nuclear-powered surface combatants, the Navy believed that the greatest benefit would be achieved when all the combatant ships in the task force were nuclear-powered. However, the Navy stopped building nuclear-powered surface combatants after 1975 because of the high cost. Recently, most of the remaining nuclear-powered surface combatants have been decommissioned early because they were not cost-effective to operate and maintain.

Our analysis shows that both conventional and nuclear aircraft carriers have been effective in fulfilling U.S. forward presence, crisis response, and war-fighting requirements and share many characteristics and capabilities. Conventionally and nuclear-powered carriers both have the same standard air wing and train to the same mission requirements. Each type of carrier offers certain advantages. For example, conventionally powered carriers spend less time in extended maintenance and, as a result, they can provide more forward presence coverage. By the same token, nuclear carriers can store larger quantities of aviation fuel and munitions and, as a result, are less dependent upon at-sea replenishment. There was little difference in the operational effectiveness of nuclear and conventional carriers in the Persian Gulf War.

The U.S. maintains a continuous presence in the Pacific region by homeporting a conventionally powered carrier in Japan. If the Navy switches to an all nuclear carrier force, it would need to homeport a nuclear-powered carrier there to maintain the current level of worldwide overseas presence with a 12-carrier force. Homeporting a nuclear-powered carrier in Japan could prove difficult and costly because of the need for support facilities, infrastructure improvements, and additional personnel.

The U.S. would need a larger carrier force if it wanted to maintain a similar level of presence in the Pacific region with nuclear-powered carriers homeported in the U.S.

The life-cycle costs—investment, operating and support, and inactivation and disposal costs—are greater for nuclear-powered carriers than conventionally powered carriers. GAO's analysis, based on historical and projected costs, shows that life-cycle costs for conventionally powered and nuclear-powered carriers (for a notional 50-year service life) are estimated at $14.1 billion and $22.2 billion (in fiscal year 1997 dollars), respectively. Our analysis indicates that national security requirements can be met at less cost with conventionally powered carriers rather than nuclear-powered carriers. Because no production funds were appropriated for the next generation aircraft carrier in fiscal year 1999, and no request for funds through 2004 were included in the 1999 plan, implementing this option would not yield any savings relative to the current level of funding. Relative to the Administration's fiscal year 2000 budget request, however, CBO estimates that nearly $2 billion could be saved by implementing this option. The savings estimate does not include funding for research and development projects leading to infusion of new technologies into existing and future aircraft carriers.

## Related GAO Products

Navy Aircraft Carriers: Cost-Effectiveness of Conventionally and Nuclear-Powered Carriers (GAO/NSIAD-98-1, Aug. 27, 1998).

Nuclear Waste: Impediments to Completing the Yucca Mountain Repository Project (GAO/RCED-97-30, Jan. 17, 1997).

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

Navy's Aircraft Carrier Program: Investment Strategy Options (GAO/NSIAD-95-17, Jan. 1, 1995).

Navy Carrier Battle Groups: The Structure and Affordability of the Future Force (GAO/NSIAD-93-74, Feb. 25, 1993).

Nuclear-Powered Ships: Accounting for Shipyard Costs and Nuclear Waste Disposal Plans (GAO/NSIAD-92-256, July 1, 1992).

## GAO Contact

Donna M. Heivilin, (202) 512-6152

# Option: F-22 Fighter

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Account | Aircraft Procurement, Air Force (57-3010) |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Reassess objectives |

The Air Force's F-22 fighter aircraft program was initiated in 1981 to replace F-15 fighters and to counter the threat then projected for the mid-1990s. Engineering and manufacturing development of the F-22 began in 1991 and flight testing began in September 1997. Two of nine planned test aircraft are active in flight testing. Concurrent with continuation of flight tests, the Air Force plans to procure two production representative test vehicles with funding provided in fiscal years 1998 and 1999. Low-rate initial production of F-22s is scheduled for fiscal year 2000 (6 aircraft), and funds were appropriated to initiate advance procurement for those aircraft in fiscal year 1999. Low-rate initial production is planned to continue in fiscal years 2001 (10 aircraft), 2002 (16 aircraft), and 2003 (24 aircraft).

Our April 1995 report concluded that DOD should minimize commitments to F-22 production until completion of Initial Operational Test and Evaluation and recommended that the Secretary of Defense limit low-rate initial production quantities to about six to eight aircraft a year. DOD reduced the planned acceleration of production rates since that report, but progress of the flight test program and delivery of flight test aircraft are now expected to be slower than was intended when the production plans were last changed. In March 1998, we reported that F-22 flight test aircraft were expected to complete about 183 flight test hours, or about 4 percent of the total flight test program, rather than the 14 to 27 percent that had been planned. DOD's Defense Science Board had previously noted that a RAND Corporation study indicated that major problems in a flight test program usually occurred within the first 10 to 20 percent of flight testing. Nevertheless, the Air Force did not delay the planned contract award when it became clear that the amount of flight testing would be decreased.

In response to these concerns, the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 restricted obligations of fiscal year 1999 advance procurement funds for 6 aircraft until (1) 433 flight test hours, about 10 percent of the flight test program, were completed, or (2) 183 hours were completed and the Secretary of Defense determined that fewer than 433 hours provided the Defense Acquisition Board with a sufficient basis for deciding to proceed into F-22 production. In December 1998, the Secretary determined that it was more financially advantageous to proceed into production than to wait until 433 hours of flight testing were completed, and he certified that in excess of 195 test hours had been completed.

Buying production articles before they can be adequately tested can result in buying systems that require significant, and sometimes costly, modifications to achieve satisfactory performance; accepting less capable systems than planned; and deploying substandard systems to combat forces. Also, deferring a substantial increase in production rates until completion of Initial Operational Test and Evaluation will reduce the amount of needed production funding committed, which may be an attractive option to maintain the aircraft procurement budget and overall defense budget within congressional targets. Conversely, lower production rates could increase average procurement cost over the life of the program and, if the Air Force maintains its current plan to procure 339 production aircraft, lead to difficulties in completing the production program within congressional limitations on production costs.

We continue to believe that low-rate initial production should be limited to about 6 to 8 aircraft a year until Initial Operational Test and Evaluation is complete. If the Congress were to restrict funding to eight aircraft for fiscal years 2000 through 2004, the following budget savings could be achieved during the next 5 years.

## Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 41 | 571 | 1,569 | 2,992 | 628 |
| Outlays | 4 | 68 | 346 | 962 | 1,558 |

Note: Estimated savings in FY2004 are based on a CBO assumption of an increased production quantity of 18 aircraft.

Source: Congressional Budget Office.

## Related GAO Products

Defense Acquisition: Progress of the F-22 and F/A-18E/F Engineering and Manufacturing Development Programs (GAO/T-NSIAD-99-113, Mar. 17, 1999).

F-22 Aircraft: Issues in Achieving Engineering and Manufacturing Development Goals (GAO/NSIAD-99-55, Mar. 15, 1999).

1999 DOD Budget: DOD's Procurement and RDT&E Programs (GAO/NSIAD-98-216R, Aug. 14, 1998).

F-22 Aircraft: Progress of the Engineering and Manufacturing Development Program (GAO/T-NSIAD-98-137, Mar. 25, 1998).

F-22 Aircraft: Progress in Achieving Engineering and Manufacturing Development Goals (GAO/NSIAD-98-67, Mar. 10, 1998).

Aircraft Acquisition: Affordability of DOD's Investment Strategy (GAO/NSIAD-97-88, Sept. 8, 1997).

F-22 Restructuring (GAO/NSIAD-97-100R, Feb. 28, 1997).

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

Weapons Acquisition: Low-Rate Initial Production Used to Buy Weapon Systems Prematurely (GAO/NSIAD-95-18, Nov. 21, 1994).

Tactical Aircraft: F-15 Replacement Is Premature As Currently Planned (GAO/NSIAD-94-118, Mar. 25, 1994).

## GAO Contact

Louis J. Rodrigues, (202) 512-4811

# Option: Army's Comanche Helicopter Program

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Account | Research, Development, Test and Evaluation, Army (21-2040) |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Reassess objectives |

The Comanche helicopter is to replace the Vietnam-era scout and attack helicopters that the Army considers incapable of meeting existing or future requirements. The Comanche's overall program cost has grown to approximately $48 billion, with an estimated program unit cost of about $37 million. Anticipated cost increases and other unresolved technical risks indicate that future cost growth is likely. In December 1994, the Secretary of Defense decided to restructure the Comanche program, reducing program cost by about $2 billion for fiscal years 1996 through 2001. This action extended the development phase until 2006 and deferred the production decision until then. Although light attack missions are part of the Army's plan for the Comanche, its lethality is now expected to rival or surpass that of the Apache—the Army's premiere attack helicopter. In addition, as the Army reduces its total helicopter fleet, it plans to modify many that will remain to increase combat capabilities. For example, the Army is arming its scout helicopter, the Kiowa, and modifying 227 basic model Apaches with the Longbow system, which includes a fire control radar with a radar detector and a Hellfire missile with a radio-frequency seeker. These actions, collectively, tend to blur the distinction in roles among the Army's helicopter fleet.

Given real and probable development cost increases, uncertain operating and support cost savings, questions about the role of the Comanche compared to other more affordable Army helicopters, deferral of the production decision, and current defense budgets, the Congress may wish to revisit the cost/benefits of this program. If the Congress elected to terminate the program, the following savings would be achieved.

### Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 219 | 586 | 739 | 784 | 788 |
| Outlays | 127 | 412 | 634 | 734 | 765 |

Source: Congressional Budget Office.

## Related GAO Products

Comanche Helicopter: Testing Needs To Be Completed Prior to Production Decisions (GAO/NSIAD-95-112, May 18, 1995).

Army Aviation: Modernization Strategy Needs To Be Reassessed (GAO/NSIAD-95-9, Nov. 21, 1994).

Comanche Helicopter: Program Needs Reassessment Due To Increased Unit Cost and Other Factors (GAO/NSIAD-92-204, May 27, 1992).

## GAO Contact

Louis J. Rodrigues, (202) 512-4841

# Option: C-130 and KC-135 Reserve Squadrons

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Account | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

Over the past few years, the Department of Defense (DOD) has been interested in modernizing its forces with new weapons and equipment. For a variety of reasons, these efforts have been stymied, and funds that DOD expected to have available to modernize the force have been needed instead for current operational activities. One way to achieve savings is to reorganize the Air Force's reserve components—C-130 and KC-135—into fewer and larger squadrons and wings.[1]

The majority of the Air Force's C-130 and KC-135 aircraft are in the reserve component. Reserve component wings generally have one squadron of 8 C-130 aircraft or 10 KC-135 aircraft. This is unlike active Air Force wings, which generally have two to three squadrons of 14 C-130 aircraft or 12 KC-135 aircraft. Reserve component C-130 and KC-135 aircraft are dispersed throughout the continental United States, Hawaii, and Alaska.

The Air Force could reduce costs and meet peacetime and wartime commitments if it reorganized its C-130 and KC-135 aircraft into larger squadrons and wings at fewer locations. These savings would primarily result from fewer people being needed to operate these aircraft. For example, redistributing 16 C-130 aircraft from two 8-aircraft wings to one 16-aircraft wing could save about $11 million dollars annually, primarily from personnel savings.[2] This reorganization could eliminate about 155 full-time positions and 245 part-time positions. The decrease in full-time positions is especially significant, since the savings associated with these positions represents about $8 million, or 75 percent of the total savings. Fewer people would be needed in areas such as wing headquarters, logistics, operations, and support group staffs as well as maintenance, support, and military police squadrons.

[1]The term "reserve component" refers to the Air Force Reserve and the Air National Guard collectively.

[2]Savings were calculated using the Air Force's Systemic Approach to Better Long-Range Estimating model.

We developed several alternatives that redistribute the existing reserve component C-130 and KC-135 aircraft into larger squadrons and show a gradual increase in savings in operating costs. We found that sufficient personnel could be recruited and most locations' facilities could be inexpensively expanded to accommodate the unit sizes. The alternative that requires the most reorganizing would increase the squadron size to 16 aircraft for the C-130 and 12 for the KC-135 by redistributing aircraft from 13 C-130 squadrons and 5 KC-135 squadrons to other squadrons. The table below shows the potential savings from this option.

### Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 93 | 170 | 267 | 349 | 376 |
| Outlays | 83 | 160 | 255 | 338 | 369 |

Source: Congressional Budget Office.

## Related GAO Product

Air Force Aircraft: Reorganizing Mobility Aircraft Units Could Reduce Costs (GAO/NSIAD-98-55, Jan. 21, 1998).

## GAO Contact

Donna M. Heivilin, (202) 512-6152

# Option: Continental Air Defense

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Accounts | Operation and Maintenance, Air National Guard (57-3840)<br>Operation and Maintenance, Air Force (57-3400)<br>National Guard Personnel, Air Force (57-3850)<br>Military Personnel, Air Force (57-3500)<br>Procurement-funded Replenishment Spares<br>Replacement Support Equipment and Modifications |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

The continental air defense mission evolved during the Cold War to detect and intercept Soviet bombers attacking North America via the North Pole. The force that carries out that mission is within the North American Aerospace Defense Command (NORAD), which is a joint U.S. and Canadian command. At the beginning of fiscal year 1998, the force consisted of 150 primary aircraft (Air National Guard F-15 and F-16 aircraft in 10 dedicated units which stand alert for NORAD). The Air Force budgeted about $333 million in fiscal year 1998 to operate and support the continental air defense force. The states of the former Soviet Union do not pose a significant threat of a bomber attack on the continental United States. Further, internal problems within Russia and other former Soviet Union countries have extended the time it would take them to return to previous levels of military readiness and capabilities. Reflecting these changing realities, the Chairman of the Joint Chiefs of Staff determined in 1993 that because the United States no longer needed a large, dedicated air defense force, this force could be significantly reduced or eliminated.

Since the threat of a Soviet-style air attack against the United States has largely disappeared, the air defense force now focuses its activities on air sovereignty missions. These missions provide surveillance and control of territorial airspace, including activities such as assisting aircraft in distress or intercepting aircraft as part of antidrug smuggling efforts. However, active and reserve general-purpose and training forces could perform this mission because they (1) have comparable or better aircraft, (2) are located at or near existing air defense bases, and (3) have pilots who possess similar skills or who could acquire the necessary skills used by air defense and air sovereignty pilots.

During fiscal year 1999, the Air Force expects to retask four dedicated continental air defense F-16 units (15 aircraft per unit) to general purpose units with secondary tasking for the continental air defense mission. This action reduces the dedicated continental air defense force by 60 aircraft from 150 to 90 aircraft. The Air Force has budgeted $267 million for its continental air defense for fiscal year 1999. If the remaining six dedicated air defense units were eliminated or retasked, the following savings could be achieved.

### Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 178 | 367 | 379 | 391 | 403 |
| Outlays | 147 | 327 | 365 | 381 | 395 |

Source: Congressional Budget Office.

## Related GAO Product

Continental Air Defense: A Dedicated Force Is No Longer Needed (GAO/NSIAD-94-76, May 3, 1994).

## GAO Contact

Donna M. Heivilin, (202) 512-6152

# Option: Carrier Battle Group Expansions and Upgrades

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Accounts | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

Aircraft carrier battle groups are the centerpiece of the Navy's surface force and significantly influence the size, composition, and cost of the fleet. The annualized cost to acquire, operate, and support a single Navy carrier battle group is about $2 billion (in fiscal year 1998 dollars) and is likely to increase as older components are replaced and modernized. The Navy has several costly ongoing carrier-related programs: a nuclear-powered Nimitz-class carrier, the Ronald Reagan (CVN-76), is being built and the Navy is scheduled to begin to build the last carrier of this class in fiscal year 2001; the formal design process for the next generation of carriers, called the CVX class, began in 1996; the lead ship of the 10-ship Nimitz-class began its 3-year refueling complex overhaul in 1998; AEGIS destroyers are being procured and the next generation of surface combatants is being designed; and carrier-based aircraft are expected to be replaced/upgraded by a new generation of strike fighters and mission support aircraft throughout the next decade.

Our analysis indicates that there are opportunities to use less costly options to satisfy many of the carrier battle groups' traditional roles without unreasonably increasing the risk that U.S. national security would be threatened. For example, one less costly option would be to rely more on increasingly capable surface combatants, such as cruisers, destroyers, or frigates, for overseas presence and crisis response. If the Congress chose to retire one aircraft carrier and one active air wing in 1999, the following savings could be achieved.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 390 | 800 | 820 | 840 | 860 |
| Outlays | 310 | 690 | 780 | 820 | 850 |

Source: Congressional Budget Office.

## Related GAO Products

Navy Carrier Battle Groups: The Structure and Affordability of the Future Force (GAO/NSIAD-93-74, Feb. 25, 1993).

Cruise Missiles: Proven Capability Should Affect Aircraft and Force Structure Requirements (GAO/NSIAD-95-116, Apr. 20, 1995).

Navy Aircraft Carriers: Cost-Effectiveness of Conventionally and Nuclear-Powered Carriers (GAO/NSIAD-98-1, Aug. 27, 1998).

Navy's Aircraft Carrier Program: Investment Strategy Options (GAO/NSIAD-95-17, Jan. 1, 1995).

Aircraft Acquisition: Affordability of DOD's Investment Strategy (GAO/NSIAD-97-88, Sept. 8, 1997).

Surface Combatants: Navy Faces Challenges Sustaining Its Current Program (GAO/NSIAD-97-57, May 21, 1997).

## GAO Contact

Donna M. Heivilin, (202) 512-6152

# Option: Air Force Bomber Force Requirements

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Account | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

Bombers currently in the force (B-2s, B-1Bs, and B-52Hs) were initially designed and procured by the Department of Defense (DOD) primarily to meet nuclear war-fighting requirements. Since the end of the Cold War, DOD has placed increased emphasis on the role of bombers in future conventional conflicts while reducing the number of bombers significantly from a total of about 360 in 1989 to a planned retention of 187 bombers through the early part of the next century. Senior DOD officials have said that DOD cannot afford all of the services' stated requirements, and difficult decisions must be made on which investment programs to cancel so that DOD can develop and implement a long-term, sustainable recapitalization plan.

## Placing Additional B-1Bs in the Reserve Component

The Air Force has 18 B-1Bs assigned to the Air National Guard—10 to the Kansas Air National Guard and 8 to the Georgia Air National Guard. No B-1Bs are currently assigned to Air Force Reserve units. Placing more B-1Bs in the reserve component (either the Air Force Reserve or the Air National Guard) could reduce the cost to operate the B-1B bomber force without adversely affecting day-to-day peacetime training or critical wartime missions or closing any bases. However, the availability of recruitable personnel in some locations limits where reserve component units can operate.

B-1B reserve component units have training, readiness, and deployment requirements similar to active-duty B-1B units and are considered just as capable of carrying out operational missions as their active duty counterparts. Moreover, the cost to operate a reserve component unit is generally lower than for an active duty unit for several reasons. First, reserve component aircrews are more experienced than their active duty counterparts and require fewer flying hours to meet mission training requirements. Second, reserve component units employ fewer full-time military personnel than active units. Additionally, because of the part-time manning of traditional reserve component units, there are fewer requirements for permanent and costly base infrastructure—such as family housing and base medical care facilities—necessary to support full-time active duty personnel and their families.

Our analysis shows that the Air Force could select a variety of options if it were to place more B-1Bs in the reserve component. The cost savings would vary depending upon the option selected. If an 18 aircraft aircrew training squadron and 6 aircraft operational squadron were transferred to the reserve component, the following savings could be achieved.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 0 | 5 | 20 | 36 | 42 |
| Outlays | 0 | 2 | 9 | 22 | 34 |

Source: Congressional Budget Office.

# Related GAO Products

Air Force Bombers: Moving More B-1s to the Reserves Could Save Millions Without Reducing Mission Capability (GAO/NSIAD-98-64, Feb. 26, 1998).

Air Force Bombers: Options to Retire or Restructure the Force Would Reduce Planned Spending (GAO/NSIAD-96-192, Sept. 30, 1996).

Embedded Computers: B-1B Computers Must Be Upgraded to Support Conventional Requirements (GAO/AIMD-96-28, Feb. 27, 1996).

B-1B Conventional Upgrades (GAO/NSIAD-96-52BR, Dec. 4, 1995).

B-1B Bomber: Evaluation of Air Force Report on B-1B Operational Readiness Assessment (GAO/NSIAD-95-151, July 18, 1995).

Air Force: Assessment of DOD's Report on Plan and Capabilities for Evaluating Heavy Bombers (GAO/NSIAD-94-99, Jan. 10, 1994).

Strategic Bombers: Issues Relating to the B-1B's Availability and Ability to Perform Conventional Missions (GAO/NSIAD-94-81, Jan. 10, 1994).

Strategic Bombers: Adding Conventional Capabilities Will Be Complex, Time-Consuming, and Costly (GAO/NSIAD-93-45, Feb. 5, 1993).

Strategic Bombers: Need to Redefine Requirements for B-1B Defensive Avionics System (GAO/NSIAD-92-272, July 17, 1992).

Strategic Bombers: Updated Status of the B-1B Recovery Program (GAO/NSIAD-91-189, May 9, 1991).

Strategic Bombers: Issues Related to the B-1B Aircraft Program (GAO/T-NSIAD-91-11, Mar. 6, 1991).

## GAO Contact

Donna M. Heivilin, (202) 512-6152

# Option: Air Force Fighter Squadrons

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Account | Operation and Maintenance, Air Force (57-3400) |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

The Air Force accounts for its fighter force structure in wing equivalents that represent 72 aircraft. At the end of its planned drawdown, the Air Force's active component F-15 and F-16 communities will make up about 10 fighter wing equivalents. The Air Force plans to organize these aircraft in 37 squadrons at 17 bases in the United States and overseas. Until recently, Air Force fighter wings were predominantly organized in 3 squadrons of 24 aircraft. However, the Air Force has decided to reduce its squadron size to 18, which consequently reduced its wing size to 54. This change in unit size increased the number of wings and squadrons to more than would have been needed had the squadron size stayed at 24.

The Air Force has not demonstrated that it needs additional squadrons. Air Force officials believe that they need more squadrons to have additional flexibility to respond to numerous potential conflicts across the globe. Although the Air Force considers smaller fighter squadrons beneficial, it has not performed any analysis to justify its decision. Further, according to Air Force officials, commanders-in-chief, who are responsible for conducting these operations, developed plans based on the number of aircraft needed to execute missions—regardless of squadron size.

Keeping more squadrons than necessary increases operating costs and may result in more base infrastructure than the Air Force needs. We developed several notional basing plans that the Air Force could use in considering how to consolidate its fighter force into fewer squadrons. Implementing these plans could eliminate not only between two and seven squadrons, but also a wing and/or fighter base. If the Air Force were to consolidate fighter squadrons to 24 aircraft per squadron in the continental U.S. only, annual savings would be $34 million. If the Air Force were to consolidate fighter squadrons worldwide, annual savings would be $134 million.

If the Congress chose to consolidate the Air Force's fighter force into fewer squadrons by eliminating 7 of the 37, the following savings could be achieved.

## Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 18 | 37 | 38 | 39 | 40 |
| Outlays | 17 | 36 | 38 | 39 | 40 |

Note: Savings estimates do not include funds associated with base closure. The savings could be significant depending on the base selected for closure.

Source: Congressional Budget Office.

## Related GAO Product

Air Force Aircraft: Consolidating Fighter Squadrons Could Reduce Costs (GAO/NSIAD-96-82, May 6, 1996).

## GAO Contact

Donna M. Heivilin, (202) 512-6152

## Option: Military Exchange Stores Consolidation

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriation subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Accounts | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

We reviewed the morale, welfare, and recreation (MWR) program—a $12 billion enterprise that provides service members, their dependents, and eligible civilians with an affordable source of goods and services like those available to civilian communities—and found that revenue generated by the MWR activities is likely to decrease in the 1990s because of the downsizing of forces and increasing private sector competition. Exchange stores are the largest producer of MWR revenue.

Since 1968, studies by GAO, the Department of Defense (DOD), and others have recommended the consolidation of exchanges into a single entity. Each study predicted that financial benefits could be achieved through consolidation. In order to achieve such financial benefits, the Office of the Secretary of Defense has recently proposed the integration of the Army/Air Force Exchange System (AAFES) with the Navy and Marine Corps exchange programs. A task force study commissioned to review this consolidation plan in 1996 concluded that if the exchange systems were merged there would be an annual recurring savings and the contribution to MWR funds would increase by $3 billion annually.

In January 1997 DOD advised the congressional oversight committees of the plan to continue with a systematic study on integrating exchange functions, under the joint direction of the military departments. This plan is based on the premise that a more rigorous analysis is needed before judgments can be made as to optimal exchange structure. DOD contracted with Price Waterhouse in April 1998 to further study this matter. A decision on implementation of study recommendations is expected in the April/May 1999 time frame. If major restructuring of the exchange system is recommended and approved, it should take 3-5 years to implement. The cost of the study is estimated at $3.1 million and has been split equally among the services.

Another consolidation effort currently underway that also predicts financial benefits not yet quantified is called the Hybrid Initiative. This initiative is aimed at consolidating exchanges and commissaries with smaller versions of the larger commissary and exchange stores. These stores are called BXMARTs, which are military retail stores that sell both the hard goods normally found in a base exchange and the grocery type goods associated with military commissaries.

The Commissary Operating Board, which is made up of members from each of the services and the Defense Commissary Agency (DeCA), has been discussing ways to improve and expand this initiative. BXMARTs have traditionally been placed on bases that have been closed because of the base realignment and closure (BRAC). They are managed by AAFES and supported by DeCA. Presently, there are 11 BXMARTs in Europe, 2 on military bases in the U.S., and 1 currently being negotiated in Orlando, Florida. Further action on this initiative is awaiting DOD processing, funding, and approval as well as congressional notification to begin additional testing at other locations.

The Congress may wish to direct DOD to consolidate the Navy and Marine Corps exchange systems with the existing Air Force/Army exchange systems. CBO estimated that consolidating into a single exchange system would yield the following 5-year savings.

### Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 43 | 65 | 65 | 65 | 65 |
| Outlays | 43 | 65 | 65 | 65 | 65 |

Source: Congressional Budget Office.

## Related GAO Products

Morale, Welfare, and Recreation: Declining Funds Require DOD to Take Action (GAO/NSIAD-94-120, Feb. 28, 1994).

Excess Equipment for Former Castle AFB (BXMART) (GAO/NSIAD-98-94R, Feb. 27, 1998).

## GAO Contact

David R. Warren, (202) 512-8412

# Option: Army National Guard Divisions

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Account | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

In March 1996, we reported that the Army National Guard's combat structure, with 42 combat brigades, exceeded projected requirements for two major regional conflicts, according to war planners and Department of Defense (DOD) and Army studies. Although the National Guard has state missions in addition to its federal role, RAND studied the use of Guard forces for state missions and concluded that even in a peak year, such missions would not require a large portion of the Guard and therefore should not be used as a basis for sizing the Guard's force.

In our report, we noted that the Army has a shortage of support troops for a two regional conflict strategy and was studying alternatives to redesign the Guard's combat structure to meet critical shortages that the Army identified in its support capabilities. We recommended that the Secretary of Defense validate the size and structure of all the Guard's combat forces and that the Secretary of the Army prepare and execute a plan to bring the size and structure in line with validated requirements. We further recommended that the Secretary of Defense consider eliminating Guard forces that exceed validated requirements. DOD's Commission on Roles and Missions had similar recommendations in its report.

In January 1997, we reported on the study to redesign the Guard's combat structure. We stated that the study developed an option that provides for the conversion of some Guard combat and supporting forces to fill needed, but unresourced, support requirements. However, neither this study nor other studies deal with the critical issues of validating the need for the remaining Guard combat structure or eliminating any excess forces. As a result, substantial Guard combat structure is left in place that has no valid war fighting mission. We recommended that the Secretary of Defense direct that the Quadrennial Defense Review validate any requirement for Guard combat structure. We further recommended that once this validation is complete, the Secretary of Defense, in concert with the Secretary of the Army, eliminate any structure beyond validated requirements.

The Quadrennial Defense Review, which was issued in May 1997, called for reductions of 45,000 personnel from the Army reserve component. Subsequently, the Army National Guard agreed to reduce its forces by 17,000 through fiscal year 2000. Although the Guard agreed to reduce its total personnel, it did not agree to reduce its force structure. We believe that savings could be achieved by eliminating excess force structure. If the equivalent of one division were eliminated from the force structure, the following savings could be achieved.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 134 | 278 | 287 | 296 | 305 |
| Outlays | 120 | 260 | 281 | 291 | 300 |

Note: Because the Army identified a shortage in its support forces, this option would retain all support personnel indirectly associated with the eliminated division.

Source: Congressional Budget Office.

## Related GAO Products

Army National Guard: Planned Conversions Are A Positive Step, but Unvalidated Combat Forces Remain (GAO/NSIAD-97-55BR, Jan. 29, 1997).

Army National Guard: Validate Requirements for Combat Forces and Size Those Forces Accordingly (GAO/NSIAD-96-63, Mar. 14, 1996).

## GAO Contact

Donna M. Heivilin, (202) 512-6152

# Option: Fiscal Year 2000 Military Personnel Budget Requirements

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Accounts | Military Personnel, Army (21-2020)<br>Military Personnel, Navy (17-1453)<br>Military Personnel, Marine Corps (17-1105)<br>Military Personnel, Air Force (57-3500) |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

The Department of Defense (DOD) budget request for pay and allowances for officers and enlisted personnel comprise the major portion of military personnel costs. Military personnel strength and grade mix are major factors in determining pay and allowances. Our analysis of DOD's fiscal year 1999 budget requests for military pay and allowances showed that the budget for that year could have been reduced at least $255.8 million because the services began fiscal year 1999 with (1) 15,031 fewer active military personnel than requested and (2) a different grade mix than planned. The net effect of these differences resulted in the following overstatement of the services' budget requests: $116.1 million for the Army, $86.9 million for the Air Force, $52.3 million for the Navy, and $0.5 million for the Marine Corps.

Of the $255.8 million we identified in potential reductions, the Congress reduced DOD's fiscal year 1999 budget requests for military pay and allowances by $182.5 million. In view of DOD's overstated fiscal year 1999 budget requirements for military pay and allowances, the Congress may wish to consider whether similar reductions are needed in DOD's fiscal year 2000 appropriations for active force pay and allowances. CBO agrees that the differences in proposed versus actual reductions in personnel can create windfall surpluses in personnel accounts during a single budget year. More accurate reporting and subsequent tightening of budgets may produce savings. CBO, however, is unable to estimate a five-year cost savings for this option because of the variability in proposed versus actual workyear execution.

## Related GAO Product

1998 DOD Budget: Military Personnel Programs (GAO/NSIAD-97-240R, Aug. 21, 1997).

## GAO Contact

Mark E. Gebicke, (202) 512-5140

## Option: DOD's Fiscal Year 2000 Civilian Personnel Budget Requirements

| | |
|---|---|
| Authorzing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Accounts | Operation and Maintenance, Defense-Wide (97-0100)<br>Operation and Maintenance, Army (21-2020)<br>Operation and Maintenance, Air Force (57-3400)<br>Operation and Maintenance, Navy (17-1804)<br>Operation and Maintenance, Marine Corps (17-1106) |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

Every year since fiscal year 1996, the military services and defense agencies generally have had fewer civilian personnel on board than budgeted for, resulting in fewer actual executed workyears and overstated budget requirements. Funds not used for civilian personnel compensation can be used for other unfunded requirements. Our analysis of the services and selected defense agencies' fiscal year 1999 budget requests for civilian personnel showed that the requests could have been reduced by $487.3 million because (1) the civilian personnel levels at the beginning of fiscal year 1999 were lower than those used to determine requests and (2) the amount requested in the President's budget differed from the amount shown in the services' budget justification documents. Based on the number of Army, Navy, Air Force, and selected defense agency personnel on board as of July 31, 1998, we estimated that the end strength at the end of fiscal year 1998—the beginning figure for fiscal year 1999—was 8,737 personnel less than the figure used by the services and defense agencies to determine their fiscal year 1999 budget requests. Because the services and selected defense agencies overstated the number of personnel expected to be employed at the beginning of fiscal year 1999, the requested work years were overstated by 4,368 work years. Of the $487.3 million we identified in potential reductions, the Congress reduced DOD's fiscal year 1999 budget request for civilian personnel by $82.2 million. Based on overstatements in the services' and selected defense agencies' fiscal year 1999 civilian personnel budget requirements, the Congress may wish to consider whether similar reductions are needed in DOD's civilian personnel appropriations for fiscal year 2000.

CBO agrees that the differences in proposed versus actual reductions in personnel can create windfall surpluses in personnel accounts during a single budget year. More accurate reporting and subsequent tightening of budgets may produce savings. CBO, however, is unable to estimate a 5-year cost savings for this option because of the variability in proposed versus actual workyear execution.

## Related GAO Products

1998 DOD Budget: Potential Reductions to Operation and Maintenance Program (GAO/NSIAD-97-239R, Aug. 21, 1997).

1997 DOD Budget: Potential Reductions to Operation and Maintenance Program (GAO/NSIAD-96-220, Sept. 18, 1996).

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

## GAO Contact

Mark E. Gebicke, (202) 512-5140

# Option: DOD Transportation Migration Systems

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Account | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Reassess objectives |

In April 1994, DOD developed a structured approach to identify, select, and implement transportation migration systems.[3] However, in its haste to meet a March 1997 deadline, DOD selected these systems without fully analyzing alternatives, such as acquiring new systems or contracting for services. Further, in making a quarter of its transportation migration system selections, DOD relied on incomplete and unverified cost data. Finally, DOD did not assess how making significant changes to transportation operations—through reengineering and outsourcing—will affect its migration systems. By relying on such inadequate analyses in making its system selections, DOD essentially gambled that systems migration would achieve anticipated savings and resolve problems with transportation business processes. As a result, its selections may turn out to be poor investments and preclude the use of better commercial alternatives.

DOD had little assurance that its selection of 28 transportation migration systems is cost-effective. At a minimum, had DOD followed its own regulations and calculated investment returns, it would have found—based on data available when the migration systems were selected—that two of the selected systems would produce a negative return if implemented as migration systems. The Air Loading Module would lose 67 cents out of every dollar invested and the Cargo Movement Operations Systems would lose 4 cents out of every dollar invested.

Before continuing with its systems migration effort, DOD should immediately establish current cost, benefit, investment return, and schedule baselines and terminate the migration of transportation systems for which migration is shown to be a poor investment. For example, if the Air Loading Module and the Cargo Movement Operations Systems are not deployed as migration systems, the following savings could be achieved.

[3]A migration system is an automated information system which replaces several systems that perform similar functions.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 3 | 0 | 0 | 0 | 0 |
| Outlays | 2 | 1 | 0 | 0 | 0 |

Source: Congressional Budget Office.

## Related GAO Products

Defense IRM: Poor Implementation of Management Controls Has Put Migration Strategy at Risk (GAO/AIMD-98-5, Oct. 20, 1997).

Defense IRM: Strategy Needed for Logistics Information Technology Improvement Efforts (GAO/AIMD-97-6, Nov. 14, 1996).

Defense Transportation: Migration Systems Selected Without Adequate Analysis (GAO/AIMD-96-81, Aug. 29, 1996).

## GAO Contact

Jack L. Brock, Jr., (202) 512-6240

# Option: Navy Financial Management of Operating Materials and Supplies

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Account | Operations and Maintenance, Navy (17-1804) |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

The Chief Financial Officers Act of 1990, as amended, requires that each agency chief financial officer (CFO) develop an integrated agency accounting and financial management system that complies with applicable principles and standards and provides for complete, reliable, consistent, and timely information that is responsive to the agency's financial information needs. The act also specifies that each agency CFO should direct, manage, and provide policy guidance and oversight of asset management systems, including inventory management and control.

Our broad-based review of various aspects of the Department of the Navy's financial management operations and its ability to meet the management and reporting requirements of the CFO Act identified numerous deficiencies. These deficiencies can have significant budgetary implications. For example, we found that because of inadequate systems, Navy item managers did not have sufficient "visibility" over $5.7 billion in operating materials and supplies on ships and at 17 Navy redistribution sites. About $883 million, 15 percent of the $5.7 billion, was excess to current operating allowances or needs.

As a result, we found that item managers incurred unnecessary costs of approximately $27 million in the first half of fiscal year 1995 as a result of ordering or purchasing items that were already on hand at operating locations and classified as excess.

We recommended that the Navy achieve savings by providing item managers with full "visibility" over such materials and eliminating redundant or unnecessary redistribution sites. Almost half of the excess items were stored at Navy's 17 redistribution sites. These sites are often located in the same general area as other DOD suppliers. Eliminating the 17 sites would reduce associated operating costs by $3 million annually and could reduce redundant supply operations and streamline visibility efforts.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 3 | 3 | 3 | 3 | 3 |
| Outlays | 3 | 3 | 3 | 3 | 3 |

Source: Congressional Budget Office.

## Related GAO Products

CFO Act Financial Audits: Programmatic and Budgetary Implications of Navy Financial Data Deficiencies GAO/AIMD-98-56, Mar. 16, 1998).

High-Risk Series: Defense Financial Management (GAO/HR-97-3, Feb. 1997).

Navy Financial Management: Improved Management of Operating Materials and Supplies Could Yield Significant Savings (GAO/AIMD-96-94, Aug. 16, 1996).

CFO Act Financial Audits: Navy Plant Property Accounting and Reporting Is Unreliable (GAO/AIMD-96-65, July 8, 1996).

Financial Management: Control Weaknesses Increase Risk of Improper Navy Civilian Payroll Payments (GAO/AIMD-95-73, May 8, 1995).

## GAO Contact

Lisa G. Jacobson, (202) 512-9542

# Option: Defense Infrastructure Reform

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Accounts | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

DOD officials have repeatedly pointed to the importance of using resources for the highest priority operational and investment needs rather than maintaining unneeded property, facilities, and overhead. However, DOD has found that infrastructure reductions are a difficult and painful process because achieving significant cost savings requires up-front investments, the closure of installations, and the elimination of military and civilian jobs. DOD's ability to reduce infrastructure has been affected by service parochialism, a cultural resistance to change, and congressional and public concern about the effects and impartiality of decisions. For fiscal year 1998, DOD estimated that about $147 billion, or 58 percent of the Defense budget, would still be needed for infrastructure requirements, which included installation support, training, medical care, logistics, force management, acquisition infrastructure, and personnel.

The Secretary of Defense's November 1997 Defense Reform Initiative (DRI) Report emphasized the need to reduce excess Cold War infrastructure to free up resources that otherwise could be spent on modernization. Specific initiatives cited in the report included privatizing military housing and utility systems, emphasizing demolition of excess buildings, consolidating and regionalizing many defense support agencies, and requesting legislative authority to conduct two additional base realignment and closure (BRAC) rounds. The Secretary noted that DOD continued to be weighed down by facilities that are too extensive for its needs, more expensive than it can afford, and detrimental to the efficiency and effectiveness of the nation's armed forces. Likewise, he noted that DOD must do a better job of managing facility assets on its remaining bases. The problem of continuing excess infrastructure was also emphasized in DOD's April 1998 report to the Congress concerning BRAC issues mandated by Section 2824 of the Fiscal Year 1998 Defense Authorization legislation. More recently, the problem of excess capacity was highlighted in our November 1998 report on Army Industrial Facilities, which noted the continuing existence of significant excess capacity in the Army's maintenance depots and manufacturing arsenals.

While the DRI initiatives are steps in the right direction and have brought high-level attention to the need for infrastructure reductions, they do not collectively provide a comprehensive long-range plan for facilities infrastructure. We have cited the need for such a plan but have noted that plans that have existed were not focused on long-term comprehensive strategies for facilities revitalization, replacement, and maintenance, and they were not tied to measurable goals to be accomplished over specified time frames or linked to funding.

The need for improved planning for facilities infrastructure is underscored by the requirements of the Government Performance and Results Act, which requires agencywide strategic plans and annual program performance reports. Improved infrastructure planning can help agency components and programs to develop outcome-oriented goals and performance measures that are linked to and support agencywide goals.

While we have not completed an in-depth analysis of all the categories of infrastructure, our work has identified numerous areas where infrastructure activities can be eliminated, streamlined, or reengineered to be made more efficient. Significant budget reductions could be achieved in the areas of acquisition infrastructure, central logistics, installation support, central training, force management, and medical facilities and services. We present several other options that explore issues related to DOD's infrastructure. See the options "DOD's Finance and Accounting Infrastructure" and "Sizing the Military Health System."

Savings for this option cannot be fully estimated until a comprehensive consolidation and downsizing plan is specified.

## Related GAO Products

Defense Reform Initiative: Progress, Opportunities, and Challenges (GAO/T-NSIAD-99-95, Mar. 2, 1999).

Force Structure: A-76 Not Applicable to Air Force 38th Engineering Installation Wing Plan (GAO/NSIAD-99-73, Feb. 26, 1999).

Army Industrial Facilities: Workforce Requirements and Related Issues Affecting Depots and Arsenals (GAO/NSIAD-99-31, Nov. 30, 1998).

Military Bases: Review of DOD's 1998 Report on Base Realignment and Closure (GAO/NSIAD-99-17, Nov. 13, 1998).

Defense Infrastructure: Challenges Facing DOD in Implementing Reform Initiatives (GAO/T-NSIAD-98-115, Mar. 18, 1998).

Best Practices: Elements Critical to Successfully Reducing Unneeded RDT&E Infrastructure (GAO/NSIAD/RCED-98-23, Jan. 8, 1998).

Future Years Defense Program: DOD's 1998 Plan Has Substantial Risk in Execution (GAO/NSIAD-98-26 Oct. 23, 1997).

1997 Defense Reform Bill: Observations on H.R. 1778 (GAO/T-NSIAD-97-187, June 17, 1997).

Defense Infrastructure: Demolition of Unneeded Buildings Can Help Avoid Operating Costs (GAO/NSIAD-97-125, May 13, 1997).

DOD High-Risk Areas: Eliminating Underlying Causes Will Avoid Billions of Dollars in Waste (GAO/T-NSIAD/AIMD-97-143, May 1, 1997).

Defense Acquisition Organizations: Linking Workforce Reductions With Better Program Outcomes (GAO/T-NSIAD-97-140, Apr. 8, 1997).

Defense Budget: Observations on Infrastructure Activities (GAO/NSIAD-97-127BR, Apr. 4, 1997).

Base Operations: Challenges Confronting DOD as It Renews Emphasis on Outsourcing (GAO/NSIAD-97-86, Mar. 11, 1997).

Military Bases: Cost to Maintain Inactive Ammunition Plants and Closed Bases Could Be Reduced (GAO/NSIAD-97-56, Feb. 20, 1997).

High-Risk Series: Defense Infrastructure (GAO/HR-97-7, Feb. 1997).

## GAO Contact

David R. Warren, (202) 512-8412

# Option: DOD's Finance and Accounting Infrastructure

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Accounts | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| GAO framework theme | Improve efficiency |

After several false starts, in May 1994 the Department of Defense (DOD) announced it would begin consolidating and reducing the size of its finance and accounting infrastructure during fiscal year 1995. At that time it planned to reduce the number of sites where finance and accounting activities were conducted from over 300 to 26, that would have resulted in a major reduction in staff years. The 26 sites were composed of 5 large existing finance centers and 21 new sites that are called operating locations. To date, 19 operating locations have been opened—18 in the continental United States (CONUS) and 1 in Hawaii.

Despite these consolidation efforts, additional opportunities exist to reduce the infrastructure and improve the efficiency of finance and accounting operations. In September 1995, we reported that the process DOD used to identify the appropriate size and location of its consolidated operations was flawed. Not only would the planned infrastructure be larger than necessary, but it would also perpetuate the continued use of older, inefficient, and duplicative systems. With fewer people available to support the same operations and systems at fewer locations, the consolidation could degrade, rather than improve, customer service. Moreover, DOD's plan did not reflect leading-edge business practices and, therefore, might require additional consolidations if business process reengineering techniques were used to identify more productive business practices for DOD finance and accounting operations.

Because DOD's decision to open 21 new operating locations was not based on current or future operating requirements, customer needs, or leading-edge business practices, other consolidation alternatives could produce substantial infrastructure savings. The Defense Finance and Accounting Service (DFAS) Consolidation Task Force showed that savings could occur by retaining the 5 large centers plus opening 6, 10, or 15 operating locations. The Task Force concluded, however, that opening 6 new operating locations was the best alternative because it would save more money and allow an optimum consolidation of finance and accounting functions. Based on this factor and other factors, we recommended that DOD reassess the number of operating locations needed to efficiently perform finance and accounting operations.

DOD's subsequent reassessment concluded that 16 rather than 21 operating locations were needed to support its finance and accounting operations. Because of its interpretation of congressional intent, however, DOD continued to support the opening of all 21 locations. As of November 1997, DOD had opened 19 operating locations. Although DOD has supported the opening of the remaining 2 locations, it generally conceded that there was little need for these facilities.

In November 1997, Secretary Cohen released DOD's Defense Reform Initiative (DRI) report, that took a different position on the required size of the DFAS infrastructure. This report announced that DFAS will continue its consolidation efforts by eliminating 8 of its 26 existing or planned facilities. The report also said that DOD would look at two DFAS functions—civilian pay and military retirees and annuitant pay—for possible competition under the Office of Management and Budget (OMB) A-76 process. Since the report was issued, DFAS has again assessed its future infrastructure needs. The latest assessment considered reform initiatives and infrastructure reduction mandates included in both the May 1997 Quadrennial Defense Review and the November 1977 Defense Reform Initiative report. DFAS' assessment showed that it had the capacity to support about 24,900 personnel—this included space in its 5 centers as well as its 18 CONUS operating locations. This is significantly more capacity than DFAS projects that it will need. As of July 1998, DFAS was programmed to support just over 22,000 workyears. By the end of fiscal year 2003, it is programmed to support just over 17,000 workyears. Decreases in staffing will occur in all DFAS functions. However, travel pay, civilian pay, and disbursing—predominantly operating location functions—are projected to experience the largest decreases. Given the current DFAS structure and projected workyear decreases, it will have about 34 percent excess capacity by the end of fiscal year 2003. The excess capacity equates to infrastructure for about 8,400 personnel. Consistent with the DRI report, only the 18 CONUS operating locations will be studied for closure, and the 5 centers will be excluded.

Recognizing the costs DOD has incurred to open 18 operating locations and reducing the number of operating locations by 8 as called for in the DRI report could still achieve savings. First, a reduction in the infrastructure would require fewer support and management personnel and related items to operate the locations. Second, in anticipation of the efficiencies and service improvements that would be achieved under DOD's reengineering and outsourcing efforts, annual funding could be reduced commensurate with savings expected from personnel reductions. The next step, however, is for DOD to take action on DFAS' capacity analysis by identifying those operating locations that need to be eliminated to meet the objectives in the DRI report.

## Related GAO Products

Defense Reform Initiative: Progress, Opportunities, and Challenges (GAO/T-NSIAD-99-95, Mar. 2, 1999).

High-Risk Series: Defense Financial Management (GAO/HR-97-3, Feb. 1997).

DOD Infrastructure: DOD Is Opening Unneeded Finance and Accounting Offices (GAO/NSIAD-96-113, Apr. 16, 1996).

DOD Infrastructure: DOD's Planned Finance and Accounting Structure Is Not Well Justified (GAO/NSIAD-95-127, Sept. 18, 1995).

## GAO Contact

David R. Warren, (202) 512-8412

## Option: Sizing the Military Health System

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Account | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

DOD has not yet completed an update of what is known as the "733 study" of April 1994. In this study, conducted pursuant to section 733 of the National Defense Authorization Act for fiscal years 1992 and 1993, DOD's Office of Program Analysis and Evaluation challenged the Cold War assumption that all military medical personnel employed during peacetime are needed for wartime. The study concluded that DOD's wartime medical requirements are far lower—by as much as half—than the $15.9 billion military health system budget for fiscal year 1999. Although DOD took no action as a result of that study, the Deputy Secretary of Defense directed that the study be updated and improved by March 1996.

We have reported that if the conclusions of the updated study are similar to those of the 733 study and if DOD acted on those conclusions, the potential reductions in military medical personnel could be significant. However, the study is now almost 3 years overdue.

The Congress may wish to direct DOD to expeditiously complete a current study of its wartime military medical requirements. Such a study could suggest a significant reduction in military medical personnel and facilities. No specific budget estimate can be developed until DOD's study is completed.

## Related GAO Products

Defense Health Care: Operational Difficulties and System Uncertainties Pose Continuing Challenges for TRICARE (GAO/T-HEHS-98-100, Feb. 26, 1998).

Wartime Medical Care: Personnel Requirements Still Not Resolved (GAO/NSIAD-96-173, June 28, 1996).

## GAO Contact

Stephen P. Backhus, (202) 512-7101

## Option: Copayments for Care in Military Treatment Facilities

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Account | Defense Health Program (97-0130) |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Redefine beneficiaries |

Numerous GAO reports and testimonies have documented the problems of controlling costs in the military health system. In particular, we have reported that care received by military beneficiaries in military hospitals and clinics is free. However, when care must be obtained through civilian providers, military beneficiaries share in the costs of the care they receive. This uneven system has led to confusion, uncertainty, and inequity among beneficiaries as to what their health care benefits are. Further, research has shown that free care leads to greater (and unnecessary) use and, therefore, greater costs.

The Department of Defense (DOD) managed health care system—TRICARE—is intended to make health care benefits uniform regardless of venue, but some cost-sharing is still based on where patients receive their care. Under TRICARE, beneficiaries pay the same enrollment fees whether they are enrolled with a military or civilian primary care manager. However, subsequent cost-sharing—in the form of copays for visits—is still not required for care provided in military facilities but is required for care from civilian providers.

The Congress may wish to establish beneficiary cost-sharing requirements in military facilities that are similar to the cost sharing for care that beneficiaries receive from civilian providers. CBO estimates that such a change would result in the following savings.

### Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 375 | 498 | 502 | 507 | 513 |
| Outlays | 316 | 468 | 493 | 504 | 510 |

Source: Congressional Budget Office.

## Related GAO Products

Defense Health Care: Operational Difficulties and System Uncertainties Pose Continuing Challenges for TRICARE (GAO/T-HEHS-98-100, Feb. 26, 1998).

Military Retirees' Health Care: Costs and Other Implications of Options to Enhance Older Retirees' Benefits (GAO/HEHS-97-134, June 20, 1997).

Defense Health Care: New Managed Care Plan Progressing, but Cost and Performance Issues Remain (GAO/HEHS-96-128, June 14, 1996).

Defense Health Care: Despite TRICARE Procurement Improvements, Problems Remain (GAO/HEHS-95-142, Aug. 3, 1995).

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

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

## GAO Contact

Stephen P. Backhus, (202) 512-7101

## Option: Administering Defense Health Care

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Account | Defense Health Program (97-0130) |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

Each of the three military departments (Army, Navy, and Air Force) operates its own health care system, providing medical care to active duty personnel, their dependents, retirees, and survivors of military personnel. To a large extent, these separate systems, which cost about $35 million annually, perform many of the same administrative, management, and operational functions.

Since 1949 numerous studies have reviewed whether a central entity should be created within the Department of Defense (DOD) for the centralized management and administration of the three systems. Most of these studies encouraged some form of organizational consolidation. A Defense health agency would consolidate the three military medical systems into one centrally managed system, eliminating duplicate administrative, management, and operational functions. No specific budget estimate can be developed until numerous variables, such as the extent of consolidation and the impact on command and support structures, are determined.

## Related GAO Products

Defense Health Care: TRICARE Resource Sharing Program Failing to Achieve Expected Savings (GAO/HEHS-97-130, Aug. 22, 1997).

Defense Health Care: Actions Under Way to Address Many TRICARE Contract Change Order Problems (GAO/HEHS-97-141, July 14, 1997).

TRICARE Administrative Prices in the Northwest Region May Be Too High (GAO/HEHS-97-149R, June 24, 1997).

Defense Health Care: New Managed Care Plan Progressing, but Cost and Performance Issues Remain (GAO/HEHS-96-128, June 14, 1996).

Defense Health Care: Despite TRICARE Procurement Improvements, Problems Remain (GAO/HEHS-95-142, Aug. 3, 1995).

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

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

## GAO Contact

Stephen P. Backhus, (202) 512-7101

# Option: Uniformed Services University of the Health Sciences

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Defense (Senate and House) |
| Primary agency | Department of Defense |
| Account | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Department of Defense—Military |
| Framework theme | Improve efficiency |

With the end of the draft in 1972, the military services needed new ways to obtain active duty physicians. To address this need, Public Law 92-426 established two complementary programs: the Health Profession Scholarship Program and the Uniformed Services University of the Health Sciences (USUHS), a medical school operated by DOD.

Under the scholarship program, DOD pays tuition and fees, plus a monthly stipend, for students enrolled in civilian medical schools. In return, the students incur an obligation to serve a year of active duty for each year of benefits received, with a 2-year minimum obligation. Upon graduation, most scholarship program participants go on active duty and begin graduate medical education (GME) in military hospitals. In 1994, 987 scholarship program participants graduated from medical school.

Students at USUHS enter active military service as medical students, receive the pay and benefits of officers at the 0-1 level, and incur 7-year service obligations. In 1994, 155 medical students graduated from the University. Overall, USUHS graduates represent about 14 percent of military physicians on active duty.

In the 2-1/2 decades since its legislative establishment, proposals have been made to close USUHS. Those who propose closing the University assert that DOD's need for physicians can be met at a lower cost using physicians educated at civilian medical schools under the DOD scholarship program. Our analysis shows that USUHS is a more costly source of military physicians on a per graduate basis when DOD's and total federal costs are considered. With DOD education and retention costs of about $3.3 million over the course of a physician's career, the cost of a University graduate is more than 2 times greater than the $1.5 million cost for a scholarship program graduate. However, our estimate shows that the annual costs of USUHS graduates ($182,000) are comparable to scholarship graduates ($181,000) when total federal costs are amortized over the expected years of military service because USUHS graduates are expected to have longer military careers and the University receives less non-DOD federal support than civilian medical schools. USUHS graduates are expected to serve for about 18.5 years, on average, while scholarship program physicians serve for 9.8 years, on average.

Those who propose retaining the University assert that it is needed to provide a stable cadre of physicians trained to meet the unique demands of military medicine. Our analysis shows that USUHS provides a medical education that compares well with that of other U.S. medical schools. However, while USUHS graduates begin their military medical careers with more readiness training than their peers, the significance of the additional training is unclear.

In addition, to help meet standards required for accreditation as an academic institution, USUHS provides education and training for other health care and related professions and engages in research, consultation, and archival activities. While these activities do not directly contribute to the education of military physicians, they do involve USUHS faculty and staff, and University officials believe that DOD would continue to conduct these activities even if USUHS is closed. USUHS officials estimated the value of these activities to be about $18.6 million—a figure that we did not validate. Given the changes in operational scenarios and DOD's approach for delivering peacetime health care, new assessments of the military's physician needs and the means to acquire and retain physicians are in order. If DOD continues to need a cadre of experienced career physicians, alternative strategies, such as an additional scholarship option with a longer service obligation, could be considered as a potentially less expensive way to increase the length of selected military physicians' careers.

This option assumes that (1) the University would close at the end of fiscal year 2002 after the current freshman class graduates, (2) the scholarship program would be expanded to offset the loss of physicians trained at USUHS, and (3) scholarship program participants incur a 2-year service obligation for each year of benefits received. Using these assumptions, CBO estimates the following savings.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 25 | 36 | 52 | 93 | 90 |
| Outlays | 19 | 32 | 47 | 82 | 87 |

Source: Congressional Budget Office.

## Related GAO Product

Military Physicians: DOD's Medical School and Scholarship Program (GAO/HEHS-95-244, Sept. 29, 1995).

## GAO Contact

Stephen P. Backhus, (202) 512-7101

## 150 International Affairs

State Department Business Processes
U.S. Overseas Presence
International Broadcasting
Export-Import Bank Programs

# Option: State Department Business Processes

| | |
|---|---|
| Authorizing committees | Foreign Relations (Senate) International Relations (House) |
| Appropriations subcommittees | Commerce, Justice, State, the Judiciary, and Related Agencies (Senate and House) |
| Primary agency | Department of State |
| Account | Diplomatic and Consular Programs (19-0113)<br>Salaries and Expenses (19-0107)<br>Security/maint. of U.S. Missions (19-0535) |
| Spending type | Discretionary |
| Budget subfunction | Conduct of Foreign Affairs |
| Framework theme | Improve efficiency |

The Department of State has a number of outmoded and inefficient business processes. For example, one of the problems confronting State is how to efficiently relocate its employees overseas, find suitable housing abroad, and provide household furniture. Our work suggests that millions of dollars could be saved while providing high-quality services if State adopted relocation practices used in the private sector—including outsourcing various parts of the transfer process.

State's employee transfer process has remained virtually unchanged for years. State employees are confronted with a myriad of steps and multiple offices to navigate. State also separately contracts for each segment of most moves. In addition to incurring annual direct costs of about $36 million to ship household effects, State incurs as much as $1,600 in overhead costs for each move. Moves are typically processed in State's Transportation Division in Washington, D.C.; one of its four regional dispatch agencies; and its European Logistical Support Office. We found that leading companies in the private sector use a number of "best practices" to provide better service and reduce costs. Such practices include having one point of contact for assistance to employees, known as one-stop-shopping, and using commercial door-to-door shipments to lower the cost of shipping employees' household effects. Private sector firms also generally use one contractor for all segments of the move, minimizing in-house support requirements and reducing total costs.

Another important process is overseas housing. State and other U.S. government agencies operating overseas spend over $200 million annually to lease housing and purchase furniture for employees and their families. This process appears to be more costly than necessary. Our comparison of

State's processes with those of key private sector firms operating overseas indicates that if State adopted private sector practices at a number of posts, it could potentially save the U.S. government substantial amounts of money and still meet its employees' overseas residential housing and furniture needs. Specific practices that can reduce costs include (1) using relocation companies and similar service providers to search for housing and negotiate leases to reduce in-house support costs and shift some property preparation expenses to landlords; (2) providing employees with housing allowances to select their own homes rather than managing and maintaining a housing pool of government leases and preassigning residences; and (3) acquiring residential furniture overseas instead of buying and shipping it from the United States.

Our cost analysis of the U.S. mission's housing office in Brussels and the housing support function at the U.S. embassy in London illustrate how using a relocation company could potentially yield significant savings at those posts. For example, based on cost data provided by the mission in Brussels, the annual salary cost alone attributable to the short-term leasing process totaled about $700,000 in fiscal year 1996. If property preparation and other support costs are included, the embassy's direct and indirect costs for short-term residential leases exceed $1.5 million annually. In contrast, a relocation company would charge between $207,000 and $277,000 for home-finding services. For London, the support costs for residential leasing totaled about $700,000 annually. Outsourcing home-finding services would cost between $118,000 and $151,000.

While CBO agrees that improving State's business processes could yield savings, it cannot develop an estimate until specific proposals are identified.

## Related GAO Products

State Department: Using Best Practices to Relocate Employees Could Reduce Costs and Improve Service (GAO/NSIAD-98-19, Oct. 17, 1997).

State Department: Options for Reducing Overseas Housing and Furniture Costs (GAO/NSIAD-98-128, July 31, 1998).

## GAO Contact

Benjamin F. Nelson (202) 512-4128

# Option: U.S. Overseas Presence

| | |
|---|---|
| Authorizing committees | Foreign Relations (Senate) International Relations (House) |
| Appropriation subcommittees | Commerce, Justice, State, the Judiciary, and Related Agencies (Senate and House) |
| Primary agency | Department of State |
| Account | Diplomatic and Consular Programs (19-0113)<br>Salaries and Expenses (19-0107)<br>Security/maint. of buildings (19-0535) |
| Spending type | Discretionary |
| Budget subfunction | Conduct of Foreign Affairs |
| Framework theme | Reassess objectives |

The Department of State, in coordination with the numerous other agencies operating overseas, needs to systematically reevaluate its overseas staffing requirements and the alternatives to stationing large numbers of Americans overseas. Not only is this increasingly important for security concerns, the end of the cold war and the availability of new communication technologies raises related questions as to whether maintenance of a large overseas U.S. presence is necessary.

State maintains a physical presence in the form of embassies in over 160 countries, usually in the capital city, and consulates general, consulates, and other offices in the capital or other cities. About 19,000 U.S. direct-hire employees (over 7,000 from State and 12,000 from other agencies) work overseas at a total of more than 250 diplomatic posts. In addition, the U.S. direct-hire staffing levels have increased over the years, most notably in the nonforeign affairs agencies. U.S. embassies have become bases to at least 27 other U.S. government agencies involved in more than 300 activities.

Security requirements and the increasing costs of diplomacy are directly linked to size of the overseas workforce. Moreover, U.S. foreign policy needs, which have changed dramatically with the end of the cold war, call into question whether the current overseas post and staff structure is appropriate. By reducing the number of Americans at posts where U.S. interests are of lesser importance, consolidating functions, or using regional embassies in certain regions, State could reduce its security requirements and enhance the safety of Americans overseas. In addition to security concerns, the costs of maintaining Americans overseas are high. It costs over $200,000 annually to station an American overseas, which is about two times as much as for Washington-based staff. If the Congress chose to reduce overseas staffing by 1 percent, CBO estimates that the following savings could be achieved.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Option: Relocate overseas staffing domestically by 1 percent | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 4 | 8 | 12 | 16 | 20 |
| Outlays | 3 | 7 | 11 | 15 | 19 |

Note: CBO assumes that these direct hire positions would be relocated gradually or through attrition to minimize costs. This would occur at an even pace over five years and, based on information from GAO, savings are estimated at $100,000 per position.

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Option: Eliminate overseas staffing by 1 percent | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 8 | 16 | 24 | 32 | 40 |
| Outlays | 6 | 14 | 22 | 30 | 37 |

Note: CBO assumes that these direct hire positions would be eliminated through attrition rather than a reduction-in-force which would involve significant costs. Attrition would occur at an even pace over five years and, based on information from GAO, savings are estimated at $200,000 per position eliminated.

Source: Congressional Budget Office.

## Related GAO Products

State Department: Major Management Challenges and Program Risks (GAO/T-NSIAD/AIMD-99-99, Mar. 4, 1999).

Foreign Affairs Management: Major Challenges Facing the Department of State (GAO/T-NSIAD-98-251, Sept. 17, 1998).

Overseas Presence: Staffing at U.S. Diplomatic Posts (GAO/NSIAD-95-50FS, Dec. 28, 1994).

State Department: Overseas Staffing Not Linked to Policy Priorities (GAO/NSIAD-94-228, Sept. 20, 1994).

## GAO Contact

Benjamin F. Nelson (202) 512-4128

# Option: International Broadcasting

| | |
|---|---|
| Authorizing committees | Foreign Relations (Senate) International Relations (House) |
| Appropriations subcommittees | Commerce, Justice, State, the Judiciary, and Related Agencies (Senate and House) |
| Primary agency | Broadcasting Board of Governors |
| Account | International Broadcasting Operations (95-0206) |
| Spending type | Discretionary |
| Budget subfunction | Foreign Information and Exchange Activities |
| Framework theme | Reassess objectives |

The United States broadcasts over 1,650 hours of radio programming in 58 languages and over 400 hours of television in several languages weekly to support U.S. foreign policy objectives. In fiscal year 1998, $391.5 million of the U.S. Information Agency's budget supported the Voice of America (VOA) (53 languages), Radio Free Europe/Radio Liberty (RFE/RL)(25 languages), Radio and TV Marti broadcasts to Cuba, Radio Free Asia (RFA) (8 languages), and Worldnet television broadcasts. VOA, RFE/RL, and RFA have different purposes and therefore broadcast in some of the same languages. VOA's mission is to provide accurate and objective world news and present a balanced portrayal of U.S. institutions and policies. In contrast, RFE/RL's and RFA's mission is to present accurate news about political, social, and economic developments within the countries themselves in the absence of fully functional or free media.

Funding for international broadcasting has dropped considerably since fiscal year 1994 as VOA and RFE/RL consolidated functions such as engineering, eliminated overlapping broadcast hours to the same target audience, and cut 1,500 positions. Further savings would require changes in the number of language services and/or broadcast hours. Over the years, very few services have been terminated despite changing world conditions. The Broadcasting Board of Governors plans to review all language services and broadcast entities to determine their continued need and effectiveness. These reviews may identify less necessary services that could be eliminated.

Although CBO agrees that eliminating less necessary services would produce savings, it cannot develop an estimate for this option until specific proposals are identified.

## Related GAO Products

U.S. Information Agency: Options for Addressing Possible Budget Reductions (GAO/NSIAD-96-179, Sept. 23, 1996).

International Broadcasting: Downsizing and Relocating Radio Free Europe/Radio Liberty (GAO/NSIAD-95-53, Apr. 5, 1995).

Voice of America: Station Modernization Projects Need to Be Justified (GAO/NSIAD-94-69, Jan. 24, 1994).

Voice of America: Management Actions Needed to Adjust to a Changing Environment (GAO/NSIAD-92-150, July 24, 1992).

## GAO Contact

Benjamin F. Nelson, (202) 512-4128

# Option: Export-Import Bank Programs

| | |
|---|---|
| Authorizing committees | Banking, Housing, and Urban Affairs (Senate) Banking and Financial Services (House) |
| Appropriations subcommittees | Foreign Operations (Senate)<br>Foreign Operations, Export Financing, and Related Programs (House) |
| Primary agency | U.S. Export-Import Bank |
| Account | Export-Import Bank Loans Program Account, (83-0100) |
| Spending type | Discretionary |
| Budget subfunction | International Financing Programs |
| Framework theme | Reassess objectives |

The U.S. Export-Import Bank (Eximbank) was created to facilitate exports of U.S. goods and services by offering a wide range of financing at terms competitive with those of other governments' export financing agencies. Eximbank is to absorb risks that the private sector is unwilling or unable to assume. Higher risk markets, such as the Newly Independent States of the Former Soviet Union, constitute a relatively small share of the Eximbank's total financing commitments yet absorb a relatively large share of its subsidy costs. From fiscal years 1994 to 1998, Eximbank used an average of about $859 million of its credit subsidy appropriation to support an average of about $12.2 billion in export financing commitments (loans, loan guarantees, and insurance). Eximbank's congressional mandate is to supplement, not compete with, private capital. Thus it provides financing in a wide variety of markets, including more markets in higher risk categories than those of any of its major competitors.

The level and scope of the risks of the Eximbank's programs could be reduced by several means, such as placing a ceiling on the maximum subsidy rate allowed in Eximbank programs, reducing or eliminating program availability offered in high-risk markets, and offering less than 100-percent risk protection. These changes would have only a slight effect on the overall level of U.S. exports supported with Eximbank financing. However, these options raise several trade and foreign policy issues that decisionmakers would need to address before making any changes in Eximbank's programs. Eximbank officials noted that these options could undermine U.S. government efforts to provide support in some higher-risk markets, such as the Newly Independent States of the Former Soviet Union, that exhibit promising long-term potential.

The specific level of savings resulting from these program changes would be dependent on several factors, including the willingness of exporters and participating banks to absorb increased costs and risks, and the reaction of foreign export credit agencies. We estimated, based on 1998 transaction levels, that about $243 million in program subsidy savings could be achieved annually if Eximbank provided only short-term cover in higher risk markets.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 243 | 243 | 243 | 243 | 243 |
| Outlays | 27 | 66 | 105 | 143 | 176 |

Source: Congressional Budget Office.

## Related GAO Products

U.S. Export-Import Bank: Issues Raised by Recent Market Developments and Foreign Competition (GAO/T-NSIAD-99-23, Oct. 7, 1998).

Export-Import Bank: Key Factors in Considering Eximbank Reauthorization (GAO/T-NSIAD-97-215, July 17, 1997).

Export-Import Bank: Options for Achieving Possible Budget Reductions (GAO/NSIAD-97-07, Dec. 20, 1996).

Foreign Affairs: Perspectives on Foreign Affairs Programs and Structures (GAO/NSIAD-97-6, Nov. 8, 1996).

Export Finance: Comparative Analysis of U.S. and European Union Export Credit Agencies (GAO/GGD-96-1, Oct. 24, 1995).

Export Finance: The Role of the U.S. Export-Import Bank (GAO/GGD-93-39, Dec. 23, 1992).

## GAO Contact

Benjamin F. Nelson, (202) 512-4128

## 270 Energy

Corporatize or Divest Select Power Marketing Administrations
Power Marketing Administrations Cost Recovery
Department of Energy's National Laboratories
Department of Energy's Contractor Separation Benefits Package
Federal Exemption to Certain State Taxes for Department of Energy's Operating Contractors
Nuclear Waste Disposal Fees
Federal Investment in Successfully Commercialized Technologies

# Option: Corporatize or Divest Selected Power Marketing Administrations

| | |
|---|---|
| Authorizing committees | Energy and Natural Resources (Senate)<br>Resources (House) |
| Primary agency | Department of Energy |
| Spending type | Direct |
| Framework theme | Redefine beneficiaries |

The federal government began to market electricity after the Congress authorized the construction of dams and established major water projects, primarily in the 1930s to the 1960s. The Department of Energy's (DOE) power marketing administrations (PMA)—Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration—market primarily wholesale power in 33 states produced at large, multiple-purpose water projects. Our March 1998 report identified options that the Congress and other policymakers can pursue to address concerns about the role of the three PMAs—Southeastern, Southwestern, and Western—in emerging restructured markets or to manage them in a more business-like fashion. Our work has demonstrated that, although federal laws and regulations generally require that the PMAs recover the full costs of building, operating, and maintaining the federal power plants and transmission assets, in some cases federal statutes and DOE's rules are ambiguous about or prohibit the recovery of certain costs. For fiscal years 1992 through 1996, the federal government incurred a net cost of $1.5 billion from its involvement in the electricity-related activities of Southeastern, Southwestern, and Western. In addition, our work has demonstrated that the availability of federal power plants to generate electricity is below that of nonfederal plants because the federal plants are aging and because the federal planning and budgeting processes do not always ensure that funds are available to make repairs when needed. Our March report outlines three general alternatives to address the federal role in restructuring markets: (1) maintaining the status quo of federal ownership and operation of the power generating projects, (2) maintaining the federal ownership of these assets but improving how they operated (an example of which is reorganizing the PMAs to operate as federally owned corporations), and (3) divesting these assets.

Under the third alternative, divesting the three PMAs and federal power assets would eliminate the government's presence in a commercial activity and, depending on a divestiture's terms and condition and the price obtained, could produce both a net gain and a future stream of tax payments to the Treasury. Corporatization or divestitures of government assets have been accomplished recently in the United States and also overseas; our March 1997 report concluded that divesting the federal hydropower assets would be complicated but not impossible. Such a transaction would need to balance the multiple purposes of the water project as well as other claims on the water.

CBO estimates that divesting the federal hydropower assets would result in the savings shown below. The estimate assumes that the divestiture would not occur for two years. Although the foregone receipts result in a loss of revenue in 2003 and 2004, it is mitigated by the large receipt from divestiture in 2003 and by the savings in discretionary spending.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Discretionary spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 0 | 0 | 0 | 580 | 580 |
| Outlays | 0 | 0 | 0 | 290 | 464 |

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Direct spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 0 | 0 | 5,100 | –643 | –670 |
| Outlays | 0 | 0 | 5,100 | –643 | –670 |

Source: Congressional Budget Office.

## Related GAO Products

Power Marketing Administrations: Repayment of Power Costs Needs Closer Monitoring (GAO/AIMD-98-164, June 30, 1998).

Federal Power: Options for Selected Power Marketing Administrations' Role in a Changing Electricity Industry (GAO/RCED-98-43, Mar. 6, 1998).

Federal Electricity Activities: The Federal Government's Net Cost and Potential for Future Losses (GAO/AIMD-97-110 and 110A, Sept. 19, 1997).

Federal Power: Issues Related to the Divestiture of Federal Hydropower Resources (GAO/RCED-97-48, Mar. 31, 1997).

Power Marketing Administrations: Cost Recovery, Financing, and Comparison to Nonfederal Utilities (GAO/AIMD-96-145, Sept. 19, 1996).

Federal Power: Recovery of Federal Investment in Hydropower Facilities in the Pick-Sloan Program (GAO/T-RCED-96-142, May 2, 1996).

## GAO Contact

Victor S. Rezendes, (202) 512-3841

# Option: Power Marketing Administrations' Cost Recovery

| | |
|---|---|
| Authorizing committees | Energy and Natural Resources (Senate) Resources (House) |
| Primary agency | Department of Energy |
| Spending type | Direct |
| Framework theme | Redefine beneficiaries |

Four of the Department of Energy's (DOE) power marketing administrations (PMA)—Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration—market primarily wholesale power in 33 states produced at large, multiple-purpose water projects. Except for Bonneville, these PMAs receive annual appropriations to cover operating and maintenance (O&M) expenses and, if applicable, the capital investment in transmission assets.[4] Federal law requires the PMAs to repay these appropriations as well as the power-related O&M and the capital appropriations expended by the operating agencies generating the power.

Current monitoring activities do not ensure that the federal government recovers the full cost of its power-related activities from the beneficiaries of federal power. The full cost of the power-related activities—which are to be recovered under current legislation and DOE policy—include all direct and indirect costs incurred by the federal government in producing, transmitting, and marketing federal power. Neither DOE nor the Federal Energy Regulatory Commission, which reviews the PMAs' rate proposals, is effectively monitoring the rate-making process and the amounts due and repayments made to ensure their accuracy, completeness, and timeliness. Unrecovered power-related costs relate to (1) Civil Service Retirement System (CSRS) pensions and postretirement health benefits, (2) life insurance benefits, (3) certain workers' compensation benefits, and (4) interest on some of the federal appropriations used to construct certain projects. The full magnitude of the under-recovery of power-related costs is unknown. Until an effective monitoring system is implemented, the federal government will continue to be exposed to financial loss due to the under-recovery of power-related costs.

The federal government is also incurring other substantial net costs annually—the amount by which the full costs of providing electric power

[4]In 1974, the Congress stopped providing Bonneville with annual appropriations and instead provided it with a revolving fund maintained by the Treasury; however, Bonneville remains responsible for repaying its debt prior to 1974 and debt stemming from appropriations expended by the operating agencies on power-related expenses.

exceed the revenues from the sale of power—from the electricity-related activities of the PMAS. Although the PMAS are generally required to recover all costs, favorable financing terms and the lack of specific requirements to recover certain costs have resulted in net costs to the federal government because these PMAS' electricity rates do not recover all costs that are to be repaid through the sale of power. It is important to note that the PMAS were generally following applicable laws and regulations applying to the recovery of costs; however, in some cases, federal statutes and an applicable DOE order are ambiguous about or prohibit the recovery of certain costs.

The Congress and/or the Secretary of Energy may wish to consider directing the PMAS to more fully recover power-related costs or revising DOE's policy on high-interest debt repayment. We have recommended a number of specific actions aimed at enhancing DOE's oversight. For example, changes could be implemented to recover the full costs to the federal government of providing postretirement health benefits and pensions for current employees and operating agency employees engaged in producing and marketing the power sold by the PMAS. GAO and CBO agree that several PMAS have begun to address some of these actions. CBO has not prepared a savings estimate for this option because the extent of these changes and their effects are not fully known at this time.

## Related GAO Products

Power Marketing Administrations: Repayment of Power Costs Needs Closer Monitoring (GAO/AIMD-98-164, June 30, 1998).

Federal Power: Options for Selected Power Marketing Administrations' Role in a Changing Electricity Industry (GAO/RCED-98-43, Mar. 6, 1998).

Federal Electricity Activities: The Federal Government's Net Cost and Potential for Future Losses (GAO/AIMD-97-110 and 110A, Sept. 19, 1997).

Federal Power: Issues Related to the Divestiture of Federal Hydropower Resources (GAO/RCED-97-48, Mar. 31, 1997).

Power Marketing Administrations: Cost Recovery, Financing, and Comparison to Nonfederal Utilities (GAO/AIMD-96-145, Sept. 19, 1996).

Federal Power: Outages Reduce the Reliability of Hydroelectric Power Plants in the Southeast (GAO/T-RCED-96-180, July 25, 1996).

Federal Power: Recovery of Federal Investment in Hydropower Facilities in the Pick-Sloan Program (GAO/T-RCED-96-142, May 2, 1996).

Federal Electric Power: Operating and Financial Status of DOE's Power Marketing Administrations (GAO/RCED/AIMD-96-9FS, Oct. 13, 1995).

## GAO Contact

Victor S. Rezendes, (202) 512-3841

# Option: Department of Energy's National Laboratories

| | |
|---|---|
| Authorizing committees | Energy and Natural Resources (Senate) Commerce (House) |
| Appropriations subcommittees | Energy and Water Development (Senate and House) |
| Primary agency | Department of Energy |
| Account | Energy Supply, R&D Activities (89-0224) |
| Spending type | Discretionary |
| Budget subfunction | Atomic Energy Defense Activities |
| Framework theme | Reassess objectives |

The Department of Energy's (DOE) laboratory network is comprised of 23 labs, with a budget of over $10 billion and employing about 60,000 people. Recent shifts in national priorities—principally, the dramatic reduction in the arms race and proposed cutbacks in energy and nuclear research funding—raise questions about the need for all these labs. In particular, DOE's three large defense labs, costing about $1 billion annually, were created to design and test nuclear weapons, a role that has greatly diminished over time. Currently, these labs allocate less than half their budgets to nuclear weapons design, development, and testing—the principal reasons they were created. Yet, as we have reported, DOE still maintains a redundant structure with respect to nuclear weapons work, an arrangement that may no longer be the most efficient alternative for meeting defense requirements.

The 1995 Galvin Task Force, commissioned by DOE, also argued for more focused missions for the national laboratories. In addition, the task force said that the national laboratory system is oversized for its current mission assignments. Several congressional bills have been introduced in recent years calling for the creation of a separate structure for determining the best way to streamline national laboratories.

Aside from deciding on the ideal number of labs, most experts we consulted agree that the missions of the laboratories now need to be clarified if their resources are to be used most effectively. Some are suggesting the current laboratory structure may not be the most rational if the labs are to move into newer mission areas. Suggestions for restructuring range from converting some labs into private or quasi-public entities, transferring labs to universities, or assigning them to different agencies whose missions better match lab strengths.

In addition to supporting DOE's efforts to streamline individual labs, the Congress should reconsider the role and mission of the laboratories as a group, which could be restructured in various ways. For example, the Galvin Task Force examined a transfer of most of the nuclear weapons functions of Lawrence Livermore to the Los Alamos laboratory. Los Alamos officials estimated that having both facilities design weapons, but only one engineer and test them, would eventually save about $200 million in annual operating costs. The table below reflects savings from phasing in such a consolidation over a 5-year period.

### Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 43 | 96 | 155 | 226 | 285 |
| Outlays | 26 | 71 | 126 | 192 | 254 |

Note: This estimate assumes consolidation would take place over a 5-year period.

Source: Congressional Budget Office.

## Related GAO Products

Department of Energy: Uncertain Progress in Implementing National Laboratory Reforms (GAO/RCED-98-197, Sept. 10, 1998).

Federal R&D Laboratories (GAO/RCED/NSIAD-96-78R, Feb. 29, 1996).

Department of Energy: National Laboratories Need Clearer Mission and Better Management (GAO/RCED-95-10, Jan. 27, 1995).

DOE's National Laboratories: Adopting New Missions and Managing Effectively Pose Significant Challenges (GAO/T-RCED-94-113, Feb. 3, 1994).

Department of Energy: Management Problems Require a Long-term Commitment to Change (GAO/RCED-93-72, Aug. 31, 1993).

Nuclear Weapons Complex: Issues Surrounding Consolidating Los Alamos and Lawrence Livermore National Laboratories (GAO/RCED-92-98, Sept. 24, 1992).

## GAO Contact

Victor S. Rezendes, (202) 512-3841

# Option: Department of Energy's Contractors' Separation Benefits Package

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House) |
| Appropriations subcommittees | Energy and Water Development (Senate and House) |
| Primary agency | Department of Energy |
| Account | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Multiple |
| Framework theme | Redefine beneficiaries |

Since 1993, the Department of Energy has spent about $1 billion to provide benefits to contractor employees separated in workforce restructuring and downsizing efforts at its facilities. About 85 percent of the costs were for employee benefits including enhanced retirement incentives or severance pay. Enhanced retirement programs typically added 3 years to age and service for the purpose of calculating pension benefits. Some enhanced retirement programs included an additional incentive payment. Other benefits included extended medical insurance and help with retraining, relocating, and finding new jobs for affected employees. More than half of the workforce restructuring plans provided more generous severance pay than would have normally been provided by the contractors under existing contracts, and all facilities provided other benefits not normally provided by contractors. Moreover, benefits provided under the workforce restructuring plans exceeded those that would be provided to federal employees in a reduction-in-force.

As DOE continues to align its contractor workforce because of its reduced defense mission and as it completes environmental cleanup efforts, it will undergo further downsizing. The Congress could act to bring separation benefits in line with existing DOE contracts or with those benefits provided to federal employees. CBO estimates such action would result in the following savings.

## Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 13 | 13 | 13 | 0 | 0 |
| Outlays | 13 | 13 | 13 | 0 | 0 |

Source: Congressional Budget Office.

## Related GAO Product

Department of Energy: Value of Benefits Paid to Separated Contractor Workforce Varied Widely (GAO/RCED-97-33, Jan. 23, 1997).

## GAO Contact

Victor S. Rezendes, (202) 512-3841

# Option: Federal Exemption to Certain State Taxes for Department of Energy's Operating Contractors

| | |
|---|---|
| Authorizing committees | Armed Services (Senate and House)<br>Energy and Natural Resources (Senate)<br>Commerce (House) |
| Appropriations subcommittees | Energy and Water Development (Senate and House)<br>Interior and Related Agencies (Senate and House) |
| Primary agency | Department of Energy |
| Account | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Multiple |
| Framework theme | Redefine beneficiaries |

The federal government is exempt from paying certain state taxes, such as gross receipts and use taxes. However, the Department of Energy's (DOE) contractor-operated laboratories and production plants, although wholly government-owned and dedicated exclusively to government programs, are subject to such taxes. Because DOE has fully reimbursable contracts with its operating contractors, DOE is, in effect, paying these taxes. The amounts reimbursed can be significant. For example, in fiscal year 1998, the contractors at DOE's Oak Ridge and Sandia facilities were reimbursed almost $60 million for gross receipts, sales, and/or use taxes. If the Congress chose to designate DOE operating contractors as "instrumentalities of the federal government," the following savings could be achieved. Such action would make the contractors immune from state taxation and thereby eliminate this expense.

## Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 77 | 78 | 80 | 82 | 84 |
| Outlays | 46 | 70 | 79 | 81 | 83 |

Source: Congressional Budget Office.

## Related GAO Product

Energy Management: DOE Controls Over Contractor Expenditures Need Strengthening (GAO/RCED-87-166, Aug. 28, 1987).

## GAO Contact

Victor S. Rezendes, (202) 512-3841

## Option: Nuclear Waste Disposal Fees

| | |
|---|---|
| Authorizing committees | Energy and Natural Resources (Senate)<br>Commerce (House)<br>Resources (House) |
| Primary agency | Department of Energy |
| Spending type | Direct |
| Framework theme | Improve efficiency |

Utilities pay a fee to the Nuclear Waste Fund to finance the development of storage and permanent disposal facilities for high-level radioactive wastes. The amount of this fee has not changed since 1983, making the fund susceptible to future budget shortfalls. To help ensure that sufficient revenues are collected to cover increases in cost estimates caused by price inflation, the Congress should amend the Nuclear Waste Policy Act of 1982 to direct the Secretary of Energy to automatically adjust for inflation the nuclear waste disposal fee that utilities pay into the Nuclear Waste Fund. If the fee were indexed to inflation, the following additional receipts could be expected.

### Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Added receipts | 12 | 25 | 37 | 50 | 63 |

Source: Congressional Budget Office.

## Related GAO Products

Status of Actions to Improve DOE User-Fee Assessments (GAO/RCED-92-165, June 10, 1992).

Changes Needed in DOE User-Fee Assessments (GAO/T-RCED-91-52, May 8, 1991).

Changes Needed in DOE User-Fee Assessments to Avoid Funding Shortfall (GAO/RCED-90-65, June 7, 1990).

## GAO Contact

Victor S. Rezendes, (202) 512-3841

# Option: Federal Investment in Successfully Commercialized Technologies

| | |
|---|---|
| Authorizing committees | Energy and Natural Resources (Senate)<br>Science (House)<br>Commerce (House) |
| Appropriations subcommittees | Energy and Water Development (Senate and House)<br>Interior and Related Agencies (Senate and House) |
| Primary agency | Department of Energy |
| Account | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Multiple |
| Framework theme | Redefine beneficiaries |

The Department of Energy (DOE) and the private sector are involved in hundreds of cost-shared projects aimed at developing a broad spectrum of cost-effective, energy-efficiency technologies that protect the environment, support the nation's economic competitiveness, and promote the increased use of oil, gas, coal, nuclear, and renewable energy resources. In June 1996, GAO reported that DOE generally does not require repayment of its investment in technologies that are successfully commercialized. GAO's review identified only four DOE programs that require industry repayment if the technologies are ultimately commercialized. The offices in which GAO focused most of its work planned to devote about $8 billion in federal funds to cost-shared projects over their lifetime, of which about $2.5 billion is subject to repayment.

GAO's report discussed the advantages and disadvantages of having a repayment policy and pointed out that many of the disadvantages can be mitigated by structuring a flexible repayment requirement with the disadvantages in mind. It also discussed the types of programs and projects that would be the most appropriate or suitable for repayment of the federal investment.

Because opportunities exist for substantial repayment in some of DOE's programs, requiring repayment under a flexible policy would allow the government to share in the benefits of successfully commercialized technologies that could amount to hundreds of millions of dollars. The potential for repayment can be illustrated by assuming that if only 50 percent of the funds planned for projects that are currently not subject to repayment lend themselves to repayment, and if about 15 percent of research and development funds result in commercialized technologies (which DOE officials say is about average), then about $400 million could be repaid to the federal government. However, repayment provisions would only apply to future technology development projects not yet negotiated with industry. CBO estimates that this option would have no effect on receipts in the next 5 years because of the time lag between research and commercialization.

## Related GAO Product

Energy Research: Opportunities Exist to Recover Federal Investment in Technology Development Projects (GAO/RCED-96-141, June 26, 1996).

## GAO Contact

Victor S. Rezendes, (202) 512-3841

## 300 Natural Resources and Environment

Pursuing Cost-Effective Alternatives to NOAA's Research/Survey Fleet
Collaborative Federal Land Management Approach
Fair Market Value for Natural Resources
Hardrock Mining
Natural Resources Revenue Sharing
Federal Water Policies
Water Transfers
Pollution Fees and Taxes
Hazardous Waste Cleanup Cost Recovery
Non-Time-Critical Removals in Superfund Cleanups
Excess Funds in Superfund Contracts

# Option: Pursuing Cost-Effective Alternatives to NOAA's Research/Survey Fleet

| | |
|---|---|
| Authorizing committees | Commerce, Science and Transportation (Senate) Commerce (House) |
| Appropriations subcommittees | Commerce, Justice, State, and the Judiciary |
| Primary agency | Department of Commerce |
| Account | Operations, Research, and Facilities (13-1450) |
| Spending type | Discretionary |
| Budget subfunction | Other Natural Resources |
| Framework theme | Improve efficiency |

The National Oceanic and Atmospheric Administration (NOAA) has an aging in-house fleet of 15 ships that are used to support its programs in fisheries research, oceanographic research, and hydrographic charting and mapping. Most of NOAA's ships are past their 30-year life expectancies, and many of them are costly and inefficient to operate and maintain and lack latest state-of-the-art technology. NOAA's ships are managed and operated by a NOAA Corps of about 240 uniformed service commissioned officers who, like the Public Health Service Commissioned Corps, perform civilian rather than military functions but are covered by a military-like pay and benefits system.

For more than a decade, congressional committees, public and private sector advisory groups, the National Performance Review (NPR), the Commerce Office of Inspector General (OIG), and our office have urged NOAA to aggressively pursue more cost-effective alternatives to its in-house fleet of ships. Since 1990, NOAA has developed several fleet replacement and modernization plans that call for investments of millions of dollars to upgrade or replace these ships, and each has been criticized by the Commerce OIG for not pursuing alternative approaches strongly enough. In 1996, the OIG recommended that NOAA terminate its fleet modernization efforts; cease investing in its ships; immediately begin to decommission, sell, or transfer them; and contract for the required ship services.

In response, NOAA has decommissioned almost one-third of its fleet since 1990 and now outsources for about 40 percent of its research and survey needs. Although NOAA has increased its outsourcing for these services and expects to further increase its use of outsourcing to about 50 percent over the next 10 years, NOAA continues to rely heavily on its old, inefficient fleet and still plans to replace or upgrade some of these ships. In this regard, the

President's budget for fiscal year 2000 proposes $52 million for construction of a new fisheries research ship and indicates that NOAA plans to spend a total of $185 million for four new replacement ships over the 5-year period ending in fiscal year 2004.

Because no funds were appropriated for modernizing and replacing the NOAA fleet in fiscal year 1999, implementing this option would not yield any savings relative to the current level of funding for NOAA programs. However, CBO agrees that implementing this option would result in savings relative to the Administration's fiscal year 2000 budget request.

## Related GAO Products

Department of Commerce: National Weather Service Modernization and NOAA Fleet Issues (GAO/T-AIMD/GGD-99-97, Feb. 24, 1999).

Major Management Challenges and Program Risks: Department of Commerce (GAO/OCG-99-3, Jan. 1999).

Issues on the National Oceanic and Atmospheric Administration's Commissioned Corps (GAO/GGD-98-35R, Dec. 2, 1997).

National Oceanic and Atmospheric Administration: Issues on the Civilianization of the Commissioned Corps (GAO/T-GGD-98-22, Oct. 29, 1997).

Federal Personnel: Issues on the Need for NOAA's Commissioned Corps (GAO/GGD-97-10, Oct. 31, 1996).

Research Fleet Modernization: NOAA Needs to Consider Alternatives to the Acquisition of New Vessels (GAO/RCED-94-170, Aug. 3, 1994).

## GAO Contact

L. Nye Stevens, (202) 512-8676

# Option: Collaborative Federal Land Management Approach

| | |
|---|---|
| Authorizing committees | Agriculture, Nutrition, and Forestry (Senate)<br>Energy and Natural Resources (Senate)<br>Agriculture (House)<br>Resources (House) |
| Appropriations subcommittees | Interior and Related Agencies (Senate and House) |
| Primary agencies | Department of the Interior<br>Department of Agriculture |
| Accounts | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Conservation and Land Management |
| Framework theme | Improve efficiency |

The responsibilities of the four major federal land management agencies—the National Park Service, Bureau of Land Management (BLM), Fish and Wildlife Service within the Department of Interior, and the Forest Service within the Department of Agriculture—have grown more similar over time. Most notably, the Forest Service and BLM now provide more noncommodity uses, including recreation and protection for fish and wildlife, on their lands. In addition, managing federal lands has become more complex. Managers have to reconcile differences among a growing number of laws and regulations, and the authority for these laws is dispersed among several federal agencies and state and local agencies. These changes have coincided with two other developments—the federal government's increased emphasis on downsizing and budgetary constraint and scientists' increased understanding of the importance and functioning of natural systems whose boundaries may not be consistent with existing jurisdictional and administrative boundaries. Together, these changes and developments suggest a basis for reexamining the processes and structures under which the federal land management agencies currently operate.

Over the last 26 years, two basic strategies have been proposed to improve federal land management: (1) streamlining the existing structure by coordinating and integrating functions, systems, activities, programs, and field locations and (2) reorganizing the structure by combining agencies. The two strategies are not mutually exclusive and some prior proposals have encompassed both.

Over the last several years, the Forest Service and BLM have collocated some offices or shared space with other federal agencies. They have also pursued other means of streamlining, sharing resources, and saving rental costs. However, no significant legislation has been enacted to streamline or reorganize federal land management agencies and the four major federal land management agencies have not, to date, developed a strategy to coordinate and integrate their functions, systems, activities, and programs.

Without a specific restructuring proposal that would eliminate certain programs or revise how the land is managed, CBO does not estimate savings due to sharing resources among the four major land management agencies. Savings would depend on the extent of a workforce restructuring and implementation proposal.

## Related GAO Products

Federal Land Management: Streamlining and Reorganization Issues (GAO/T-RCED-96-209, June 27, 1996).

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

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

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

## GAO Contact

Victor S. Rezendes, (202) 512-3841

# Option: Fair Market Value for Natural Resources

| | |
|---|---|
| Authorizing committees | Agriculture, Nutrition and Forestry (Senate)<br>Energy and Natural Resources (Senate)<br>Agriculture (House)<br>Resources (House) |
| Primary agencies | Department of Agriculture<br>Department of the Interior |
| Spending type | Direct |
| Framework theme | Improve efficiency |

Implementing market-based incentives and management practices may encourage more economically and environmentally sound use of federal lands and resources. The existing arrangement for use of the public domain provides subsidies to users—such as grazers, miners, and communication site lessees—that may encourage poor use of scarce resources and/or deprive the government of revenues to which it is entitled. In addition, certain nonfee-related provisions of the governing laws may also encourage less than optimal use of those lands and resources. For example, currently livestock operators on Forest Service lands are required to graze livestock on their allotments or lose their permits. Removing this “use-it-or-lose-it” requirement would not only promote economically efficient use of the resources, but also improve ecological conditions on Forest Service lands since environmental groups may often outbid ranchers for the permits in order to rest the land.

Many proposals have been advanced to alter the existing arrangements to stress better use of the lands and/or increased revenue to the federal government including: implementing new user fees for a variety of uses; charging fair market value for goods and recovering costs for services; opening certain uses to competitive bidding and removing restrictions on how the land must be used; funding land management units out of net receipts; and entering into partnership arrangements with other governmental and non-governmental entities. Some of these ideas would require specific new statutory authority, while others could be implemented under current authority.

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

We present several other options that illustrate how market-based incentives could be implemented. See the options “Hardrock Mining,” “Federal Water Policies,” and “Water Transfers.”

CBO agrees that implementing market-based incentives and management practices could generate additional offsetting receipts. However, it cannot develop an estimate until specific proposals are identified.

## Related GAO Products

Forest Service: Lack of Financial and Performance Accountability Has Resulted in Inefficiency and Waste (GAO/T-RCED/AIMD-98-135, Mar. 26, 1998).

Forest Service: Barriers to Generating Revenue or Reducing Costs (GAO/RCED-98-58, Feb. 13, 1998).

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

## GAO Contact

Victor S. Rezendes, (202) 512-3841

# Option: Hardrock Mining

| | |
|---|---|
| Authorizing committees | Agriculture, Nutrition and Forestry (Senate)<br>Energy and Natural Resources (Senate)<br>Agriculture (House)<br>Resources (House) |
| Primary agencies | Department of the Interior<br>Department of Agriculture |
| Spending type | Direct |
| Framework theme | Improve efficiency |

The Mining Law of 1872 allows holders of economically minable claims on federal lands to obtain all rights and interests to both the land and the hardrock minerals by patenting the claims for $2.50 or $5.00 an acre—amounts that do not necessarily reflect the market value of such lands today. Since 1872, the federal government has patented more than 3 million acres of mining claims (an area about the size of Connecticut), and some patent holders have reaped huge profits by reselling their lands. For example, we examined 12 applications for mining patents and reported in 1989 that the government would receive only about $16,000 if the claims were patented, whereas the value of these lands had been appraised in 1988 at between $14.4 million and $47.1 million. Furthermore, miners do not pay royalties to the government on hardrock minerals they extract from federal lands. In 1990, hardrock minerals worth at least $1.2 billion were extracted from federal lands, while known and economically recoverable reserves of hardrock minerals remaining on federal lands were estimated to be worth almost $64.9 billion.

Beginning in 1995, the Congress imposed a series of 1-year moratoriums on patenting mining claims; during this time, it considered bills that would prohibit the issuance of new patents, require the payment of fair market value for a patent, or otherwise modify the requirements for patenting. The Congress also considered bills that would impose royalties on hardrock minerals extracted from federal lands, e.g., a royalty of 5 percent or 8 percent on net proceeds, net smelter returns, or gross income. Under the terms of Interior's 1999 appropriations bill (P.L. 105-277), any revisions to the hardrock mining regulations are postponed for a year, pending a study by the National Academy of Sciences.

Estimating the additional receipts that could be obtained if patenting provisions were changed or if hardrock royalties were imposed would depend on the specific proposals implemented. For example, receipts from a 5 percent royalty on net smelter returns were estimated to average

$35 million annually. Estimating additional receipts would be further complicated by the large variation in land values and the lack of essential data about the hardrock minerals on current mining claims. Assuming that the Congress adopted a 5 percent royalty on net smelter returns, CBO estimates that the following receipts would be gained.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Offsetting receipts | 10 | 42 | 29 | 29 | 29 |

Source: Congressional Budget Office.

## Related GAO Products

Mineral Royalties: Royalties in the Western States and in Major Mineral-Producing Countries (GAO/RCED-93-109, Mar. 29, 1993).

Natural Resources Management Issues (GAO/OCG-93-17TR, Dec. 1992).

Mineral Resources: Value of Hardrock Minerals Extracted From and Remaining on Federal Lands (GAO/RCED-92-192, Aug. 24, 1992).

Federal Land Management: The Mining Law of 1892 Needs Revision (GAO/RCED-89-72, Mar. 10, 1989).

## GAO Contact

Victor S. Rezendes, (202) 512-3841

# Option: Natural Resources Revenue Sharing

| | |
|---|---|
| Authorizing committees | Agriculture, Nutrition and Forestry (Senate)<br>Energy and Natural Resources (Senate)<br>Agriculture (House)<br>Resources (House) |
| Appropriations subcommittees | Interior and Related Agencies (Senate and House) |
| Primary agencies | Department of the Interior<br>Department of Agriculture |
| Accounts | Multiple |
| Spending type | Direct |
| Budget subfunction | Conservation and Land Management |
| Framework theme | Improve efficiency |

The federal government collects fees from private interests for the sale or use of natural resources on federal lands. A percentage of these fees is, under certain conditions, allocated to states and counties as an offset for tax revenues not received from the federal lands.

Federal land-managing agencies typically do not deduct the full costs of their programs from the gross receipts that the programs generate before sharing the receipts with states and counties. Sharing federal receipts on a gross, rather than a net, basis often reduces the federal government's share of the revenues.

According to CBO, changing revenue sharing from a gross-receipt to a net-receipt basis would reduce net federal outlays and produce the following savings.[5]

## Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 185 | 190 | 190 | 195 | 175 |
| Outlays | 185 | 190 | 190 | 195 | 175 |

Source: Congressional Budget Office.

[5]The projected savings do not include a potential federal cost increase under the Capital Payment in Lieu of Taxes (PILT) program. Payments under the discretionary PILT program would increase beginning in fiscal year 1999 if net program receipts were shared and the Congress appropriated such an increase.

## Related GAO Products

Land Management Agencies: Revenue Sharing Payments to States and Counties (GAO/RCED-98-261, Sept. 17, 1998).

Forest Service: Barriers to Generating Revenue or Reducing Costs (GAO/RCED-98-58, Feb. 12, 1998).

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

Natural Resources Management Issues (GAO/OCG-93-17TR, Dec. 1992).

Rangeland Management: Current Formula Keeps Grazing Fees Low (GAO/RCED-91-185BR, June 11, 1991).

Forest Service Needs to Improve Efforts to Reduce Below-Cost Timber Sales (GAO/T-RCED-91-43, Apr. 25, 1991).

Mineral Revenues: Collection and Distribution of Revenues From Acquired Lands (GAO/RCED-90-7, Aug. 2, 1990).

## GAO Contact

Victor S. Rezendes, (202) 512-3841

# Option: Federal Water Policies

| | |
|---|---|
| Authorizing committees | Energy and Natural Resources (Senate)<br>Resources (House) |
| Primary agency | Department of the Interior |
| Spending type | Direct |
| Framework theme | Improve efficiency |

This broad option has five components: increased fees for subsidized federal water to large farms, subsidized water to produce subsidized crops, repayment of water project construction costs, recovery of federal investment in hydropower facilities, and federal water subsidies. Descriptions of each of the components follow.

## Increased Fees for Subsidized Federal Water to Large Farms

Under the Reclamation Reform Act of 1982, as amended, some farmers have reorganized large farming operations into multiple, smaller landholdings to be eligible to receive additional federally subsidized irrigation water. The act limits to 960 the maximum number of owned or leased acres that individuals or legal entities (such as partnerships or corporations) can irrigate with federal water at rates that exclude interest on the government's investment in the irrigation component of its water resource projects. However, due to the vague definition of the term "farm," the flow of federally subsidized water to land holdings above the 960 acre-limit has not been stopped, and the federal government is not collecting revenues to which it is entitled under the act.

## Subsidized Water to Produce Subsidized Crops

The use of federally subsidized water to produce federally subsidized crops results in the government paying double subsidies. According to the Department of the Interior, between 1976 and 1985, an average of 38 percent of the acreage served by the Bureau of Reclamation nationwide was used to produce crops that are also eligible for subsidies through the Department of Agriculture's commodity programs. Estimates of the cost of federal water subsidies vary but are substantial. The Department of the Interior estimated that irrigation subsidies used to produce subsidized crops throughout the 17 western states totaled $203 million in 1986; the Bureau of Reclamation placed the figure at $830 million.

## Time Frame for Repaying Water Project Construction Costs

By the end of fiscal year 1990, after receiving water from the Central Valley Project (CVP) in California's Central Valley Basin for over 40 years, irrigators had repaid only $10 million, 1 percent, of the over $1 billion in construction costs that they owe the federal government. In 1986, the Congress required irrigators and other users to pay their share of the federal investment in CVP by 2030. While construction costs ultimately may be recovered by 2030, the dollars that eventually flow to the Treasury could be worth much less than if they had been repaid sooner. The Congress may wish to accelerate the repayment schedule.

## Recovery of Federal Investment in Hydropower Facilities

Under the current repayment criteria, approximately $454 million of the federal investment in the Pick-Sloan Basin Program (a comprehensive plan to manage the water and hydropower resources of the Missouri River basin) is unrecoverable. A portion of Pick-Sloan's completed facilities were intended for use with irrigation facilities that have not been completed and are no longer considered feasible. In addition, as the overall federal investment in the other aspects of the completed hydropower facilities increases because of changes such as renovations and replacements, the amount of the federal investment that is unrecoverable will increase. Changing the terms of repayment to recover any of the $454 million investment would require congressional action. Consistent with previous congressional action concerning the program, the Congress could direct the Western Area Power Administration to recover the investment through power revenues and to take action to minimize any impact on power rates.

## Federal Interest Subsidies for Irrigators

Estimates of the current cost of federal water subsidies are substantial. For example, the Department of the Interior reported that irrigation subsidies throughout the 17 western states totaled $534 million in 1986, while the Bureau of Reclamation placed the cost at $2.2 billion. Estimates differ because of different definitions of an irrigation subsidy, different interest rates used to calculate the subsidies, and different methods for compounding unpaid interest. Much has changed in the West since the subsidies were established in 1902, and it is not known whether the subsidies are still warranted or whether irrigators could pay more of the cost of the water delivered.

CBO estimates that the added receipts shown in the tables below would be achieved if the Congress collected the full cost of federally subsidized water to large farms, eliminated double subsidies for crops and water, required CVP irrigators to repay the costs of CVP by 2020 (roughly two-thirds the time required under current law), recovered the investment in the

Pick-Sloan Basin Program, and/or phased out the interest subsidy for western irrigators.[6]

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Option: Increased fees for subsidized water to large farms | | | | | |
| Added receipts | 4 | 8 | 8 | 8 | 8 |

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Option: Phase out double subsidies | | | | | |
| Added receipts | 3 | 6 | 10 | 10 | 10 |

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Option: Accelerate repayment of water project construction costs | | | | | |
| Added receipts | 3 | 8 | 11 | 11 | 11 |

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Option: Recovery of federal investment in hydropower facilities | | | | | |
| Added receipts | 18 | 18 | 18 | 18 | 18 |

Source: Congressional Budget Office.

[6]Implementing some of these options would affect the potential savings from the remaining options.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Option: Phase out interest subsidy for irrigators | | | | | |
| Added receipts | 4 | 11 | 14 | 14 | 14 |

Source: Congressional Budget Office.

## Related GAO Products

Federal Power: Recovery of Federal Investment in Hydropower Facilities in the Pick-Sloan Program (GAO/T-RCED-96-142, May 2, 1996).

Water Subsidies: Impact of Higher Irrigation Rates on Central Valley Project Farmers (GAO/RCED-94-8, Apr. 19, 1994).

Natural Resources Management Issues (GAO/OCG-93-17TR, Dec. 1992).

Reclamation Law: Changes Needed Before Water Service Contracts Are Renewed (GAO/RCED-91-175, Aug. 22, 1991).

Water Subsidies: The Westhaven Trust Reinforces the Need to Change Reclamation Law (GAO/RCED-90-198, June 5, 1990).

Water Subsidies: Basic Changes Needed to Avoid Abuse of the 960-Acre Limit (GAO/RCED-90-6, Oct. 12, 1989).

## GAO Contact

Victor S. Rezendes, (202) 512-3841

# Option: Water Transfers

| | |
|---|---|
| Authorizing committees | Energy and Natural Resources (Senate)<br>Resources (House) |
| Primary agency | Department of the Interior |
| Spending type | Direct |
| Framework theme | Improve efficiency |

Water transfers, in which rights to use water are bought and sold, are a mechanism for reallocating scarce water to new users by allowing those who place the highest economic value on the resource to purchase it. Water transfers are a valuable tool for improving the efficiency of water use and environmental quality and can be a promising way to increase federal revenues for water development projects. Current reclamation law provides the Secretary of the Interior with discretion in establishing municipal and industrial charges to recover some of the costs of constructing the projects. However, Interior's principles governing water transfers focus on facilitating transfers and placing the government in the same or a better financial condition after a transfer is made, rather than charging the highest amounts possible without discouraging transfers. Increasing federal revenues will reduce the net benefits to the buyers and sellers, thereby discouraging some transfers. Deciding how much the Bureau of Reclamation should charge for transferred water involves balancing the increase in federal revenues with retaining incentives for water transfers to occur. Moreover, many reclamation projects have specified interest rates in authorizing legislation that limit interest charges below current levels.

The Congress may wish to change reclamation law to allow the use of current Treasury borrowing rates in establishing charges for transferred water. If this change was implemented in 2000, CBO estimates the following additional receipts. This estimate assumes that 3 percent of the outstanding irrigation-related debt of about $2 billion is annually traded, with the interest rate tied to the 30-year Treasury rate.

## Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Added receipts | 2 | 4 | 4 | 4 | 4 |

Source: Congressional Budget Office.

## Related GAO Product

Water Markets: Increasing Federal Revenues Through Water Transfers (GAO/RCED-94-164, Sept. 21, 1994).

## GAO Contact

Victor S. Rezendes, (202) 512-3841

# Option: Pollution Fees and Taxes

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House)<br>Environment and Public Works (Senate)<br>Transportation and Infrastructure (House) |
| Primary agency | Environmental Protection Agency |
| Spending type | Direct |
| Framework theme | Improve efficiency |

User fees, cost reimbursement mechanisms, and pollution taxes could be designed as a way to control pollutants and harmful substances by preventing their further generation, thus supplementing regulatory efforts to meet the objectives of existing environmental laws. These mechanisms also produce significant revenues which could help defray the costs of administering environmental protection programs. Based on audit work, we have identified several specific areas where fees and taxes might be effective, including, but not limited to (1) requiring states to collect permit fees on industrial and municipal dischargers to surface waters and (2) establishing a pollution tax on dischargers, based on volume, toxicity, or both.

Based on our work, an example of a pollution fee which the Congress may wish to consider is an excise tax on toxic water pollutants. Savings below illustrate a tax on water pollution discharges whose rate increases with the toxicity of the discharges, effective on discharges of water pollutants made after December 31, 1999. Rates range from $0.65 per pound for the least toxic pollutant to $63.40 per pound for the most toxic pollutant. Over time, revenue from a pollution fee tax should decline since the intent of such a tax is to provide an incentive to reduce the amount of pollutants generated.

## Five-Year Savings

Dollars in billions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Revenue gain | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |

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

Source: Joint Committee on Taxation.

## Related GAO Products

Environmental Protection: Implications of Using Pollution Taxes to Supplement Regulation (GAO/RCED-93-13, Feb. 17, 1993).

Hazardous Waste: Much Work Remains to Accelerate Facility Cleanups (GAO/RCED-93-15, Jan. 19, 1993).

Drinking Water: Widening Gap Between Needs and Available Resources Threatens Vital EPA Program (GAO/RCED-92-184, July 6, 1992).

Water Pollution: Stronger Efforts Needed by EPA to Control Toxic Water Pollution (GAO/RCED-91-154, July 19, 1991).

Environmental Protection: Meeting Public Expectations With Limited Resources (GAO/RCED-91-97, June 18, 1991).

## GAO Contact

Peter F. Guerrero, (202) 512-6111

## Option: Hazardous Waste Cleanup Cost Recovery

| | |
|---|---|
| Authorizing committees | Environment and Public Works (Senate)<br>Commerce (House)<br>Transportation and Infrastructure (House) |
| Appropriations subcommittees | VA, HUD, and Independent Agencies (Senate and House) |
| Primary agency | Environmental Protection Agency |
| Account | Hazardous Substance Superfund (20-8145) |
| Spending type | Discretionary |
| Budget subfunction | Pollution Control and Abatement |
| Framework theme | Improve efficiency |

The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), which created the Superfund program, requires that the parties responsible for contaminating Superfund sites clean them up or reimburse the Environmental Protection Agency (EPA) for doing so. Through fiscal year 1997, EPA had obtained legal agreements with responsible parties to recover approximately $2.3 billion of the $14.5 billion that it had spent. EPA has made these agreements, however, under a policy that limits the indirect costs that it will seek to recover. Since the early 1990s, EPA has been evaluating changes to its methodology for calculating indirect costs. The agency is currently assessing one option that could increase future recoveries by as much as an additional $500 million. EPA should amend its definition of recoverable costs to permit greater recoveries.

Savings could not be estimated due to EPA's varying success in collecting the full amount of current penalty and interest charges.

## Related GAO Products

High-Risk Series: Superfund Program Management (GAO/HR-97-14, Feb. 1997).

Superfund: EPA Has Opportunities to Increase Recoveries of Costs (GAO/RCED-94-196, Sept. 28, 1994).

Superfund: More Settlement Authority and EPA Cost Controls Could Increase Cost Recovery (GAO/RCED-91-144, July 18, 1991).

## GAO Contact

Peter F. Guerrero, (202) 512-6111

# Option: Non-Time-Critical Removals in Superfund Cleanups

| | |
|---|---|
| Authorizing committees | Environment and Public Works (Senate)<br>Commerce (House)<br>Transportation and Infrastructure (House) |
| Appropriations subcommittees | VA, HUD, and Independent Agencies (Senate and House) |
| Primary agency | Environmental Protection Agency |
| Account | Hazardous Substance Superfund (20-8145) |
| Spending type | Discretionary |
| Budget subfunction | Pollution Abatement and Control |
| Framework theme | Improve efficiency |

Superfund is the Environmental Protection Agency's (EPA) program for cleaning up the nation's highly contaminated hazardous waste sites, either through undertaking a cleanup action itself or compelling responsible private parties to do so. After spending more than 18 years and $17 billion on Superfund, construction of cleanup remedies (as of August 31, 1998) had been completed at only about 526 of the 1,193 sites on EPA's priority cleanup list.

EPA has two processes for conducting Superfund cleanups: (1) the removal process which is typically used to respond to urgent situations and (2) the remedial process which has traditionally been used for conducting more comprehensive cleanup actions. To accelerate the cleanup of Superfund sites, EPA has expanded the use of its removal process to conduct substantial nonemergency cleanup actions. These Non-Time-Critical (NTC) removals result in equally protective but quicker cleanups than under the remedial process because they streamline cleanup planning. NTC removals can be used to clean up at least a portion of almost any Superfund site, particularly the highest risk portions. In April 1996, we reported on the 81 cleanup actions that EPA had conducted under the NTC removal process. We found that compared to the remedial process, the NTC removal process accelerated cleanup actions by an average of 2 years per action and, consequently, reduced human health risks sooner and prevented the further spread of contamination. Using NTC removals also reduced the cost of the cleanup actions, from $4.1 million to $3.6 million, on average, for a savings of $500,000 per action.

If NTC removals were consistently used, the backlog of contaminated sites in the Superfund program could be more quickly addressed. This would reduce total costs over the life of the Superfund program but, given the current backlog, could not be expected to yield short-term savings.

## Related GAO Products

A Superfund Tool for More Efficient Cleanups (GAO/RCED-96-134R, Apr. 15, 1996).

Superfund: Non-Time-Critical Removals as a Tool for Faster and Less Costly Cleanups (GAO/T-RCED-96-137, Apr. 17, 1996).

Time and Cost Limits on Superfund Removals (GAO/RCED-96-195R, June 10, 1996).

## GAO Contact

Peter F. Guerrero, (202) 512-6111

## Option: Excess Funds in Superfund Contracts

| | |
|---|---|
| Authorizing committees | Environment and Public Works (Senate)<br>Commerce (House) |
| Appropriations subcommittees | VA, HUD, and Independent Agencies (Senate and House) |
| Primary agency | Environmental Protection Agency |
| Account | Hazardous Substances Superfund (20-8145) |
| Spending type | Discretionary |
| Budget subfunction | Pollution Control and Abatement |
| Framework theme | Improve efficiency |

The Environmental Protection Agency's (EPA) Superfund program, created in 1980, was intended to clean up those sites considered to be the most serious of the hazardous waste sites. EPA is authorized to compel parties responsible for causing the hazardous waste pollution to clean up the sites. If these parties cannot be found, or if a settlement with them cannot be reached, EPA can hire contractors to conduct the clean up. EPA has reported spending over $10 billion for cleaning up nonfederal Superfund sites.

If EPA took more aggressive action in identifying and closing completed contracts under the Superfund program, excess amounts could be recovered and used for new Superfund work, obviating the need for additional appropriations to perform such work. During fiscal years 1990 through 1997, Superfund contracts accounted for $5.4 billion, or 49 percent, of the $11.1 billion that EPA obligated for all contracts awarded during that period. For various reasons, the amount of funds obligated for a particular contract often exceeds the amount eventually paid to the contractor. In these circumstances, the unspent funds should be deobligated and used for other Superfund activities, once the original contracts are closed.

In 1994, EPA's Office of Inspector General reported that contracts awarded under the Superfund program had balances of over $100 million in unspent obligated funds that were no longer needed for their original purposes. In the same year, an EPA task force was established to develop guidance on and pursue the recovery of excess funds. However, in April 1997, we reported that substantial amounts remained obligated for completed projects. Using EPA data systems, we identified $249 million in potential recoveries, and we encouraged EPA to aggressively pursue these recoveries. In some cases, contracts had not been closed when work had been completed many years ago.

In response to our recommendation, EPA committed itself to expediting agency efforts to deobligate and reuse funds. In July 1998, we reported that EPA recovered $210 million during fiscal year 1997 and was projecting that it would recover $26 million during fiscal year 1998. However, we also reported that EPA had an additional $125 million in potential recoveries for fiscal year 1998. The Congress may want to reduce EPA's fiscal year 2000 appropriation by $125 to encourage greater recovery of funds.

### Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 125 | 0 | 0 | 0 | 0 |
| Outlays | | | | | |

Note: CBO did not estimate outlay savings.

Source: Congressional Budget Office.

## Related GAO Products

Environmental Protection: Funds Obligated for Completed Superfund Projects (GAO/RCED-98-232, July 21, 1998).

Environmental Protection: Opportunities to Recover Funds Obligated for Completed Superfund Projects (GAO/T-RCED-97-134, Apr. 15, 1997).

## GAO Contact

Peter F. Guerrero, (202) 512-6111

## 350 Agriculture

More Effective Operation of Rural Utilities Service's Electricity and Telecommunications Loan Programs
Consolidation of Common Administrative Functions at USDA
Farm Service Agency County Office Restructuring
Charging Beneficiaries for Food-Related Service Costs
Agricultural Research Service Funding
USDA Telecommunications and Information Systems

# Option: More Effective Operation of Rural Utilities Service's Electricity and Telecommunications Loan Programs

| | |
|---|---|
| Authorizing committees | Agriculture, Nutrition, and Forestry (Senate)<br>Agriculture (House) |
| Appropriations subcommittees | Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (Senate and House) |
| Primary agency | Department of Agriculture |
| Accounts | Multiple |
| Spending type | Discretionary |
| Framework theme | Improve efficiency |

The Rural Utilities Service (RUS), established by the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (P.L. 103-354, Oct. 13, 1994), administers the (1) electricity and telecommunications loan programs that formerly were operated by the Rural Electrification Administration (REA) and (2) water and waste disposal loan program that was formerly operated by the Rural Development Administration. In recent years, RUS has made or guaranteed an average of about $1.4 billion per year in loans to help borrowers develop, upgrade, or expand their electricity and telecommunications systems. As of June 30, 1997, the outstanding principal on RUS' electricity and telecommunications loans totaled about $36 billion.

Our report on the efficiency and effectiveness of RUS' operations identified a number of program practices that increased the cost of the rural electricity and telecommunications programs and reduced their effectiveness. For example, even though the loan programs are intended to assist in developing the nation's rural areas, current lending practices sometimes result in loans to borrowers serving areas that are heavily populated. Also, the agency sometimes makes its subsidized direct loans to borrowers capable of using their own resources or of obtaining loans from the private sector to fund their utility projects. Finally, borrowers have been able to obtain large-dollar loans and accumulate large amounts of debt because RUS has few loan and indebtedness limits.

To reduce the costs and increase the effectiveness of the agency's loan programs, we identified the following options: (1) target loans to borrowers that provide services to areas with low populations, (2) target subsidized direct loans to borrowers that have a financial need for the agency's assistance, and (3) graduate the agency's financially viable borrowers from direct loans to commercial credit. Also, to decrease the agency's vulnerability to losses, we identified the following options: (1) establish loan and indebtedness limits, (2) set the repayment guarantee at a level below 100 percent, and (3) prohibit loans to delinquent borrowers or to borrowers who have caused the RUS to incur loan losses.

CBO cannot develop an estimate for this option until specific proposals to improve efficiency are identified.

## Related GAO Products

Rural Utilities Service: Opportunities to Operate Electricity and Telecommunications Loan Programs More Effectively (GAO/RCED-98-42, Jan. 21, 1998).

Rural Development: Financial Condition of the Rural Utilities Service's Loan Portfolio (GAO/RCED-97-82, Apr. 11, 1997).

## GAO Contact

Lawrence J. Dyckman, (202) 512-5138

## Option: Consolidation of Common Administrative Functions at USDA

| | |
|---|---|
| Authorizing committees | Agriculture, Nutrition, and Forestry (Senate)<br>Agriculture (House) |
| Appropriations subcommittees | Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (Senate and House) |
| Primary agency | Department of Agriculture |
| Accounts | Multiple |
| Spending type | Discretionary/Direct |
| Framework theme | Improve efficiency |

In accordance with the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, USDA recently reorganized and streamlined its structure, consolidating 43 agencies and offices into 29 and dividing most of the 29 agencies and offices into seven mission areas. Under its streamlining plans, USDA also required mission areas with more than one agency to consolidate administrative functions such as human resource management and procurement. By mid-1997, USDA reported that administrative consolidation had been completed in four of the five mission areas with more than one agency.

However, we found that many of the mission areas still have multiple offices performing functions such as legislative and legal affairs, public information and community affairs, and financial and budget management for each of the component agencies. In total, more than 3,500 staff fill these positions. In addition, USDA has only recently developed a plan to streamline administrative functions at the state office level. The county-based service agencies—the Farm Service Agency, the Natural Resources and Conservation Service, and the agencies in the Rural Development mission—have each maintained their own state office in almost every state. These state offices employ 4,782 USDA employees, some of whom provide administrative services. Given that these agencies are consolidating their county-based offices into one-stop service centers, it is unclear why they need to maintain separate offices at the state level.

To further streamline its organization, increase efficiency, and reduce overhead costs associated with running separate offices, USDA could do more to combine agencies' support functions, such as legislative and legal affairs and public information, into a single office serving the needs of all mission component agencies. In addition, even though USDA has developed a plan to converge administrative functions at the state level for county-based agencies, a number of obstacles need to be overcome if the plan is to be successfully implemented. Perhaps most importantly in the near term is the selection of a strong leadership team to implement the convergence plan once it is approved by the Secretary. CBO agrees that this option could potentially yield savings. However, it did not develop a savings estimate due to the uncertainty of the extent to which improved efficiencies actually lead to budgetary savings.

## Related GAO Products

U.S. Department of Agriculture: Administrative Streamlining Is Expected to Continue Through 2002 (GAO/RCED-99-34, Dec. 11, 1998).

U.S. Department of Agriculture: Update on Reorganization and Streamlining Efforts (GAO/RCED-97-186R, June 24, 1997).

## GAO Contact

Lawrence J. Dyckman, (202) 512-5138

# Option: Farm Service Agency County Office Restructuring

| | |
|---|---|
| Authorizing committees | Agriculture, Nutrition, and Forestry (Senate)<br>Agriculture (House) |
| Appropriations subcommittees | Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (Senate and House) |
| Primary agency | Department of Agriculture |
| Accounts | Farm Service Agency |
| Spending type | Discretionary |
| Framework theme | Improve efficiency |

USDA maintains a field office structure that dates back to the 1930s when transportation and communication systems limited the geographic boundaries covered by a single field office and there were a greater number of small, widely disbursed, family-owned farms. In 1933, the United States had more than 6 million farmers; today the number of farms in the United States is less than 2 million and a small fraction of these produce more than 70 percent of the nation's agricultural output. At various times, the Congress has attempted to reduce the number of county offices serving farmers and/or reduce county office staffing. Most recently, the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (P.L. 103-354, Oct. 13, 1994) directed the Secretary of Agriculture to streamline departmental operations by consolidating county offices.

Our review of county office workload found that regardless of its size, each of the Farm Service Agency's (FSA) 2,440 county offices requires a certain fixed amount of time and resources to carry out basic office functions and train staff to administer FSA's programs. USDA's workload data indicate that about 2 staff years of effort per office are needed to carry out the basic administrative duties to keep the office open. These duties include obtaining and managing office space, paying utilities, and processing paperwork related to payroll. Additional time is needed to train staff on the specific characteristics of program operations so that they can effectively serve participating farmers. In total, these fixed administrative activities may represent almost 40 percent of FSA county offices' total workload. However, in larger offices, a lower percentage of total staff time is devoted to performing basic administrative functions, and a greater proportion of time is available to provide service to farmers.

To most effectively implement future staff reductions in FSA county offices, the Congress may want to encourage USDA to focus attention on closing offices that serve few farmers. Each office closed would save about 2 staff years of workload previously devoted to keeping the office open and functioning. Although CBO agrees that closing offices that serve few farmers would produce savings, it cannot develop a savings estimate until a specific proposal is identified.

## Related GAO Products

U.S. Department of Agriculture: Status of Closing and Consolidating County Offices (GAO/T-RCED-98-250, July 29, 1998).

Farm Programs: Service to Farmers Will Likely Change as Farm Service Agency Continues to Reduce Staff and Close Offices (GAO/RCED-98-136, May 1, 1998).

Farm Programs: Administrative Requirements Reduced and Further Program Delivery Changes Possible (GAO/RCED-98-98, Apr. 20, 1998).

Farm Programs: Impact of the 1996 Farm Act on County Office Workload (GAO/RCED-97-214, Aug. 19, 1997).

U.S. Department of Agriculture: Farm Agencies' Field Structure Needs Major Overhaul (GAO/RCED-91-9, Jan. 29, 1991).

U.S. Department of Agriculture: Interim Report on Ways to Enhance Management (GAO/RCED-90-19, Oct. 26, 1989).

## GAO Contact

Lawrence J. Dyckman, (202) 512-5138

## Option: Charging Beneficiaries for Food-Related Service Costs

| | |
|---|---|
| Authorizing committees | Agriculture, Nutrition, and Forestry (Senate)<br>Agriculture (House) |
| Appropriations subcommittees | Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (Senate and House) |
| Primary agency | Department of Agriculture |
| Accounts | Multiple |
| Spending type | Discretionary |
| Framework theme | Redefine beneficiaries |

User fees—charges individuals or firms pay for services they receive from the federal government—are not new but have begun to play an increasingly important role in financing federal programs, particularly since the Balanced Budget Act of 1985. According to the Office of Management and Budget Circular A-25, user fees should be charged to cover the full cost of federal services when the service recipient receives special benefits beyond those received by the general public. A special benefit will be considered to accrue, and a user charge will be imposed, when the government service (1) enables the beneficiary to obtain more immediate or substantial gains than those that accrue to the general public, (2) provides business stability or contributes to public confidence in the business activity of the beneficiary, or (3) responds to the request of or is provided for the convenience of the service recipient and is beyond the service regularly received by other members of the same industry or by the general public. In some cases, the government supplies a service that provides a special benefit to an identifiable recipient and also provides a benefit to the general public. When the public benefit in such cases is not independent of, but merely incidental to, the special benefit provided the service recipient, the government should seek to recover the full cost of providing the service by charging the service recipient a user fee.

In March 1997, we reported that additional user fees could have been charged to program beneficiaries in fiscal year 1995. For example, user fees could have been charged for meat and poultry plant inspections, a service currently provided without charge. CBO estimates that if meat and poultry plant inspections were funded through user fees instead of appropriations, the following savings might result.

### Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 273 | 545 | 545 | 545 | 545 |
| Outlays | 269 | 532 | 545 | 545 | 545 |

Note: This estimate assumes that user fees will cover direct and indirect costs of the meat and poultry inspection program, including management and supervisory costs. Costs of physical overhead, administration, and laboratory services incidental to the inspection program also will be included. User fees will exclude grants and special assistance to states. This estimate also assumes that only 50 percent of fees will be collected in the first year because of industry opposition and administrative delays.

Source: Congressional Budget Office.

## Related GAO Products

Food Safety: Opportunities to Redirect Federal Resources and Funds Can Enhance Effectiveness (GAO/RCED-98-224, Aug. 6, 1998).

Food Safety: Federal Efforts to Ensure the Safety of Imported Foods Are Inconsistent and Unreliable (GAO/RCED-98-103, Apr. 30, 1998)

Food-Related Services: Opportunities Exist to Recover Costs by Charging Beneficiaries (GAO/RCED-97-57, Mar. 20, 1997).

## GAO Contact

Lawrence J. Dyckman, (202) 512-5138

# Option: Agricultural Research Service Funding

| | |
|---|---|
| Authorizing committees | Agriculture, Nutrition, and Forestry (Senate) Agriculture (House) |
| Appropriations subcommittees | Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (Senate and House) |
| Primary agency | Department of Agriculture |
| Account | Agricultural Research Service, (12-1400), CSREES (12-1500) |
| Spending type | Discretionary |
| Framework theme | Reassess objectives |

The U.S. agricultural research system is decentralized and diverse, spanning federal, state, and private institutions. The Agricultural Research Service (ARS), whose program level was about $745 million for its fiscal year 1998 research activities, conducts federal in-house agricultural research in laboratories located nationwide and in several foreign countries. ARS' role is to develop the knowledge essential to solving technical agricultural problems that are broad in scope and have high national priority. The Cooperative State Research, Education, and Extension Service (CSREES) administers funding for research at land grant universities and other research institutions. It also provides funding for state extension activities and several modest higher education programs in agriculture-related areas. In fiscal year 1998, CSREES' program level was about $430 million for research and higher education.

USDA funds various types of agricultural research projects that the Congress may consider to be of insufficiently high national public interest, to have limited accountability, and/or should more appropriately be funded by the private sector. In particular:

- In June 1996, we reported that as of January 29, 1996, ARS used about 91 percent of its fiscal year 1996 appropriations to fund 1,198 projects at an estimated cost of $648 million—495 of these projects (valued at $257 million) involved mostly nonbasic research and 432 projects (valued at $220 million) were outside the high-priority research areas designated in ARS' 6-year implementation plan. We identified 148 projects valued at $78 million that fell into both of these categories.
- In fiscal year 1996, USDA's CSREES funded about $50 million in Special Grant projects. Special grants are often congressionally earmarked to be awarded to specific institutions for specific purposes and are not automatically subject to peer review. Similarly, ARS funded about

$32 million in projects that were to be conducted by an external organization and that are not likely to be peer reviewed. While peer review is not perfect, it is nonetheless an important part of quality control in science. Without peer review, accountability is limited.

Should the Congress wish to reduce nonbasic federal agricultural research, research that is not high-priority, and/or projects that are not peer reviewed, we believe the ARS budget and the CSREES budget could sustain a commensurate reduction. For example, the Congress could eliminate the 148 projects which involved mostly nonbasic research and were outside high-priority research areas. CBO agrees that eliminating projects could result in savings but could not develop an estimate of these savings at this time.

## Related GAO Products

ARS' Research Activities (GAO/RCED-96-153R, June 14, 1996).

Agricultural Research: Information on Research System and USDA's Priority Setting (GAO/RCED-96-92, Mar. 28, 1996).

## GAO Contact

Lawrence J. Dyckman, (202) 512-5138

# Option: USDA Telecommunications and Information Systems

| | |
|---|---|
| Authorizing committees | Agriculture, Nutrition, and Forestry (Senate)<br>Agriculture (House) |
| Appropriations subcommittees | Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (Senate and House) |
| Primary agency | Department of Agriculture |
| Account | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Multiple |
| Framework theme | Improve efficiency |

From telephone calls to video conference meetings to providing nationwide customer access to information, USDA reports that it spends over $200 million annually for a wide array of telecommunications technology. In 1995 and 1996, we reported that USDA was not cost-effectively managing and planning its substantial telecommunications investments and was wasting millions of dollars each year as a result. Specifically, we found that USDA (1) was paying for unnecessary or unused telecommunications equipment and services because of breakdowns in management controls; (2) was wasting as much as $5 million to $10 million annually because the department had not acted on opportunities to consolidate and optimize its FTS 2000 telecommunications services; (3) was spending hundreds of millions of dollars developing redundant networks that perpetuate long-standing information sharing problems and (4) had hundreds of cases of telephone abuse because the department lacked adequate controls over the millions of dollars it spends each year on commercial telephone services.

In our 1998 followup review, we found that in response to our reports and recommendations, USDA had taken positive steps to begin correcting its telecommunications management weaknesses—improvements that the department says could reduce its $200 million-plus reported annual investment in telecommunications by as much as $70 million each year. However, we also found that USDA had not achieved significant cost savings or management improvements because many of the department's corrective actions were incomplete or inadequate. Further, it was unclear how and when these needed corrective actions would be implemented because the department had not established an effective action plan or strategy for addressing our recommendations with time frames, milestones, and resources for making improvements.

Although the full extent of USDA's telecommunications management problem is unknown, USDA officials have indicated that millions could be saved annually by eliminating redundant commercial telecommunication services and by sharing resources. If our recommendations to the Secretary to take aggressive action to improve USDA's management of telecommunications and information systems were fully implemented, we believe substantial savings could be achieved. However, the amount of such savings cannot be known with certainty until USDA takes action to fully identify and eliminate spending on fraudulent and wasteful telecommunications services.

## Related GAO Products

USDA Telecommunications: Strong Leadership Needed to Resolve Management Weaknesses, Achieve Savings (GAO/AIMD-98-131, June 30, 1998).

Telecommunications Management: More Effort Needed by Interior and the Forest Service to Achieve Savings (GAO/AIMD-97-67, May 8, 1997).

USDA Telecommunications: More Effort Needed to Address Telephone Abuse and Fraud (GAO/AIMD-96-59, Apr. 16, 1996).

USDA Telecommunications: Better Management and Network Planning Could Save Millions (GAO/AIMD-95-203, Sept. 22, 1995).

USDA Telecommunications (GAO/AIMD-95-219R, Sept. 5, 1995).

USDA Telecommunications: Missed Opportunities to Save Millions (GAO/AIMD-95-97, Apr. 24, 1995).

## GAO Contact

Joel C. Willemssen, (202) 512-6408

## 370 Commerce and Housing Credit

Self-Financing of Mission Oversight by Fannie Mae and Freddie Mac
Rural Housing Loans Interest Recapture
Reducing FHA's Insurance Coverage

# Option: Self-Financing of Mission Oversight by Fannie Mae and Freddie Mac

| | |
|---|---|
| Authorizing committee | Banking, Housing, and Urban Affairs (Senate)<br>Banking and Financial Services (House) |
| Appropriations subcommittee | VA, HUD, and Independent Agencies (Senate and House) |
| Primary agency | Department of Housing and Urban Development |
| Accounts | Office of Federal Housing Enterprise Oversight, Salaries and Expenses (86-5272) |
| Spending type | Direct |
| Budget subfunction | Mortgage Credit |
| Framework theme | Improve efficiency |

The Congress established and chartered the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) as government-sponsored enterprises. These enterprises are privately-owned corporations chartered to enhance the availability of mortgage credit across the nation. The Congress also charged the Department of Housing and Urban Development (HUD) with mission oversight responsibility for the enterprises, which includes ensuring that housing goals established by HUD result in enhanced housing opportunities for certain groups of borrowers.

Other federal organizations responsible for regulating government-sponsored enterprises are financed by assessments on the regulated entities. However, HUD's mission oversight expenditures are funded with taxpayer dollars from HUD's appropriations. Accordingly, HUD's capability to strengthen its enterprise housing mission oversight may be limited because resources that could be used for that purpose must compete with other priorities. For example, HUD's capacity to implement a program to verify housing goal data, which would necessarily involve a commitment of additional resources, may be limited.

Requiring Fannie Mae and Freddie Mac to reimburse HUD for mission oversight expenditures would not only result in the savings shown below but would also enable HUD to strengthen its oversight activities.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 10 | 10 | 10 | 10 | 10 |
| Outlays | 10 | 10 | 10 | 10 | 10 |

Source: Congressional Budget Office.

## Related GAO Products

Federal Housing Enterprises: HUD's Mission Oversight Needs to Be Strengthened (GAO/GGD-98-173, July 28, 1998).

Government-Sponsored Enterprises: Advantages and Disadvantages of Creating a Single Housing GSE Regulator (GAO/GGD-97-139, July 9, 1997).

Government-Sponsored Enterprises: A Framework for Limiting the Government's Exposure to Risks (GAO/GGD-91-90, May 22, 1991).

## GAO Contact

Thomas J. McCool, (202) 512-8678

# Option: Rural Housing Loans Interest Recapture

| | |
|---|---|
| Authorizing committees | Banking, Housing, and Urban Affairs (Senate)<br>Banking and Financial Services (House) |
| Appropriations subcommittees | Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (Senate and House) |
| Primary agency | Department of Agriculture |
| Account | Rural Housing Insurance Fund (12-2081) |
| Spending type | Direct |
| Budget subfunction | Mortgage Credit |
| Framework theme | Redefine beneficiaries |

The Housing Act of 1949, as amended, requires the USDA's Rural Housing Service (RHS) to recapture a portion of the subsidy provided over the life of direct housing loans it makes when the borrower sells or vacates a property. The rationale being that because taxpayers paid a portion of the mortgage, they are entitled to a portion of the property's appreciation.

In a 1995 report, we pointed out that because recapture is not mandated when homes are refinanced, RHS' policy allows borrowers who pay off direct RHS loans but continue to occupy the properties to defer the payments for recapturing the subsidies. As of June 30, 1995, RHS' records showed that about $119 million was owed by borrowers who had refinanced their mortgages but continue to occupy the properties. RHS does not charge interest on the amounts owed by these borrowers. Legislative changes could be made to allow RHS to charge market rate interest on recapture amounts owed by borrowers to help recoup the government's administrative and borrowing costs. CBO's estimate of the savings for this option is presented on a net present value basis as required by the Federal Credit Reform Act of 1990. Actual savings could differ depending on how this proposal would affect the rate at which homes are sold.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 45 | 0 | 0 | 0 | 0 |
| Outlays | 45 | 0 | 0 | 0 | 0 |

Source: Congressional Budget Office.

## Related GAO Product

Rural Housing Programs: Opportunities Exist for Cost Savings and Management Improvement (GAO/RCED-96-11, Nov. 16, 1995).

## GAO Contact

Judy A. England-Joseph, (202) 512-7631

# Option: Reducing FHA's Insurance Coverage

| | |
|---|---|
| Authorizing committees | Banking, Housing, and Urban Affairs (Senate)<br>Banking and Financial Services (House) |
| Appropriations subcommittees | VA, HUD, and Independent Agencies (Senate and House) |
| Primary agency | Department of Housing and Urban Development |
| Account | FHA-Mutual Mortgage Insurance Fund (86-0183) |
| Spending type | Discretionary/Direct |
| Budget subfunction | Mortgage Credit |
| Framework theme | Improve efficiency |

Through its Federal Housing Administration (FHA), the Department of Housing and Urban Development (HUD) insures private lenders against nearly all losses resulting from foreclosures on single-family homes insured under its Mutual Mortgage Insurance Fund (Fund). The Department of Veterans Affairs (VA) also operates a single-family mortgage guaranty program. However, unlike FHA, VA covers only 25 to 50 percent of the original loan amount against losses incurred when borrowers default on loans, leaving lenders responsible for any remaining losses.

In May 1997, we reported that reducing FHA's insurance coverage to the level permitted for VA home loans would likely reduce the Fund's exposure to financial losses, thereby improving its financial health. As a result, the Fund's ability to maintain financial self-sufficiency in an uncertain future would be enhanced. For example, if insurance coverage on FHA's 1995 loans were reduced to VA's levels and a 14 percent volume reduction in lending assumed, we estimated that the economic value of the loans would increase by $52 million to $79 million. Economic value provides an estimate of the profitability of FHA loans, which is important because estimated increases in economic value due to legislative changes allow additional mandatory spending authorizations to be made, other revenues to be reduced, or projected savings in the federal budget to be realized. Reducing FHA's insurance coverage would likely improve the financial health of the fund because the reduction in claim payments resulting from lowered insurance coverage would more than offset the decrease in premium income resulting from reduced lending volume.

Legislative changes could be made to reduce FHA's insurance coverage. Savings under this option would depend on future economic conditions, the volume of loans made, how higher risk and lower risk borrowers would be identified for exclusion from the program, and whether some losses may be shifted from FHA to the Government National Mortgage Association. In addition, reducing FHA's insurance coverage does pose trade-offs affecting lenders, borrowers, and FHA's role, such as diminishing the federal role in stabilizing markets. Borrowers most likely affected would be low-income, first-time, and minority home buyers and those individuals purchasing older homes.

CBO did not provide a savings estimate for this option because the amount of potential savings would depend on the reaction of lenders and the resulting demand for FHA's products.

## Related GAO Product

Homeownership: Potential Effects of Reducing FHA's Insurance Coverage for Home Mortgages (GAO/RCED-97-93, May 1, 1997).

## GAO Contact

Judy A. England-Joseph, (202) 512-7631

## 400 Transportation

Replacement of Airport Surveillance Radars
Cargo Preference Laws
Fees Paid by Foreign-Flagged Cruise Ships
Department of Transportation's Oversight of Its University Research
Fees for Registering Aircraft

# Option: Replacement of Airport Surveillance Radars

| | |
|---|---|
| Authorizing committees | Commerce, Science, and Transportation (Senate)<br>Transportation and Infrastructure (House) |
| Appropriations subcommittees | Transportation (Senate and House) |
| Primary agency | Department of Transportation |
| Accounts | 69-8107 |
| Spending type | Discretionary |
| Budget subfunction | Air Transportation |
| Framework theme | Improve efficiency |

Before installing an airport surveillance radar (ASR), FAA conducts benefit-cost studies to determine whether it will be cost effective. In addition to the $5 million cost of the new radars, other costs may be incurred for auxiliary equipment and infrastructure modifications. Benefits of these improvements include travelers' time saved through potential reductions in aircraft delays and lives saved and injuries avoided through reduced risk of midair and terrain collisions. Because there is a direct correlation between projected air traffic operations and the potential benefits associated with radar installation, airports with higher air traffic projections would receive more benefit from a radar than those with lower projections.

FAA plans to install technologically advanced ASR-11 radars to replace its model ASR-7 and ASR-8 radars, currently located at 101 airports. However, some of these airports may no longer qualify for a radar based on FAA's benefit-cost criteria. Seventy-five of these airports have less air traffic than an airport whose radar request FAA recently denied using its benefit-cost criteria. Furthermore, at some of these airports, the circumstances that originally justified a radar no longer exist. Nevertheless, FAA officials plan to proceed with the replacements because they believe that it would be very difficult to discontinue radar operations at an airport that no longer qualifies because the public's perception would be that safety was being reduced, even if safety is not compromised.

Safety and confidence in the national airspace system are very important and must be considered when making decisions regarding the installation and replacement of surveillance radars. However, FAA's current plans to install replacement radars without conducting benefit-cost studies and revalidating operational needs may result in the agency spending millions of dollars to replace radars that are no longer needed or where the costs outweigh the benefits. FAA's perceived difficulties in discontinuing radar operations at an airport only elevate the need for conducting benefit-cost studies and assessing the operational needs. Therefore, we recommended that FAA conduct benefit-cost studies to validate the cost effectiveness and revalidate the need for the radars at airports scheduled to receive replacement radars and to use the results of the studies in prioritizing the replacement of the radars at qualifying airports. FAA has not yet responded to our recommendation.

Any savings resulting from this proposal would depend on the findings of an FAA benefit-cost study. Accordingly, CBO has not prepared a savings estimate for this option.

## Related GAO Product

Air Traffic Control: Surveillance Radar Request for the Cherry Capital Airport (GAO/RCED-98-118, May 28, 1998).

## GAO Contact

John H. Anderson, Jr., (202) 512-2834

# Option: Cargo Preference Laws

| | |
|---|---|
| Authorizing committees | Commerce, Science, and Transportation (Senate)<br>Transportation and Infrastructure (House) |
| Appropriations subcommittees | Multiple |
| Primary agency | Multiple |
| Accounts | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Water Transportation |
| Framework theme | Reassess objectives |

Cargo preference laws require that certain government-owned or financed cargo shipped internationally be carried on U.S.-flagged vessels. This guarantees a minimum amount of business for the U.S. merchant fleet. This promotes other sectors of the maritime industry because U.S.-flagged vessels are required by law to be crewed by U.S. mariners, are generally required to be built in U.S. shipyards, and are encouraged to be maintained and repaired in U.S. shipyards. In addition, U.S.-flag carriers commit to providing capacity in times of national emergencies.

However, because U.S.-flagged vessels often charge higher rates to transport cargo than foreign-flagged vessels, cargo preference laws increase the government's transportation costs. For fiscal years 1989 through 1993, four federal agencies—the Departments of Defense, Agriculture, Energy, and the Agency for International Development—were responsible for more than 99 percent, by tonnage, of government cargo subject to cargo preference laws. Cargo preference laws increased these federal agencies' transportation costs by an estimated $578 million per year in fiscal years 1989 through 1993 because U.S.-flagged vessels generally charge more to carry cargo than their foreign-flagged counterparts. The average was about $710 million per year when the costs associated with the Persian Gulf War were included.

The effect of cargo preference laws on the U.S. merchant marine industry is mixed. On one hand, the share of international oceanborne cargo carried by U.S. vessels has declined despite cargo preference laws because most oceanborne international cargo is not subject to cargo preference laws. On the other hand, these laws appear to have a substantial impact on the U.S. merchant marine industry by providing incentive for vessels to remain in the U.S. fleet. If the laws were eliminated, the following savings could be achieved.

## Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 166 | 179 | 192 | 205 | 218 |
| Outlays | 123 | 170 | 185 | 199 | 212 |

Note: The termination of cargo preference requirements for all government-sponsored cargoes would probably cause additional defaults on outstanding loans guaranteed by the Maritime Administration.

Source: Congressional Budget Office.

## Related GAO Products

Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, Dec. 5, 1994).

Maritime Industry: Cargo Preference Laws—Their Estimated Costs and Effects (GAO/RCED-95-34, Nov. 30, 1994).

Cargo Preference: Effects of U.S. Export-Import Cargo Preference Laws on Exporters (GAO/GGD-95-2BR, Oct. 31, 1994).

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

## GAO Contact

John H. Anderson, Jr., (202) 512-2834

# Option: Fees Paid by Foreign-Flagged Cruise Ships

| | |
|---|---|
| Authorizing committees | Judiciary (Senate and House) |
| Primary agency | Department of Justice |
| Spending type | Direct |
| Framework theme | Redefine beneficiaries |

The multibillion dollar passenger cruise market in the United States is almost exclusively served by foreign-flagged cruise vessels. With the exception of two, there are no oceangoing U.S.-flagged cruise vessels of any substantial size. Access to the U.S. market is, therefore, a very lucrative privilege, which is made even more so because the vessels and their crews pay virtually no corporate or personal U.S. income tax.

To ensure adequate shore-side facilities, the safety of U.S. passengers and property, and enforcement of immigration laws, the federal government has enacted laws and dispersed responsibility for their administration and enforcement throughout several departments and agencies of the federal government. This raises the question of whether the foreign-flagged cruise vessels, which are enjoying substantial profits as a result of their monopoly, are paying their fair share of the cost to the federal government of ensuring that this extremely valuable U.S. market operates safely and in accordance with our laws and regulations.

Seven agencies provide services to foreign-flagged cruise vessels. For fiscal year 1993, we found that all but two agencies—the Coast Guard and the Immigration and Naturalization Service (INS)—charged fees for these services that were about equal to or exceeded their costs to provide the services. In 1996, the Congress authorized the Coast Guard to begin collecting fees for its inspection services. However, INS is still not collecting fees that recover the cost of passenger inspections because passengers are exempt from its fee when arriving at a port of entry in the United States on a cruise originating in Canada, Mexico, a territory or possession of the United States, or any adjacent island. If the Congress lifted this exemption, the following savings would occur.

### Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Added receipts | 20 | 25 | 30 | 35 | 40 |

Source: Congressional Budget Office.

## GAO Contact

John H. Anderson, Jr., (202) 512-2834

# Option: Department of Transportation's Oversight of Its University Research

| | |
|---|---|
| Authorizing committees | Commerce, Science and Transportation (Senate)<br>Transportation and Infrastructure (House) |
| Appropriations subcommittees | Transportation (Senate and House) |
| Primary agency | Department of Transportation |
| Accounts | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Ground, Air, Water, and Other Transportation |
| Framework theme | Improve efficiency |

The Department of Transportation (DOT) conducts a variety of research to enhance safety, mobility, environmental quality, efficiency, and economic growth in the nation's transportation system. The results of DOT's research programs include prototypes of systems, new operating procedures, data used to focus policy decisions, and regulations. Within DOT several offices are responsible for the oversight of research and development activities. In addition, each of DOT's operating administrations is responsible for reviewing and monitoring its own research to ensure that the university awards' objectives are met and the costs are appropriate.

While DOT's spending on research at universities has grown significantly between fiscal years 1988 and 1993, DOT does not have an integrated plan to ensure that sponsored research is needed to meet departmental goals. In addition, a lack of oversight on some university awards led to overcharges of almost $450,000 and unpaid cost-sharing totaling $3 million in a sample of awards reviewed in detail. More effective planning and management of the research program could reduce costs by limiting duplicate research and ensuring that recipients follow award guidelines on allowable costs and cost sharing.

As we recommended, DOT has completed the development of a departmentwide database to track the purpose and costs associated with each university research award. We also recommended that DOT evaluate the operating administrations' processes to ensure that they have adequate policies and procedures to carry out their responsibilities for monitoring awards. However, the department has no plans to evaluate the operating administrations' processes to ensure that they have adequate policies and procedures to carry out their responsibilities for monitoring awards.

Our findings of overcharges and unpaid cost sharing for a sample of grants suggest that the Congress could slow DOT's university research spending by reducing appropriations until improvements in necessary planning and management processes are made. CBO does not disagree that improved monitoring and oversight of DOT's university research can reduce outlays. However, savings from this option would depend on which among many small accounts are reduced and the amounts of these reductions.

## Related GAO Product

Department of Transportation: University Research Activities Need Greater Oversight (GAO/RCED-94-175, May 13, 1994).

## GAO Contact

John H. Anderson, Jr., (202) 512-2834

# Option: Fees for Registering Aircraft

| | |
|---|---|
| Authorizing committees | Commerce, Science, and Transportation (Senate)<br>Transportation and Infrastructure (House) |
| Primary agency | Department of Transportation |
| Spending type | Direct |
| Framework theme | Redefine beneficiaries |

In 1977, the Congress amended the Federal Aviation Act and identified three categories of aircraft owners—U.S. citizens, resident aliens, and U.S.-based foreign companies—that may register aircraft in the United States. To register an aircraft, an eligible owner submits a $5 fee. As of December 1997, 349,528 aircraft were registered in the United States. In fiscal year 1997, 59,353 certificate registrations were issued.

In 1993, we reported that the Federal Aviation Administration (FAA) was not fully recovering the cost of processing aircraft registration applications and estimated that, by not increasing fees since 1968 to recover costs, FAA had foregone about $6.5 million in additional revenue. In 1993, we recommended that FAA accelerate implementation of rules it proposed in 1990 for increasing aircraft registration fees. Although the DOT Appropriations Act for fiscal year 1998 prohibited FAA from promulgating new aviation user fees not specifically authorized by law, FAA plans on rewriting the draft Notice of Proposed Rulemaking to increase registration fees based on existing legislative authority.

If FAA recovered the full cost of processing aircraft registration applications, the following additional revenue could be achieved.

## Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Added receipts | 1 | 1 | 1 | 1 | 1 |

Source: Congressional Budget Office.

## Related GAO Product

Aviation Safety: Unresolved Issues Involving U.S.-Registered Aircraft (GAO/RCED-93-135, June 18, 1993).

## GAO Contact

John H. Anderson, Jr., (202) 512-2834

# 450 Community and Regional Development

Eligibility for Federal Emergency Management Agency Public Assistance

# Option: Eligibility for Federal Emergency Management Agency Public Assistance

| | |
|---|---|
| Authorizing committees | Environment and Public Works (Senate)<br>Transportation and Infrastructure (House) |
| Appropriations subcommittees | VA, HUD and Independent Agencies (Senate and House) |
| Primary agency | Federal Emergency Management Agency |
| Account | Disaster Relief Fund (58-0104) |
| Spending type | Discretionary |
| Budget subfunction | Disaster relief and insurance |
| Framework theme | Redefine beneficiaries |

The Federal Emergency Management Agency's (FEMA) Public Assistance Program helps pay state and local governments' costs of repairing and replacing eligible public facilities and equipment damaged by natural disasters. It also pays other disaster-related costs, such as debris removal, emergency protective measures, and the administrative costs of managing the recovery effort. Many private nonprofit organizations, such as schools, hospitals, and utilities are also eligible for assistance. The cost of the Public Assistance Program has increased dramatically in recent years—in constant 1998 dollars, FEMA obligated almost $12 billion in public assistance for 412 disasters and emergencies declared during fiscal years 1991 through 1998, as compared with about $3 billion for 215 disasters and emergencies declared during the preceding 8 fiscal years. Although much of this is due to increased disaster activity, changes in the amount and types of assistance provided and eligible recipients of assistance have also been a factor.

In a May 1996 report, we presented a number of options identified by Public Assistance Program officials in FEMA's 10 regional offices that, if implemented, could reduce the cost of the program. Among the options recommended most strongly were placing limits on the appeals process; eliminating eligibility for some facilities that generate revenue, lack required insurance, or are not delivering government services; and limiting the impact of codes and standards (e.g., upgrade only disaster-damage portions of structures, better define who has the authority to adopt and approve codes and standards, and limit the time period for adopting new codes). In 1998, FEMA reduced the number of appeals for program decisions from three to two and issued regulations stating that building codes and specifications or standards required for the construction of facilities must be found to be reasonable and must be limited to the standards that are in writing and in effect at the time of the disaster declaration. CBO estimates that eliminating eligibility for all private nonprofit organizations—many of which are revenue-generating facilities such as utilities, hospitals, and universities—would yield the following savings.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 48 | 48 | 48 | 48 | 48 |
| Outlays | 10 | 22 | 31 | 38 | 38 |

Source: Congressional Budget Office.

## Related GAO Products

Disaster Assistance: Information on Federal Costs and Approaches for Reducing Them (GAO/T-RCED-98-139, Mar. 26, 1998).

Disaster Assistance: Improvements Needed in Determining Eligibility for Public Assistance (GAO/RCED-96-113, May 23, 1996).

Disaster Assistance: Improvements Needed in Determining Eligibility for Public Assistance (GAO/T-RCED-96-166, Apr. 30, 1996).

## GAO Contact

Judy A. England-Joseph, (202) 512-7631

# 500 Education, Training, Employment, and Social Services

Consolidation of Student Aid Programs

# Option: Consolidation of Student Aid Programs

| | |
|---|---|
| Authorizing committees | Labor and Human Resources (Senate) Education and the Workforce (House) |
| Appropriations subcommittees | Labor, Health and Human Services, Education, and Related Agencies (Senate and House) |
| Primary agency | Department of Education |
| Account | Student Financial Assistance (91-0200) |
| Spending type | Discretionary/Direct |
| Budget subfunction | Higher Education |
| Framework theme | Improve efficiency |

The Department of Education provides loans and grants to students to help finance their higher education. The federal government's role in supporting higher education is contributing about 50 percent of its education budget to postsecondary education programs and activities, most of which are for student financial aid. The largest programs provide federally insured loans and Pell grants for students. The Federal Family Education Loan (FFEL) and Federal Direct Loan (FDL) programs compose the largest source of federal student financial aid. FFEL and FDL programs are entitlements, but Pell grants, the largest federal grant-in-aid program, are awarded to the most needy eligible students, dependent on the availability of appropriated funds.

Although the student loan and Pell grant programs provide the majority of federal financial aid to students for postsecondary education, another 16 smaller programs are targeted to specific segments of the postsecondary school population. The programs fund remedial and support services for prospective students from disadvantaged families, programs to enhance the labor pool in designated specialties, grants to students for volunteer activities, and grants to women and minorities who are underrepresented in graduate education.

These 16 programs, which were funded at $1.1 billion total in fiscal year 1998, could be candidates for consolidation. For example, programs directed at attracting minority and disadvantaged students could be consolidated into one program. Or a certain amount of funds could be provided to states through a single grant, in lieu of several smaller grants, to cover some or all of the purposes of several small grant programs.

In anticipation of the administrative savings that could be achieved through consolidation, funding for these programs could be reduced 10 percent each year as part of the consolidation. Since all savings achieved through consolidation would be administrative in nature, we assume that there would be no adverse impact on students' access to postsecondary education—a principal object of the enabling legislation, the Higher Education Act of 1965, as amended.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 124 | 124 | 124 | 124 | 124 |
| Outlays | 15 | 99 | 121 | 124 | 124 |

Source: Congressional Budget Office.

## Related GAO Products

Department of Education: Information on Consolidation Opportunities and Student Aid (GAO/T-HEHS-95-130, Apr. 6, 1995).

Department of Education: Opportunities to Realize Savings (GAO/T-HEHS-95-56, Jan.18, 1995).

## GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

## 550 Health

# Option: Prescription Drug and Medicaid Fraud

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Department of Health and Human Services |
| Account | Grants to States for Medicaid (75-0512) |
| Spending type | Direct |
| Budget subfunction | Health Care Services |
| Framework theme | Improve efficiency |

While the Medicaid program is increasingly turning to managed care as a solution for higher costs, about 60 percent of all 1996 recipients still obtained medical items and services from vendors. The Medicaid program typically includes prescription drugs in its covered services, and diversion of these medications has been a problem for at least a decade. Such diversion can involve pharmacists routinely adding drugs to legitimate prescriptions and keeping the overage for themselves or for sale to others; clinics providing inappropriate prescriptions to Medicaid recipients who trade them for cash or merchandise or have them filled and then sell the drugs themselves; and individuals who provide recipients with abusable drugs in exchange for subsequent illicit use of their Medicaid recipient numbers. Participants in drug diversion schemes therefore frequently face added charges of fraud, false claims, or other related violations of state or federal law.

The financial incentives for diverting drugs are substantial and apply to both controlled and noncontrolled substances. Legal controlled drugs—those with significant potential for physical or psychological harm—are appealing because they are relatively cheap and chemically pure compared to illicit drugs. Profits from street sales can amount to several thousand percent of initial investment. One drug costing the pharmacy less than 50 cents per pill sold on the street for $85 per pill. Noncontrolled drugs, also, have recently become popular targets for diversion because they are comparatively easier to obtain and are particularly desirable if obtained under an insurance program—such as Medicaid—requiring little or no copayment. With no or minimal outlay on the part of the recipient, the street price—while typically lower than the pharmacy price and thus attractive to buyers—is entirely profit.

Medicaid accounts for 80 percent of all federal spending on prescription drugs. In fiscal year 1997, Medicaid's drug benefit cost about $10 billion.

While precise dollar losses due to diversion—as with all fraud—are impossible to identify, New York State officials estimate that in 1990, these losses represented about 10 percent of the state's total Medicaid spending for prescription drugs.

States have various initiatives under way to curb Medicaid prescription drug diversion but are hampered by insufficient resources, lengthy and frequently unproductive investigations, and the prevalence of repeat offenders and resilient schemes. Based on considerable previous work, we believe that the Health Care Financing Administration should assume an active leadership role in orchestrating and encouraging states' efforts and fostering the development and implementation of preventive measures. The Department of Health and Human Services (HHS) generally agrees with our findings and recommendation, but believes it is not feasible unless new staff resources can be identified and allocated.

The Congress may wish to encourage HHS to take a stronger role. If states curbed these losses by even a small percentage, future Medicaid costs would be reduced substantially. However, CBO cannot develop an estimate of the savings for this option until specific strategies are identified. Moreover, savings would be net of the additional resources required to curb fraudulent activities.

## Related GAO Products

Prescription Drugs and Medicaid: Automated Review Systems Can Help Promote Safety, Save Money (GAO/AIMD-96-72, June 11, 1996).

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

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

Medicaid: A Program Highly Vulnerable to Fraud (GAO/T-HEHS-94-106, Feb. 25, 1994).

Medicaid Drug Fraud: Federal Leadership Needed to Reduce Program Vulnerabilities (GAO/HRD-93-118, Aug. 2, 1993).

Medicaid Prescription Drug Diversion: A Major Problem, but State Approaches Offer Some Promise (GAO/T-HRD-92-48, July 29, 1992).

Prescription Drug Monitoring: States Can Readily Identify Illegal Sales and Use of Controlled Substances (GAO/HRD-92-115, July 21, 1992).

## GAO Contact

William J. Scanlon, (202) 512-7114

# Option: Medicaid: States Use Illusory Approaches to Shift Program Costs to the Federal Government

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Commerce (House) |
| Primary agency | Department of Health and Human Services |
| Account | Grant to States for Medicaid (75-0512) |
| Spending type | Direct |
| Budget subfunction | Health Care Services |
| Framework theme | Reassess objectives |

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

The practices that involve payments to state-owned facilities have been restricted by (1) the Omnibus Budget Reconciliation Act of 1993 provisions that limit such payments to unreimbursed Medicaid and uninsured costs and (2) the Balanced Budget Act of 1997 provisions that further limit Medicaid payments to state psychiatric hospitals. However, states can continue to make payments to local government-owned facilities, including payments that exceed costs, and have the facilities return the payments to the states. States are not required to justify the need for increased reimbursements, nor is the Health Care Financing Administration required to verify that moneys are used for the purpose for which they were obtained.

We believe that the Medicaid program should not allow states to benefit from illusory arrangements and that Medicaid funds should only be used to help cover the costs of medical care incurred by those medical facilities that provide the care. We believe the Congress should enact legislation to minimize the likelihood that states can develop arrangements whereby providers return Medicaid payments to the states, thus effectively reducing the state's share of Medicaid funding. This legislation should prohibit Medicaid payments that exceed costs to any government-owned facility.

Savings are difficult to estimate for this option because national data on these practices are not readily available. In addition, Medicaid spending is influenced by the use of waivers from federal requirements, which allows states to alter Medicaid financing formulas. Future requests and use of waivers by states are uncertain.

## Related GAO Products

Medicaid: Managed Care and Individual Hospital Limits for Disproportionate Share Hospital Payments (GAO/HEHS-98-73R, Jan. 28, 1998).

Medicaid: Disproportionate Share Payments to State Psychiatric Hospitals (GAO/HEHS-98-52, Jan. 23, 1998).

Medicaid: Disproportionate Share Hospital Payments to Institutions for Mental Disease (GAO/HEHS-97-181R, July 15, 1997)

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

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

Medicaid: States Use Illusory Approaches to Shift Program Costs to the Federal Government (GAO/HEHS-94-133, Aug. 1, 1994).

Medicaid: The Texas Disproportionate Share Program Favors Public Hospitals (GAO/HRD-93-86, Mar. 30, 1993).

## GAO Contact

William J. Scanlon, (202) 512-7114

# Option: Medicaid Formula: Fairness Could Be Improved

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Commerce (House) |
| Primary agency | Department of Health and Human Services |
| Account | Grant to States for Medicaid (75-0512) |
| Spending type | Direct |
| Budget subfunction | Health Care Services |
| Framework theme | Reassess objectives |

The Medicaid program provides medical assistance to low-income, aged, blind, or disabled individuals. The federal government and the states share the financing of the program through an open-ended matching grant whereby federal outlays rise with the cost and use of Medicaid services. The federal share of the program costs varies inversely with state per capita income. Consequently, high-income states pay a larger share of the benefits than low-income states. By law, the federal share can be no less than 50 percent and no more than 83 percent.

Since 1986, we have issued numerous reports and testimonies that identify ways in which the fairness of federal grant formulas could be improved. With respect to Medicaid, we believe that the fairness of the matching formula in the open-ended program could be improved by replacing the per capita income factor with four factors—the number of people living below the official poverty line, the total taxable resources of the state, cost differences associated with the demographic composition of state caseloads and, differences in health care costs across states—and by reducing the minimum federal share to 40 percent. These changes could reduce federal reimbursements by reducing the federal share in states with the most generous benefits, the fewest low-income people in need, lower costs and greater ability to fund benefits from state resources. These changes could redirect federal funding to states with the highest concentration of people in poverty and the least capability of funding these needs from state resources.

To illustrate the savings that could be achieved from changes in the Medicaid formula, CBO estimates that if the minimum federal share were reduced to 40 percent, the following savings could be achieved.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 6,400 | 6,900 | 7,400 | 8,000 | 8,700 |
| Outlays | 6,400 | 6,900 | 7,400 | 8,000 | 8,700 |

Source: Congressional Budget Office.

## Related GAO Products

Medicaid Formula: Effects of Proposed Formula on Federal Shares of State Spending (GAO/HEHS-99-29R, Feb. 19, 1999).

Medicaid Matching Formula: Effects of Need Indicators on New York's Funding (GAO/HEHS-97-152R, June 9, 1997).

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

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

## GAO Contact

William J. Scanlon, (202) 512-7114

# Option: Public Health Service Commissioned Corps

| | |
|---|---|
| Authorizing committees | Labor and Human Resources (Senate)<br>Commerce (House) |
| Appropriations subcommittees | Labor, Health and Human Services, Education, and Related Agencies (Senate and House) |
| Primary agency | Department of Health and Human Services |
| Account | Multiple |
| Spending type | Discretionary/Direct |
| Budget subfunction | Health Care Services |
| Framework theme | Improve efficiency |

The Commissioned Corps of the Public Health Service (PHS) was established in the late 1800s to provide medical care to sick and injured merchant seamen. Over the ensuing years, the Corps' responsibilities have grown, and Corps officers today are involved in a wide range of PHS programs, such as providing medical care to Native Americans at tribal and Indian Health Service facilities, psychiatric, medical, and other services in federal prisons, and health sciences research. As the result of their temporary service with the armed forces during World Wars I and II, members of the Corps were authorized to assume military ranks and receive military-like compensation, including retirement eligibility (at any age) after 20 years of service. Corps officers continue to receive virtually the same pay and benefits as military officers, including retirement.

We found that the functions of the Corps are essentially civilian in nature, and, in fact, some civilian PHS employees carry out the same functions as Corps members. Further,

- the Corps has not been incorporated into the armed forces since 1952, and the Department of Defense (DOD) has no specific plans for how the Corps might be used in future emergency mobilizations;
- generally, the Corps does not meet the criteria and principles cited in a DOD report as justification for the military compensation system; and
- other than Corps officers who are detailed to the Coast Guard and DOD, Corps members are not subject to the Uniform Code of Military Justice, which underlies how military personnel are managed.

Corps officials maintained that uniformed Corps members are needed as mobile cadres of professionals who can be assigned with little notice to any location and function, often in hazardous or harsh conditions.

However, other agencies, such as the Environmental Protection Agency, the National Transportation Safety Board, and the Federal Emergency Management Agency, use civilian employees to respond quickly to disasters and other emergency situations that could involve both hazardous or harsh conditions.

Our analysis showed that, based on 1994 costs, when all of the components of personnel costs—basic pay and salaries; special pay, allowances, and bonuses; retirement; health care; life insurance; and Corps members' tax advantages—are considered, PHS personnel costs could be reduced by converting the PHS Corps to civilian status. The amount of any cost reductions would depend on various factors, including the method by which changes are implemented, the accuracy of the data PHS and DOD provided us, the applicability of 1994 costs to future years, how closely our underlying assumptions match actual relationships between Corps and civilian personnel costs, and the manner in which any transition to civilian employment would be carried out.

Any decision to convert the Corps could be implemented in a number of ways, including

- requiring all officers to immediately convert to civilian employment;
- allowing all current officers to remain in place until retirement or other separation and requiring all new entrants to be civilian employees;
- allowing all officers with a specific number of years in the Corps to continue in the Corps until retirement or other separation; or
- retaining a permanent smaller Corps to provide medical services in areas that are difficult to staff with civilian employees.

Although CBO estimates that converting officers with fewer than 15 years of service to civilian status would result in a net cost to the federal government during the initial 5-year estimation period, it agrees that annual savings of millions of dollars would continue to grow as new entrants continue to be hired at a lower cost than PHS Corps recruits.[7]

## Related GAO Products

Federal Personnel: Public Health Service Commissioned Corps Officers' Health Care for Native Americans (GAO/GGD-97-111BR, Aug. 27, 1997).

[7]CBO's estimate assumed that the conversion would be effective January 1, 2000. The estimate further assumed that converted officers would not incur any reduction in pay but that new entrants would be hired at a lower cost than previously incurred for PHS Corps recruits.

Federal Personnel: Issues on the Need for the Public Health Service's Commissioned Corps (GAO/GGD-96-55, May 7, 1996).

## GAO Contact

L. Nye Stevens, (202) 512-8676

## Option: Unified Risk-Based Food Safety System

| | |
|---|---|
| Authorizing committees | Agriculture, Nutrition, and Forestry (Senate)<br>Agriculture (House) |
| Appropriations subcommittees | Agriculture, Rural Development, and Related Agencies (Senate)<br>Agriculture (House) |
| Primary agency | Department of Agriculture |
| Accounts | Multiple |
| Spending type | Discretionary |
| Framework theme | Improve efficiency |

We have issued numerous reports and testimonies on food safety issues. This work leads us to conclude that the federal system to ensure the safety and quality of the nation's food is inefficient and outdated and does not adequately protect the consumer against food-borne illness. We have reported that as many as 12 different agencies administering over 35 different laws oversee food safety. As a result, the current food safety system suffers from overlapping and duplicative inspections, poor coordination, and inefficient allocation of resources.

To improve the effectiveness and efficiency of the federal food safety system, we have recommended the consolidation of federal food safety agencies and activities. Specifically, we have recommended (1) consolidating food safety activities under a single, risk-based food safety agency with a uniform set of food safety laws, (2) establishing a Hazard Analysis and Critical Control Point system (HACCP) that emphasizes building safety into food production, and (3) placing responsibility for the system's implementation on the industry, with the government retaining an oversight role. Since December 1995, federal rules and regulations have been revised to move the seafood, meat, and poultry industries under a HACCP-based system. The seafood industry is required to adopt and implement HACCP systems by the end of December 1997, and all meat and poultry plants are required to implement HACCP systems by 2000. While HACCP may eliminate the need for some food safety inspectors, resulting in government cost savings, these activities have not been consolidated into a single food safety agency that would further reduce costs. In 1998, the National Academy of Sciences issued a report endorsing action to consolidate food safety activities.

A 5-year estimate of savings from consolidating food inspection programs—which as separate activities currently cost over $1 billion dollars—cannot be developed at this time. The amount of any savings will depend on how many programs are included, the degree and kind of reductions, and the level of federal involvement. In addition, the amount of savings will depend on the extent to which administrative cost savings are used to offset overall program costs.

## Related GAO Products

Food Safety: Weak and Inconsistently Applied Controls Allow Unsafe Imported Food to Enter U.S. Commerce (GAO/T-RCED-98-271, Sept. 10, 1998).

Food Safety: Opportunities to Redirect Federal Resources and Funds Can Enhance Effectiveness (GAO/RCED-98-224, Aug. 6, 1998).

Food Safety: Federal Efforts to Ensure the Safety of Imported Foods Are Inconsistent and Unreliable (GAO/RCED-98-103, Apr. 30, 1998).

Food Safety: Fundamental Changes Needed to Improve Food Safety (GAO/RCED-97-249R, Sept.9, 1997).

Food Safety: Information on Foodborne Illnesses (GAO/RCED-96-96, May 8, 1996).

Food Safety: Changes Needed to Minimize Unsafe Chemicals in Food (GAO/RCED-94-192, Sept. 26, 1994).

Food Safety: A Unified, Risk-Based Food Safety System Needed (GAO/T-RCED-94-223, May 25, 1994).

Food Safety: Risk-Based Inspections and Microbial Monitoring Needed for Meat and Poultry (GAO/RCED-94-110, May 19, 1994).

Food Safety and Quality: Uniform, Risk-based Inspection System Needed to Ensure Safe Food Supply (GAO/RCED-92-152, June 26, 1992).

Food Safety and Quality: Who Does What in the Federal Government (GAO/RCED-91-19A, Dec. 21, 1990).

Food Safety and Quality: Who Does What in the Federal Government (GAO/RCED-91-19B, Dec. 21, 1990).

## GAO Contact

Lawrence J. Dyckman (202) 512-5138

## 570 Medicare

# Option: Anticipated Savings at Risk With New Skilled Nursing Facility Payment Method

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House)<br>Commerce (House) |
| Primary agency | Department of Health and Human Services |
| Account | Federal Hospital Insurance Trust Fund (20-8005) |
| Spending type | Direct |
| Budget subfunction | Health and Medicare |
| Framework theme | Improve efficiency |

The Balanced Budget Act mandated the implementation of a prospective payment system (PPS) for skilled nursing facilities (SNF) to help address concerns about dramatic growth in Medicare spending for these services. A PPS provides incentives to deliver services efficiently by paying providers—regardless of their costs—fixed, predetermined rates that vary according to expected patient service needs. Health Care Financing Administration (HCFA) began phasing in such a system for SNFs in July 1998.

Problems with the design of the PPS, inadequate data used to establish rates, and inadequate planned oversight of claims for payment, however, could compromise Medicare's ability to stem spending growth while maintaining beneficiary access. We are concerned that the PPS preserves the opportunity for providers to increase their compensation by supplying potentially unnecessary services. Furthermore, the payment rates were computed using data that overstate the reasonable cost of providing care and may not appropriately reflect the differences in costs for patients with different care needs. In addition, as a part of the system, Medicare appears to have established new criteria for determining eligibility for the Medicare SNF benefit, which could expand the number of beneficiaries who will be covered and the length of covered stays. The planned oversight of claims to determine if a beneficiary is entitled to Medicare coverage and how much payment a SNF should receive is insufficient, increasing the potential to compromise expected savings.

We believe that HCFA should modify the SNF PPS regulations to address these concerns. Medicare needs to ensure that the payment rates reflect only necessary services that the facilities actually provide. Medicare should also increase its vigilance over claims review and provider oversight so that payments are appropriate and made only for eligible beneficiaries.

CBO agrees that improved payment methods and oversight could reduce spending. However, by convention, CBO only estimates the costs or savings of proposals that change current law, not administrative changes.

## Related GAO Products

Balanced Budget Act: Implementation of Key Medicare Mandates Must Evolve to Fulfill Congressional Objectives (GAO/T-HEHS-98-214, July 16, 1998).

Long-Term Care: Baby Boom Generation Presents Financing Challenges (GAO/T-HEHS-98-107, Mar. 9, 1998).

Medicare Post-Acute Care: Home Health and Skilled Nursing Facility Cost Growth and Proposals for Prospective Payment (GAO/T-HEHS-97-90, Mar. 4, 1997).

## GAO Contact

William J. Scanlon, (202) 512-7114

# Option: Using More Precise Coding to Facilitate Adjusting Medicare Fee Schedule Allowances to Reflect Changing Technology, Costs, and Market Prices

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Commerce (House)<br>Ways and Means (House) |
| Primary agency | Department of Health and Human Services |
| Account | Federal Supplementary Medical Insurance Trust Fund (20-8004) |
| Spending type | Direct |
| Budget subfunction | Medicare |
| Framework theme | Improve efficiency |

Medicare's supplementary medical insurance program (Medicare Part B) uses fee schedules to pay for most medical items such as durable medical equipment, prosthetics, orthotics, and supplies—items that accounted for $4.6 billion in allowed charges in 1996. Fee schedule allowances are primarily based on historical charges, indexed forward, rather than current costs or market prices. For example, the fee schedules for durable medical equipment, prosthetic devices, orthotics, prosthetics, and related supplies such as walkers, catheters, and glucose test strips are based on supplier charges in 1986 and 1987.

Over time, providers' costs for some procedures, equipment, and supplies have declined as competition and efficiencies increased. In other cases, medical innovations and advances have increased the cost of some procedures and products. However, Medicare has not had a process to routinely and systematically review these factors and make timely adjustments to the Medicare allowances. In fact, through the years, the Congress has legislatively adjusted Medicare allowances for some products and services, such as home oxygen, clinical laboratory tests, intraocular lenses, computed tomography scans and magnetic resonance imaging scans.

The Balanced Budget Act of 1997 provided the Health Care Financing Administration (HCFA) the authority to make more timely adjustments to Medicare Part B allowances by up to 15 percent per year. (This authority does not extend to adjustment of Medicare payments for physician services.) However, HCFA must overcome some obstacles to effectively use this new authority. One obstacle is that Medicare frequently does not know specifically what it is paying for. HCFA does not require suppliers to identify on Medicare claims the specific items billed. Instead, suppliers are required to use HCFA billing codes, most of which cover a broad range of products of various types, qualities, and market prices. For example, one Medicare billing code is used for more than 200 different urological catheters, even though some of these catheters sell at a fraction of the price of others billed under the same code. Unless Medicare claims contain more product specific information, HCFA cannot track what items are billed to ensure that each billing code is used for comparable products. Although the health care industry is increasingly using more specific universal product numbers and bar codes for inventory control, HCFA does not require suppliers to use these identifiers on Medicare claims.

There are a number of options that could also help bring Medicare allowances more into line with costs and market prices. For example, the Congress has authorized HCFA to implement competitive bidding demonstration projects for some Part B services and suppliers. Another approach is basing Medicare payments on the lower of the fee schedule allowance or the lowest amount a provider has agreed to accept from other payers. Also, for some medical equipment and supplies, HCFA could base Medicare allowances on the competitive contracts awarded by other large payers, such as the Department of Defense or the Department of Veterans' Affairs.

CBO is currently collecting data on a Universal Product Code-based payment system and is unable to provide saving estimates at this time.

## Related GAO Products

Medicare: Progress to Date in Implementing Certain Major Balanced Budget Act Reforms (GAO/T-HEHS-99-87, Mar. 17, 1999).

Medicare: Need to Overhaul Costly Payment System for Medical Equipment and Supplies (GAO/HEHS-98-102, May 12, 1998).

Medicare: Home Oxygen Program Warrants Continued HCFA Attention (GAO/HEHS-98-17, Nov. 7, 1997).

Medicare: Problems Affecting HCFA's Ability to Set Appropriate Reimbursement Rates for Medical Equipment and Supplies (GAO/HEHS-97-157R, June 17, 1997).

Medicare: Comparison of Medicare and VA Payment Rates for Home Oxygen (GAO/HEHS-97-120R, May 15, 1997).

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

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

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

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

## GAO Contact

William J. Scanlon, (202) 512-7114

# Option: Medicare Program Safeguards

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Commerce (House)<br>Ways and Means (House) |
| Appropriations subcommittees | Labor, Health and Human Services, and Education (Senate and House) |
| Primary agency | Department of Health and Human Services |
| Accounts | Federal Hospital Insurance Trust Fund (20-8005)<br>Federal Supplementary Medical Insurance Trust Fund (20-8004)<br>Program Management (75-0511) |
| Spending type | Discretionary/Direct |
| Budget subfunction | Health and Medicare |
| Framework theme | Improve efficiency |

Recently we reported that the funding Medicare contractors receive to review benefit claims has declined by over 20 percent since 1989. In response, contractors apply fewer or less stringent payment controls, and claims are paid that otherwise would not be. Historically, payment safeguards such as pre- and postpayment medical review of claims, or fraud unit investigations, have returned $10 in savings for each dollar expended on them. We believe additional program safeguard funding is necessary to better protect the program against erroneous payments.

The Health Insurance Portability and Accountability Act of 1996 increased funding to Medicare for program safeguards—a substantial reversal of the prolonged decline in funding per claim for those activities. CBO estimated a net savings of over $3 billion from increased resources—for Medicare as well as for the HHS Office of Inspector General and Federal Bureau of Investigation—to identify and pursue individuals or entities that defraud federal health care programs. However, the recently enacted increase in Medicare program safeguard funding alone—13.6 percent, or $60 million, for fiscal year 1998—must be spread over a volume of claims rising in recent years by 3 to 5 percent annually. Coupled with inflation, this growth in the number of claims will erode part of the effect of the funding increase enacted for future years. While the Congress has provided safeguard funding substantially above 1996 levels, fiscal year 2002 funding, adjusted for projected inflation and claims growth, is projected to be about 10 percent below the 1991 through 1996 average. Consequently, we believe that the potential exists for further funding increases to yield net savings.

CBO did not prepare a savings estimate for this option because it does not estimate changes in direct spending due to changes in discretionary spending.

## Related GAO Products

Medicare: Health Care Fraud and Abuse Control Program Financial Report for Fiscal Year 1997 (GAO/AIMD-98-157, Jun. 1, 1998)

Medicare: Fraud and Abuse Control Pose a Continuing Challenge (GAO/HEHS-98-215R, July 15, 1998).

Medicare: HCFA's Use of Anti-Fraud-and-Abuse Funding and Authorities (GAO/HEHS-98-160, June 1, 1998).

Medicare: Improper Activities by Mid-Delta Home Health (GAO/OSI-98-5, Mar. 12, 1998).

Medicare: Recent Legislation to Minimize Fraud and Abuse Requires Effective Implementation (GAO/T-HEHS-98-9, Oct. 9, 1997).

Medicare Fraud and Abuse: Summary and Analysis of Reform in the Health Insurance Portability and Accountability Act of 1996 and the Balanced Budget Act of 1997 (GAO/HEHS-98-18R, Oct. 9, 1997).

Medicare: Control Over Fraud and Abuse Remains Elusive (GAO/T-HEHS-97-165, June 26, 1997).

Medicare: Inherent Program Risks and Management Challenges Require Continued Federal Attention (GAO/T-HEHS-97-89, Mar. 4, 1997).

Nursing Homes: Too Early to Assess New Efforts to Control Fraud and Abuse (GAO/T-HEHS-97-114, Apr. 16, 1997).

Medicare: Control Over Fraud and Abuse Remains Elusive (GAO/T-HEHS-97-165, June 25, 1997).

Medicare Home Health: Success of Balanced Budget Act Cost Controls Depends on Effective and Timely Implementation (GAO/T-HEHS-98-41, Oct. 29, 1997).

Medicare (GAO/HR-97-10, Feb. 1997).

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

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

Medicare Claims (GAO/HR-95-8, Feb. 1995).

Medicare: Adequate Funding and Better Oversight Needed to Protect Benefit Dollars (GAO/T-HRD-94-59, Nov. 12, 1993).

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

Medicare: Cutting Payment Safeguards Will Increase Program Costs (GAO/T-HRD-89-06, Feb. 28, 1989).

Medicare and Medicaid: Budget Issues (GAO/T-HRD-87-1, Jan. 29, 1987).

## GAO Contact

William J. Scanlon, (202) 512-7114

# Option: Medicare Payments for High Technology Procedures

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Commerce (House)<br>Ways and Means (House) |
| Primary agency | Department of Health and Human Services |
| Account | Federal Supplementary Medical Insurance Trust Fund (20-8004) |
| Spending type | Direct |
| Budget subfunction | Medicare |
| Framework theme | Improve efficiency |

When new medical technologies first come into use, providers' unit costs often are high because of less efficient rendering of a service due to inexperience, large capital expenditures and low initial utilization rates. When Medicare sets its payment rates for these new services, the rates typically are based on the high initial unit costs. Over time, providers' unit costs decline as equipment improves, utilization increases, and experience in performing the service results in efficiencies. However, Medicare does not have a process for routinely and systematically assessing these factors and adjusting its fee schedule payment rates to reflect the declining unit costs. The Congress has reacted to the identification of specific overpaid procedures and services by legislatively reducing rates. For example, payments have been reduced for overpriced surgeries and magnetic resonance imaging scans.

The Health Care Financing Administration (HCFA) has initiatives underway which may help bring some Medicare payment rates more in line with actual costs and market prices, including a HCFA demonstration project, now mandated by the Balanced Budget Act of 1997, which will evaluate a competitive bidding process to set Medicare payment levels for some medical equipment and services. Laboratory services are among those being considered for competitive bidding.

These projects may eventually bring some Medicare payment rates more in line with actual costs and market rates, but none of these projects specifically targets expensive, evolving technologies. We believe significant program savings would result from an ongoing, systematic process for evaluating the reasonableness of Medicare payment rates for new medical technologies as those technologies mature.

Savings have not been estimated because revising the Medicare Fee Schedule potentially encompasses all procedures, and any savings would depend on the particular technologies for which Medicare payment rates are reduced.

## Related GAO Products

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

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

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

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

## GAO Contact

William J. Scanlon, (202) 512-7114

# Option: Medicare Rate-Setting Methods for HMOs

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Department of Health and Human Services |
| Account | Federal Supplementary Medical Insurance Trust Fund (20-8004) |
| Spending type | Direct[a] |
| Budget subfunction | Medicare |
| Framework theme | Improve efficiency |

[a]A small portion of this account includes administrative expenses that are discretionary in nature.

Hoping to take advantage of the potential cost savings associated with health maintenance organizations (HMO), the Congress created the Medicare risk contract program. Under this program, Medicare pays HMOs a fixed amount (or capitation rate) for each beneficiary enrolled. Prior to passage of the Balanced Budget Act of 1997, basic capitation rates for Medicare risk HMOs in each county were set at 95 percent of the estimated average cost of beneficiaries in that county's Medicare fee-for-service program. The county rates were then adjusted, up or down, depending on HMO enrollees' demographic traits. These adjustments, known as "risk adjustments," were designed to better match payment amounts with the expected health care costs of HMO enrollees.

The risk contract program has not achieved its goal of reducing Medicare costs for two reasons. First, the basic county capitation rates tend to be too high in many areas. Medicare HMOs tend to attract relatively healthy individuals while less healthy, more expensive, beneficiaries typically remain in fee-for-service. Because county rates are determined by actual fee-for-service spending, this "favorable selection" of relatively healthy beneficiaries into HMOs tends to increase county rates and generate excess payments to HMOs. Second, because the Health Care Financing Administration's (HCFA) risk adjustment methodology is inadequate, Medicare has paid HMOs more than it would have paid to treat HMO enrollees in the fee-for-service program. We have estimated that, for counties containing 36 percent of risk contract HMO enrollment, Medicare excess payments (payments above estimated fee-for-service costs) to HMOs were about $1 billion in 1995.

The Balanced Budget Act requires major changes in how capitation rates are determined, but the basic link to fee-for-service spending—and the payment inaccuracies that accompany that link—remain in the new rate setting methodology. These inaccuracies will continue under the Balanced Budget Act because (1) rates determined under the old system (increased by 2 percent) are used as new minimum rates, (2) local fee-for-service spending will continue to influence county rates, although not as strongly as in the past, and (3) increases in fee-for-service spending will influence annual updates in the capitation rates.

We have suggested that Medicare address the problem of excess payments to HMOs by pursuing a number of strategies, including fostering price competition among HMOs through competitive bidding, introducing more accurate risk adjusters, and modifying the current formula for HMO rates to reflect market competition and HMOs' local health care costs. These strategies should be pursued concurrently since barriers exist to the development and implementation of each strategy, and any one strategy may not emerge as feasible or best for all areas.

A 5-year estimate of savings from these strategies cannot be made at this time. Available data are insufficient to permit determining the effect of many proposed alternate payment strategies on Medicare spending and on HMO participation in the risk contract program.

## Related GAO Products

Medicare Managed Care: Better Risk Adjustment Expected to Reduce Excess Payments Overall While Making Them Fairer to Individual Plans (GAO/T-HEHS-99-72, Feb. 25, 1999).

Medicare HMO Institutional Payments: Improved HCFA Oversight, More Recent Cost Data Could Reduce Overpayments (GAO/HEHS-98-153, Sept. 9, 1998).

Medicare HMOS: Setting Payment Rates Through Competitive Bidding (GAO/HEHS-97-154R, June 12, 1997).

Medicare HMOS: HCFA Can Promptly Eliminate Hundreds of Millions of Excess Payments (GAO/HEHS-97-16, Apr. 25, 1997).

Medicare HMOS: HCFA Could Promptly Reduce Excess Payments by Improving Accuracy of County Payment Rates (GAO/T-HEHS-97-78, Feb. 25, 1997).

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

Medicare: Changes to HMO Rate Setting Method Are Needed to Reduce Program Costs (GAO/HEHS-94-119, Sept. 2, 1994).

## GAO Contact

William J. Scanlon, (202) 512-7114

# Option: Medicare Incentive Payments in Health Care Shortage Areas

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Department of Health and Human Services |
| Account | Federal Supplemental Insurance Trust Fund Account (20-8004) |
| Spending type | Direct |
| Budget subfunction | Medicare |
| Framework theme | Reassess objectives |

The Medicare Incentive Payment (MIP) program was established in 1987 amid concerns that low Medicare reimbursement rates for primary care services caused access problems for Medicare beneficiaries in underserved areas. To encourage physicians to locate and serve Medicare beneficiaries in such areas, physicians receive an additional 10 percent payment from Medicare for the services they deliver in urban and rural Health Professional Shortage Areas (HPSA) designated by the Department of Health and Human Services (HHS). In 1997, this program provided about $92 million in bonuses to physicians in HPSAs, an amount 16 percent higher than the previous year. While we are currently reviewing the effectiveness of the program, our previous work has led us to raise questions about its merits for the following reasons:

- The MIP program is not an effective mechanism for improving Medicare beneficiaries' ability to obtain health care. Recent surveys of the Medicare population show that neither provider shortages nor low Medicare reimbursement rates were causing widespread access problems.
- The MIP program is also not an effective mechanism for improving access to care for people not covered by Medicare in underserved areas. The basis on which MIP funds are targeted is inadequate to assure that they are directed to improve access to care. The HPSA designation system itself is not an appropriate vehicle to target MIP funds as it does not lend itself to directing program resources to those providing primary care services to the medically underserved. HHS said they do not have an alternative system that would effectively allocate funding under this program. Evidence also suggests that the MIP program did not play a significant role in physician decisions to practice in underserved areas. For example, the median payment to urban and rural physicians in 1996 was about $341—an amount too low to have a significant effect on physicians' practice location decisions.

The savings estimate that follows assumes that the Congress eliminates the additional 10 percent payment for services delivered in urban and rural HPSAs beginning in fiscal year 2000.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 70 | 70 | 70 | 75 | 75 |
| Outlays | 70 | 70 | 70 | 75 | 75 |

Source: Congressional Budget Office.

## Related GAO Product

Physician Shortage Areas: Mecicare Incentive Payments Not an Effective Approach to Improve Access (GAO/HEHS-99-36, Feb. 26, 1999).

Health Care Shortage Areas: Designations Not a Useful Tool for Directing Resources to the Underserved (GAO/HEHS-95-200, Sept. 8, 1995).

## GAO Contact

William J. Scanlon, (202) 512-7114

## 600 Income Security

Efficient Use of Debt Collection Tools to Recover Supplemental Security Income Overpayments
Determining SSI Recipient Living Arrangements
Resource Transfers to Qualify for SSI
Improving Social Security Benefit Payment Controls
Fees for Non-Temporary Assistance to Needy Families (TANF) Child Support Enforcement Services
Benefit Payments Under the Federal Employees' Compensation Act
Return-to-Work Strategies for People With Disabilities
Reporting of DOD Reserve Payroll Data to State Unemployment Insurance Programs
Automated Child Support Enforcement Systems

# Option: Efficient Use of Debt Collection Tools to Recover Supplemental Security Income Overpayments

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Appropriations subcommittees | Labor, HHS, Education and Related Agencies (Senate and House) |
| Primary agency | Social Security Administration |
| Accounts | Supplemental Security Income Program (28-0406) |
| Spending type | Direct/Discretionary |
| Budget subfunction | Other Income Security |
| Framework theme | Improve efficiency |

The Supplemental Security Income (SSI) program is the nation's largest cash assistance program for the poor. In 1996, the SSI program paid about 6.6 million aged, blind and disabled recipients more than $25 billion in benefits. Over the years, Social Security Administration (SSA) has been significantly challenged in its efforts to serve the diverse needs of recipients while still protecting the financial integrity of the program. In prior reports, we have documented instances of program abuse, mismanagement, and increasing SSI overpayments and outstanding debt which totaled $2.6 billion in fiscal year 1997. We also noted SSA's historical reluctance to use both overpayment recovery tools already available to it and aggressively pursue additional tools when warranted, including tax refund offsets, credit bureau reporting, collection agencies, and interest levies on outstanding debt owed. Following a number of GAO briefings with SSA's Acting Principal Deputy Commissioner and our recent testimony denoting SSA's reluctance to pursue more aggressive debt collection tools, SSA is now seeking statutory authority to recover overpayments from other retirement and disability benefits paid to former SSI recipients, as well as use credit bureaus, collection agencies, interest levies and other administrative offsets to strengthen its collection efforts. SSA has estimated that its proposals, if enacted, will yield $40 million in additional annual overpayment recoveries. In light of the potential for increased overpayment recoveries and improved program integrity, the Congress may wish to consider expanding SSA's authority to use these more aggressive debt collection tools. CBO estimates that doing so would produce the savings shown in the following table.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Offsetting receipts | 0 | 0 | 5 | 10 | 10 |

Source: Congressional Budget Office.

## Related GAO Product

Supplemental Security Income: Action Needed on Long-Standing Problems Affecting Program Integrity (GAO/HEHS-98-158, Sept. 14, 1998).

## GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

## Option: Determining Supplemental Security Income Recipient Living Arrangements

| | |
|---|---|
| Authorizing committees | Finance (Senate) Ways and Means (House) |
| Appropriations subcommittees | Labor, HHS, Education and Related Agencies (Senate and House) |
| Primary agency | Social Security Administration |
| Accounts | Supplemental Security Income Program (28-0406) |
| Spending type | Direct/Discretionary |
| Budget subfunction | Other Income Security |
| Framework theme | Improve efficiency |

Social Security Administration (SSA) administers the Supplemental Security Income (SSI) program, which is the nation's largest cash assistance program for the poor. Since its inception, the SSI program has been difficult to administer because, similar to other means tested programs, it relies on complicated criteria and policies to determine initial and continuing eligibility and benefit levels. One of the factors considered is the living arrangements of the beneficiary. When determining SSI eligibility and benefit amounts, SSA staff apply a complex set of policies to document an individual's living arrangements and any additional support they may be receiving from others. This process depends heavily on self-reporting by recipients of whether they live alone or with others; the relationships involved; the extent to which rents, food, utilities, and other household expenditures are shared; and exactly what portion of those expenses the individual pays. These numerous rules and policies have made living arrangement determinations one of the most complex and error prone aspects of the SSI program, and a major source of overpayments.

We recently reported that SSA has not addressed longstanding SSI living arrangement verification problems, despite numerous internal and external studies and many years of quality reviews denoting this as an area prone to error and abuse. Some of the studies we reviewed recommended ways to simplify the process by eliminating many complex calculations and thereby making it less susceptible to manipulation by recipients. Other studies we reviewed suggested ways to make this aspect of the program less costly to taxpayers. For example, in 1989, SSA's Office of Inspector General reported that a more simplified process that applied a shared expenditures rationale to all SSI recipients living with another person would result in fewer errors and reduce annual overpayments by almost $80 million. In light of the potential cost savings associated with addressing this issue, we recommended in September 1998 that SSA develop and advance legislative options for simplifying SSI living arrangement policies and ultimately reduce program overpayments.

Although CBO agrees that some changes that would simplify living arrangement policies have the potential to create savings, it cannot develop a savings estimate until a specific legislative proposal is identified.

## Related GAO Product

Supplemental Security Income: Action Needed on Long-Standing Problems Affecting Program Integrity (GAO/HEHS-98-158, Sept. 14, 1998).

## GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

# Option: Resource Transfers to Qualify for Supplemental Security Income

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Appropriations committees | Labor, HHS, and Education (Senate and House) |
| Primary agency | Social Security Administration |
| Account | Supplemental Security Income Program (28-0406) |
| Spending type | Direct/Discretionary |
| Budget subfunction | Other Income Security |
| Framework theme | Redefine beneficiaries |

The Supplemental Security Income (SSI) program is the country's largest cash assistance program for the poor and one of the fastest growing entitlement programs. Program costs grew 20 percent annually from 1991 through 1994. In 1996, about 6.6 million SSI recipients received more than $25 billion in federal and state benefits. Recent growth in the SSI program has increased congressional interest in ensuring that the SSI program focuses on individuals who have no resources with which to meet their needs and that to the extent possible, individuals rely on their own resources before turning to the SSI program for support.

Currently, the law does not prohibit people from transferring resources to other individuals in order to qualify for SSI benefits. In a prior review, we found that the 3,505 SSI recipients who transferred resources between 1990 and 1994 transferred cash, houses, land, and other items valued at an estimated $74 million. However, we noted that the total amount of resources transferred was likely to be larger than our estimate because the Social Security Administration (SSA) is not required to verify the accuracy of resource transfer information, which is self-reported by individuals.

Without a transfer-of-resource restriction, the 3,505 SSI recipients who transferred resources to qualify for benefits would receive about $7.9 million in SSI benefits in the 24 months after they transferred resources. Although administrative costs may be associated with SSA's implementing a transfer-of-resource restriction, in our analysis we estimated that from 1990 through December 1995, $14.6 million in program expenditures could have been saved with an SSI transfer-of-resource restriction similar to Medicaid's long-term care provision. In addition, an SSI transfer-of-resource restriction could increase the public's confidence in the program's integrity by ensuring that individuals use their own resources for self-support before receiving SSI.

In response to our work, SSA has submitted a proposal to the Congress aimed at preventing individuals from transferring assets in order to qualify for SSI benefits.

In light of the potential for reduced program expenditures and increased program integrity, the Congress may wish to consider this proposal. The restriction could be calculated in a way that takes into account the value of the resource transferred so that individuals transferring more valuable resources would be ineligible for SSI benefits for longer periods of time than those who transfer less valuable resources. The CBO estimates that follow are based on this assumption. This option produces increases

in discretionary spending that are more than offset by savings in direct spending.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Discretionary spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | –1 | –1 | –1 | –1 | –1 |
| Outlays | –1 | –1 | –1 | –1 | –1 |

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Direct spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 1 | 3 | 5 | 7 | 9 |
| Outlays | 1 | 3 | 5 | 7 | 9 |

Source: Congressional Budget Office.

## Related GAO Products

Supplemental Security Income: Action Needed on Long-Standing Problems Affecting Program Integrity (GAO/HEHS-98-158, Sept. 14, 1998).

Supplemental Security Income: Some Recipients Transfer Valuable Resources to Qualify for Benefits (GAO/HEHS-96-79, Apr. 30, 1996).

## GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

# Option: Improving Social Security Benefit Payment Controls

| | |
|---|---|
| Authorizing committees | Finance (Senate) Ways and Means (House) |
| Primary agency | Social Security Administration |
| Accounts | Federal Old Age and Survivor's Insurance Trust Fund (20-8006) |
| Spending type | Direct |
| Budget subfunction | Social Security |
| Framework theme | Improve efficiency |

Social Security Administration (SSA) is required by law to reduce social security benefits to persons who also receive a pension from noncovered employment (typically persons who work for the federal government or state and local governmental agencies). The Government Pension Offset provision requires SSA to reduce benefits to persons whose social security entitlement is based on another person's social security coverage (usually their spouse's). The Windfall Elimination Provision requires SSA to use a modified formula to calculate a person's earned social security benefit whenever a person also earned a pension through a substantial career in noncovered employment. The modified formula reduces the social security benefit significantly.

We found that SSA payment controls for these offsets were incomplete. For state and local retirees, SSA had no third party pension data to verify whether persons were receiving a noncovered pension. An analysis of available data indicated that this lapse in payment controls for state and local government retirees cost the trust funds between $129 million to $323 million from 1978 to about 1995.

We have recommended that SSA work with the Internal Revenue Service (IRS) to revise the reporting of pension income on IRS tax form 1099R. IRS has advised SSA that it needs a technical amendment to the Tax Code to obtain the information SSA needs. We believe that millions of dollars in reduced overpayments could be achieved each year with better payment controls. However, it should be noted that these savings would be offset somewhat by administrative costs associated with conducting additional computer

matching at SSA. CBO estimates that improved payment controls could result in the savings shown in the table below.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 0 | 15 | 40 | 50 | 55 |
| Outlays | 0 | 15 | 40 | 50 | 55 |

Source: Congressional Budget Office.

## Related GAO Product:

Social Security: Better Payment Controls for Benefit Reduction Provisions Could Save Millions (GAO/HEHS-98-76, Apr. 30, 1998).

## GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

# Option: Fees for Non-Temporary Assistance to Needy Families (TANF) Child Support Enforcement Services

| | |
|---|---|
| Authorizing committees | Finance (Senate) Ways and Means (House) |
| Primary agency | Department of Health and Human Services |
| Account | Family Support Payments to States (75-1501) |
| Spending type | Direct |
| Budget subfunction | Other Income Security |
| Framework theme | Redefine beneficiaries |

The purpose of the Child Support Enforcement Program is to strengthen state and local efforts to obtain child support for both families eligible for Temporary Assistance to Needy Families (TANF) and non-TANF families. The services provided to clients include locating noncustodial parents, establishing paternity, and collecting ongoing and delinquent child support payments. From fiscal year 1984 through 1997, non-TANF caseloads and costs rose about 420 percent and 920 percent, respectively. States have exercised their discretion to charge only minimal application and service fees and, thus, are doing little to recover the federal government's 66 percent share of program costs. In fiscal year 1997, for example, state fee practices returned about $41 million of the $1.6 billion spent to provide non-TANF services.

Since 1992, we have reported on opportunities to defray some of the costs of child support programs. Based on this work, we believe that mandatory application fees should be dropped and that states should charge a minimum percentage service fee on successful collections for non-TANF families. Application fees are administratively burdensome, and a service fee would ensure that families are charged only when the service has been successfully performed. If the Congress wishes to recover all of the administrative costs of the program, states could charge a service fee of about 15 percent on collections for non-TANF families. The following savings assume states would be able to implement this option beginning October 1, 1999.

### Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 780 | 850 | 930 | 1000 | 1080 |
| Outlays | 780 | 850 | 930 | 1000 | 1080 |

Note: Estimate assumes that all fees collected are split between the federal and state government at the administrative cost match rate: 66 percent federal and 34 percent state.

Source: Congressional Budget Office.

## Related GAO Products

Welfare Reform: Child Support an Uncertain Income Supplement for Families Leaving Welfare (GAO/HEHS-98-168, Aug. 3, 1998).

Child Support Enforcement: Early Results on Comparability of Privatized and Public Offices (GAO/HEHS-97-4, Dec. 16, 1996).

Child Support Enforcement: Reorienting Management Toward Achieving Better Program Results (GAO/HEHS/GGD-97-14, Oct. 25, 1996).

Child Support Enforcement: States' Experience with Private Agencies' Collection of Support Payments (GAO/HEHS-97-11, Oct. 23, 1996).

Child Support Enforcement: States and Localities Move to Privatized Services (GAO/HEHS-96-43FS, Nov. 20, 1995).

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

## GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

## Option: Benefit Payments Under the Federal Employees' Compensation Act

| | |
|---|---|
| Authorizing committees | Labor and Human Resources (Senate)<br>Education and the Workforce (House) |
| Appropriations subcommittees | Labor, Health and Human Services, and Education (Senate and House) |
| Primary agency | Department of Labor |
| Account | Multiple |
| Spending type | Direct/Discretionary |
| Budget subfunction | Other Income Security |
| Framework theme | Reassess objectives |

Federal workers who are disabled as a result of a work-related injury are entitled to tax-free workers' compensation benefits under the Federal Employees' Compensation Act (FECA). Several GAO reviews have identified ways in which benefit payment policies can be revised to better address eligibility and/or need or to bring FECA benefits more in line with other federal and state workers' compensation laws.

### Basing FECA Compensation on Spendable Earnings

For almost all totally disabled individuals, FECA benefits are 66-2/3 percent of gross pay for beneficiaries without dependents and 75 percent of gross pay for beneficiaries with at least one dependent. We reported that nearly 30 percent of the more than 23,000 beneficiaries included in our analyses received FECA compensation benefits that replaced more than 100 percent of their estimated take-home pay. Another 40 percent of these beneficiaries received FECA benefits that were between 90 and 99 percent of their take-home pay. Benefit replacement rates tended to be higher for beneficiaries who (1) received higher amounts of pay before they were injured, (2) were injured before 1980, (3) received the FECA dependent benefit, and (4) lived in states that had an income tax.

Workers' compensation program analysts are reluctant to take a position on what the "correct" level of workers' compensation benefits should be, leaving that matter to the judgment of legislators. According to a 1985 Workers Compensation Research Institute report, legislators in many states must walk a fine line between benefits that are high enough to provide adequate income, but not so high as to discourage an employee's return to work when he or she is no longer disabled. The 1972 Report of the National Commission on State Workmen's Compensation Laws recommended that workers' weekly benefits should replace at least 80 percent of their spendable weekly earnings, subject to a state's maximum weekly benefit. Six states use a percentage of spendable weekly earnings (ranging from 75 to 80 percent) rather than a percentage of gross wages as the basis for computing compensation benefits. Spendable earnings (take-home pay) are computed by taking an employee's gross pay at the time of injury and subtracting Social Security taxes and federal and state income taxes. Taxes are based on published tax withholding tables, given an employee's actual exemptions and a standard deduction.

If the Congress judges that current FECA benefits are so high as to discourage employee's return to work, it could consider changing the current FECA benefit structure from one that bases compensation on gross pay to one that bases compensation on spendable earnings. The following savings estimates assume that the new FECA benefit formula would equal 80 percent of spendable earnings. The CBO estimates below assume that changes in benefits would be made prospectively. Additional savings could be achieved

if changes were made to affect individuals who were already receiving FECA benefits. Fewer savings would be achieved if a higher percentage of spendable earnings were used as the basis for computing FECA benefits.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Discretionary spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 3 | 8 | 21 | 35 | 49 |
| Outlays | 3 | 8 | 21 | 35 | 49 |

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Direct spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 10 | 19 | 20 | 20 | 21 |
| Outlays | 10 | 19 | 20 | 20 | 21 |

Source: Congressional Budget Office.

## Revising Benefits for Retirement Eligible Beneficiaries

Retirement eligible federal workers who continue to be disabled as a result of a work-related injury could receive tax-free workers' compensation benefits under FECA for the remainder of their lives that would generally be greater than amounts these workers would receive as retirement benefits. FECA benefits are 75 percent of salary for a disabled employee with a dependent; Civil Service Retirement System benefits for a 55-year old employee with 30 years of service are 56 percent of salary. We reported that 60 percent of the approximately 44,000 long-term FECA beneficiaries were at least age 55, the age at which some federal employees are eligible for optional retirement with unreduced retirement benefits. Proponents for changing FECA benefits for older beneficiaries argue that an inequity is created between federal workers who retire normally and those who, in effect, "retire" on FECA benefits. Opponents of such a change argue that reducing benefits would break the implicit promise that injured workers have exchanged their right to tort claims for a given level of future benefits.

We identified two prior proposals for reducing FECA benefits to those who become eligible for retirement. One would convert compensation benefits received by retirement-eligible disabled workers to retirement benefits. However, this approach raises complex issues related to the tax-free nature of workers' compensation benefits and to the individual's entitlement to retirement benefits. The second proposal would convert FECA benefits to a newly established FECA annuity, thus avoiding the complexity of shifting from one benefit program to another.

To reduce benefits for retirement-eligible FECA beneficiaries, the Congress could consider converting from the current FECA benefit structure to a FECA annuity. The following savings estimate assumes that such an annuity would equal two-thirds of the previously provided FECA compensation benefit, and that the annuity would begin following the disabled individual's eligibility for retirement benefits. The CBO estimate assumes that changes in benefits would be made prospectively. Additional savings could be achieved if changes were made to affect individuals who were already receiving FECA benefits.

**Five-Year Savings**

| Dollars in millions | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Discretionary spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 1 | 3 | 9 | 15 | 22 |
| Outlays | 1 | 3 | 8 | 14 | 21 |

Source: Congressional Budget Office.

**Five-Year Savings**

| Dollars in millions | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Direct spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 4 | 8 | 9 | 9 | 9 |
| Outlays | 4 | 8 | 9 | 9 | 9 |

Source: Congressional Budget Office.

## FECA Cases Involving Third Parties

FECA authorizes federal agencies to continue paying employees their regular salaries for up to 45 days when they are absent from work due to work-related traumatic injuries. In cases in which third parties are responsible for employees' on-the-job injuries (e.g., dog bites or automobile-related injuries), the Department of Labor may require that employees pursue collection actions against these parties. However, based on current interpretations of FECA by the Employees' Compensation Appeals Board and a federal appeals court, the federal government has no legal basis to obtain refunds from third parties for the first 45 days of absence from work (called the continuation-of-pay (COP) period). Recoveries from third parties continue to be allowed for payments of compensation benefits following the COP period and for medical benefits.

Based on the current interpretation of FECA, employees can receive regular salary payments from their employing agencies and reimbursements from third parties—in effect, a double recovery of income for their first 45 days of absence from work due to an injury for which a third party was responsible. We recommended that the Congress amend FECA to expressly provide for refunds of amounts paid as COP when employees receive third party recoveries. CBO estimates that the following savings could be achieved if the Congress redefined COP so that it could be included in amounts employees are required to reimburse the government when they recover damages from third parties.

**Five-Year Savings**

| Dollars in millions | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Discretionary spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 0 | 0 | 1 | 1 | 1 |
| Outlays | 0 | 0 | 1 | 1 | 1 |

Source: Congressional Budget Office.

**Five-Year Savings**

| Dollars in millions | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Direct spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 1 | 1 | 0 | 0 | 0 |
| Outlays | 1 | 1 | 0 | 0 | 0 |

Source: Congressional Budget Office.

## Comparability of FECA and Other Compensation Laws

We identified three major ways in which FECA differs from other federal and state workers' compensation laws, each of which results in relatively greater benefits under FECA. First, FECA authorizes maximum weekly benefit amounts that are greater than those authorized by other federal and state workers' compensation laws. As of January 1, 1995, maximum authorized weekly FECA benefits were equal to $1,274, 75 percent of the base salary of a GS-15, step 10. The maximum weekly benefit authorized under the other workers' compensation laws was $817 in Iowa. FECA also authorizes additional benefits for one or more dependents equal to 8.33 percent of salary. Only seven states authorize additional benefits for dependents, ranging from $5 to $10 per week per dependent, with total benefits not exceeding maximum authorized benefit amounts. Finally, FECA provides eligible workers who suffer traumatic injuries with their regular salary for a period not to exceed 45 days. Compensation benefits for wage loss begin on the 48th day, after a 3-day waiting period. All other federal and state workers' compensation laws provide for a 3- to 7-day waiting period following the injury before paying compensation benefits. In either case, if employees continue to be out of work for extended periods of time ranging from 5 to 42 days, depending on the jurisdiction, retroactive benefits to cover the waiting period would be paid.

Reducing FECA's authorized maximum weekly benefit to make it comparable to other compensation laws would have little effect on compensation costs because very few federal workers receive maximum benefits. However, eliminating augmented compensation benefits for dependents and placing a 5-day waiting period immediately following the injury, and before the continuation of pay period, would produce the following savings, as estimated by CBO.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 7 | 7 | 7 | 7 | 7 |
| Outlays | 6 | 7 | 7 | 7 | 7 |

Source: Congressional Budget Office.

## Related GAO Products

Federal Employees' Compensation Act: Percentages of Take-Home Pay Replaced by Compensation Benefits (GAO/GGD-98-174, Aug. 17, 1998).

Federal Employees' Compensation Act: Issues Associated with Changing Benefits for Older Beneficiaries (GAO/GGD-96-138BR, Aug. 14, 1996).

Workers' Compensation: Selected Comparisons of Federal and State Laws (GAO/GGD-96-76, Apr. 3, 1996).

Federal Employees' Compensation Act: Redefining Continuation of Pay Could Result in Additional Refunds to the Government (GAO/GGD-95-135, June 8, 1995).

## GAO Contact

L. Nye Stevens, (202) 512-8676

# Option: Return-To-Work Strategies for People With Disabilities

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Social Security Administration |
| Account | Federal Disability Insurance Trust Fund (20-8007)<br>Supplemental Security Income Program (20-0406) |
| Spending type | Direct |
| Budget subfunction | Multiple |
| Framework theme | Reassess objectives |

The Social Security Administration (SSA) operates the Disability Insurance (DI) and Supplemental Security Income (SSI) programs—the nation's two largest federal programs providing cash benefits to people with disabilities. For fiscal year 2000, DI outlays are estimated as over $56 billion and SSI outlays as over $30 billion dollars. SSA data show that between 1986 and 1998, the number of working-age people in these disability programs increased 81 percent, from 4.2 million to 7.6 million. Such growth has raised concerns that are compounded by the fact that less than 1 percent of DI beneficiaries ever leave the disability rolls by returning to work.

We found that return-to-work strategies and practices may hold potential for improving federal disability programs by helping people with disabilities return to productive activity in the workplace and, at the same time, reducing benefit payments. Our analysis of practices advocated and implemented by the private sector in the United States and by social insurance programs in Germany and Sweden revealed three common strategies in the design of their return-to-work programs: intervene as soon as possible after an actual or potentially disabling event to promote and facilitate return-to-work, identify and provide necessary return-to-work assistance and manage cases to achieve return-to-work goals, and structure cash and medical benefits to encourage people with disabilities to return-to-work.

In line with placing greater emphasis on return-to-work, we recommended that the Commissioner of SSA develop a comprehensive return-to-work strategy that integrates, as appropriate, earlier intervention, supports and services needed for work, and cash and medical benefits that make work more financially advantageous. SSA has recently taken steps to expand the pool of vocational rehabilitation (VR) providers and proposed to demonstrate the effectiveness of giving providers greater incentives to employ beneficiaries, among other return-to-work initiatives. However, these efforts would have greater impact if cash and medical benefits were structured to give beneficiaries greater impetus to use VR services and attempt work, and if return-to-work assistance was provided earlier in the decision-making process. We believe that substantial savings could be achieved if SSA were to develop such a program. However, such savings would be offset by program costs and any net savings would depend on the program's participation rate.

## Related GAO Products

Social Security Disability: Multiple Factors Affect Return to Work (GAO/T-HEHS-99-82, Mar. 11, 1999).

Social Security Disability Insurance: Multiple Factors Affect Beneficiaries' Ability to Return to Work (GAO/HEHS-98-39, Jan. 12, 1998).

Social Security: Disability Programs Lag in Promoting Return to Work (GAO/HEHS-97-46, Mar. 17, 1997).

People With Disabilities: Federal Programs Could Work Together More Efficiently to Promote Employment (GAO/HEHS-96-126, Sept. 3, 1996).

SSA Disability: Return-to-Work Strategies From Other Systems May Improve Federal Programs (GAO/HEHS-96-133, July 11, 1996).

SSA Disability: Program Redesign Necessary to Encourage Return to Work (GAO/HEHS-96-62, Apr. 24, 1996).

## GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

# Option: Reporting of DOD Reserve Employee Payroll Data to State Unemployment Insurance Programs

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Department of Labor |
| Account | State Unemployment Insurance and Employment Service Operations (16-0179) |
| Spending type | Direct |
| Framework theme | Redefine beneficiaries |

The Congress established the national unemployment insurance (UI) system in the 1930s to provide partial income assistance to many temporarily unemployed workers with substantial work histories. Today, UI is the major federal program providing assistance to the unemployed. Many workers covered by the UI system are also among the 1.1 million personnel participating in the National Reserve forces (Army National Guard, Army Reserve, Naval Reserve, Marine Corps Reserve, Air National Guard, Air Force Reserve, and the Coast Guard Reserve).

Most UI claimants are required to report the income they receive while in the Reserves so that state UI programs can reduce their benefits accordingly. Our analysis of benefit and Reserve data from seven states shows that some Reserve personnel are receiving improper benefit payments from state UI programs. In the seven states in our analysis, we estimate that UI claimants who were active participants in the Reserve failed to report over $7 million in Reserve income in fiscal year 1994. This led to UI benefit overpayments of approximately $3.6 million, of which federal trust fund losses were about $1.2 million. We expect that the federal and state trust fund losses from all UI programs are much greater because the seven states we reviewed account for only 27 percent of all reservists.

State officials cited various reasons why claimants may not be reporting their Reserve income while receiving UI benefits. According to state officials, the claimants may not understand their reporting responsibilities, are often not specifically informed of these responsibilities, and may have incentives not to report all Reserve income—incentives that are amplified by the states' limited ability to detect nonreporting.

The Defense Department and the Department of Transportation's Coast Guard have recently acted to ensure that reservists are reminded of their responsibility to report income from reserve activity to state UI agencies.

All reservists now receive an annual notice with their leave and earnings statements reminding them of their duty to disclose their affiliation and any Reserve related earnings when filing an UI claim. In addition, the Labor Department has issued a directive to all state employment security agencies to ensure that they inform prospective and continuing UI benefit claimants of their responsibility to report Reserve related income.

These actions should improve general reservist compliance with state UI program income reporting requirements. However, to detect unreported Reserve income, the most frequently suggested alternative by federal and state officials would be to require the Department of Defense (DOD) to report Reserve payroll and personnel data to states on a quarterly basis, as private-sector employers are required to do, to permit verification of claimant income on a regular basis. DOD has stated that it will develop an action plan to provide such data to the state UI programs. However, completion of this plan has been delayed because of other competing agency priorities and a recognition that the task was more complex than originally envisioned.

It is important to note that the nonreporting of claimant income appears to be a broader problem involving all UI claimants who were former federal civilian and military employees, rather than just those participating in the Reserves. Officials from many of the state programs we analyzed reported general difficulties in monitoring reported income from claimants who were former federal employees.

If DOD was required to report Reserve payroll and personnel data to states on a quarterly basis, CBO estimates that the following savings would result from the reduction in overpayments.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 12 | 12 | 12 | 13 | 13 |
| Outlays | 12 | 12 | 12 | 13 | 13 |
| Reduction in receipts | 0 | –1 | –3 | –5 | –7 |
| Net effect on deficit | 12 | 11 | 9 | 8 | 6 |

Note: Unemployment Insurance trust fund receipts are dependent on prior year benefit outlays. CBO estimates that, in addition to savings, this option would have the effect of reducing trust fund receipts in the out years.

Source: Congressional Budget Office.

## Related GAO Product

Unemployment Insurance: Millions in Benefits Overpaid to Military Reservists (GAO/HEHS-96-101, Aug. 5, 1996).

## GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

## Option: Automated Child Support Enforcement Systems

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Department of Health and Human Services |
| Account | Family Support Payments to States (75-1501) |
| Spending type | Direct |
| Budget subfunction | Other Income Security |
| Framework theme | Improve efficiency |

The Department of Health and Human Services' (HHS) Office of Child Support Enforcement (OCSE) oversees states' efforts to develop automated systems for the Child Support Enforcement Program. Established for both welfare and nonwelfare clients with children, this program is directed at locating parents not supporting their children, establishing paternity, obtaining court orders for the amounts of money to be provided, and collecting these amounts from noncustodial parents. Achievement of Child Support Enforcement Program goals depends in part on the effective planning, design, and operation of automated systems. The federal government is providing enhanced funding to develop these automated child support enforcement systems by paying up to 90 percent of states' development costs. From fiscal year 1981 through fiscal year 1997, the states have spent about $3.2 billion to develop these systems, including over $2.4 billion from the federal government.

The 90 percent funding participation rate was initially discontinued at the end of fiscal year 1995, the congressionally mandated date for the systems to be certified and operational. However, the Congress subsequently extended the deadline for these systems to the end of fiscal year 1997. The federal government will continue to reimburse states' costs to operate these systems at the 66 percent rate established for administrative expenses. Finally, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193) provided additional funding for the states to meet new systems requirements under this law. An 80 percent federal funding participation rate, with a total national funding cap of $400 million was authorized. The 66 percent federal funding participation rate was continued for systems operation and administrative expenses.

The Congress could choose to reduce the federal funding participation rate for modification and operation of these systems from 66 percent to the 50 percent rate now common for such costs in other programs, such as

Food Stamps and other welfare programs. CBO estimates that a reduced participation rate would produce the following savings.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 105 | 115 | 125 | 140 | 150 |
| Outlays | 105 | 115 | 125 | 140 | 150 |

Source: Congressional Budget Office.

## Related GAO Products

Child Support Enforcement: Leadership Essential to Implementing Effective Automated Systems (GAO/T-AIMD-97-162, Sept. 10, 1997).

Child Support Enforcement: Strong Leadership Required to Maximize Benefits of Automated Systems (GAO/AIMD-97-72, June 30, 1997).

Child Support Enforcement: Timely Action Needed to Correct System Development Problems (GAO/IMTEC-92-46, Aug. 13, 1992).

Child Support Enforcement: Opportunity to Defray Burgeoning Federal and State Non-AFDC Costs (GAO/HRD-92-91, June 5, 1992).

## GAO Contact

Joel C. Willemssen, (202) 512-6408

## 700 Veterans Benefits and Services

# Option: Veterans' Disability Compensation for Nonservice Connected Diseases

| | |
|---|---|
| Authorizing committees | Veterans Affairs (Senate and House) |
| Primary agency | Department of Veterans Affairs |
| Account | Compensation and Pensions (36-0153) |
| Spending type | Direct |
| Budget subfunction | Income Security for Veterans |
| Framework theme | Redefine beneficiaries |

In 1996, CBO reported that about 230,000 veterans were receiving about $1.1 billion in disability compensation payments annually for diseases neither caused nor aggravated by military service. Our study of five countries shows that those countries do not compensate veterans under such circumstances. The Congress may wish to reconsider whether such diseases should be compensated as service-connected disabilities. If disability compensation payments to veterans with nonservice connected, disease-related disabilities were eliminated in future cases, CBO estimates that the following savings would apply.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 9 | 29 | 51 | 74 | 98 |
| Outlays | 9 | 28 | 49 | 72 | 96 |

Note: These estimates take into account an increase in DOD retirement pay.

Source: Congressional Budget Office.

## Related GAO Products

VA Disability Compensation: Disability Ratings May Not Reflect Veterans' Economic Losses (GAO/HEHS-97-9, Jan. 7, 1997).

Disabled Veterans Programs: U.S. Eligibility and Benefit Types Compared With Five Other Countries (GAO/HRD-94-6, Nov. 24, 1993).

VA Benefits: Law Allows Compensation for Disabilities Unrelated to Military Service (GAO/HRD-89-60, July 31, 1989).

## GAO Contact

Stephen P. Backhus, (202) 512-7101

# Option: Cost Sharing for Veterans' Long-Term Care

| | |
|---|---|
| Authorizing committees | Veterans Affairs (Senate and House) |
| Appropriations subcommittees | VA, HUD, and Independent Agencies (Senate and House) |
| Primary agency | Department of Veterans Affairs |
| Account | Medical Care (36-0160) |
| Spending type | Discretionary |
| Budget subfunction | Hospital and Medical Care for Veterans |
| Framework theme | Redefine beneficiaries |

State veterans' homes recover as much as 50 percent of the costs of operating their facilities through charges to veterans receiving services. Similarly, Oregon recovers about 14 percent of the costs of nursing home care provided under its Medicaid program through estate recoveries. Many other states also conduct estate recoveries. In contrast, in fiscal year 1990, the Department of Veterans Affairs (VA) offset less than one-tenth of 1 percent of its costs through beneficiary copayments.

Potential recoveries appear to be greater within the VA system than under Medicaid. Home ownership is significantly higher among VA hospital users than among Medicaid nursing home recipients, and veterans living in VA nursing homes generally contribute less toward the cost of their care than do Medicaid recipients, allowing veterans to build larger estates.

The Congress may wish to consider increasing cost sharing for VA nursing home care by (1) adopting cost-sharing requirements similar to those imposed by most state veteran's homes and (2) implementing an estate recovery program similar to those operated by many states under their Medicaid programs. If VA recovered either 25 percent or 50 percent of its costs of providing nursing home and domiciliary care through a combination of cost-sharing and estate recoveries, the savings shown in the following table would apply, as estimated by CBO.

## Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Saving from the 1999 funding level | | | | | |
| Option: Recovery of 25 percent of costs | | | | | |
| Budget authority | 559 | 559 | 559 | 559 | 559 |
| Outlays | 559 | 559 | 559 | 559 | 559 |

Source: Congressional Budget Office.

## Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Option: Recovery of 50 percent of costs | | | | | |
| Budget authority | 1,120 | 1,120 | 1,120 | 1,120 | 1,120 |
| Outlays | 1,120 | 1,120 | 1,120 | 1,120 | 1,120 |

Source: Congressional Budget Office.

## Related GAO Products

VA Aid and Attendance Benefits: Effects of Revised HCFA Policy on Veterans' Use of Benefits (GAO/HEHS-97-72R, Mar. 3, 1997).

VA Health Care: Better Data Needed to Effectively Use Limited Nursing Home Resources (GAO/HEHS-97-27, Dec. 20, 1996).

VA Health Care: Potential for Offsetting Long-Term Care Costs Through Estate Recovery (GAO/HRD-93-68, July 27, 1993).

VA Health Care: Offsetting Long-Term Care Cost By Adopting State Copayment Practices (GAO/HRD-92-96, Aug. 12, 1992).

## GAO Contact

Stephen P. Backhus, (202) 512-7101

## Option: Closing Underused Veterans Affairs Hospitals

| | |
|---|---|
| Authorizing committees | Veterans Affairs (House and Senate) |
| Appropriations subcommittees | VA, HUD, and Independent Agencies (House and Senate) |
| Primary agency | Department of Veterans Affairs |
| Account | Medical Care (36-0160) |
| Spending type | Discretionary |
| Budget subfunction | Hospital and Medical Care for Veterans |
| Framework theme | Improve efficiency |

The Department of Veterans Affairs (VA) took over 50,000 hospital beds out of service between 1970 and 1995, based on declining utilization. With the declining veteran population, new technologies, and VA's plans to emphasize highly specialized care on an outpatient basis, significant further declines in demand for VA hospital care are likely. At some point, closing a hospital and providing care either through another VA hospital or through contracts with community hospitals may become preferable to simply taking beds out of service because of the high fixed costs of operating facilities.

Potential savings from hospital closures are difficult to estimate because of uncertainties about which facilities would be closed, the increased costs that would be incurred in providing care through other VA hospitals or contracts with community hospitals, and the disposition of the closed facilities. VA is currently developing strategic plans to assess veterans' future health care needs that could provide a basis for decisions regarding which hospitals to close.

## Related GAO Products

VA Health Care: Capital Asset Planning and Budgeting Needs Improvement (GAO/T-HEHS-99-83, Mar. 10, 1999).

Veterans' Health Care: Challenges Facing VA's Evolving Role in Serving Veterans (GAO/T-HEHS-98-194, June 17, 1998).

VA Hospitals: Issues and Challenges for the Future (GAO/HEHS-98-32, Apr. 30, 1998).

VA Health Care: Closing a Chicago Hospital Would Save Millions and Enhance Access to Services (GAO/HEHS-98-64, Apr. 16, 1998).

VA Health Care: Opportunities to Enhance Montgomery and Tuskegee Service Integration (GAO/T-HEHS-97-191, July 28, 1997).

VA Health Care: Lessons Learned From Medical Facility Integrations (GAO/T-HEHS-97-184, July 24, 1997).

Department of Veterans Affairs: Programmatic and Management Challenges Facing the Department (GAO/T-HEHS-97-97, Mar. 18, 1997).

VA Health Care: Opportunities for Service Delivery Efficiencies Within Existing Resources (GAO/HEHS-96-121, July 25, 1996).

VA Health Care: Opportunities to Increase Efficiency and Reduce Resource Needs (GAO/T-HEHS-96-99, Mar. 8, 1996).

VA Health Care: Challenges and Options for the Future (GAO/T-HEHS-95-147, May 9, 1995).

## GAO Contact

Stephen P. Backhus (202) 512-7101

# Option: Limiting Enrollment in Veterans Affairs Health Care System

| | |
|---|---|
| Authorizing committees | Veterans Affairs (House and Senate) |
| Appropriations subcommittees | VA, HUD, and Independent Agencies (House and Senate) |
| Primary agency | Department of Veterans Affairs |
| Account | Medical Care (36-0160) |
| Spending type | Discretionary |
| Budget subfunction | Hospital and Medical Care for Veterans |
| Framework theme | Redefine beneficiaries |

The Department of Veterans Affairs (VA) health care system was initially established to meet the special care needs of veterans injured during wartime and those wartime veterans permanently incapacitated and incapable of earning a living. Although all veterans were eligible for hospital care, most veterans were eligible for only limited outpatient services.

Recently enacted legislation expands eligibility for health benefits to make all veterans eligible for comprehensive inpatient and outpatient services, subject to the availability of resources. The legislation also requires VA to establish a system of enrollment for VA health care benefits and establishes enrollment priorities to be applied within appropriated resources. The lowest priority for enrollment are veterans with no service-connected disabilities and incomes that place them in the discretionary

care category.

However, VA does not currently provide the Congress the type of information on VA's workload that would enable it to make informed judgments about which portion of VA's workload to fund. For example, it provides the Congress little data on the extent to which its resources are used to provide services to service-connected veterans, to veterans with low incomes, and to veterans with higher incomes. Without information on the extent to which VA resources are used to provide services to veterans in the priority categories established under the new law, the Congress lacks the basic information needed to guide decisions about what portion of VA's workload to fund.

We found that about 15 percent of veterans with no service-connected disabilities who use VA medical centers have sufficiently high incomes that would place them in the lowest priority category under the new patient enrollment system. The Congress could consider funding the VA health care system to cover only the expected enrollment of veterans in higher priority enrollment categories, such as veterans with service-connected disabilities and veterans without the means to obtain public or private insurance

to meet their basic health care needs. CBO estimates that doing so would produce the savings shown in the following table.

### Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 463 | 463 | 463 | 463 | 463 |
| Outlays | 417 | 455 | 459 | 461 | 461 |

Source: Congressional Budget Office.

## Related GAO Products

VA Health Care: Issues Affecting Eligibility Reform Efforts (GAO/HEHS-96-160, Sept. 11, 1996).

VA Health Care: Opportunities for Service Delivery Efficiencies Within Existing Resources (GAO/HEHS-96-121, July 25, 1996).

VA Health Care: Approaches for Developing Budget-Neutral Eligibility Reform (GAO/T-HEHS-96-107, Mar. 20, 1996).

VA Health Care: Opportunities to Increase Efficiency and Reduce Resource Needs (GAO/T-HEHS-96-99, Mar. 8, 1996).

VA Health Care: Issues Affecting Eligibility Reform (GAO/T-HEHS-95-213, July 19, 1995).

## GAO Contact

Stephen P. Backhus, (202) 512-7101

# Option: Outpatient Pharmacy Costs

| | |
|---|---|
| Authorizing committees | Veterans Affairs (Senate and House) |
| Appropriations subcommittees | VA, HUD, and Independent Agencies (Senate and House) |
| Primary agency | Department of Veterans Affairs |
| Account | Medical Care (36-0160) |
| Spending type | Discretionary |
| Budget subfunction | Hospital and Medical Care for Veterans |
| Framework theme | Redefine beneficiaries |

The Department of Veterans Affairs (VA) pharmacies dispense over 2,000 types of medications and medical supplies to veterans that are available over the counter (OTC) through local retail outlets. Such products were dispensed more than 15 million times in 1995 at an estimated cost of $165 million. The most frequently dispensed items include aspirin, dietary supplements, and alcohol prep pads. VA physicians and others are concerned that veterans who need such products may lack the resources to purchase them and, as a result, not use them. However, only a few VA pharmacies restrict which veterans may receive OTC products or how many are provided. While many veterans shared a modest portion of the costs of the OTC products, in most cases, the veterans paid no copayments and VA absorbed the total costs of these OTC products.

Unlike VA, other public and private health care plans cover few, if any, OTC products for their beneficiaries. These plans' coverage of OTC products is more restrictive than all but a few of VA's facilities. In addition, VA facilities provide other features, such as free prescription mail service, that are commonly not available from other plans. As a result, VA facilities devote significant resources to the provision of OTC products that other plans have elected not to cover.

Our assessment of VA's operating practices suggests several ways that budget savings could be achieved. First, VA could more narrowly define when to provide OTC products, reducing the number of OTC products available to veterans on an outpatient basis. Second, VA could collect copayments for all OTC products. CBO estimates that these steps would save the following amounts.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 82 | 86 | 90 | 94 | 98 |
| Outlays | 74 | 84 | 89 | 93 | 97 |

Source: Congressional Budget Office.

## Related GAO Product

VA Health Care: Opportunities to Significantly Reduce Outpatient Pharmacy Costs (GAO/HEHS-97-15, Oct. 11, 1996).

## GAO Contact

Stephen P. Backhus, (202) 512-7101

## 800 General Government, 900 Net Interest, and 999 Multiple

Expand the Use of Alternative Dispute Resolution
Eliminating Pay Increases After Separation in Calculating Lump-Sum Annual Leave Payments
The 1-Dollar Coin
Federal Reserve Operations
Davis-Bacon Act Reform
Formula-Based Grant Programs
Federal Grant Matching
Federal Travel Processing

# Option: Expand the Use of Alternative Dispute Resolution

| | |
|---|---|
| Authorizing committees | Multiple |
| Appropriations subcommittees | Multiple |
| Primary agency | Multiple |
| Account | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Multiple |
| Framework theme | Improve efficiency |

Federal employees have long had substantial workplace protections through an administrative redress system that was designed to safeguard them against arbitrary agency actions and prohibited personnel actions, such as discrimination or retaliation for whistleblowing. But the redress system—especially insofar as it affects workplace disputes involving claims of discrimination—has been criticized by federal managers, as well as employee representatives, as adversarial, inefficient, time-consuming, and costly. A dramatic increase in the number of discrimination complaints during the 1990s not only added to the costs and time of the redress system but also to the number of unresolved cases.

In recent years, a number of federal agencies have looked for some means of alternative dispute resolution (ADR) to help lessen the burdens associated with the redress system. But as our review of the literature, our interviews with experts and knowledgeable officials, and our case illustrations showed, ADR availability or use was not pervasive—or even necessarily widespread—within federal agencies that reported having some ADR capability. Federal agencies tended to limit the application of ADR to discrimination complaints. In addition, agencies tended to make use of only one ADR technique—mediation.

No comprehensive data were available on ADR results. However, as our broad examination of ADR use in the private and federal sectors and case illustrations showed, officials at organizations using ADR and experts generally considered it to be successful in resolving workplace disputes, thereby avoiding more formal dispute resolution processes. Comprehensive data were unavailable on the extent to which ADR has saved organizations time and money, largely because most ADR programs are relatively new, and because time and cost savings have not been widely tracked or evaluated. Experts and officials at organizations using ADR generally believed, however, that avoiding litigation or more formal redress processes produced savings, and the administration has further endorsed the use of ADR through the creation in 1998 of the Attorney General's Interagency ADR Working Group. In order to reduce the time and cost of dealing with employment disputes through formal redress processes, the Congress may wish to take steps to encourage the expanded use of ADR by federal agencies.

## Related GAO Products

Alternative Dispute Resolution: Employers' Experiences With ADR in the Workplace (GAO/GGD-97-157, Aug. 12, 1997).

Federal Employee Redress: An Opportunity for Reform (GAO/T-GGD-96-42, Nov. 29, 1995).

Employment Discrimination: Most Private-Sector Employers Use Alternative Dispute Resolution (GAO/HEHS-95-150, July 5, 1995).

## GAO Contact

L. Nye Stevens, (202) 512-8676

# Option: Eliminating Pay Increases After Separation in Calculating Lump-Sum Annual Leave Payments

| | |
|---|---|
| Authorizing committees | Governmental Affairs (Senate)<br>Government Reform (House) |
| Appropriations subcommittees | Multiple |
| Primary agency | Office of Personnel Management |
| Account | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Multiple |
| Framework theme | Reassess objectives |

Employee pay and benefits is one of many areas of the federal budget receiving congressional attention because of scarce federal resources. One such benefit is an employee's entitlement under 5 U.S.C. 5551(a) to receive a lump-sum payment for any accumulated, unused annual leave upon separation from federal service. In calendar year 1996, the cost of lump-sum leave payments to separating civilian employees was about $562 million governmentwide. We were requested to identify any personnel cost savings that could be achieved from limiting the lump-sum leave payment to the employee's pay rate at the time of separation, instead of the current method of assuming the employee had remained in service until the entire leave balance had expired.

Based in part on our information and analysis, CBO estimated that agencies could realize personnel cost savings of $20 million over 5 years if lump-sum annual leave payments were limited to the rate of pay at the time of separation. If the Congress enacted such a limitation, no General Schedule (GS) pay increases that go into effect following an employee's separation would be added to the payment calculation. To illustrate how small the maximum reduction in payments would be to individual separating employees, we calculated what the maximum reduction in lump-sum leave payments would have been to separating employees in January 1996 at various GS pay levels if the net 2.54 percent pay increase had been eliminated from their lump-sum leave payments. For example, we reported that the maximum reduction for an average GS-15 pay level would be from $86 to $128, depending on the amount of accrued annual leave.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Budget authority | 4 | 4 | 4 | 4 | 4 |
| Outlays | 4 | 4 | 4 | 4 | 4 |

Source: Congressional Budget Office.

## Related GAO Product

Federal Civilian Personnel: Cost of Lump-Sum Annual Leave Payments to Employees Separating From Government (GAO/GGD-97-157, May 29, 1997).

## GAO Contact

L. Nye Stevens, (202) 512-8676

## Option: The 1-Dollar Coin

| | |
|---|---|
| Authorizing committees | Banking, Housing, and Urban Affairs (Senate)<br>Banking and Financial Services (House) |
| Appropriations subcommittees | Treasury, Postal Service, and General Government (Senate and House) |
| Primary agency | Department of the Treasury |
| Account | United States Mint Public Enterprise Fund (20-4159) |
| Spending type | Direct/Governmental Receipts |
| Budget subfunction | Central Fiscal Operations |
| Framework theme | Improve efficiency |

In 1993 and 1995, we reported on cost savings associated with the replacement of the 1-dollar note with the 1-dollar coin. We said that because a dollar coin would have a longer life and be more easily processed than a note, and because the seignorage[8] recognized reduces the amount of borrowing needed to finance the deficit, substituting a dollar coin for a dollar note would yield $456 million of savings to the government per year, on average, over a 30-year period. Other countries have demonstrated that public resistance to such a change can be managed and overcome.

Even though the option would result in significant long-term savings, it does not yield savings over the first 5 years, as scored by CBO. First, seignorage, which lowers interest costs to the government by replacing the need to borrow from the public, is not included in the estimate because it is not considered part of the budget. Second, while the 5-year window captures much of the additional costs for the U.S. Mint to produce and stockpile a sufficient number of 1-dollar coins for circulation, it includes only a fraction of the savings to the Federal Reserve System from lower production and processing costs. (Significant savings would accrue, however, beyond the 5-year horizon.) As a result, we have not included a 5-year savings table for this option.

## Related GAO Products

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

[8]Seignorage is the difference between the face value of the coin and its cost of production, which includes the value of the metals contained in the coin and the U.S. Mint's manufacturing and distribution costs.

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

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

## GAO Contact

Bernard L. Ungar, (202) 512-4232

# Option: Federal Reserve Operations

| | |
|---|---|
| Authorizing committees | Banking, Housing and Urban Affairs (Senate)<br>Banking and Financial Services (House) |
| Primary agency | Federal Reserve Board |
| Spending type | Direct |
| Framework theme | Improve efficiency |

The Federal Reserve is responsible for conducting monetary policy, maintaining the stability of financial markets, providing services to financial institutions and government agencies, and supervising and regulating banks and bank-holding companies. The Federal Reserve is unique among governmental entities in its mission, structure, and finances. Unlike federal agencies funded through congressional appropriations, the Federal Reserve is a self-financing entity that deducts its expenses from its revenue and transfers the remaining amount to the U.S. Department of the Treasury. Although the Federal Reserve's primary mission is to support a stable economy, rather than to maximize the amount transferred to Treasury, its revenues contribute to total U.S. revenues and, thus, can help reduce the federal deficit.

From 1988 to 1994, the Federal Reserve's annual revenue averaged $22 billion and greatly exceeded its average annual expenses and other deductions of $2.5 billion. Consequently, the annual amount returned to the Treasury during this period ranged from about $16 billion to $24 billion. The cost of Federal Reserve operations over this period increased steadily and substantially. Specifically, operating expenses for the Board and Reserve banks increased by about 50 percent, with the greatest increases occurring in the areas of bank supervision, personnel costs, and data-processing modernization. The costs of providing services for which banks are charged have been rising faster than the corresponding revenues received.

The Federal Reserve could do more to increase its cost consciousness and ensure that it is operating as efficiently as possible. We have identified several inefficiencies in the Federal Reserve's policies and practices that have increased the cost of providing its current services, including its costs for travel, personnel benefits, building acquisition, and contracting and procurement. For example, personnel benefit packages varied among Reserve banks and certain benefits—such as leave policies and savings plans—compared generously to those of federal financial regulatory agencies with similar personnel requirements. We have also identified opportunities for the Federal Reserve to strengthen internal controls over financial reporting and safeguarding of assets.

The Federal Reserve could better control costs and increase efficiencies through management with a more systemwide focus. Such management would include reducing or eliminating benefits that are not necessary to attract and retain a quality workforce and managing other benefits on a systemwide basis using the combined bargaining power of the 12 Reserve banks. The internal controls of all Reserve banks should be independently assessed annually to ensure reliable financial reporting, safeguarding of assets, and compliance with laws and regulations.

In addition, the Federal Reserve's revenue, and hence its return to taxpayers, would be enhanced by charging fees for bank examinations. The Federal Reserve Act authorizes the Federal Reserve to charge fees for bank examinations, but the Federal Reserve has not done so, either for the state-member banks it examines or the bank-holding company examinations it conducts. Thus, taxpayers in effect bear the cost of these examinations, which totaled $368 million in 1994. If fees were assessed similar to those charged national banks with a credit allowed for fees paid to state regulators, the following savings could be achieved.

### Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Savings from the 1999 funding level | | | | | |
| Added receipts | 82 | 86 | 90 | 94 | 98 |

Note: Estimates are presented net of the tax effect.

Source: Congressional Budget Office.

## Related GAO Products

Federal Reserve System: Current and Future Challenges Require Systemwide Attention (GAO/T-GGD-96-159, July 26, 1996).

Federal Reserve System: Current and Future Challenges Require Systemwide Attention (GAO/GGD-96-128, June 17, 1996).

Federal Reserve Banks: Inaccurate Reporting of Currency at the Los Angeles Branch (GAO/AIMD-96-146, Sept. 30, 1996).

Federal Reserve Banks: Internal Control, Accounting, and Auditing Issues (GAO/AIMD-96-5, Feb. 9, 1996).

## GAO Contact

Thomas J. McCool, (202) 512-8678

# Option: Davis-Bacon Act Reform

| | |
|---|---|
| Authorizing committees | Labor and Human Resources (Senate)<br>Education and the Workforce (House) |
| Appropriations subcommittees | Multiple |
| Primary agency | Department of Labor |
| Accounts | Multiple |
| Spending type | Discretionary/Direct |
| Budget subfunctions | Multiple |
| Framework theme | Reassess objectives |

The Davis-Bacon Act requires that workers on federally funded or federally assisted construction projects be paid wages at or above levels determined by the Department of Labor to be prevailing in an area. The current dollar threshold for projects covered by Davis-Bacon is $2,000, an amount that has not changed since 1935. Critics of the act believe that it inflates federal construction costs because the wage rates set are actually higher than those prevailing in an area. Supporters say it sets a basic responsibility for federal construction contractors to pay wages typical in an area, not lower wage rates in order to receive a contract. They also argue that savings from lower wage rates would be offset by the higher total project costs from the use of less productive labor and also from government revenue losses as a result of reduced tax collections.

In 1979, GAO expressed major concern about the accuracy of the wage determinations and the impact of the inaccurately high wage rates on federal construction costs. Since that time, Labor has made changes that have improved the administration of the Davis-Bacon Act and made it less likely that the wage rates would be artificially high. For example, Labor has revised its criteria to require that 50 percent, rather than 30 percent, of the workers included on survey projects must receive the same wage for that rate to be considered the prevailing wage. This made it less likely that the collectively bargained wage rate in an area would be used to set the prevailing wage and, as of 1995, less than 30 percent of all of Labor's wage determinations were set in that way. In 1996, Labor also implemented recommendations to reduce the potential for its wage determinations to be based on erroneous wage data. There is still an absence of current data, though, on the accuracy of wage rates set.

Without making any assumptions about the accuracy of prevailing wage rates, but considering other factors such as recordkeeping duties required under the act, CBO concluded that Davis-Bacon inflates construction costs.

On that basis, CBO has noted that repealing the Davis-Bacon Act or raising the threshold for projects it covers would allow appropriators to reduce funds spent on federal construction. In addition, either action would increase the opportunities for employment of less skilled workers. However, such changes would lower the earnings of some construction workers. If the Congress were to repeal the act, CBO estimates that the following savings could be achieved.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Discretionary spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Spending authority | 1,151 | 1,151 | 1,151 | 1,151 | 1,151 |
| Outlays | 247 | 659 | 900 | 1,020 | 1,098 |

Note: Spending authority includes budget authority, as well as obligation limitations from certain trust funds.

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Direct spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 34 | 31 | 29 | 28 | 28 |
| Outlays | 12 | 26 | 30 | 30 | 29 |

Source: Congressional Budget Office.

## Related GAO Products

Information Regarding the Davis-Bacon Act (GAO/HEHS-97-30R, Oct. 30, 1996).

Information Regarding Davis-Bacon Wage Determinations (GAO/HEHS-96-177R, July 17, 1996).

Davis-Bacon Act: Process Changes Could Address Vulnerability to Use Inaccurate Data in Setting of Prevailing Wage Rates (GAO/T-HEHS-96-166, June 20, 1996).

Davis-Bacon Act Job Targeting Programs (GAO/HEHS-96-15R, June 3, 1996).

Davis-Bacon Act: Process Changes Could Raise Confidence That Wage Rates Are Based on Accurate Data (GAO/HEHS-96-130, May 31, 1996).

Changes to the Davis-Bacon Act Regulations and Administration (GAO/HEHS-94-95R, Feb. 7, 1994).

The Davis-Bacon Act Should Be Repealed (GAO/HRD-79-18, Apr. 27, 1979).

## GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

# Option: Formula-Based Grant Programs

| | |
|---|---|
| Authorizing committees | Multiple |
| Appropriations subcommittees | Multiple |
| Primary agencies | Multiple |
| Accounts | Multiple |
| Spending type | Discretionary/Direct |
| Budget subfunctions | Multiple |
| Framework theme | Redefine beneficiaries |

We have issued many reports over the past decade showing that the distribution of federal grants to state and local governments is not well-targeted to those jurisdictions with greatest programmatic needs or lowest fiscal capacity to meet those needs. As a result, program recipients in areas with relatively lower needs and greater wealth may enjoy a higher level of services than is available in harder pressed areas, or the wealthier areas can provide the same level of services at lower tax rates than harder pressed areas.

At a time when federal domestic discretionary resources are constrained, better targeting of grant formulas offers a strategy to bring down federal outlays by concentrating reductions on wealthier localities with comparatively fewer needs and greater capacity to absorb the cuts. At the same time, redesigned formulas could hold harmless the hardest pressed areas, which are most vulnerable.

Cuts in federal grants to states could be targeted by disproportionately reducing federal funds to states with stronger tax bases and fewer needs. Cuts in federal grants to local governments could be targeted by either concentrating cuts on areas with the strongest tax bases or by changing program eligibility to restrict grant funding only to those places with lower fiscal capacity or greatest programmatic needs. As an example, during the debate in 1986 over the termination of General Revenue Sharing, we reported that a better targeted formula and restricted eligibility could achieve a 50 percent cut in total outlays, while maintaining or increasing federal funds to harder pressed jurisdictions.

An example that illustrates the potential savings from this option is a 10 percent reduction in the aggregate total of all close-ended or capped formula grant programs exceeding $1 billion.[9] The dollar value for

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

programs exceeding this threshold would include about 82 percent of the dollars for such programs. The savings achieved through this option, as estimated by CBO, could serve as a benchmark for overall savings from this approach but should not be interpreted as a suggestion for across-the-board cuts. Rather, the Congress may wish to determine specific reductions on a program-by-program basis, after examining the relative priority and performance of each grant program.

### Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Discretionary spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 5,220 | 5,975 | 5,975 | 5,975 | 5,975 |
| Outlays | 1,477 | 4,572 | 6,655 | 7,846 | 8,421 |

Source: Congressional Budget Office.

### Five-Year Savings

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Direct spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 5,283 | 5,222 | 5,115 | 5,127 | 5,134 |
| Outlays | 479 | 641 | 702 | 886 | 1,004 |

Source: Congressional Budget Office.

## Related GAO Products

Formula Grants: Effects of Adjusted Population Counts on Federal Funding to States (GAO/HEHS-99-69, Feb. 26, 1999).

Medicaid Formula: Effects of Proposed Formula on Federal Shares of State Spending (GAO/HEHS-99-29R, Feb. 19, 1999).

Welfare Reform: Early Fiscal Effects of the TANF Block Grant (GAO/AIMD-98-137, Aug. 22, 1998).

School Finance: State Efforts to Equalize Funding Between Wealthy and Poor School Districts (GAO/HEHS-98-92, June 16, 1998).

School Finance: State Efforts to Reduce Funding Gaps Between Poor and Wealthy Districts (GAO/HEHS-97-31, Feb. 5, 1997).

Federal Grants: Design Improvements Could Help Federal Resources Go Further (GAO/AIMD-97-7, Dec. 18, 1996).

Public Health: A Health Status Indicator for Targeting Federal Aid to States (GAO/HEHS-97-13, Nov. 13, 1996).

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

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

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

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

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

Federal Aid: Revising Poverty Statistics Affects Fairness of Allocation Formulas (GAO/HEHS-94-165, May 20, 1994).

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

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

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

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

Remedial Education: Modifying Chapter 1 Formula Would Target More Funds to Those Most in Need (GAO/HRD-92-16, Mar. 28, 1992).

Drug Treatment: Targeting Aid to States Using Urban Population as Indicator of Drug Use (GAO/HRD-91-17, Nov. 27, 1990).

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

Local Governments: Targeting General Fiscal Assistance Reduces Fiscal Disparities (GAO/HRD-86-113, July 24, 1986).

Highway Funding: Federal Distribution Formulas Should Be Changed (GAO/RCED-86-114, Mar. 31, 1986).

Changing Medicaid Formula Can Improve Distribution of Funds to States (GAO/GGD-83-27, Mar. 9, 1983).

## GAO Contact

Paul L. Posner, (202) 512-9573

# Option: Federal Grant Matching

| | |
|---|---|
| Authorizing committees | Multiple |
| Appropriations subcommittees | Multiple |
| Primary agency | Multiple |
| Account | Multiple |
| Spending type | Discretionary/Direct |
| Budget subfunction | Multiple |
| Framework theme | Improve efficiency |

Intergovernmental grants are a significant part of both federal and state budgets. From the first annual cash grant under the Hatch Act of 1887, the number of grant programs rose to more than 600 in 1998 with outlays of $250 billion, about 15 percent of total federal spending. Grants serve many purposes beyond returning resources to taxpayers in the form of state services. For example, grants can serve as a tool to supplement state spending for nationally important activities. However, if states use federal grant dollars to reduce (i.e., substitute for) their own spending for the aided program either initially or over time, the fiscal impact of federal grant dollars is reduced.

Public finance experts suggest that grants are unlikely to supplement completely a state's own spending, and thus some substitution is to be expected in any grant. Our review of economists' recent estimates of substitution suggests that every additional federal grant dollar results in less than a dollar of total additional spending on the aided activity. The estimates of substitution showed that about 60 cents of every federal grant dollar substitutes for state funds that states otherwise would have spent.

Our analysis linked substitution to the way in which most grants are designed. For example, many of the 87 largest grant programs did not include features, such as state matching and maintenance-of-effort requirements, that can encourage states to use federal funds as a supplement rather than a replacement for their own spending. While not every grant is intended to supplement state spending, proponents of grant redesign argue that if some grants incorporated more rigorous maintenance-of-effort requirements and lower federal matching rates, then fewer federal funds could still encourage states to contribute to approximately the same level of overall spending on nationally important programs. Critics of this approach argue that such redesign would put a higher burden on states because they would have to finance a greater share of federally aided programs.

The savings that could be achieved from redesigning grants to increase their fiscal impact would depend on the nature of the design changes and state responses to those changes. For example, faced with more rigorous financing requirements, states might reduce or eliminate their own financial support for the aided activity. The outcome will be influenced by the tradeoff decisions that the Congress makes to balance the importance of achieving each program's goals and objectives against the goal of encouraging greater state spending and lowering the federal deficit.

We were unable to precisely measure the budgetary impact of inflation-adjusted maintenance-of-effort requirements because current state spending levels are not reported consistently. However, it was possible to estimate the impact of changes in the matching rates on many close-ended federal grants. For example, many such grants do not require any state or local matching funds. The federal share of these programs could be reduced modestly, for example from 100 percent to 90 percent, a reduction unlikely to discourage states from participating in the program. CBO estimates that the introduction of a 10 percent matching requirement on some of the largest federal discretionary grant programs that are currently 100 percent federally funded, and a corresponding 10 percent reduction from the authorized grant levels, would result in the savings shown below. If such a change in match rates were combined with inflation-adjusted maintenance-of-effort requirements, states that choose to participate in the program would have to maintain the same or increase levels of program spending in order to receive federal funding.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Discretionary spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 2,947 | 3,702 | 3,702 | 3,702 | 3,702 |
| Outlays | 659 | 2,336 | 3,221 | 3,519 | 3,624 |

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Direct spending | | | | | |
| Savings from the 1999 funding level | | | | | |
| Budget authority | 238 | 170 | 170 | 170 | 170 |
| Outlays | 214 | 177 | 170 | 170 | 170 |

Source: Congressional Budget Office.

## Related GAO Products

Welfare Reform: Early Fiscal Effects of the TANF Block Grant (GAO/AIMD-98-137, Aug. 22, 1998).

Federal Grants: Design Improvements Could Help Federal Resources Go Further (GAO/AIMD-97-7, Dec. 18, 1996).

Block Grants: Issues in Designing Accountability Provisions (GAO/AIMD-95-226, Sept. 1, 1995).

## GAO Contact

Paul L. Posner, (202) 512-9573

# Option: Federal Travel Processing

| | |
|---|---|
| Authorizing committees | Governmental Affairs (Senate)<br>Government Reform (House) |
| Appropriations subcommittees | Multiple |
| Primary agency | Multiple |
| Account | Multiple |
| Spending type | Discretionary |
| Budget subfunction | Multiple |
| Framework theme | Improve efficiency |

In fiscal year 1994, the federal government reported travel obligations for individuals of about $7.6 billion—about $5 billion for the Department of Defense (DOD) and about $2.6 billion for the civilian agencies. This amount was for direct costs (i.e., costs directly related to travel, such as transportation, lodging, and rental cars) related primarily to two types of travel—temporary duty (TDY) and permanent relocation. The General Services Administration (GSA) currently negotiates some of these direct rates with travel vendors at significant savings to federal agencies. The indirect costs for arranging and processing travel can be significant as well. GSA is currently in the process of identifying the indirect, or administrative, costs of travel.

We reviewed a number of private sector companies that have set themselves apart from other organizations, both public and private, by streamlining and automating their travel processes and adopting a common set of best practices. These organizations achieved improvements by consolidating travel management and processing centers, eliminating unnecessary review layers, simplifying the travel process, streamlining and automating the expense reporting process, and integrating travel processing with their financial management systems. In doing so, these organizations have saved millions of dollars in administrative costs.

DOD has recognized the need to improve travel management and has efforts underway to adopt industry best practices and reengineer its travel processing to reduce costs. In anticipation of savings related to DOD's travel reengineering efforts and based on our recommendations, the Appropriations Conference Committee reduced DOD's operations and maintenance funds for fiscal year 1996 by $128.5 million. A handful of federal agencies, such as the Departments of State, Energy, and Transportation, have also begun to implement best practices and reduce costs. In addition, the Joint Financial Management Improvement Program (JFMIP) travel improvement task force, made up of representatives from several agencies across government, has assessed both TDY and permanent relocation travel and estimated that hundreds of millions of dollars could be saved by implementing a number of key recommendations. JFMIP's recommendations mirror many of the best practices we found at leading organizations, including requiring the use of a corporate charge card and consolidating and automating travel data.

CBO does not disagree that savings could be achieved if agencies were able to streamline their travel processing operations. However, the amount of savings would depend on each agency's current costs and future streamlining actions.

## Related GAO Products

Federal Travel Reform: Plans to Obtain Data to Assess Cost Savings (GAO/AIMD-98-87R, Mar. 20, 1998).

Governmentwide Travel Management: Federal Agencies Have Opportunities for Streamlining and Improving Their Travel Practices (GAO/T-AIMD-96-60, Mar. 8, 1996).

Business Process Reengineering: DOD Has a Significant Opportunity to Reduce Travel Costs by Using Industry Practices (GAO/T-AIMD-95-101, Mar. 28, 1995).

## GAO Contact

Jack L. Brock, Jr., (202) 512-6240

## Receipts

Return Filing by U.S. Citizens Living Abroad
Electronic Funds Transfer for Installment Tax Payments
Electronic Filing of Tax Returns
Tax Treatment of Health Insurance Premiums
Tax Treatment of Interest Earned on Life Insurance Policies and Deferred Annuities
Information Reporting on Forgiven Debts
Corporate Tax Document Matching
Independent Contractor Tax Compliance
Deductibility of Home Equity Loan Interest
Administration of the Tax Deduction for Real Estate Taxes
Collecting Gasoline Excise Taxes
Computing Excise Tax Bases
Highway User Fees on Heavy Trucks

# Option: Return Filing by U.S. Citizens Living Abroad

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Internal Revenue Service |
| Spending type | Direct |
| Framework theme | Improve efficiency |

U.S. citizens residing abroad are generally subject to the same filing requirements as citizens residing in the United States. The State Department estimated the total population of U.S. citizens living abroad at about 3.1 million in 1995, excluding active military and current government personnel. Some evidence suggests that the failure to file tax returns may be relatively prevalent in some segments of the U.S. population abroad, and the revenue impact, while unknown, could be significant.

IRS' ability to identify and collect taxes from nonfilers residing abroad is restricted by the limited reach of U.S. laws in foreign countries, particularly U.S. laws on tax withholding, information reporting, and enforced collection through liens, levies, and seizures. Another factor that could contribute to nonfiling abroad is the ambiguity in IRS' filing instructions for its Form 1040 and related guidance. For example, it may not be clear that income qualifying for the foreign earned income or housing

expense exclusions must be considered in determining whether one's gross income exceeds the filing threshold.

In pursuing nonfilers abroad, IRS has not fully explored the usefulness of passport application data as a means of identifying potential nonfilers. While passport applications contain no income information, they could be used to collect applicants' social security number, age, occupation, and country of residence.

IRS may want to take additional steps to enforce the current information requirement that all passport applicants provide their social security numbers and to assess the additional cost of requiring country of residence and occupation as a means of identifying potential nonfilers abroad. IRS may also want to clarify its instructions for determining what income must be considered in determining whether gross income exceeds the filing threshold. Initial projects to increase the number of returns filed from

overseas suggests that the potential increase in tax revenues would justify the costs to improve compliance.

JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

## Related GAO Products

Tax Administration: Nonfiling Among U.S. Citizens Abroad (GAO/GGD-98-106, May 11, 1998).

IRS Activities to Increase Compliance on Overseas Taxpayers (GAO/GGD-93-93, May 18, 1993).

United States Citizens Residing in Foreign Countries and Not Filing Federal Income Tax Returns (Accession #126891, GAO/GGD, May 8, 1985 testimony).

## GAO Contact

James R. White, (202) 512-9110

# Option: Electronic Funds Transfer for Installment Tax Payments

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Internal Revenue Service |
| Spending type | Direct |
| Framework theme | Improve efficiency |

The Internal Revenue Code authorizes IRS to allow taxpayers to pay their taxes in installments, with interest, if this arrangement would facilitate collection of the liability. As of September 1997, IRS had about 2.9 million installment agreements outstanding, worth about $13.2 billion. At the end of fiscal year 1997, approximately 43 percent of these installment agreements were in default.

A number of states use electronic funds transfer (EFT) to make their installment agreement program more efficient and effective. One state, Minnesota, requires taxpayers to pay by EFT, with some exceptions. As of late 1997, approximately 90 percent of Minnesota's installment agreements were EFT agreements, and the default rate had dropped from about 50 percent to between 3 percent and 5 percent in the 2 years the EFT requirement has been in effect. In California, within 6 months of implementing its EFT procedures, its default rate for new installment agreements dropped from around 40 percent to 5 percent.

EFT payments also produce administrative savings through lower processing costs involved in recording and posting remittances, lower postage and handling costs associated with sending monthly payment reminders, and lower collection enforcement costs needed to pursue fewer taxpayers in default. IRS' initial comparison of the cost of EFT payments with the cost of having taxpayers send installment payments to lockboxes in commercial banks showed that EFT payment costs were about 37 percent less than the lockbox costs.

The reported benefits for IRS of using EFT for installment agreement payments include the potential to reduce the percentage of taxpayer defaults, decrease administrative costs, and achieve faster collections.

JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

## Related GAO Products

Tax Administration: Increasing EFT Usage for Installment Agreements Could Benefit IRS (GAO/GGD-98-112, June 10, 1998).

Tax Administration: Administrative Improvements Possible in IRS' Installment Agreement Program (GAO/GGD-95-137, May 2, 1995).

## GAO Contact

James R. White, (202) 512-9110

# Option: Electronic Filing of Tax Returns

| | |
|---|---|
| Authorizing committeess | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Internal Revenue Service |
| Spending type | Direct |
| Framework theme | Improve efficiency |

Electronic filing puts data directly on-line to Internal Revenue Service (IRS) computers, thereby eliminating manual handling of paper, disks, computer tapes, and cartridges, which significantly reduces processing time. For example, electronically filed information returns can be fully processed and entered into IRS' computers within 2 days compared with an average of 58 days for magnetic media shipments. Math errors on electronic returns are identified by the system and corrected by the taxpayer before IRS accepts the return. Electronic returns also avoid the error-prone manual data entry system IRS uses to process paper returns. Fewer errors mean fewer notices to taxpayers and less time spent with the resulting telephone calls and correspondence. IRS does not have adequate data to determine the relative costs of processing and handling electronic returns versus paper returns, including the costs associated with processing, correcting errors, communicating with taxpayers, and storage.

Electronic filing can enhance IRS' compliance efforts. However, of the 777 million nonwage information returns IRS processed in 1994, only 12.6 million (1.6 percent) were filed electronically. Of the 123 million individual income tax returns filed in 1998, only 24.6 million (20 percent) were filed electronically. Electronic filing of information returns would enable IRS to match more of these documents to tax returns sooner. For example, matching information returns on partnership income (Schedule K-1)

to individual tax returns has been a cost-effective means of detecting and assessing taxes on unreported partnership income. But few Schedule K-1s have been matched. For tax year 1991, we estimated that had IRS been able to match all Schedule K-1s, it could have assessed about $220 million in additional taxes. Similarly, with electronic returns, IRS can more effectively and efficiently validate social security numbers—a key control against refund fraud—because up-front filters prevent the submission o

electronic returns with invalid social security numbers. IRS cannot identify invalid social security numbers on paper returns until after the returns are filed, and the number of problem cases it can work on is limited by the number of available staff.

To reduce costs and increase compliance revenues, IRS needs to develop and implement a strategy for significantly increasing the number of returns filed electronically. We have recommended that IRS identify those groups of taxpayers who offer the greatest opportunity to reduce IRS' paper-processing workload and operating costs if they were to file electronically and develop strategies that focus IRS' resources on eliminating or alleviating impediments that inhibit those groups from participating in the program, including the impediment posed by the program's cost.

JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

## Related GAO Products

Tax Administration: Electronic Filing Falling Short of Expectations (GAO/GGD-96-12, Oct. 31, 1995).

Tax Administration: IRS' Partnership Compliance Activities Could be Improved (GAO/GGD-95-151, June 16, 1995).

## GAO Contact

James R. White, (202) 512-9110

# Option: Tax Treatment of Health Insurance Premiums

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Internal Revenue Service |
| Spending type | Direct |
| Framework theme | Redefine beneficiaries |

The current tax treatment of health insurance—amounting to revenue losses of about $70 billion in 1998—gives few incentives to workers to economize on purchasing health insurance. Employer contributions for employee health protection are considered deductible, ordinary business expenses and employer contributions are not included in an employee's taxable income. The same is true for a portion of the premiums paid by self-employed individuals. Some analysts believe that the tax-preferred status of these benefits has contributed to the overuse of health care services and large increases in our nation's health care costs. In addition, the primary tax benefits accrue to those in high tax brackets who also have above average incomes.

Placing a cap on the amount of health insurance premiums that could be excluded—including in a worker's income the amount over the cap—could improve incentives and, to a lesser extent, tax equity. Alternatively, including health insurance premiums in income but allowing a tax credit for some percentage of the premium would improve equity since tax savings per dollar of premium would be the same for all taxpayers. Incentives could be improved for purchasing low-cost insurance if the amounts given credits were capped.

One specific option the Congress may wish to consider would be to tax all employer-paid health insurance, while providing individuals a refundable tax credit of 20 percent of premiums that they or their employers would pay, with eligible premiums capped at $425 and $175 per month for family coverage and individuals, respectively. This option recognizes the gain from changing the treatment of insurance only for the individual income tax, not the payroll tax.

JCT did not develop a revenue estimate for this option due to uncertainty in determining the amount of health insurance that would be purchased given a repeal of the employer exclusion.

## Related GAO Product

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

## GAO Contact

James R. White, (202) 512-9110

# Option: Tax Treatment of Interest Earned on Life Insurance Policies and Deferred Annuities

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Internal Revenue Service |
| Spending type | Direct |
| Framework theme | Reassess objectives |

Interest earned on life insurance policies and deferred annuities, known as "inside buildup," is not taxed as long as it accumulates within the contract. Although the deferred taxation of inside buildup is similar to the tax treatment of income from some other investments, such as capital gains, it differs from the policy of taxing interest as it accrues on certain other investments, such as certificates of deposit and original issue discount bonds.

Not taxing inside buildup may have merit if it increases the amount of insurance coverage purchased and the amount of income available to retirees and beneficiaries. However, the tax preference given life insurance and annuities mainly benefits middle- and upper-income people. Coverage for low-income people is largely provided through the Social Security System, which provides both insurance and annuity protection.

The Congress may wish to consider taxing the interest earned on life insurance policies and deferred annuities. The table below reflects JCT's estimated savings from this option, effective for life insurance policies and annuities purchased after December 31, 1999. Investment income from annuities purchased as part of a qualified individual retirement account would be tax-deferred until benefits were paid.

## Five-Year Revenues

Dollars in billions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Revenue gain | 11.3 | 22.9 | 23.6 | 24.3 | 25.1 |

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

Source: Joint Committee on Taxation.

## Related GAO Product

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

## GAO Contact

James R. White, (202) 512-9110

# Option: Information Reporting on Forgiven Debts

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Internal Revenue Service |
| Spending type | Direct |
| Framework theme | Improve efficiency |

The Internal Revenue Code requires taxpayers to report forgiven debts as income except under certain circumstances. We reviewed taxpayer compliance in reporting the Federal Deposit Insurance Corporation's (FDIC) and Resolution Trust Corporation's (RTC) forgiven debt with and without information reporting by these corporations to IRS.

Information reporting increased taxpayer compliance. For example, without information reporting, 1 percent of taxpayers voluntarily reported FDIC forgiven debts. With reporting, 48 percent voluntarily reported their forgiven debts. With the information reports, IRS was able to detect that another 20 percent had failed to report their forgiven debts, yielding 68 percent of taxpayers eventually complying.

In 1993, the Congress required information reporting on forgiven debts by FDIC, RTC, the National Credit Union Administration, credit unions, certain banks, and federal agencies. In 1996, IRS began receiving these required information returns for tax year 1995 and has been matching them to tax returns. The Congress could consider extending the requirement to other lending institutions. Revenues for this option are difficult to estimate due to uncertainties about its effect on lending institution reporting practices. However, to illustrate potential savings from this option, if the requirement were extended to finance companies, JCT estimates revenue gains of under $50 million, assuming an effective date of January 1, 2000.

## Five-Year Revenues

Dollars in billions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Revenue gain | [a] | [a] | [a] | [a] | [a] |

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

[a]Gains of less than $50 million

Source: Joint Committee on Taxation.

## Related GAO Product

Tax Administration: Information Returns Can Improve Reporting of Forgiven Debts (GAO/GGD-93-42, Feb. 17, 1993).

## GAO Contact

James R. White (202) 512-9110

# Option: Corporate Tax Document Matching

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Internal Revenue Service |
| Spending type | Direct |
| Framework theme | Improve efficiency |

Internal Revenue Service (IRS) data show that corporate compliance with tax laws has declined to an alarming degree. IRS' document matching program for payments to individuals has proven to be a highly cost-effective way of bringing in billions of dollars in tax revenues to the Treasury while at the same time boosting voluntary compliance. However, unlike payments to individuals, the law does not require that information returns be submitted on most payments to corporations.

Generally using IRS' assumptions, we estimated the benefits and costs for a corporate document matching program that would cover interest, dividends, rents, royalties, and capital gains. Assuming that a corporate document matching program began in 1993, we estimated that for years 1995 through 1999, IRS' annual costs would be about $70 million and annual increased revenues about $1 billion. This estimate did not factor in compliance costs and changes in taxpayer behavior. Given increased corporate noncompliance, and declining audit coverage, the Congress may wish to require a corporate document matching program.

JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

## Related GAO Product

Tax Administration: Benefits of a Corporate Document Matching Program Exceed the Costs (GAO/GGD-91-118, Sept. 27, 1991).

## GAO Contact

James R. White, (202) 512-9110

# Option: Independent Contractor Tax Compliance

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Internal Revenue Service |
| Spending type | Direct |
| Framework theme | Improve efficiency |

Common law rules for classifying workers as employees or independent contractors are unclear and subject to conflicting interpretations. While recognizing this ambiguity, the Internal Revenue Service (IRS) enforces tax laws and rules through employment tax examinations. Through fiscal year 1995, 90 percent of these examinations had found misclassified workers. From October 1987 through December 1991, the average IRS tax assessment relating to misclassified workers was $68,000.

Establishing clear rules is difficult. Nevertheless, taxpayers need—and government is obligated to provide—clear rules for classifying workers if businesses are to voluntarily comply. In addition, improved tax compliance could be gained by requiring businesses to (1) withhold taxes from payments to independent contractors and/or (2) file information returns with IRS on payments made to independent contractors constituted as corporations. Both approaches have proven to be effective in promoting individual tax compliance.

During 1993, the Congress considered but rejected extending current information reporting requirements for unincorporated independent contractors to incorporated ones. Thus, independent contractors organized as either sole proprietors or corporations would have been on equal footing, and IRS would have had a less intrusive means of ensuring their tax compliance.

In recent years, various proposals on clarifying the definition of independent contractors and improving related information reporting emerged. Congressional hearings dealt with some of these bills.

We believe that revenues from this option could possibly increase by billions of dollars. JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

## Related GAO Products

Tax Administration: Estimates of the Tax Gap for Service Providers (GAO/GGD-95-59, Dec. 28, 1994).

Tax Administration: Approaches for Improving Independent Contractor Compliance (GAO/GGD-92-108, July 23, 1992).

## GAO Contact

James R. White, (202) 512-9110

# Option: Deductibility of Home Equity Loan Interest

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Department of the Treasury |
| Spending type | Direct |
| Framework theme | Reassess objectives |

The term home equity borrowing or financing is usually applied to mortgages other than the original loan used to acquire a home or to any subsequent refinancing of that loan. Interest is deductible on up to $100,000 of home equity indebtedness and $1 million of indebtedness used to acquire a home. Home equity financing is not limited to home-related uses and can be used to finance additional consumption by borrowers.

Use of mortgage-related debt to finance nonhousing assets and consumption purchases through home equity loans could expose borrowers to increased risk of losing their homes should they default. Equity concerns may exist because middle- and upper-income taxpayers who itemize primarily take advantage of this tax preference, and such an option is not available to people who rent their housing.

One way to address the issues concerning the amounts or uses of home equity financing would be to limit mortgage interest deductibility up to $300,000 of indebtedness for the taxpayer's principal and second residence. Assuming an effective date of January 1, 2000, JCT estimates that this option would generate the following revenues.

## Five-Year Revenues

Dollars in billions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Revenue gain | 2 .2 | 3.1 | 3.2 | 3.4 | 3.7 |

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

Source: Joint Committee on Taxation.

## Related GAO Product

Tax Policy: Many Factors Contributed to the Growth in Home Equity Financing in the 1980s (GAO/GGD-93-63, Mar. 25, 1993).

## GAO Contact

James R. White, (202) 512-9110

# Option: Administration of the Tax Deduction for Real Estate Taxes

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Internal Revenue Service |
| Spending type | Direct |
| Framework theme | Improve efficiency |

IRS audits show that individuals overstated their real estate tax deductions by about $1.5 billion nationwide in 1988. We estimate that this resulted in a nearly $300 million federal tax loss, which would increase to about $400 million for 1992. However, this may understate lost revenues because our review also found that IRS auditors detected only about 29 percent of $127 million in overstated deductions in three locations we reviewed. Revenues could be lost not only for the federal government, but also for the 31 states which in 1991 tied their itemized deductions to those used for federal tax purposes.

Two changes to the reporting of real estate cash rebates and real estate taxes could reduce noncompliance and increase federal tax collections. First, the Congress could require that states report to IRS, and to taxpayers on Form 1099s, cash rebates of real estate taxes. Second, the Congress could require that state and local governments conform real estate tax statements to specifications issued by IRS that would separate real estate taxes from nondeductible fees, which are often combined on these statements.

For estimation purposes, the proposals would be effective for rebates issued after December 31, 1999, and for amounts reported on tax bills after December 31, 2000. JCT estimates that the proposals together, would increase federal fiscal revenues as shown in the table below.

## Five-Year Revenues

Dollars in billions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Revenue gain | 0 | [a] | [a] | 0.1 | 0.2 |

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

[a]Gains of less than $50 million

Source: Joint Committee on Taxation.

## Related GAO Product

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

## GAO Contact

James R. White, (202) 512-9110

# Option: Collecting Gasoline Excise Taxes

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Internal Revenue Service |
| Spending type | Direct |
| Framework theme | Improve efficiency |

Although reliable statistical data do not exist to estimate gasoline excise tax evasion, the Department of Transportation estimated in a report to the Congress that such evasion amounted to about $500 million annually. From a tax administration perspective, moving the collection point for gasoline excise taxes from the terminal to the refinery level may reduce tax evasion because (1) gasoline would change hands fewer times before taxation, (2) refiners are presumed to be more financially sound and have better records than other parties in the distribution system, and (3) fewer taxpayers would be involved. However, industry representatives raise competitiveness and cost-efficiency questions associated with moving the collection point.

In a May 1992 report, we suggested that the Congress explore the level of gasoline excise tax evasion and, if it was found to be sufficiently high, move tax collection to the point at which gasoline leaves the refinery. The amount of revenue that would be generated from moving the collection point for gasoline excise taxes would depend on the accuracy of the $500 million estimate of evasion and how well the move curbed such evasion. JCT estimates that moving tax collection to the point at which the gasoline leaves the refinery would result in the following revenue gains.

## Five-Year Revenues

Dollars in billions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Revenue gain | 0.7 | [a] | [a] | [a] | [a] |

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

[a]Gains of less than $50 million.

Source: Joint Committee on Taxation.

## Related GAO Product

Tax Administration: Status of Efforts to Curb Motor Fuel Tax Evasion (GAO/GGD-92-67, May 12, 1992).

## GAO Contact

James R. White, (202) 512-9110

# Option: Computing Excise Tax Bases

| | |
|---|---|
| Authorizing committees | Finance (Senate)<br>Ways and Means (House) |
| Primary agency | Internal Revenue Service |
| Spending type | Direct |
| Framework theme | Improve efficiency |

Federal excise taxes are sometimes set at a fixed dollar amount per unit of taxed good. For example, alcoholic beverages are taxed at a set rate per gallon or barrel, with the rate varying for different types of beverages and differing concentrations of alcohol. When set in this manner, the real dollar value of the tax falls with inflation.

The real dollar value of these taxes can be maintained over time if the tax is indexed for inflation or set as a percentage of the price of the taxed product or service. Tax policy issues would need to be considered, and administrative difficulties may be encountered, but they are not insurmountable. The Congress may wish to consider indexing excise tax rates for alcohol and tobacco. The table reflects JCT's estimated revenue gains from this option with an effective date of January 1, 2000.

**Five-Year Revenues**

Dollars in billions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Revenue gain | 0.2 | 0.5 | 0.7 | 1.1 | 1.3 |

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

Source: Joint Committee on Taxation.

## Related GAO Products

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

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

## GAO Contact

James R. White, (202) 512-9110

# Option: Highway User Fees on Heavy Trucks

| | |
|---|---|
| Authorizing committees | Commerce, Science, and Transportation (Senate)<br>Transportation and Infrastructure (House) |
| Primary agency | Department of Transportation |
| Spending type | Direct |
| Framework theme | Redefine beneficiaries |

To develop and maintain highways, the Federal Highway Administration (FHWA) collects user fees. In fiscal year 1993, FHWA collected over $18.5 billion from four user fees: fuel taxes, a heavy vehicle use tax, a new vehicle excise tax, and an excise tax on heavy tires. In 1982, FHWA reported that heavy trucks underpaid by about 50 percent their fair share relative to the pavement damage that they caused. FHWA also reported that lighter trucks were overpaying by between 30 and 70 percent (depending on weight), and automobiles were overpaying by 10 percent.

To increase highway revenues and to respond to the FHWA study, the Congress in 1982 passed the first major increase in federal highway use taxes since 1956. To increase revenues, the Congress raised gasoline and diesel taxes from 4 cents to 9 cents per gallon. To improve equity, the Congress mandated that the ceiling for the heavy vehicle use tax be increased from $240 a year to $1,900 a year by 1989. In response to the concerns of the trucking industry about the new tax structure, the Congress again revised the system in the Deficit Reduction Act of 1984. Under the act, the ceiling for the heavy vehicle use tax was lowered from $1,900 to $550 a year. To ensure that this action was revenue neutral, the Congress raised the tax on diesel fuel from 9 cents to 15 cents per gallon.

As we recommended in June 1994, FHWA conducted a cost allocation study. The study, released in August 1997, noted that the overall equity of highway user fees could be incrementally improved by implementing either a weight-distance tax or eliminating the existing $550 cap on the Heavy Vehicle Use Tax. However, the study made no recommendations. According to an FHWA official, FHWA plans to issue an addendum to the report by April 1999 which will point out that the June 1998 Transportation Equity Act for the 21st Century (TEA-21) reduced the equity of highway user fees. TEA-21 requires that revenues from the federal fuel tax that had been used to help reduce the federal budget deficit go instead to the Highway Trust Fund so that they can be spent on highway and/or transit projects. This means that users that pay this tax (owners of cars, light trucks, and vans) will move in the direction of paying more than their "fair" share of highway maintenance costs. The administration still does not plan any action and will continue to monitor highway user fees.

JCT estimates that removing the $550 cap on the Heavy Vehicle Use Tax would result in the revenue gains shown in the table below.

### Five-Year Revenues

Dollars in billions

| | FY00 | FY01 | FY02 | FY03 | FY04 |
|---|---|---|---|---|---|
| Revenue gain | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |

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

Source: Joint Committee on Taxation.

## Related GAO Product

Highway User Fees: Updated Data Needed To Determine Whether All Users Pay Their Fair Share (GAO/RCED-94-181, June 7, 1994).

## GAO Contact

John H. Anderson, Jr., (202) 512-2834

# Options Not Updated for This Report

The following table provides information on options presented in earlier versions of this series that are not included in this product. Over 60 options from our last report are not included in this report because (1) the option was fully or substantially acted upon by the Congress or the cognizant agency, (2) the option was no longer valid due to environmental changes or the aging of our work, or (3) the Congress or the cognizant agency chose a different approach to address the issues discussed in the option. We will continue to monitor many of these options to assess whether underlying issues are ultimately resolved based on the actions taken. It is possible that some of the issues discussed below may appear in subsequent editions of this series.

| Option (budget subfunction) | Comments |
|---|---|
| F/A-18E/F Fighter (050) | Our work concluded that expected operational improvements from the F/A-18E/F were marginal compared to current versions of the aircraft and that recurring flyaway costs were understated. In the fiscal year 1997 appropriations act, the Congress funded DOD's request to procure 12 low-rate initial production aircraft under the first of three planned low-rate production lots. In the fiscal year 1998 and 1999 appropriations acts, the Congress funded DOD's requests to procure 50 additional E/F aircraft under the second and third low-rate production lots. |
| C-17 Strategic Airlift (050) | Our work indicated that a reduced procurement of 100 C-17s would meet airlift needs if other actions (e.g., increased prepositioning) were also taken. The Congress subsequently authorized DOD to procure 80 additional C-17s to bring the C-17 fleet to 120 aircraft. |
| Nuclear Submarine Force Reductions (050) | Our work indicated that there were less costly alternatives to the Navy's attack submarine shipbuilding plans, including building 6 fewer submarines than planned, to maintain a force structure of 45 to 55 submarines. The Navy had planned to meet this requirement by acquiring 30 new attack submarines, providing a force of about 55 submarines through 2020. The Quadrennial Defense Review subsequently proposed a force of 50 attack submarines. To satisfy this smaller requirement, the Navy will continue with its plan to build 30 new submarines while increasing the number of planned submarine retirements. |
| Major Weapon System Warranty Law (050) | The National Defense Authorization Act for Fiscal Year 1998 repealed the requirement for contractor guarantees on major weapon systems, as suggested in the option. The Congress reduced DOD's fiscal year 1998 appropriations by $75 million based on the repeal of the warranty law. |
| Base Alignment and Closure (BRAC) Accounts (050) | DOD has reduced unobligated balances in BRAC accounts, as suggested in the option, and analysis of the fiscal year 2000 budget will assess the extent of change. |
| Defense Transportation Restructuring (050) | DOD is in the process of, among other things, consolidating cargo clearance and booking functions, outsourcing nontemporary storage functions, and converting vehicle processing centers to contractor-run operations. These changes and others are intended to save at least $20 million and reduce personnel by 258 positions, consistent with this option. |
| Depot Maintenance Program Excess Capacity (050) | DOD adopted the recommended strategy and has completed three public-private competitions. |

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| Option (budget subfunction) | Comments |
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| DOD's Acquisition Workforce (050) | DOD had been on pace to meet the targeted reductions required by the Defense Authorization Acts of 1996 and 1997, as discussed in this option. The 1998 Defense Authorization Act expanded the conditions under which the Secretary of Defense may elect not to make cuts in support of targeted reductions; the 1999 Act effectively ended further targeted reductions of the acquisition workforce by limiting DOD to percentage cuts that are not to exceed the rate of overall cuts in the civilian workforce. |
| DOD's Materiel Management Migration Systems (050) | Based on our recommendation, the military services and the Defense Logistics Agency are now responsible for modernizing their inventory control point environments. The original plan for a standard suite of systems has been abandoned in favor of a combination of commercial, off-the-shelf systems, and modernized legacy systems. |
| DOD's Bulk Fuel Budgeting (050) | Our option pertained to the 1998 DOD budget request and was considered during that year's appropriations process. |
| Uniformed Services Treatment Facilities (050) | In 1997, DOD completed new sole-source contract negotiations with each Uniformed Services Treatment Facility (USTF), which, among other things, reduced payments to USTFs, as discussed in this option. Program costs are now comparable to alternative programs such as military hospitals, TRICARE, and Medicare. |
| Department of Energy's Procurement of Laboratory Testing Services (050) | DOE is implementing recommended changes to procurement of commonly used analyses of nonradioactive organic and inorganic chemicals. |
| Attrition of Enlisted Personnel From the Military Services (050) | DOD implemented recommendations to move all drug testing of recruits to the pre-enlistment stage. |
| Defense Inventories Reform (050) | The Congress has required DOD to develop schedules to implement within the next 3 to 5 years commercial practices for acquisition and distribution of inventory items, as suggested in the option. |
| Fiscal Year 1998 Defense Operation and Maintenance Budget (050) | Our option pertained to the 1998 DOD budget request and was considered during that year's appropriations process. |
| Convert Some Support Officer Positions to Civilian Status (050) | Our option pertained to the 1998 DOD budget request and was considered during that year's appropriations process. |
| DOD's Training Infrastructure (050) | Our option pertained to the 1998 DOD budget request and was considered during that year's appropriations process. |
| Excess Real Estate at Overseas Posts (150) | The State Department has established an independent advisory panel to review potential properties for sale and has significantly increased the sale of excess property, as suggested in this option. |
| USIA Exchanges Programs (150) | The consolidation of foreign affairs agencies will result in the abolishment of USIA and the integration of its functions into the State Department, including the possible closure of exchange programs as discussed in this option. |
| USIA Overseas Posts, Activities, and Cultural Centers (150) | The consolidation of foreign affairs agencies will result in the abolishment of USIA and the integration of its functions, including overseas structures and activities discussed in this option, into the State Department. |
| USAID's Housing Guaranty Program (150) | The Congress has significantly reduced appropriations for housing guarantees in foreign aid programs, consistent with this option's intent. |
| State Department Functions and Activities (150) | The Congress has required the State Department to engage in a reinvention effort—including changes in its overall operational priorities, organizational structure, and interagency relations, as discussed in this option—as part of the consolidation of foreign affairs agencies. |
| State Department Support Functions (150) | This option was consolidated with the State Department Business Processes option. |
| TV Marti (150) | This option was consolidated with the International Broadcasting option. |

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| Option (budget subfunction) | Comments |
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| Risk-Based Exposure Fees Export-Import Bank (150) | The United States and other members of the Organization for Economic Cooperation and Development have agreed to set rules on fees for export finance transactions and use similar rates in similar markets, as discussed in this option. Eximbank implemented the rules in 1998 by raising its fees in a number of markets. |
| Space Station (250) | We have reported and testified that NASA has made some progress on the International Space Station (ISS), but stressed that the agency still had considerable challenges to overcome, including continued cost growth, lower financial reserves, and significant risk related to NASA's and the Russian Space Agency's ability to support the ISS launch and assembly schedule. Initial ISS launches began in late 1998, and we will continue to monitor program implementation. |
| NASA's Earth Observing System Data and Information System (250) | Despite developmental problems with flight operations software, NASA is currently restructuring the program to keep it on schedule and within budget, as suggested in this option. |
| Clean Coal Technology Funds (270) | Congressional rescissions, as suggested in this option, have significantly reduced the reserve fund balance for this account. |
| Use of Carryover Balances to Offset Future Budget Needs (270) | Consistent with congressional direction and our recommendations, DOE has made substantial progress in reducing the level of carryover balances. |
| Department of Energy's Overtime Costs (270) | DOE's Office of the Controller is closely monitoring overtime use and several initiatives—such as not allowing payment for compensatory time not used within a year—have been factors in reducing overtime, consistent with the intent of this option. |
| Department of Energy's Cleanup Studies (270) | Our work showed that removal actions were the least costly method to cleanup contaminated sites. DOE has developed a 10-year plan (Accelerating Cleanup: Paths to Closure, June 1998) that, among other things, provides a site-by-site, project-by-project projection of the technical scope, cost, and schedule required to complete 353 cleanup projects at the 53 DOE sites. |
| Weather Service Modernization Project (300) | The National Weather Service has begun to deploy the Advanced Weather Interactive Processing System. As discussed in this option, the deployment will involve only capabilities that have been validated. |
| Federal Land Policies (300) | The portion of this option dealing with hardrock mining claims is captured under the Hardrock Mining option. Recent congressional initiatives addressed the portion of this option dealing with increasing concessionaires' fees in parks, forests, and other recreation areas. |
| Federal Timber Sales (300) | The Forest Service's commercial timber sales program discussed in this option has been significantly reduced in recent years and the types of timber sales have changed. Currently, about half of the sales are related to forest stewardship (i.e., maintaining forest health) or personal use sales (i.e., products for individuals' consumption), which are not selected for commercial value but for other particular management objectives. |
| Recreation Fees at Federal Sites (300) | Each of the major federal land management agencies is now participating in a recreation fee demonstration program that allows each agency to increase fees and charge new fees where appropriate, as discussed in the option. The additional fee revenue generated by this program will remain with the respective agencies without the need for annual appropriations. |
| Food Aid: Public Law 480 Title I Program (350) | The Congress retained the Title I program under the Federal Agriculture Improvement and Reform Act of 1996, but (1) cut funding significantly as discussed in this option, and (2) shifted emphasis under the Food for Peace Program from market expansion and economic development under Title I to emergency and humanitarian assistance under Title II. |

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| Option (budget subfunction) | Comments |
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| The Market Access Program (350) | The Congress reduced authorized funding for this program, mandated that only small, new-to-market export companies could participate in the branded portion of the program, and incorporated a five-year graduation requirement for private, for-profit company participation, consistent with the intent of this option. |
| Export Credit Guarantee Programs (350) | USDA has significantly improved its credit risk assessment process and taken other steps to lessen the financial risk to the U.S. government, as discussed in the option. The number of countries of questionable creditworthiness that participate in the program has decreased and the risk of default on U.S. government-backed loans has decreased. The Congress committed to fund the Export Credit Guarantee Program at $5.5 billion a year under the Federal Agriculture Improvement and Reform Act of 1996. |
| Use of Sampling for the 2000 Decennial Census (370) | The Supreme Court ruled on January 25, 1999, that the Census Act does not permit sampling for purposes of congressional apportionment. |
| Military Airport Program Funds (400) | Responding to our recommendations, FAA agreed to tighten its criteria for entry into the Military Airport Program (MAP) and focus grants on conversion and capacity projects for MAP airports. |
| Fees for Certification of New Airlines (400) | The fiscal year 1998 appropriations act prohibited FAA from promulgating new aviation user fees not specifically authorized by law. Thus, the agency no longer plans to issue a Notice of Proposed Rulemaking, which could have updated fees to levels sufficient to recover the costs of certification. |
| State Share of State-Supported Intercity Rail Passenger Service (400) | While Amtrak's losses on state-supported routes—the focus of this option—have not decreased consistently in recent years, some states have begun to require that Amtrak use fixed-price contracts for these rail services. Fixed-price contracts provide an incentive for Amtrak to reduce costs on these routes. |
| Amtrak Subsidies (400) | In the Amtrak Reform and Accountability Act of 1997, the Congress established an independent Amtrak Reform Council, as discussed in this option. If Amtrak does not meet the financial goals included in the act, the Council must recommend to the Congress a "restructured and rationalized national intercity rail passenger system." The provision supersedes the option of a temporary commission to restructure Amtrak's route network. |
| Consolidation of Employment and Training Programs (500) | The Congress passed the Workforce Investment Act of 1998, which consolidated and coordinated employment and training programs, as discussed in this option. |
| Automated Drug Utilization Reviews (550) | Most states have now implemented drug utilization review programs, as discussed in this option. |
| Payments to Rural Health Clinics (550) | The Congress enacted legislation that limited rural health clinics to areas with a current shortage area designation, consistent with our recommendations, and established payment limits for hospital-based clinics. |
| Teaching Hospitals' Medicare Payments (570) | The Balanced Budget Act of 1997 changed Medicare's graduate medical education payment methodology, as discussed in this option. Changes included reducing the percentages used to calculate the indirect teaching adjustment factor; capping the number of full-time equivalent residents and interns in certain medical fields used in calculating the adjustment factor, and providing incentive payments for voluntary residency reduction plans. |
| Funding for State Automated Welfare Systems (600) | Under recent welfare reform legislation, states have more responsibility for funding welfare programs as well as the automated systems needed to allow them to function. |
| The PASS Work Incentive Program (650) | In response to our recommendations, the Social Security Administration revised its application process. As a result, the number of participants in the plan for achieving self-support (PASS) program is much smaller and estimated program savings associated with restricting Disability Insurance beneficiaries would also likely be much smaller than previously estimated. |

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| Option (budget subfunction) | Comments |
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| Effective VA Hospital Preadmission Certification (700) | VA directed its facilities to establish utilization management programs to assess, monitor, and evaluate the appropriateness of the level of health care provided by VA facilities. These programs, coupled with VA's recently implemented capitation-based resource allocation system, are resulting in significant reductions in hospital admissions and lengths of stay, consistent with the intent of this option. |
| Construction of Veterans' Medical Facilities (700) | The President's Budget proposed $48 million in fiscal year 1998 for VA major construction funding, a 77 percent reduction from the prior year; $84 million and $47 million was requested for fiscal years 1999 and 2000, respectively. |
| VA's Medical Care Account Growth Rate (700) | In recent appropriations requests, VA indicated that it does not plan to request additional appropriations, the focus of this option, but proposes supplementing its appropriations with increases in third-party reimbursements. |
| Sunset Date on VA's Income Verification Program (700) | In response to our recommendations, the Congress extended the provision authorizing IRS and SSA assistance to VA in verifying income to September 30, 2002. |
| Approving Education and Training Programs for Veterans (700) | Our work indicated that VA was contracting with state approving agencies to conduct assessments that overlapped with those performed by other federal agencies. The Congress subsequently directed VA to continue to contract with states to determine whether postsecondary educational and training programs and institutions meet federal requirements. |
| Border Patrol Resources (750) | The Immigration and Naturalization Service has partially redeployed agents to better address the threat of illegal entry, as discussed in this option. |
| General Services Administration Supply Depot System (800, 900, 999) | GSA has reported that it is increasing use of direct delivery and has formed a task force to reassess the role of depots in its supply operations, as discussed in this option. |
| Judiciary's Long-Range Space Planning System (800, 900, 999) | The Administrative Office of the Courts has updated its space plans as recommended and is using statistical tools to ensure consistent treatment across districts, as discussed in this option. |
| Premium Payments to Employees While on Leave (800, 900, 999) | Consistent with our recommendation, the Congress enacted in 1998 a permanent governmentwide restriction on the payment of Sunday premium pay for all employees who are paid from appropriated funds and who do not actually perform work on Sunday. |
| Commemorative Coins (800, 900, 999) | The Congress has authorized a 10-year circulating commemorative coin program—the quarter dollar—beginning in 1999, as discussed in this option. |
| Internal Revenue Staff Utilization (Receipts) | Although allocation of collection staff may still be an issue, IRS has reassigned a significant number of collections personnel since the revenue estimates were made, as discussed in this option. |
| Taxation of Additives to Diesel Fuel (Receipts) | The Taxpayer Relief Act of 1997 requires that kerosene, which may be blended with diesel fuel, be subject to the same requirements as those applied to diesel fuel, as discussed in this option. |
| Industrial Development Bonds Targeting (Receipts) | Our work indicated that targeted reductions in the amount of bonds a state may issue (a "volume cap") based on the extent of fiscal distress among its communities could reduce tax losses while not significantly lessening the public benefits arising from this type of bond. The Congress expanded this program in 1998 by increasing the state volume cap. |
| Federal Agency Reporting to the Internal Revenue Service (Receipts) | The Taxpayer Relief Act of 1997 requires federal agencies to report payments of $600 or more to corporations for services, as discussed in this option. However, IRS has not yet begun to match corporation tax returns against the reported information to identify underreporting. |

# Major Contributors to This Report

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Michael J. Curro, Assistant Director, Carol M. Henn, Senior Evaluator, and Adriel M. Harvey, Evaluator, prepared this volume in the GAO series. Questions may be directed to these staff in the Accounting and Information Management Division, Budget Issues Group, at (202) 512-9573.

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