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# BUDGET ISSUES

## Agency Authority to Borrow Should Be Granted More Selectively







United States  
General Accounting Office  
Washington, D.C. 20548

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Comptroller General  
of the United States

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September 15, 1989

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

This report presents the results of our study of authority to borrow, a type of spending authority defined in section 401(c) of the Congressional Budget Act of 1974. Our work was done to comply with the Balanced Budget and Emergency Deficit Control Act of 1985, which amended the Budget Act to require us to study forms of spending authority. This report contains recommendations to the Congress and the Office of Management and Budget.

Agencies with authority to borrow are financing a large portion of their programs with debt and are repaying their debt with appropriations or new borrowing rather than collections. The report recommends that only those accounts that will, in all likelihood, be able to repay their borrowings entirely with collections be granted authority to borrow. It also recommends that accounts with authority to borrow be required to repay their debt with collections and that the number of years they can use authority to borrow and the amount of debt they can accumulate be limited.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and agencies whose accounts we reviewed.

This work was performed under the direction of James L. Kirkman, Director, Budget Issues. Major contributors to this report are listed in appendix VIII.

A handwritten signature in cursive script that reads 'Charles A. Bowsher'.

Charles A. Bowsher  
Comptroller General  
of the United States

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# Executive Summary

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## Purpose

From fiscal years 1978 through 1987, agencies used \$353 billion in authority to borrow to obtain funds in advance of appropriations. The Balanced Budget and Emergency Deficit Control Act of 1985 amended the Congressional Budget Act of 1974 to require GAO to study authority to borrow and other provisions of law which permit agencies to use funds or resources when the authority is not provided in advance in annual appropriation acts. The act also requires GAO to make recommendations on the appropriate form of financing for activities studied. This report recommends a criterion for determining when authority to borrow is an appropriate means of financing accounts. In addition, it presents the results of GAO's review of 12 sample accounts with authority to borrow.

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## Background

Authority to borrow is statutory authority that permits a federal agency to incur obligations and to make payments for specified purposes out of borrowed monies. It is a form of financing that is relatively uncontrolled by the Congress because it is available without annual appropriation action. In some cases, the Congress provided authority to borrow after congressional committees reported that the authority would give the agencies a readily available source of funds to make prompt payments.

Thirty-seven of the budget accounts administered by 19 federal agencies have authority to borrow from the Department of the Treasury or the public. The authority to borrow these accounts used during the 10-year period covered by GAO's study represented 4 percent of the federal government's total budget authority for the period. Accounts that borrow can make repayments using collections from users (the public), appropriations, or additional borrowing. The Congress can also legislate debt forgiveness.

GAO's July 1987 reports, Budget Issues: Inventory of Accounts With Spending Authority and Permanent Appropriations, 1987 (GAO/AFMD-87-44A) and Budget Issues: The Use of Spending Authority and Permanent Appropriations Is Widespread (GAO/AFMD-87-44), identified accounts with the various forms of financing not provided in annual appropriation acts and provided summary data on those accounts. Information in this report covers the accounts with authority to borrow that were identified and summarized in the above reports.

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## Results in Brief

In GAO's opinion, the Congress should provide authority to borrow on a more selective basis. The main criterion it should normally use in providing authority to borrow is that eligible programs should be able to generate sufficient revenues from collections to repay their debt.

Agencies with authority to borrow are financing a large portion of their programs with debt. Most of the repayments agencies make on their debt come from appropriations and new borrowings. Less than half of the repayments come from collections. Calling an agency's financing "borrowing" could suggest that its costs are only temporary, because they will eventually be repaid. In GAO's opinion, this terminology is misleading and misrepresents program costs when repayments come from sources other than collections. In addition, it may obscure the extent to which losses are being funded through borrowing.

Of the 12 accounts GAO reviewed, 8 were not designed to recover their costs and probably will not be able to generate sufficient collections to repay their debts. Many of these accounts have no limit on the amount of debt they can accumulate. The financing for these accounts could more accurately be described as appropriations instead of borrowing. Therefore, an alternate form of financing (involving some type of appropriation) would better disclose the type of financing being used while still enabling accounts to make prompt payments.

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## GAO's Analysis

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### Criterion for Authority to Borrow

GAO based its criterion for when authority to borrow is appropriate on the general concept of borrowing. Borrowing, unlike other financing methods such as appropriations, implies a future repayment. Therefore, authority to borrow should be limited to agencies that can repay their debt. Of the three ways agencies make repayments on their debt—appropriations, new borrowings, and collections—only collections reimburse Treasury for the funds it lent to the agencies. When agencies repay debt with appropriations or new borrowings, Treasury does not recover any funds because the repayments come from monies already held by Treasury, not external sources. Therefore, normally only repayments with collections should be considered meaningful repayments, and authority to borrow should only be provided to agencies that can repay their debt with collections.

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**Misrepresenting Costs**

Calling an agency's financing "borrowing" suggests that the funds it receives are a cost to Treasury that will eventually be reimbursed. When an agency borrows but cannot repay with its collections, the nature of its financing and the costs incurred by Treasury are misrepresented. This could impair the Congress' understanding of the costs and ability to make informed budgetary decisions.

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**Reasons for Providing Authority to Borrow**

The legislative histories for most of the 12 accounts GAO reviewed did not indicate whether the Congress considered the accounts' ability to generate sufficient revenue to repay their debts when it provided authority to borrow. In some cases, the legislative histories did not indicate a reason the Congress selected authority to borrow as the form of financing. In other cases, they indicated that the authorizing committee chose authority to borrow because the account needed a readily available source of funds (borrowings) to make prompt payments.

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**Authority to Borrow Sometimes Inappropriate**

Eight of the 12 accounts GAO reviewed have borrowed funds they are unlikely to repay with collections. Two of these accounts do not receive any collections from the public. Other accounts borrow to finance loan programs that do not receive sufficient collections from loan repayments or guarantee fees to cover the cost of the subsidies they provide.

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**Alternative Forms of Financing**

Other forms of financing could meet the needs of accounts that currently use authority to borrow. For example, to finance subsidized loan programs, accounts could receive annual appropriations for the estimated subsidy costs of new direct and guaranteed loans. Accounts that need a readily available source of funds to make prompt payments could use permanent appropriations or periodic appropriations for a contingency reserve.

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**Recommendations**

GAO recommends that the Congress

- provide authority to borrow only to accounts that are able to repay their debt with collections;
- require accounts to repay their debt with collections, limit the time they can use authority to borrow without renewed congressional approval, and limit the amount of debt they can accumulate;
- repeal or restrict authority to borrow or replace it with another form of financing for 8 of the 12 accounts GAO reviewed; and

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- enact legislation requiring annual appropriations of credit subsidy costs for new direct and guaranteed loans.

GAO also recommends that the Office of Management and Budget study the accounts with authority to borrow not covered by GAO's review to determine the appropriateness of this type of financing for those accounts.

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## Agency Comments

Seven federal departments and agencies provided written comments on a draft of this report; in addition, the Department of Housing and Urban Development provided oral comments. The Departments of the Treasury and Transportation, the Postal Service, the Office of Management and Budget, and the Export-Import Bank agreed with the report's general conclusions. However, the Office of Management and Budget was concerned about accounts omitted from the study. In addition, the Departments of Transportation and Housing and Urban Development and the Export-Import Bank disagreed with the application of the report's conclusions to their accounts. The Department of Agriculture and the Federal Emergency Management Agency did not take a position regarding the report's conclusions but gave comments on their use of authority to borrow. The agencies' comments are presented and evaluated in chapters 3 and 4. Written agency comments are provided in Appendixes I through VII.

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**Abbreviations**

ACIF	Agricultural Credit Insurance Fund
BPA	Bonneville Power Administration
CCC	Commodity Credit Corporation
DOT	Department of Transportation
EXIM	Export-Import Bank
FEMA	Federal Emergency Management Agency
FFB	Federal Financing Bank
FHA	Federal Housing Administration
GAO	General Accounting Office
GMBS	Guarantees of Mortgage-Backed Securities
GNMA	Government National Mortgage Association
NFIF	National Flood Insurance Fund
OMB	Office of Management and Budget
RTB	Rural Telephone Bank
SLSDC	Saint Lawrence Seaway Development Corporation

# Introduction

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From fiscal years 1978 through 1987, the outstanding debt federal agencies incurred through the use of authority to borrow provided in advance of appropriation acts increased from \$76 billion to \$195 billion. Agencies with this type of authority to borrow can use funds borrowed from the Department of the Treasury, the public, or other federal accounts without first receiving annual appropriation approval. Concern about the use of authority to borrow and other types of financing available without annual appropriation action led the Congress to enact section 214 of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177),<sup>1</sup> which required that we study the statutory provisions giving federal agencies "permanent appropriations" and "spending authority" for which budget authority is not provided in advance by an appropriation act. The act also requires us to recommend the appropriate form of financing for activities or programs financed by such provisions. As agreed with congressional committees, we are addressing the study requirements in phases.

The first phase resulted in two reports issued in July 1987, Budget Issues: Inventory of Accounts With Spending Authority and Permanent Appropriations, 1987 (GAO/AFMD-87-44A) and Budget Issues: The Use of Spending Authority and Permanent Appropriations Is Widespread (GAO/AFMD-87-44). These reports identified statutory provisions providing spending authority and permanent appropriations and summarized data on the accounts financed by those provisions. The types of spending authority covered by these reports include authority to borrow, contract authority, monetary credits, offsetting collections from nonfederal sources, and entitlements not annually appropriated. (See the glossary for definitions.)

This third report addresses only authority to borrow, one type of spending authority. It provides guidelines for when it is appropriate to finance programs with authority to borrow and makes recommendations for alternative financing of some programs currently using this authority.

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## Background

Generally defined, authority to borrow is statutory authority that permits a federal agency to incur obligations and to make payments for specified purposes out of monies borrowed from Treasury, the public, or other federal accounts, such as the Federal Financing Bank (FFB). The

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<sup>1</sup>Section 214 of the 1985 act was part of an amendment to the Congressional Budget Act of 1974 (titles I through IX of Public Law 93-344).

FFB is an entity within Treasury that makes loans to agencies that otherwise would borrow from the public at higher interest rates.

For the purpose of our study, we restricted our definition of authority to borrow to one form of spending authority as defined in the Congressional Budget Act of 1974, as amended.<sup>2</sup> This definition excludes any authority to borrow that is provided in annual appropriation acts as well as Treasury's authority to borrow from the public.

The term "borrowing" implies that the borrowing agency will repay its loans. In contrast, when an agency uses an appropriation to incur obligations and make payments, there is no implication that Treasury should be repaid.

The terms "authority to borrow" and "borrowing" have slightly different meanings. Authority to borrow is a type of budget authority, which in turn is authority provided by law to enter into obligations that will result in immediate or future outlays of federal government funds. In contrast, borrowing describes the actual transaction of obtaining funds from Treasury, the public, or the FFB under a note or loan agreement. Agency borrowing from Treasury or the FFB does not directly affect the deficit because it only involves a transfer of funds within the government. However, when an agency spends the borrowed funds, the resulting outlays increase the deficit total.

In fiscal year 1987, agencies used \$31 billion in authority to borrow to incur new obligations. This represented 3 percent of the federal government's total budget authority. During that same year, agencies borrowed \$66 billion from Treasury to make payments on the new obligations or on obligations from prior years and to repay outstanding debt. Most of the difference between the authority to borrow used (\$31 billion) and actual borrowings (\$66 billion) was due to agencies borrowing to repay outstanding debt. When agencies borrow to make repayments, they do not incur new obligations and, therefore, do not record the use of authority to borrow.

A reason the Congress may have provided some accounts authority to borrow was to give them a readily available source of funds with which

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<sup>2</sup>The Congressional Budget Act defines authority to borrow as authority "to incur indebtedness (other than indebtedness incurred under chapter 31 of title 31 of the United States Code) for the repayment of which the United States is liable, the budget authority for which is not provided in advance by appropriation Acts."

to make prompt payments. Agencies that borrow from Treasury have to pay interest at a rate specified in statute.

In most cases, this rate is based on the average rates Treasury is paying for money it borrows from the public.

The Congress has periodically attempted to subject authority to borrow to more control through the appropriations process. In 1974, the Congress enacted section 401 of the Congressional Budget Act in order to limit the creation of new authority to borrow unless it was provided by appropriation acts. Also, since 1974, the Congress has subjected some accounts that already had authority to borrow to annual appropriation limitations, such as limitations on the amount that can be obligated for direct loans. For example, 13 of the 37 accounts with authority to borrow had appropriation limitations in fiscal year 1986. Most recently, the Balanced Budget and Emergency Deficit Control Act required that we study such authority.

Our 1980 study of revolving funds' use of authority to borrow focused upon budget disclosure issues.<sup>3</sup> We reported that the way some agencies recorded the use of authority to borrow in the budget understated borrowing levels and therefore impaired congressional control of obligations. Subsequently, the Office of Management and Budget (OMB) changed the way it presented information on the use of authority to borrow in the budget in order to correct this problem.

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## Objectives, Scope, and Methodology

The objectives of our study were to

- obtain statistics on the use of authority to borrow for the most recent 10-year period for which data were available (fiscal years 1978 through 1987),
- develop guidelines for when to provide authority to borrow in the future, and
- evaluate whether authority to borrow is appropriate for a sample of accounts and recommend whether it should be replaced with alternative financing.

Since the Congressional Budget Act's definition of spending authority does not include authority provided in appropriation acts, our study of

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<sup>3</sup>Spending Authority Recordings in Certain Revolving Funds Impair Congressional Budget Control (PAD-80-29, July 2, 1980).

authority to borrow excludes some types of funding that result in debt by agencies. For example, our study did not cover authority to borrow that was provided in appropriation acts or appropriations that include a stipulation for repayment.

In addition, we did not include in our study a form of debt incurred by agencies as a result of FFB's authority to purchase agencies' loan assets. Because this debt occurred due to FFB's authorizing statute, we did not believe it could be effectively addressed in a broad review that does not cover the role and purchasing authority of the FFB.

We identified the universe of 37 budget accounts with authority to borrow included in this study in Budget Issues: Inventory of Accounts With Spending Authority and Permanent Appropriations, 1987, July 1987 (GAO/AFMD-87-44A). The universe was compiled using fiscal year 1987 budget data. Therefore, accounts that either have or previously had such authority, but had no indication of the authority in the fiscal year 1987 budget, are not included in this study.

We analyzed data on borrowings from fiscal years 1978 through 1987 for the 37 accounts in the universe. For each account we reviewed Treasury data on borrowings, repayments of principal, and outstanding debt. We also reviewed data from the fiscal years 1980 through 1989 Budget of the United States Government—Appendixes on obligations, authority to borrow, and sources of principal repayments, such as collections and appropriations.

To develop guidelines for when authority to borrow should be used to finance an account, we interviewed Treasury and Office of Management and Budget officials. We also relied on our prior work on congressional budget control issues and on the premise that, in general usage, the term borrowing implies a future repayment. Based on the interviews, our prior work, and our understanding of how the term is commonly used, we adopted a position on when authority to borrow would be appropriate that considered an account's ability to repay its borrowings with collections.

We also conducted case study work on a sample of 12 accounts. We envisioned that the case study work would help us refine or further develop our initial ideas on when authority to borrow is suitable. In particular, we were interested in determining why the Congress provided authority to borrow to particular accounts and what the responsible agency officials felt about the suitability of authority to borrow for their accounts.

We therefore reviewed the committee reports in the legislative histories of the statutes providing authority to borrow to the case study accounts. The statutory provision for this study requires us to make recommendations on the appropriate form of financing for activities or programs currently financed with spending authority, and we applied the criteria we developed to the case study accounts.

In selecting the 12 case study accounts, we divided the universe of accounts with authority to borrow into five groups based upon the frequency of borrowing-related and repayment activity. We considered the following factors:

- the number of years the accounts had borrowing-related activity, such as using authority to borrow, having outstanding debt, or actually borrowing funds and
- the number of years in which the accounts made repayments with their collections.

For example, we composed one group of accounts from those with 5 to 10 years of borrowing-related activity and 5 to 10 years of making repayments with their collections, while we composed another group from those with the same years of borrowing-related activity but only 1 to 4 years of repayments with collections. We formed the remaining groups using other combinations of these factors. We randomly selected 10 accounts from the five groups, choosing at least one from each.

In addition, to make certain our sample included a general fund and a fund that finances emergency programs, we identified these accounts from our universe and selected one of each type. This process resulted in the 12 case study accounts.

We excluded the Federal Financing Bank and the Commodity Credit Corporation from the selection process because the issues involved with their use of authority to borrow were too complex to be effectively covered by a broad review. Our sample consisted of the accounts listed in table 1.1.

**Table 1.1: Case Study Program Accounts Reviewed**

<b>Department/Agency</b>	<b>Account(s) Reviewed</b>
Agriculture	Agricultural Credit Insurance Fund, Farmers Home Administration  Rural Telephone Bank, Rural Electrification Administration
Energy	Bonneville Power Administration Fund
Housing and Urban Development	Federal Housing Administration Fund  Guarantees of Mortgage-Backed Securities, Government National Mortgage Association
Transportation	Saint Lawrence Seaway Development Corporation  Office of the Administrator, Federal Railroad Administration  Ocean Freight Differential  Federal Ship Financing Fund
Federal Emergency Management Agency	National Flood Insurance Fund
Export-Import Bank of the United States	Export-Import Bank of the United States
United States Postal Service	Postal Service Fund

Our evaluation of whether the sampled accounts can repay their borrowings with collections is based on the accounts' current financial conditions, the sources of funds used to repay borrowings in the past, and whether the accounts recover their costs from users. If an account has operated at a loss for several years and does not recover its costs from users, or if its debt was forgiven or if it has received appropriations to reduce debt, we concluded that the account probably will not repay its debt with collections.

Our audit work did not assess whether the sampled accounts were using authority to borrow for authorized expenditures and prudent investments.

We conducted our study between June 1987 and March 1988 in accordance with generally accepted government auditing standards. We performed our work in the Washington metropolitan area at OMB; the Departments of Agriculture, Energy, Housing and Urban Development, Transportation, and Treasury; the Export-Import Bank; the Federal Emergency Management Agency; and the United States Postal Service.

# Trends in Agency Borrowing

From fiscal years 1978 through 1987, agencies reported the use of \$353 billion in authority to borrow, which was 4 percent of the federal government's total budget authority for that period. Over the same period, agencies' outstanding debt with the public and Treasury increased from \$76 billion to \$195 billion. The increase occurred because agencies with authority to borrow often used new borrowings to repay debt and, on the whole, borrowed more than they repaid. When agencies repaid debt with funds other than new borrowings, they often repaid with appropriations rather than collections from program users.

## Increases in Agencies' Outstanding Debt

Over the past several years, agencies have increasingly relied on debt incurred with authority to borrow to finance their programs. From fiscal years 1978 through 1987, outstanding debt with the public and Treasury increased 158 percent, but program levels for the accounts that held this debt<sup>1</sup> increased only 76 percent. Program levels are measured by the total obligations the accounts incurred during the year. The difference between the growth rates of obligations and outstanding debt would have been much greater if agencies had not been relieved of some of their debt by appropriations to reduce debt and debt forgiveness. Figure 2.1 shows the amount of agencies' outstanding debt compared to the amount of new obligations they incurred each year over the 10-year period.

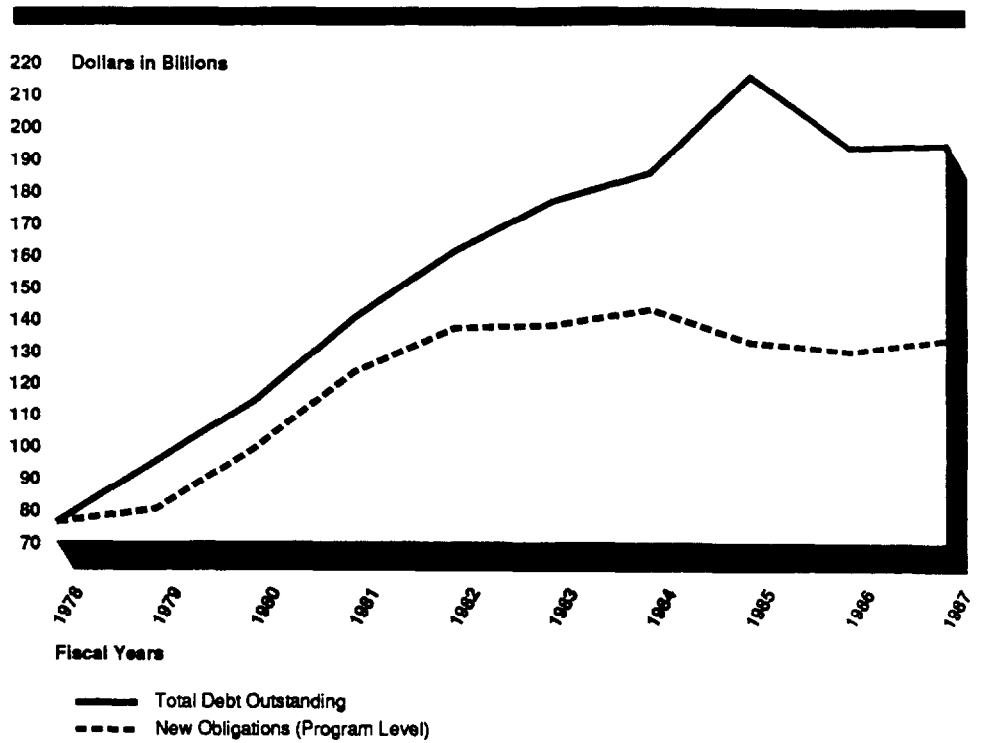
The difference in the growth rates of obligations and outstanding debt began to widen in fiscal year 1982 when outstanding debt continued its rate of increase but the obligation rate leveled off. Outstanding debt increased 21 percent from fiscal years 1982 through 1987, while obligations for accounts that borrowed decreased 2 percent during that period. This occurred because agencies borrowed more than they repaid and, possibly, because they used debt incurred through authority to borrow to replace other forms of financing. Authority to borrow is available without annual congressional action. Therefore, unless the Congress imposes significant restrictions on the use of authority to borrow or on an account's obligation levels, the account can use authority to borrow to finance programs when its other funds, such as annual appropriations and collections, are not adequate to meet program needs.

The fiscal year 1985 peak in outstanding debt occurred because the Department of Housing and Urban Development's Low-Rent Public

<sup>1</sup>Twenty-eight of the 37 accounts in the universe had debt outstanding at some time during fiscal years 1978 through 1987. The remaining nine accounts did not borrow during those years.



**Figure 2.1: New Obligations for Agencies That Borrowed and Total Debt Outstanding With Treasury and Public for Fiscal Years 1978 Through 1987**



Housing account borrowed \$13.8 billion, an unusually large amount. Outstanding debt declined in fiscal year 1986 as a result of legislation (Public Law 99-272, April 7, 1986) forgiving all of Low-Rent Public Housing's outstanding debt as of the end of fiscal year 1986 and all future years.

## Outstanding Debt by Agency

On September 30, 1987, seven departments and six independent agencies had debt outstanding with Treasury, FFB, or the public incurred as the result of authority to borrow. As seen in table 2.1 the Federal Financing Bank had the most outstanding debt followed by the Department of Agriculture and the Tennessee Valley Authority.

Chapter 2  
Trends in Agency Borrowing

**Table 2.1: Agencies' Outstanding Debt Incurred Under Authority to Borrow as of September 30, 1987**

Dollars in thousands	
Agency	Total Owed
<b>Agriculture</b>	
Commodity Credit Corporation	\$20,969,268
Farmers Home Administration	19,632,218
Rural Electrification Administration	2,084,872 <sup>a</sup>
<b>DOD-Military</b>	
	7,000
<b>Education</b>	
	2,049,363
<b>Energy</b>	
	1,843,799
<b>Housing and Urban Development</b>	
	5,009,434
<b>Independent Agencies</b>	
Export-Import Bank	12,463,500
Federal Deposit Insurance Corporation	200,000
Federal Emergency Management Agency	97,000
National Credit Union Administration	111,000
Postal Service	4,603,000
Tennessee Valley Authority	19,740,000
<b>Transportation</b>	
	569,589
<b>Treasury</b>	
Federal Financing Bank	105,814,717 <sup>b</sup>
<b>Total Outstanding Debt</b>	<b>\$195,194,760</b>

<sup>a</sup>All the figures used in this table were obtained from Treasury records. However, in its comments on our draft report, the Department of Agriculture stated that the Rural Electrification Administration's debt with Treasury was significantly higher than the figure shown here.

<sup>b</sup>To avoid double counting, the FFB debt shown does not include \$35 billion that FFB borrowed from Treasury and lent to four other agencies—the Export-Import Bank, the National Credit Union Administration, the Postal Service, and the Tennessee Valley Authority. The \$35 billion amount is shown as part of those agencies' debt. The \$106 billion FFB debt shown is debt FFB used to make direct loans to the public based on agency guarantees and to finance a form of lending to agencies referred to as the "purchase of loan assets." The loan asset purchases represent a form of agency borrowing because the agencies receive funds from the FFB when they sell the loan assets but must reimburse the FFB if the loans default.

The amount of an agency's outstanding debt does not always reflect the agency's borrowing and repayment history. An agency may borrow large amounts but still have little outstanding debt if it receives forgiveness of debt or appropriations to reduce debt. For example, the Department of Transportation (DOT) had an outstanding debt of \$570 million at the end of fiscal year 1987, but during the prior 10 years (fiscal years 1978 through 1987), four DOT accounts<sup>2</sup> received debt forgiveness or appropriations to reduce debt totaling \$4.7 billion.

<sup>2</sup>The four DOT accounts are the Office of the Administrator, Settlements of Railroad Litigation, the Federal Ship Financing Fund, and the Saint Lawrence Seaway Development Corporation

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## How Agencies Meet Their Repayment Commitments

When an agency borrows from Treasury, it agrees to repay within a certain period of time. To satisfy its loan commitments to Treasury an agency can

- repay with collections,
- repay with new borrowings,
- repay with appropriations, or
- have its debt forgiven by statute and, therefore, be relieved of the obligation to repay.

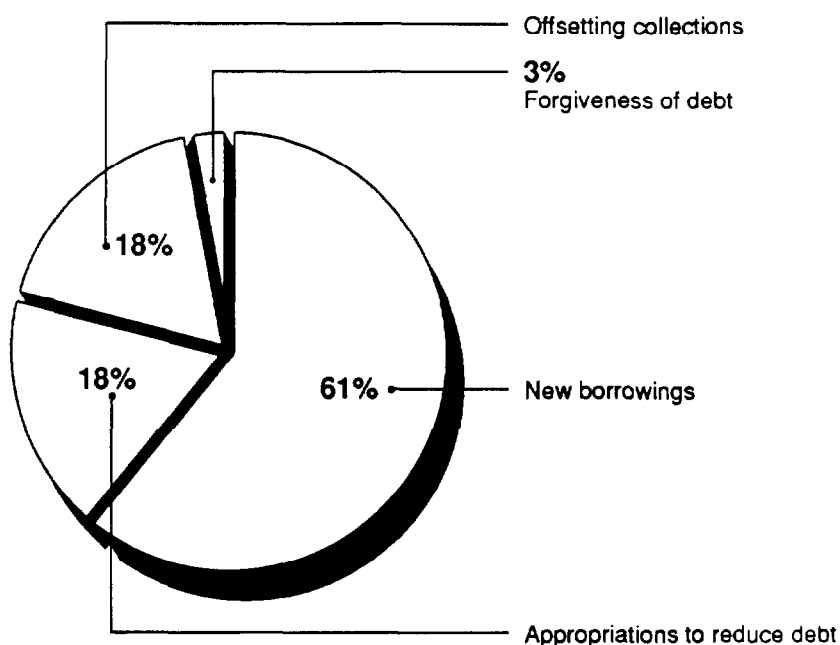
Repayments with collections, repayments with appropriations, and debt forgiveness all reduce an agency's debt. Repayments made with new borrowings, however, do not reduce debt. When agencies borrow to make repayments, they keep up with their repayment schedules, but the amount of their repayments is offset by the amount of their new borrowings, leaving their outstanding debt unchanged.

Although agencies frequently make repayments, outstanding debt has continued to increase because in the aggregate agencies are borrowing more than they repay. As seen in figure 2.2, from fiscal years 1978 through 1987, accounts met their repayment commitments most often through new borrowings. Only 18 percent of the amount repaid or forgiven during the 10-year period was derived from collections, which reimbursed Treasury for the funds it had lent. The remaining 82 percent,<sup>3</sup> while meeting repayment commitments, did not provide Treasury with any new funds.

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<sup>3</sup>The 82 percent was computed by combining Treasury and budget data on repayments. Since these two sets of data contain some inconsistencies, this figure should be viewed as an approximation.

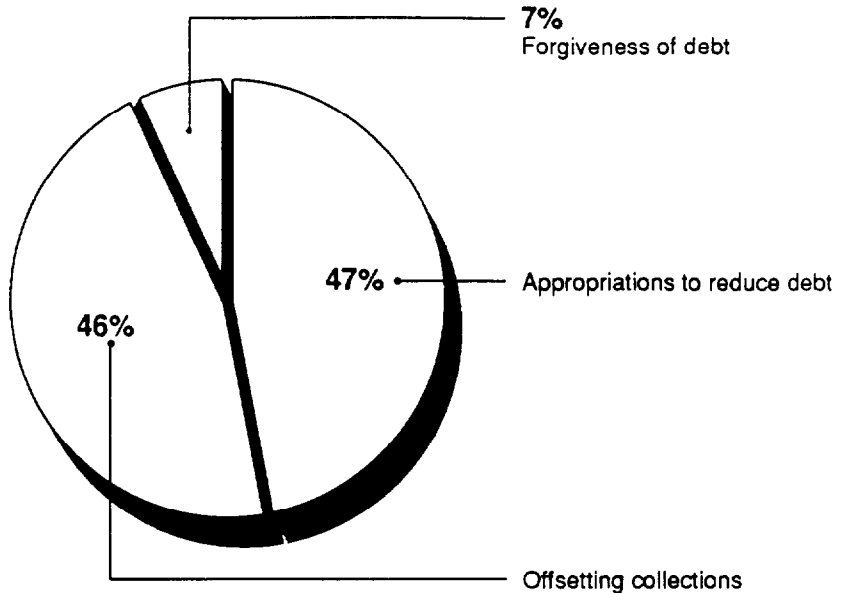
**Figure 2.2: How Accounts Met Repayment Commitments With Treasury During Fiscal Years 1978 Through 1987**



Agencies can borrow from Treasury to repay their loans as long as they have not reached their debt limit—the amount of debt they can have outstanding with Treasury. Some accounts, however, have no limit or a very high limit. Therefore, they can build large amounts of outstanding debt and borrow to make repayments without demonstrating any ability to independently generate revenue to retire borrowings.

Of the three ways of reducing debt—repayments with collections, repayments with appropriations, and debt forgiveness—only repayments with collections reimburse Treasury for the funds it lends to an account. Neither appropriations nor forgiveness of debt provide Treasury additional funds to replace those it lends to the account. Figure 2.3 shows the sources of the \$214 billion in debt reduction from fiscal years 1978 through 1987. Fifty-four percent of debt reduction came from sources providing no new funds to Treasury.

Figure 2.3: Sources of Debt Reduction for Fiscal Years 1978 Through 1987



The total amount for the three sources of debt reduction is \$214 billion.

The Commodity Credit Corporation, which receives large appropriations to reduce debt every year, was responsible for 92 percent (or \$91.6 billion) of the total appropriations used to reduce debt over the 10-year period. Two other accounts, Low-Rent Public Housing and the Saint Lawrence Seaway Development Corporation, received all the forgiveness of debt (\$16 billion) during the 10-year period. Repayments with collections have been made by several different accounts, but most can be attributed to payments made to Treasury by the Federal Financing Bank.<sup>4</sup>

## Conclusions

During the past 10 years agencies have been financing a large portion of their program expenses with debt incurred through authority to borrow—funds which are readily available without having to compete for them during the annual appropriations process. Some agencies have reduced their debt; however, most of the debt reduction during the past 10 years can be attributed to appropriations or debt forgiveness. Less than half of the debt reduction from fiscal years 1978 through 1987 came from program revenues, that is, collections.

<sup>4</sup>The exact amount of repayments with collections made by FFB during the 10-year period cannot readily be determined because, in recent years, data on repayments by FFB have been reported in the budget appendix combined with data on repayments made by other accounts.

# Authority to Borrow Should Be Provided More Selectively

Agencies' increasing outstanding debt and their frequent inability to repay that debt with program revenues suggest that the Congress should provide authority to borrow on a more selective basis. Calling an account's financing "borrowing" implies that the account has the ability to generate sufficient revenues, that is, collections, to repay its debt. Therefore, we believe that accounts that receive authority to borrow should be able to repay their debts with collections. Our case studies of 12 accounts with authority to borrow found that 8 have borrowed funds they probably cannot repay with collections. If the financing of these accounts is viewed as a cost that eventually will be reimbursed with the accounts' revenues, this could reduce the Congress' ability to make informed budgetary decisions.

We believe other methods of financing would be more appropriate for these 8 accounts. This chapter discusses those accounts and alternative methods of financing that could be used.

## Criterion for Authority to Borrow

None of the statutes authorizing agencies to borrow specifies why the Congress chose to provide this form of financing. In our effort to develop and refine a criterion for when authority to borrow is appropriate for an account, we reviewed the legislative histories of the accounts in our sample. We found that the histories often did not explain why authority to borrow was provided as a form of financing. When there was an explanation, the reasons varied. We also looked at the expenses of the sample accounts to see if they were uniquely suited for authority to borrow, but we did not find any unusual aspects of the expenses that could not be met with another form of financing.

In the absence of any clear guidance from the Congress, we concluded that the criterion for providing authority to borrow should stem from the concept of borrowing itself. Unlike other forms of financing, authority to borrow implies the borrower's ability to repay. Thus, we believe it should only be provided to accounts which will be able to generate enough revenue, that is, collections, to repay their debt. Only repayments made with externally generated collections reimburse Treasury for the funds it lent to the account. Repayments with appropriations or new borrowings do not reimburse Treasury because the funds involved are already held by Treasury.

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## Implications for Congressional Budgeting

When borrowing is not fully repaid with collections, the nature of the account's financing is misrepresented and the ability of the Congress to make informed budgetary decisions could be decreased. Authority to borrow enables accounts to readily obtain funds without making annual appropriation requests and undergoing congressional review of their federal funding levels. In addition, it gives the impression that the account's costs are only temporary because Treasury will eventually be reimbursed. As shown in some of the following cases, accounts that use authority to borrow and do not repay their loans with collections can finance losses with debt for years without requesting funds to cover the losses. In such cases, the Congress may not be offered a clear understanding of the extent to which losses are being funded by borrowing.

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## Accounts Without Clear Congressional Expectations to Repay With Collections

Seven of the eight accounts that probably will not be able to repay their borrowings entirely with collections were financed with authority to borrow for reasons that were either unspecified or unrelated to their ability to generate sufficient revenues to repay borrowings. The legislative histories did not indicate whether the Congress expected the accounts to repay their borrowings with their collections. Two of the accounts have no collections and the others have insufficient collections to repay borrowings.

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## Accounts Without Collections

The Ocean Freight Differential account in the Department of Transportation's (DOT) Maritime Administration, and the Office of the Administrator account in DOT's Federal Railroad Administration borrow from Treasury and make all repayments with appropriations or new borrowings. The accounts do not have collections from program users.

### Ocean Freight Differential

The Ocean Freight Differential account was established to pay the costs of shipping a statutorily required percentage of agricultural commodities in certain Department of Agriculture programs on U.S. flag vessels rather than on foreign vessels, which often have lower shipping rates. The account borrows all the money it needs to cover the shipping costs. It does not conduct a business operation and, therefore, has no collections. During its first year of activity in fiscal year 1987, the account borrowed \$22 million from Treasury and made no repayments. However, in fiscal year 1988 it received a permanent appropriation to repay all its past and future borrowings.

The legislative history of this account did not indicate why authority to borrow was provided as the account's form of financing. According to

Maritime Administration officials, the amount needed to pay shipping costs is unpredictable because it is based on factors that are unknown in advance, such as the difference between U.S. and foreign shipping rates and the number of agricultural shipments that will be made during the year. Due to the unpredictable costs, the officials believe they need authority to borrow, which provides a readily available source of financing.

**Office of the Administrator,  
Federal Railroad Administration**

The Office of the Administrator in the Federal Railroad Administration has authority to borrow from Treasury any amount needed to pay for defaults under two programs that at one time guaranteed loans to bankrupt railroads. The guarantees were provided to ensure continued operation of rail services. The programs did not charge guarantee fees, so the account did not receive collections from the railroads. Over the past 10 years, the account borrowed \$135 million and made all its repayments with appropriations. At the end of fiscal year 1987, it had no outstanding debt. The account's legislative history did not indicate why the Congress provided authority to borrow to cover the costs of defaults. According to the Department of Transportation, this account currently has no loans outstanding. Therefore, it does not need authority to borrow to pay for potential defaults.

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**Accounts With Collections**

Five of the accounts have collections that are insufficient to repay their borrowings. These accounts finance programs that are designed to meet certain national needs, not to recover their costs. The accounts' legislative histories did not indicate that the Congress considered the accounts' abilities to generate enough revenues to repay their debt when providing authority to borrow. In some cases the legislative histories did not indicate any reason the Congress provided authority to borrow as the form of financing. In other cases, the legislative histories suggest authority to borrow may have been provided to give the accounts a readily available source of funds for making prompt payments. Some of the accounts borrowed and incurred losses for many years, and others, due primarily to changes in the economy, have only recently begun operating at a loss.

**Federal Housing Administration  
Fund**

The Federal Housing Administration (FHA) Fund guarantees housing loans and receives income from insurance premiums. The fund is subdivided into four separate funds: mutual mortgage, cooperative management housing, general, and special risk insurance funds. All the funds have authority to borrow from Treasury any amounts needed to pay insurance claims. The mutual mortgage and cooperative management



housing funds have not had to borrow because their collections have been sufficient to pay claims. But the general and special risk funds guarantee loans for high-risk borrowers, which causes them to incur losses and borrow frequently.

The FHA fund borrows from Treasury and the public. At the end of fiscal year 1987, it had an outstanding debt of \$3.5 billion with Treasury and of \$178 million with the public. The fund makes repayments with its collections and appropriations. From fiscal years 1978 through 1987, it used \$997 million in appropriations to repay debt, which accounted for roughly half of the account's repayments shown in the budget.

The House Committee on Banking and Currency, reporting on the 1965 bill that provided authority to borrow, indicated that authority to borrow would ensure that the account had sufficient funds at all times to satisfy insurance claims. According to Department of Housing and Urban Development officials, the amount of funds the account needs each year to meet its guarantee commitments is unpredictable, so the account needs the immediate access to funds that authority to borrow provides.

Although the FHA fund makes repayments with its collections, it also relies on appropriations to repay its debt. Because the two funds that borrow sustain losses every year, they will probably not be able to repay their borrowings entirely with their current level of collections.

#### Agricultural Credit Insurance Fund

The Agricultural Credit Insurance Fund (ACIF) makes direct loans and guarantees loans other lenders make to farmers who could not qualify for loans without federal assistance. Many of the direct loans are at interest rates lower than what the ACIF pays for the money it borrows from Treasury. Because of this subsidized interest rate and delinquent payments from its borrowers, the ACIF sustained losses during every year covered by this study and borrowed regularly to finance its programs. According to a Department of Agriculture official, the ACIF makes repayments with its collections and appropriations. However, from fiscal years 1978 through 1987 the account borrowed substantially more than it repaid Treasury. At the end of fiscal year 1987, the ACIF had an

outstanding debt of \$10.8 billion with Treasury. Its statement of financial condition showed an accumulated deficit of \$23 billion<sup>1</sup> at the end of fiscal year 1987, which indicates an impaired ability to repay its debt with collections.

In reporting the bill providing authority to borrow to the ACIF, the House Agriculture Committee indicated that this form of financing would ensure that the ACIF would always have sufficient funds to meet its commitments. The account can borrow to make any authorized expenditures. It has no statutory limit on the amount of debt it can have outstanding with Treasury; therefore, under its current authority, it can continue to sustain losses and borrow indefinitely to finance its programs. Since the ACIF sustains losses yearly and has a large outstanding debt, it will probably not be able to repay its debt in the future entirely with collections.

#### **National Flood Insurance Fund**

The National Flood Insurance Fund (NFIF) provides flood insurance that is not available from private insurance companies to property owners. The account receives insurance premiums from policy holders and uses them to pay claims. Since some of the insurance rates charged by the account are subsidized, collections often have been insufficient to pay claims and the NFIF's other expenses. To make up the difference, the NFIF has had to borrow from Treasury. The NFIF relies primarily on appropriations to repay its debt. From fiscal years 1978 through 1987, it received appropriations of about \$1.2 billion to reduce debt. These appropriations were 94 percent of the repayments shown for the account in the budget. It did not have any outstanding debt at the end of fiscal year 1987.

The NFIF's statute allows it to have up to \$1 billion in debt outstanding at any one time. The House Committee on Banking and Currency recommended providing the account authority to borrow to enable it to promptly pay claims.

The NFIF did not have to borrow in fiscal years 1986 or 1987. According to Federal Emergency Management Agency officials, rate increases and changes in the types of losses covered should enable the NFIF to begin financing all claims with premium income in years with an average level

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<sup>1</sup>The ACIF's \$23 billion deficit is the difference between its assets and its liabilities. Its assets are primarily loans receivable from its borrowers, and its liabilities are primarily its \$10.8 billion debt with Treasury and its \$28 billion debt with FFB. ACIF's debt with FFB resulted from a form of borrowing referred to as the sale of loan assets to FFB. The authority for this form of borrowing comes from FFB's authorizing statute, not from the ACIF's authority to borrow.

of claims. However, the officials said the account must be able to pay claims even if collections from premiums are not sufficient, so it needs the kind of immediate access to cash that authority to borrow provides. Since the NFIF has not been able to repay much of its borrowings with its collections in the past, has received substantial appropriations to reduce debt, and provides some subsidized insurance rates, it will probably not be able to repay future borrowings entirely with collections.

### Federal Ship Financing Fund

The Federal Ship Financing Fund provides loan guarantees for the construction of vessels in the United States. The fund charges shipowners loan guarantee fees and uses the income from the fees to pay the lender in case the shipowner defaults. Prior to fiscal year 1978, the fund borrowed from Treasury several times and repaid with collections. However, declines in oil prices and the volume of agricultural exports reduced the demand for vessels in the energy and agricultural markets and caused a large number of loan defaults. From fiscal years 1985 through 1987, the fund borrowed \$1.8 billion to meet its guarantee commitments. In fiscal year 1987, it received an appropriation of \$1.4 billion to reduce its debt, which left it with a \$420 million outstanding debt. It has no limit on the amount of its outstanding debt.

Cognizant congressional committees recommended in 1958 that the account receive authority to borrow to ensure its ability to make prompt payments on its guarantee commitments. Department of Transportation officials said the fund needed authority to borrow because the amount of money it needed to pay defaulted loans was unpredictable. The fund operated for many years on a self-sufficient basis until, because of economic decline, it was forced to borrow and was not able to accumulate sufficient revenues to repay its debt. The fund suffered net losses from fiscal years 1985 through 1987. Unless economic conditions improve in the maritime industry and the fund recovers from its recent financial problems, it will not be able to repay future borrowings with collections.

### Export-Import Bank of the United States

The Export-Import Bank (EXIM) makes direct loans, guarantees loans, and provides export credit insurance to aid and promote U.S. exports. It receives collections from loan repayments, loan and guarantee fees, and insurance premiums. EXIM was created in 1934 and operated for several decades with a net income.

EXIM has no limit on the amount of debt it can have with the FFB, its main source for borrowings. In fiscal year 1987, EXIM had \$12.5 billion in debt outstanding with the FFB, \$500,000 with the public, and none with Treasury. It has a history of making repayments with its collections and

has not received appropriations to reduce debt. However, starting in fiscal year 1982, EXIM's financial position deteriorated and, since that time, it has operated at a loss.<sup>2</sup> From fiscal years 1982 through 1987, its reported net loss was \$1.9 billion.<sup>3</sup> EXIM's practice of providing interest rate subsidies to its borrowers to keep the price of U.S. exports competitive with the cost of financing foreign exports was one reason for its losses. As a result, EXIM paid a higher interest rate on the money it borrowed than the rate it charged on the loans it made to foreign purchasers of U.S. exports. In addition, EXIM's losses can be attributed to some loans to less-developed countries that have since become uncollectible.

The committee reports on the legislation providing EXIM authority to borrow do not explain why the committees recommended this form of financing. EXIM's authorizing statute does not require it to recover its costs; however, for many years its operating profits offered some assurance that it would be able to repay its borrowings with collections. Although EXIM has made substantial repayments with collections in recent years, its current deficit, uncollectible loans, and the interest subsidies it provides indicate that in the future it will probably be unable to repay its debt entirely with collections.

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## An Account Originally Expected to Repay With Collections

In 1954, the Congress provided authority to borrow to the Saint Lawrence Seaway Development Corporation (SLSDC) to construct two U.S.-owned locks on the Saint Lawrence Seaway and to finance the SLSDC's operations. According to the SLSDC's authorizing legislation and its legislative history, the Congress expected the SLSDC to be able to repay its debt with revenues from tolls charged to lock users. However, in 1970 the Congress forgave the interest on SLSDC's debt and, in 1982, forgave the remaining \$110 million in principal, most of which had been accumulated when the locks were constructed in the 1950s. The locks operated by the SLSDC were part of a seven-lock project constructed jointly by the U.S. and Canadian governments, with the U.S. owning two locks and Canada owning five. The SLSDC's authorizing legislation requires

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<sup>2</sup>Prior to this, we reported that EXIM's financial condition was deteriorating and its self-sufficiency was threatened. See To Be Self-Sufficient or Competitive? Eximbank Needs Congressional Guidance (ID-81-48, June 24, 1981).

<sup>3</sup>We have reported in the past that the Export-Import Banks' financial reports materially understate the extent of its losses. For additional information see Financial Audit: Export-Import Bank's 1987 and 1986 Financial Statements (GAO/AFMD-88-48, May 1988). For further discussion of the causes of EXIM's losses, see our letter to the Chairman, Committee on Banking, Housing and Urban Affairs, United States Senate, January 29, 1988 (B-197710).

that it coordinate its activities with the Saint Lawrence Seaway Authority of Canada. This includes negotiating agreements on tolls assessed on vessels that use the seaway. According to the legislative history of the act forgiving the SLSDC's debt, the SLSDC was unable to negotiate with the Canadian government for a toll increase that would raise enough revenue to repay its debt. The Canadian government wanted to limit toll increases and had superior leverage negotiating toll levels because it operates most of the locks on the seaway.

Since 1982 when its debt was forgiven, the SLSDC has had \$3.2 million in remaining authority to borrow from Treasury. The Senate Appropriations Committee's report recommending the debt forgiveness suggested that the Committee did not anticipate any future borrowing by SLSDC. The report stated that toll revenue would have to cover the SLSDC's operations costs and any future capital costs for equipment replacement.

More recently, the Congress enacted the Water Resources Development Act of 1986 (Public Law 99-662, November 17, 1986), which required the SLSDC's toll revenues to be deposited in the Harbor Maintenance Trust Fund and authorized appropriations from the trust fund for "100 percent of the eligible operations and maintenance costs" of the seaway operated by SLSDC. The Congress appropriated \$11.1 million for SLSDC's operation and maintenance in fiscal year 1989. This suggests that the Congress expected SLSDC to use its appropriations, not its authority to borrow, for future operations and maintenance. The Congress' recent action to fund SLSDC's operations and maintenance with annual appropriations, in addition to the statement by the Senate Appropriations Committee when it recommended SLSDC's debt forgiveness, indicates the SLSDC should not use its remaining authority to borrow.

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## Alternative Methods of Financing

Other types of financing could meet the financing needs of the eight accounts we reviewed that are not likely to be able to repay their debt with collections. For these accounts, authority to borrow could be replaced with an alternative that would more accurately disclose the type of financing used and would not suggest that the accounts' costs will be reimbursed to Treasury. The alternatives include the following:

- annual appropriations of credit subsidy costs for new direct and guaranteed loans,
- periodic appropriations for a reserve for contingencies, and
- permanent appropriations.

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## Annual Appropriations of Credit Subsidy Costs

Current proposals made by the Senate Budget Committee, the Congressional Budget Office, the Office of Management and Budget, and GAO<sup>4</sup> all recommend annually appropriating credit subsidy costs in a reformed approach to credit program funding. Under these proposals, the Congress would appropriate amounts to cover the estimated losses to be incurred by direct loans or guarantee commitments to be made during the year (the credit subsidy costs) before granting authority to issue those loans or guarantee commitments. Since accounts would receive appropriations for their subsidy costs, they (or possibly a central revolving fund that made the loans) would only have to borrow for the unsubsidized portion of the direct loans. The accounts would be expected to repay Treasury borrowings with collections received when direct loan principal and interest are repaid. Accounts that provide loan guarantees would have funds from the appropriations of credit subsidy costs to make prompt payments when defaults occurred. If the subsidy cost estimate turned out to be too low and the appropriations could not meet required payments, the guarantee programs would need another source of funds, such as an appropriated contingency reserve or a permanent appropriation.

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## Appropriations for a Contingency Reserve and Permanent Appropriations

Accounts that need a source of funds to make prompt payments under insurance policies or loan guarantee commitments if their other funding is insufficient could receive either periodic appropriations to maintain an adequate contingency reserve or a permanent appropriation. A contingency reserve would include funds from one or more annual appropriations to cover future unpredicted expenses. A permanent appropriation would also provide funds when needed, but those funds would not require approval during the annual appropriations process. In either case, appropriated funds would not be used unless the account's other funds were exhausted.

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## Conclusions

Many programs that have authority to borrow do not generate enough revenue to repay their debt. Calling the financing for these accounts "authority to borrow" is misleading because it suggests they will have collections to repay their debts. It also implies that the costs incurred by the accounts are only temporary because the borrowed funds will eventually be reimbursed. This misleading picture of the nature of the

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<sup>4</sup>For further information on GAO's proposals see Proposals for Improved Credit Program Budgeting (GAO/T-AFMD-87-5, March 4, 1987) and Budget Issues: Budgetary Treatment of Federal Credit Programs (GAO/AFMD-89-42, April 10, 1989).

accounts' financing could impair the Congress' understanding of program costs and its ability to make informed decisions on the allocation of budget resources.

The federal budget should clearly disclose the nature of agencies' financing and costs. Therefore, another form of financing, such as appropriations of credit subsidy costs, appropriations for a contingency reserve, and permanent appropriations, would be more appropriate for accounts that cannot repay their debts with collections. These other forms of financing could enable accounts to continue to obtain funds promptly when necessary.

Determining whether accounts will be able to generate enough revenue to repay debt would be an important consideration for future congressional funding decisions. Periodic evaluations of accounts with authority to borrow would identify those that have begun to have difficulties repaying their debt with collections after being in a strong financial condition previously. These evaluations would also offer opportunities to change the method of financing.

Many accounts we reviewed have no limit on the amount of debt they can accumulate and some currently have billions of dollars of debt. Limitations on the amount of an agency's debt could prevent the accumulation of such debts and protect the government from very large unanticipated losses.

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## Recommendations

We recommend that the Congress

- provide authority to borrow only for accounts that will probably be able to repay their debt with collections;
- require accounts to repay their debt with collections, limit the number of years the accounts can use authority to borrow without renewed congressional approval, and limit the amount of debt they can accumulate;
- repeal SLSDC's remaining \$3.2 million in authority to borrow in view of the Congress' recent action to fund SLSDC's operation and maintenance with annual appropriations;
- replace authority to borrow with another form of financing, such as a contingency reserve or permanent appropriation for the following accounts that cannot repay their borrowings with collections: (1) the Office of the Administrator in the Federal Railroad Administration, (2) the Ocean Freight Differential in the Maritime Administration, and

- (3) the National Flood Insurance Fund in the Federal Emergency Management Agency; and
- enact legislation requiring annual appropriations of credit subsidy costs for new direct and guaranteed loans and restricting the use of authority to borrow to the unsubsidized portion of direct loans for the following credit accounts: (1) the Federal Housing Administration Fund in the Department of Housing and Urban Development, (2) the Agricultural Credit Insurance Fund in the Farmers Home Administration, Department of Agriculture, (3) the Federal Ship Financing Fund in the Maritime Administration, Department of Transportation, and (4) the Export-Import Bank. If the Congress chooses not to enact such legislation covering the last four accounts mentioned, an alternative would be to repeal the accounts' authority to borrow and replace it with another form of financing, such as a contingency reserve or a permanent appropriation.

We also recommend that the Director of the Office of Management and Budget review accounts with authority to borrow that were not included in this study to determine if they are likely to have sufficient collections to repay their debt and if their authority to borrow should be replaced with another form of financing. The Director should report his findings to the Congress.

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## Agency Comments and Our Evaluation

Treasury, the Postal Service, OMB, DOT, EXIM, Agriculture, and the Federal Emergency Management Agency (FEMA) provided written comments on a draft of this report. (See appendixes I through VII.) Treasury, the Postal Service, OMB, DOT, and EXIM agreed with the report's general conclusions; however, OMB, DOT, and EXIM raised some concerns. OMB was concerned that we had excluded certain programs from the report; DOT and EXIM disagreed with our analysis of their accounts' abilities to repay borrowings with collections. Agriculture and FEMA did not comment on the report's conclusions but discussed aspects of their use of authority to borrow.

Treasury concurred with our conclusions and stated that congressional action on our recommendations would help Treasury administratively. The Postal Service also agreed with our conclusions but stated that a limitation on the amount of money that can be borrowed is a more appropriate way of ensuring periodic congressional review of authority to borrow than a limitation on the number of years authority to borrow can be used. We believe that agencies should have a limit on the amount of debt they can accumulate as well as a limit on the number of years



they can use authority to borrow, and we added a recommendation on this matter.

OMB believes that the applicability of our conclusions is seriously limited because we did not include the Commodity Credit Corporation (CCC) and FFB, the major users of authority to borrow, in our sample of accounts. As discussed in chapter 1, we excluded CCC and FFB from our sample because the issues involved with their use of authority to borrow were too complex to be effectively covered by a broad review. Because we excluded FFB and CCC from our study, we make no specific recommendations regarding them. However, we do not believe that including these accounts would have changed our general conclusions regarding authority to borrow.

DOT agreed with the report's general conclusions but disagreed with our analysis of the Federal Ship Financing Fund and the SLSDC. DOT stated that the conditions that caused the Federal Ship Financing Fund's losses from 1985 through 1987 were abnormal and that it expects the fund to be able to repay any future borrowings with collections. We continue to believe that the fund probably will not be able to repay borrowings with collections in the near future. The fund suffered a \$195 million operating loss in fiscal year 1988 and the Budget of the United States Government, 1990—Appendix projects future losses for the fund of \$34 million and \$56 million in fiscal years 1989 and 1990, respectively.

DOT also stated that the SLSDC needs a source of funds for emergency repairs that may be necessary in the future. It stated that if SLSDC uses its remaining authority to borrow, it will be able to repay its borrowings over time with collections from nontoll revenues. As stated in the report, the Senate Appropriations Committee, when recommending debt forgiveness for SLSDC in 1982, suggested that it did not anticipate any future borrowing by SLSDC. Since that time, the Congress has begun providing annual appropriations to SLSDC for operations and maintenance. Based on these two actions, we believe that SLSDC should use annual appropriations, not its remaining authority to borrow, for funds to cover future emergency repairs. If SLSDC and DOT anticipate that annual appropriations, together with their other revenues, will be inadequate to cover emergency repairs, they should consider requesting an appropriation to establish a contingency reserve for this purpose.

EXIM agreed that if, at the outset, a program is not expected to repay its borrowings with collections, another form of financing might be more appropriate. However, it stated that authority to borrow is appropriate

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for EXIM, which for many years made a profit and repaid its borrowings with collections. EXIM also stated that it expects its new loans to be made at rates which, on average, will cover its cost of funds. We believe that EXIM's efforts to improve the yield on its new loans will help reduce future losses, but that it will continue to suffer losses due to delinquencies and interest rate subsidies on past loans. Therefore, in view of EXIM's current large deficit, its use of authority to borrow is inappropriate.

Agriculture did not comment on the report's conclusions but provided several comments clarifying different aspects of its use of authority to borrow. The report has been changed where appropriate to reflect their comments.

FEMA did not comment on our conclusions but elaborated on its current method of financing, its financing needs, and congressional oversight of its expenditures. FEMA stated that, with the Congress' support, the NFIF has become self-supporting for the historical average loss year. It also stated that its expenses vary greatly from year to year due to the low frequency but catastrophic nature of flooding. We note that, although NFIF has been self-supporting during the past 3 years (fiscal years 1986 through 1988), a large flood could greatly increase insurance claims against the fund, which it would then have to pay by borrowing because its rates have not been set to cover unusually high losses.

# Accounts Appropriately Financed With Authority to Borrow

The remaining four accounts we reviewed will probably be able to repay their borrowings with collections. They include the Postal Service Fund, the Bonneville Power Administration Fund, the Rural Telephone Bank, and the Government National Mortgage Association's Guarantees of Mortgage-Backed Securities. The legislative histories of all these accounts suggest that the Congress expected them to be self-supporting. According to our criterion, authority to borrow is appropriate for these accounts as long as their financial conditions indicate a continued ability to repay borrowings with collections.

Brief descriptions of the four accounts follow.

## Bonneville Power Administration Fund

The Bonneville Power Administration (BPA) is a wholesale marketer of hydroelectric power in the Pacific Northwest and borrows from Treasury for capital investments, such as new transmission facilities and energy conservation materials. It receives collections from power sales, which it uses to finance its operations and to reduce debt. For example, in fiscal year 1987, BPA received about \$2.5 billion in collections from its power users. It has not received any appropriations to reduce debt. It has a \$3.75 billion limit on its outstanding debt with Treasury, and, as of the end of fiscal year 1987, BPA had an outstanding debt of \$1.8 billion.<sup>1</sup>

BPA officials told us they need authority to borrow to make long-term plans and meet financial commitments without the delays that can occur when funds have to be approved annually by the Congress. The legislative history of BPA indicates that its congressional oversight committees expected BPA to repay its borrowings with revenues from electric power sales. They also expected that by removing BPA's financing from the annual appropriations process, authority to borrow would enable BPA to construct transmission facilities when needed and operate more efficiently.

By law, the BPA is mandated to set its rates to recover "the costs associated with the acquisition, conservation, and transmission of electric power." In the 1980s, BPA raised its rates more than 300 percent,<sup>2</sup> in

<sup>1</sup>In addition to the \$1.8 billion debt with the Treasury that it incurred through authority to borrow, the BPA had \$6.7 billion in debt resulting from appropriations that are required to be repaid. These "repayable appropriations" do not fall under the Congressional Budget Act's statutory definition of authority to borrow because they were provided in annual appropriation acts. Therefore, we did not include them in our study of authority to borrow.

<sup>2</sup>For further discussion of BPA's rate increases, see Federal Electric Power: Development of Bonneville Electricity Rates for the 1988-89 Period (GAO/RCED-88-126, June 7, 1988).

part, to help ensure its ability to repay its debt. Since BPA has not received appropriations to reduce debt and attempts to set its rates at a level sufficient to recover its costs, it is reasonable to expect that it will be able to repay its borrowings with collections. Therefore, authority to borrow is an appropriate means of financing BPA's investments.

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## Postal Service Fund

The Postal Service is an independent entity within the executive branch of the federal government that is required to provide mail services to patrons in all areas and communities. Its main source of income is postage fees which are to be set at a level that will enable the Postal Service to recover its costs. In fiscal year 1987 these fees amounted to \$31.5 billion. The Postal Service also receives annual appropriations from the Congress for income it forgoes in providing subsidized mail services to certain populations, such as blind persons and religious and charitable organizations.

The legislative history suggests that the Postal Service received authority to borrow in 1971 to enable it to make capital investment decisions independent of the annual appropriations process and to operate more efficiently. The Congress expected the Postal Service to be able to repay its borrowings with collections from postage fees. According to Postal Service officials, if authority to borrow were not available, the Postal Service's ability to obtain funds when it needs them and to operate efficiently would be reduced.

The Postal Service can borrow from the FFB or the public and can have no more than \$10 billion in debt outstanding from both sources. As of the end of fiscal year 1987, the Postal Service had an outstanding debt with the FFB of \$4.4 billion. It also had \$250 million in debt with the public from bonds issued in 1972, which have not yet required principal repayments. In addition to being able to borrow from the FFB and the public, the Postal Service has authority to require Treasury to lend it up to \$2 billion. It has not borrowed from Treasury but uses its authority to do so to secure its outstanding public issue of bonds.

In some years the Postal Service operates at a loss and in others it earns a profit. Over the 10-year period covered by our review (fiscal years 1978 through 1987), the Postal Service has been able to repay its borrowings to the FFB with its collections and has not received appropriations for debt reduction or had its debt forgiven. Its financial condition

does not show evidence, such as consistent losses, that the Postal Service will be unable to maintain its debt repayments. Authority to borrow, therefore, remains an appropriate means of financing the Postal Service.

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## Rural Telephone Bank

The Rural Telephone Bank (RTB) makes direct loans to rural telephone companies. It receives collections from interest and principal repayments and from the sale of its class B and C stock to its rural telephone company borrowers. It also gets annual appropriations for the government's purchase of RTB's class A capital stock. When these sources of funds are not sufficient to make loan advances to its borrowers, RTB borrows from Treasury.

Neither the Rural Telephone Bank's authorizing legislation nor its legislative history indicate why RTB received authority to borrow as one of its forms of financing. However, RTB's legislation requires it to operate on a self-sustaining basis to the maximum extent practicable. It also provides that RTB will eventually convert to private ownership.

When RTB began borrowing from Treasury in 1973, it made a loan agreement with Treasury that did not require any principal repayments for 50 years after each amount was borrowed. Therefore, RTB has not made any principal repayments and will not have to, under its current agreement, until the year 2023. The RTB has a statutory limit of twenty times the Bank's equity on the amount of outstanding debt it can have at any one time. As of the end of fiscal year 1987, RTB had an outstanding debt with Treasury of \$759 million.

The Rural Telephone Bank makes loans to rural telephone companies at rates of interest lower than the interest rate RTB pays Treasury for its borrowings. However, it has been able to finance the cost of providing subsidized interest rates because it receives subsidies. These subsidies are the federal government's purchase of RTB's class A capital stock, for which a 2 percent annual dividend must be paid, and administrative services provided without charge by the Rural Electrification Administration. The RTB uses the funds it receives from the government's purchase of its class A stock to make loans to its borrowers, which are eventually repaid and become collections for RTB. The authorizing statute for RTB provides for the retirement of the class A stock as soon as practicable after 1995. Historically, RTB has had financially strong borrowers and to date has never had a loan default. As of the end of 1987, the Rural Telephone Bank had accumulated profits of \$188 million, including a reserve

for contingencies of \$77 million. These factors indicate that RTB will probably be able to repay its borrowings with collections.

Therefore, authority to borrow remains an appropriate means of financing RTB's credit activities. However, it would also be appropriate to consider an annual appropriation to cover RTB's credit subsidy costs. This would provide better disclosure of the cost of RTB's subsidies than the present structure which covers the subsidy costs through the government's purchase of class A capital stock and free administrative services.

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## Guarantees of Mortgage-Backed Securities

The Government National Mortgage Association's (GNMA) Guarantees of Mortgage-Backed Securities (GMBS) account guarantees securities backed by a pool of mortgages. It has authority to borrow from Treasury any amount it needs to meet its guarantee commitments. The legislative history of the account does not indicate why authority to borrow was provided as a means of financing. However, it suggests that the Congress expects the account's guarantee fees and other collections to cover program costs and a reasonable reserve to meet anticipated costs, based on actuarial analysis.

The mortgages backing GNMA securities are guaranteed by other federal agencies, such as the Veterans Administration (now the Department of Veterans Affairs) and the Federal Housing Administration. In some cases, such as mobile home loans, the other agencies only guarantee a small percentage of the mortgage. The GMBS account receives collections from guarantee fees and interest payments on investments. As of the end of fiscal year 1987, it had a reserve of \$1.6 billion to cover future losses on \$309 billion in outstanding guarantees on securities.

The GMBS account has never used authority to borrow because its collections have always been sufficient to make any required payments. However, it would have to borrow for this program if economic declines caused an increase in defaults which the account's reserves could not cover. According to GNMA officials, authority to borrow supports the government's full faith and credit guarantee of the GNMA securities. If the account did not have authority to obtain funds when it needed them to pay its commitments, potential buyers would not have confidence in the securities.

The GMBS account's \$1.6 billion reserve and its ability to obtain payments in case of defaults from other federal agencies that guarantee the

mortgages backing the GNMA securities indicate that the GMBS account will probably be able to repay its borrowings with collections.

In general, where it is feasible to do so, we believe a contingency reserve accumulated from an account's collections is the best way to provide for unexpected financial short falls. However, the need to promote the market's confidence in GMBS' securities justifies the present method of backing GMBS' guarantee commitments with both a contingency reserve and authority to borrow. Nevertheless, the unlimited nature of GMBS' authority to borrow exposes the government to the risk of very large unanticipated costs. Therefore, the Congress should consider setting a limit on the amount of debt GMBS can have with Treasury. There are several options for setting such a limit, including (but not necessarily restricted to) limiting debt to a fixed percentage of GMBS' outstanding guaranteed securities, or to the net worth of the account.

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## Conclusions

Under their current financial conditions, 4 of the 12 accounts we reviewed are likely to be able to repay their debts with collections. Therefore, authority to borrow is currently an appropriate form of financing for these accounts. When the Congress provided authority to borrow to the Bonneville Power Administration and the Postal Service, it specifically considered the accounts' abilities to set their rates to recover their costs and to repay their debt. We believe these factors should be considered before authority to borrow is provided to accounts in the future.

One of the accounts that is likely to be able to repay its debt with collections, GMBS has unlimited authority to borrow. Although its current financial position indicates that its authority to borrow is appropriate, its ability to accumulate unlimited amounts of debt exposes the government to the risk of very large losses. The recent savings and loan crisis illustrates that federal backing of private transactions can result in very large, unanticipated costs to the government. We are not saying that GMBS activities pose a similar risk; this study did not assess the financial risks that GMBS activities pose to the government. We believe, however, that the savings and loan problem illustrates the need to (1) consider carefully Treasury's exposure to potential loss in federal insurance and guarantee programs and (2) directly limit authority to borrow to an appropriate level, taking into consideration anticipated collections and other available financing.

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## Recommendation

We recommend that the Congress place a limit on the amount of debt GMBS can have with Treasury.

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## Agency Comments and Our Evaluation

Department of Housing and Urban Development officials provided oral comments on the discussion of GMBS in a draft of this report. The officials disagreed with our recommendation that the Congress place a limit on the amount of debt GMBS can have with Treasury. They stated that GMBS currently has a de facto limit on the amount it can borrow. The annual appropriation act sets limits on the amount of commitments to issue guarantees the account can enter each year. Any further limit on the amount it can borrow would, in effect, qualify the government's guarantee of GNMA securities and increase the interest rate on the securities to an unknown extent. This additional interest cost would be passed on to home buyers, thereby increasing the cost of housing.

We agree that appropriation act limitations indirectly limit the amount an account can borrow by limiting the account's guarantee commitments. However, GMBS is intended to be self supporting through its guarantee fees, interest rates, and other collections. Therefore, its authority to borrow should be viewed as essentially a source of bridge financing to meet temporary liquidity needs. Thus, we believe that a limit on its total outstanding borrowings would be appropriate. Our report notes two options for setting such a limit. In the unlikely event GMBS needs to borrow funds in excess of the limit, GNMA could obtain congressional approval for that borrowing.

We agree that a direct limit on GMBS' debt could increase the interest on GNMA securities by an unknown extent. However, it would not negate the government's guarantee of the securities, and we therefore believe it would not have a substantial impact on the cost of the securities.





# Comments From the Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON

ASSISTANT SECRETARY

MAR 23 1989

Memorandum For Frederick D. Wolf  
Assistant Comptroller General  
General Accounting Office

From: Gerald Murphy *GM*  
Fiscal Assistant Secretary

Subject: Report on Budget Issues: Authority to Borrow  
Should be Granted More Selectively

Secretary Brady has referred your report to me for comment. We appreciate the opportunity to add our comments.

We would certainly concur with GAO's conclusion that many of the "authority to borrow" circumstances, misrepresent costs, are inappropriate or have other alternatives.

Should Congress accept GAO's recommendations it would be helpful to Treasury, particularly from an administrative position. As is stated in the report, these "borrowings" are often recorded for long periods of time then legislation is passed to wipe the loan off of our books.

To the extent that there is a realistic possibility of repayment from collections, it is reasonable to have borrowing authority, particularly with the limitations you propose. However, the other circumstances, most likely should have been an appropriation in the first place. It certainly makes no sense to have a borrowing, as in the Ocean Freight Differential account, which is forgiven by a subsequent appropriation to repay all past and future borrowings. In the future it should not be necessary to go through the borrowing process, before charging it off to the appropriation. Although a permanent and indefinite appropriation seems to be a blank check, so also does the borrowing authority in many cases.

We will certainly support your efforts to have Congress be more selective in granting agency borrowing authority.

# Comments From the Postal Service

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



THE POSTMASTER GENERAL  
Washington, D.C. 20260-0000

April 3, 1989

Dear Mr. Wolf:

This refers to your draft report entitled, Budget Issues: Authority to Borrow Should Be Granted More Selectively, on which you requested our comments.

We think your report is excellent and agree with the general approach to granting borrowing authority that the report recommends. However, in the case of an agency like the Postal Service that has continuing capital needs, we think a limitation on the amount of money that can be borrowed is more appropriate than a limitation on the number of years the borrowing authority can be used. The Postal Service's debt ceiling assures periodic Congressional reexamination of its borrowing.

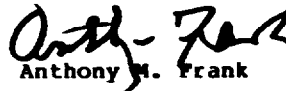
In discussing the Service's borrowing authority, you might wish to mention that we do have authority to require the Treasury to lend us up to \$2 billion. We have pledged, but not exercised, this authority to secure our outstanding public issue of bonds.

Since our 1972 bond issue, Treasury has channeled all Postal Service borrowing through the Federal Financing Bank. The Postal Service retains its authority to borrow up to \$2 billion directly from Treasury, but has not found occasion to do so.

All our outstanding debt was incurred for capital purposes. Debt service is assured from our revenues. Postage rate increases include an increment to pay for depreciation, amortization and interest expenses.

Thank you for affording us an opportunity to comment on your report.

Sincerely,

  
Anthony M. Frank

Mr. Frederick D. Wolf  
Assistant Comptroller General  
United States General  
Accounting Office  
Washington, D.C. 20548-0001

See comment 1.

See comment 2.

See comment 3.

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The following are GAO's comments on the Postal Service's letter dated April 3, 1989.

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**GAO Comments**

1. Discussed in "Agency Comments and Our Evaluation" section of report.
2. Report changed.
3. No change needed.

# Comments From the Office of Management and Budget

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON D C 20503

Mr. Frederick D. Wolf  
Assistant Comptroller General  
Accounting and Financial  
Management Division  
General Accounting Office  
Washington, DC 20548

Dear Mr. Wolf:

This is in response to your draft report "Budget Issues: Authority to Borrow Should Be Granted More Selectively" (B-227245) on which you requested OMB comments.

The basic thrust of your report is that the ability of agencies to finance their programs from permanent borrowing authority should be restricted to those situations where an agency or account is conducting commercial (or user charge financed) activities that require capitalization or other types of advance funding that are to be fully reimbursed, in principal and interest, from the associated user charges. We do not have any major disagreements with your twelve-agency analysis as far as it goes, although we believe that the major recommendation is more properly a goal or a guideline rather than a rule, as discussed below. Our major concern is what is left out. The applicability of your recommendation is seriously limited by failing to include in your analysis the financing of the CCC and the use of the FFB. According to your analysis, the CCC and FFB borrowing constitute 65 percent of such agency borrowing. We also note that the logic of your analysis concerning user charge financing of debt repayment could be extended to borrowing authorized by annual appropriations.

As a practical matter, OMB is acting to establish better controls over the uses of both appropriated and non-appropriated borrowing authority in several ways.

1. By proposing that the subsidy component of agency borrowing be clearly identified in the budget and, to the extent discretionary activity is involved, reviewed by the appropriations committees before the borrowing activity is undertaken. Credit reform is designed to clearly segregate the subsidy aspects of Federal credit activities (both direct loans and loan guarantees or insurance) from the non-subsidized components. Enactment of credit reform along the lines proposed by the current and the previous Administration would do much to resolve the problem of inconsistent use of borrowing authority.

See comment 1.

Appendix III  
Comments From the Office of Management  
and Budget


2. By establishing policies that require full cost recovery or commercial market rates for Federal commercial activities. OMB will be issuing an updated OMB Circular A-25 that will reinforce promotion of user charges adequate to achieve full cost recovery or commercial market rates.

3. By discouraging the use of "backdoor" borrowing authority that will not be fully reimbursed, consistent with the Congressional Budget Act requirement, and by recommending the use of direct appropriations, rather than borrowing authority, when borrowing cannot be fully repaid.

I hope your report can be modified to take into account these OMB approaches to controlling the use of borrowing authority. In so doing, it may be desirable to substitute, in lieu of the proposed OMB study, endorsement of these approaches, since they would provide support for practical methods of achieving the outcomes that the GAO supports.

I am also enclosing a short staff paper that comments on a few technical aspects of the draft report.

Sincerely,

  
David Mathiasen  
Assistant Director  
for Budget Review

Enclosure

See comment 2.

Appendix III  
Comments From the Office of Management  
and Budget

April 10, 1989

Technical Comments on the Draft  
GAO Report (B-227245) Entitled  
"Budget Issues: Authority to  
Borrow Should be Granted More Selectively"

See comment 3.

1. On page 4 the GAO analysis states that borrowings should be authorized only in cases where agencies have offsetting collections from external sources adequate to fully repay the borrowings. This is a logical recommendation, but it is not uncommon for the Congress to enact legislation that is inconsistent with the proposed policy. For example, the law may state an intention that a program be fully financed by user charges, yet may embed fixed formulas for user charges that prove inadequate to fully fund the program. While one could set as a goal the GAO objective, absent generic legislation allowing for full user charge fees, it is unclear how the proposal could be fully implemented.

See comment 4.

2. The report confuses authority to borrow with control over that authority. On page 3 it says that authority to borrow should be confined to activities that can "generate sufficient revenues from collections to repay their debt," whereas on page 11 it says that "for purposes of our study, we restricted our definition of authority to borrow . . . excludes any . . . provided in annual appropriations acts . . ." Under the GAO logic, if any annual appropriation acts had authorized the use of borrowing authority to finance a program that was not self liquidating, such a use would still be inappropriate. The logic of this point gets lost in the report because the report focusses on permanent borrowing authority.

See comment 5.

3. The report speaks of the borrowing authority funding mechanism as being able to "impair the Congress' ability to control these costs," but GAO's recommended solution is unclear.

(a) On the one hand, GAO appears to be striving toward a change in the nexus of control within the Congress, shifting more control from the authorizing to the appropriations committees.

(b) Alternatively, GAO is proposing permanent indefinite appropriations in lieu of borrowing authority. This might constitute a cleaner division of types of obligational authority, but it is not clear how such authority could strengthen Congress' ability to control the programs unless complementary steps are taken (e.g., credit reform and full cost recovery).

4. The report includes two major sets of data and analyses. One is aggregate historical data on borrowing authority and internal debt; the other is analyses of several selected programs. However, the selected samples bypass the great bulk of the money involved in the aggregates so it is not clear that the conclusions from the former are valid for the latter.

Appendix III  
Comments From the Office of Management  
and Budget

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Aggregate data:

Now on p. 15.

See comment 6.

Figure 2.1 (on page 21) is a chart that provides a time series relating "New Obligations" (Program Level) "for Agencies that Borrowed" compared with "Total Debt Outstanding." The text states that "program levels are measured by the total obligations incurred during the year." If we understand the definition, for the Postal Service, for example, the program level (total obligations before offsetting receipts) in 1987 was \$34.8 billion, the permanent borrowing authority was \$2.3 billion and actual debt increased by \$1.5 billion. For the CCC fund the 1987 program level was \$39.2 billion, permanent borrowing authority was \$19.9 billion, and actual debt decreased by \$3.9 billion. When one combines the data for these two agencies into the data base for this chart, it doesn't appear to reveal anything meaningful.

See comment 7.

Similarly, the significance of figures 2.2 and 2.3 is not clear. Figure 2.2 says that 18 percent of debt repayment between 1978 and 1987 was financed by appropriations to reduce debt; 18 percent financed by offsetting collections; 3 percent by debt forgiveness (which, of course, is not substantively different from appropriations to reduce debt); and 61 percent by new borrowings.

See comment 8.

Now on p. 19.

It seems likely to us that the amount of appropriations to reduce debt other than for CCC was far greater than that shown in the chart. For example, in 1987 alone the three large Farmers Home Administration loan funds received \$4.6 billion of "current" appropriations in order to meet current financing requirements. These would appear to be effectively appropriations to reduce (i.e., restrain the increase in) debt. Since at the top of page 28 the report states that the CCC accounts for 92 percent of appropriations to reduce debt, it appears unlikely that these FmHA appropriations were included in the report's total.

Now on p. 16.

See comment 9.

Our bigger problem is with the significance of the data. The data on page 23 of the report show that well over half (\$106 billion out of \$195 billion) of the outstanding debt under borrowing authority occurred through agency use of the FFB to finance loans under agency authority to issue loan guarantees (i.e., under agency guarantee authority, not borrowing authority). Yet at the top of page 24 the report states that in the GAO discussion of the sampled accounts they did not address this borrowing "because it is not incurred as a result of the accounts' authorities to borrow." To include the FFB borrowings in the aggregate figures suggests that they are relevant, but to exclude them from the detailed analyses suggests that they are irrelevant. We believe that FFB borrowings are relevant to an analysis of borrowing authority, and should be discussed.

Program by program analysis:

At no place in the draft report can one find a table showing an agency specific use of borrowing authority. We are including such a table under point 5 below; we think that such data are helpful the reader's ability to understand the magnitude and nature of the issue.

We note that by far the largest user of permanent borrowing authority is the CCC. Yet, as previously mentioned, the report does not discuss the CCC in



**Appendix III  
Comments From the Office of Management  
and Budget**

3

Now on p. 12.  
See comment 10.

the selected program analyses. As a result, the selected program analyses ignore both the largest user of borrowing authority (the CCC) and the bulk of the borrowing (use of the FFB). We do not believe the explanation on page 17 the draft report that "we excluded the Federal Financing Bank and the Commodity Credit Corporation from the selection process because the issues involved in their use of authority to borrow were too complex to be effectively covered by a broad review" is adequate. The report has less credibility if these large activities are excluded.

5. Despite the amount of data in the report, it is not easy for the reader to get a perspective on the size and composition of the use of permanent borrowing authority. The components of the permanent budget authority utilized in 1987 are summarized below from part 6-f of the 1989 budget.

See comment 11.

Permanent Authority to Borrow Included  
in Budget Authority, FY 1987  
(in billions of dollars)

Commodity Credit Corporation.....	19.9
REA, RTB, and Farmers Home loan revolving funds.....	2.1
FHA fund.....	.4
Low rent housing loan fund grants.....	1.3
Federal ship mortgage financing fund.....	.4
FDIC.....	1.1
FSLIC.....	1.6
Postal Service.....	2.3
Bonneville power.....	.4
TVA.....	1.2
Other.....	.3
 Total.....	 31.1

See comment 12.

As one can see, the CCC accounts for the bulk of the 1987 transactions, yet we cannot tell from the report what the GAO is proposing as a substitute for financing CCC.

See comment 13.

For the non-CCC authority, to the extent that the FDIC, FSLIC, Postal Service, Bonneville, and TVA are authorized to assess user charges adequate to cover their services or risks, they fit criteria that the GAO recommends. Of the remaining programs, the REA, RTB, FmHA, and FHA loan and loan guarantee programs would also meet the GAO criteria if credit reform is enacted. (The report includes appropriating loan subsidies in the recommendations, but the implications of this recommendation are not made clear). In sum, aside from CCC, most of the programs with transactions in 1987 would meet the GAO criteria if the Congress enacts credit reform and allows the full application of user charges.

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The following are GAO's comments on the Office of Management and Budget's letter dated April 11, 1989.

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## GAO Comments

1. Discussed in "Agency Comments and Our Evaluation" section of the report.
2. Our report supports credit reform efforts and the use of direct appropriations, rather than authority to borrow, when borrowing cannot be fully repaid. However, since a review of proposed policies requiring full cost recovery or commercial market rates for federal commercial activities was not within the scope of this job, we cannot endorse this effort in this report.
3. No change to report needed.
4. In our study, we used the definition of authority to borrow referred to in the provision of the Balanced Budget and Emergency Deficit Control Act of 1985 which required us to study spending authority. This definition clearly refers to authority to borrow which is not provided in advance in annual appropriation acts. Although the scope of our study excluded authority to borrow provided in appropriation acts, we agree that the same logic used in the report could be applied to this type of authority.
5. Report changed.
6. Figure 2.1 is designed to give a overall picture of the growth of debt throughout the federal government rather than in individual programs, such as the Postal Service.
7. Figures 2.2 and 2.3 show that most repayments and debt reduction are made from sources other than collections.
8. The data on appropriations to reduce debt used in the figures came from the program and financing schedules in the Budget of the United States Government—Appendixes for fiscal years 1980 through 1989. If some Farmers Home Administration accounts used appropriations to reduce debt but did not show this use in the program and financing schedules, we would not have included these appropriations in figures 2.2 and 2.3. Furthermore, one cannot assume, as OMB does, that the appropriations an account receives for reimbursement of losses are used to reduce debt. For example, from fiscal years 1978 through 1987, WIF

borrowed \$10 billion more than it repaid, and its repayments could have come from new borrowings instead of appropriations.

9. All of FFB's borrowings are relevant to our study because they resulted from FFB's authority to borrow provided in advance of appropriation acts. However, our study did not cover a form of debt incurred by agencies as a result of FFB's authority to purchase agencies' loan assets. We excluded this debt from our study because it was incurred under FFB's authorizing statute and could not be effectively addressed in a broad review that does not cover the role and purchasing authority of FFB. Language quoted from page 24 of draft report was deleted from final version.

10. Discussed in "Agency Comments and Our Evaluation" section of report.

11. No change to report needed.

12. Not within scope of our study. No change made to report.

13. No change to report needed.

# Comments From the Department of Transportation

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



**U.S. Department of Transportation**

Office of the Secretary of Transportation

Assistant Secretary for Budget and Programs

400 Seventh St. S.W.  
Washington, D.C. 20590

MAR 27 1989

Mr. Frederick D. Wolf  
Assistant Comptroller General  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Wolf:

Enclosed in response to your request are the Department of Transportation's comments on GAO draft report, **Budget Issues: Authority to Borrow Should Be Granted More Selectively.**

Thank you for the opportunity to express our views.

Sincerely,

R. A. Knisely  
Deputy Assistant Secretary  
for Budget and Programs

Enclosure

GAO DRAFT REPORT OF FEBRUARY 27, 1989

on

**BUDGET ISSUES: AUTHORITY TO BORROW SHOULD BE GRANTED MORE SELECTIVELY**

SUMMARY OF GAO FINDINGS AND RECOMMENDATIONS

Agencies with authority to borrow are financing a large portion of their programs with debt funds which are available without having to compete for them during the annual appropriations process. Most of the repayments agencies make on their debt comes from appropriations and new borrowings. GAO considers that the four Department of Transportation (DOT) accounts reviewed were either not designed to recover costs through collections or will not be able to generate sufficient collections to repay their debts. Therefore, an alternative form of financing would better disclose the type of financing being used while still enabling accounts to make prompt payments.

SUMMARY OF DEPARTMENT OF TRANSPORTATION POSITIONS

The Department of Transportation is in general agreement with GAO's recommendations for alternative forms of financing. However, we disagree with GAO's findings regarding the ability of DOT accounts to generate collections sufficient to repay debt (specifically the Federal Ship Financing Fund and the St. Lawrence Seaway Development Corporation), and on the applicability to DOT accounts of GAO's recommendations to provide annual appropriations for credit subsidy costs.

POSITION STATEMENT

Finding:

The Office of the Administrator account in DOT's Federal Railroad Administration borrows from Treasury and makes all repayments with appropriations or new borrowings. The account does not have collections from program users.

DOT Response:

This finding does not currently apply to the Office of the Administrator appropriation account, since the Emergency Rail Services Act and Section 211 (h) loan programs are no longer active, and no loans are currently outstanding.

See comment 1.

Appendix IV  
Comments From the Department  
of Transportation

Finding:

Among accounts with collections insufficient to repay borrowings is the Federal Ship Financing Fund. The fund charges loan guarantee fees to shipowners, and uses the income from the fees to pay the lenders in case shipowners default. Prior to fiscal year 1978, the fund borrowed from Treasury several times and repaid with collections. However, declines in oil prices and in the volume of agricultural exports reduced the demand for vessels in the energy and agricultural markets and caused a large number of loan defaults. The fund suffered net losses from fiscal years 1985 through 1987. Unless economic conditions improve in the maritime industry and the fund recovers from its recent financial problems, it will not be able to repay future borrowings with collections.

DOT Response:

Prior to fiscal year 1985, the fund borrowed from Treasury four times and repaid with collections. The conditions existing during the 1985-1987 period were abnormal; the Maritime Administration expects to be able to repay any future borrowing with collections just as it had in previous years.

See comment 2.

Finding:

According to the SLSDC's authorizing legislation and its legislative history, the Congress expected the SLSDC to be able to repay its debt with revenues from tolls charged to lock users. However, in 1970 the Congress forgave the interest on SLSDC's debt and, in 1982, forgave the remaining \$110 million in principal, most of which had been accumulated when the locks were constructed in the 1950s.

Since 1982 when its debt was forgiven, the SLSDC has had \$3.2 million in remaining authority to borrow from Treasury. The Senate Appropriations Committee's report recommending the debt forgiveness suggested that the Committee did not anticipate any future borrowing by SLSDC. The report stated that toll revenue would have to cover the SLSDC's operations costs and any future capital costs for equipment replacement.

DOT Response:

Toll revenues are not currently available to the St. Lawrence Seaway Development Corporation (SLSDC). Therefore, borrowing authority, a contingency reserve, or permanent appropriation must be immediately available for emergency repairs, in order to restore Seaway operations as soon as possible. If borrowing authority were used for these purposes, the SLSDC has indicated that non-toll revenues would be sufficient to repay that debt over time.

See comment 3.

See comment 4.

Appendix IV  
Comments From the Department  
of Transportation

Recommendations:

GAO recommends that borrowing authority be provided only for accounts able to repay their debt with collections, that accounts be required to repay debt with collections, that borrowing authority be authorized for a limited number of years, that borrowing authority be replaced with another form of financing (a contingency reserve or permanent appropriation) for those accounts that cannot repay borrowings with collections, and that subsidy costs for direct and guaranteed loans be funded with annual appropriations.

DOT Response:

See comment 5.

We agree with the GAO recommendations, provided that the permanent appropriations recommended in lieu of borrowing authority must be indefinite in amount, and limited only as to specific use, e.g., loan guarantee defaults, emergency repairs.

See comment 6.

In addition, we do not believe it appropriate to require an annual appropriation for credit subsidy costs of the Federal Ship Financing Fund. Under normal circumstances, the loan guarantee fee charged by the Fund adequately covers the cost of defaults, and no subsidy is necessary. When an abnormally high level of defaults occurs, as occurred during the 1985-1987 time frame, the fees may be insufficient to cover the cost. However, because such anomalies are difficult to foresee, annual appropriations for credit subsidy costs would not have been anticipated or requested. We believe such appropriations are practical only when the subsidy is ongoing and predictable and should not be employed to cover unpredictable shortfalls.

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The following are GAO's comments on the Department of Transportation's letter dated March 27, 1989.

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## GAO Comments

1. Report changed.
2. Discussed in "Agency Comments and Our Evaluation" section of the report.
3. Report changed.
4. Discussed in "Agency Comments and Our Evaluation" section of the report.
5. We are not recommending permanent appropriations as the financing alternative to authority to borrow in all cases. The type of replacement financing should be determined on a case-by-case basis, depending on the account's needs. Annual appropriations for a contingency reserve and annual appropriations of credit subsidy costs should be considered as possible alternatives to authority to borrow. Neither of these forms of financing would be indefinite in amount.
6. The difficulty of estimating a program's credit subsidy costs and the likelihood that the estimates for a given year will be imprecise should not exclude the program from credit reform proposals. Default levels cannot be predicted with certainty for any programs, but should be based on the best information available at the time.



# Comments From the Export-Import Bank

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



EXPORT-IMPORT BANK OF THE UNITED STATES  
WASHINGTON, D.C. 20571

April 14, 1989

CABLE ADDRESS EXIMBANK  
TELEX WU 89.461  
RCA 248460

Mr. Frederick D. Wolf  
Assistant Comptroller General  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Wolf:

This is in reply to your request for comments on the GAO draft report entitled, Budget Issues: Authority to Borrow Should Be Granted More Selectively.

Your draft report recommends that authority to borrow be provided only to accounts that are able to repay their debts with collections; that accounts be required to repay their debt with collections; that the time an account can use authority to borrow without renewed congressional approval be limited; and that legislation be enacted requiring annual appropriations of credit subsidy costs for new direct and guaranteed loans.

Further, since you conclude that several of the programs which you examined, including Eximbank, will be unable to completely repay their debts with collections, their borrowing authority should be replaced with another form of financing.

Eximbank has the authority to borrow funds to finance its operations under the provisions of its Charter. This Charter has a limited life; over the years Congress periodically has renewed the Bank's Charter for periods ranging from three to five years. Currently, the Charter expires in 1992. Consequently, renewed Congressional approval of the Bank's programs and operations does in fact occur.

See comment 1.

We believe that for a corporation such as the Bank, borrowing is the appropriate means to fund its operations. For many years the Bank made a profit on its operations and not only repaid its borrowings with collections, but also paid more than \$1 billion in dividends to the U.S. Treasury. The costs of borrowing, for which the Bank pays market interest rates, together with other operating costs, when matched against revenue from its operations provide a measure of the profit or loss from the Bank's loan and guarantee programs which is more readily understandable than estimated subsidy values.

See comment 2.

As you have noted in the report, since 1982 the Bank has been incurring operating losses. Your report notes that the decision to provide loans to support U.S. exports at rates which

Appendix V  
Comments From the Export-Import Bank

2

were competitive with loans offered by foreign governments to assist their exporters during a time when U.S. market rates were much higher than the rates charged on the Bank's loans was one reason for the Bank's losses. In fact, it is virtually the only reason, as loan losses due to long-term uncollectability have been minimal, and confined to private sector loans.

See comment 3.

These losses have reduced the Bank's retained earnings to the point that they are now slightly negative. If future earnings should be insufficient to cover these and any future losses, then some Congressional action might be desirable at some point to provide additional capital resources.

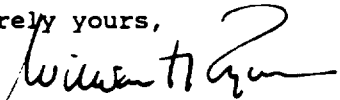
Although not specifically mandated by legislation, the Bank since its inception has tried to operate its programs in such a manner that collections over time would be sufficient to retire debt. We expect that new loans will be made at rates which, on the average, will cover the Bank's cost of funds. Consequently, we believe that borrowing is an appropriate way for the Bank to fund its activities and we oppose any proposal to eliminate that authority.

See comment 4.

However, we agree that if a program is not intended at the outset to have collections which could over time repay its borrowings, then some other form of funding might be more appropriate. The Bank has, in fact, requested appropriations to cover the costs of highly concessional mixed credits since it is known from the beginning that these credits will entail a substantial grant element.

Thank you for the opportunity to comment on the draft report.

Sincerely yours,



William F. Ryan  
Acting President and Chairman

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The following are GAO's comments on the Export-Import Bank's letter dated April 14, 1989.

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## GAO Comments

1. The type of periodic review the report refers to would be more comprehensive and include the agency's borrowings, repayment practices, and ability to repay borrowings with collections in the future.
2. One of the purposes of estimating credit subsidy costs is to give the Congress as clear a picture as possible of potential costs before they are incurred. We believe these estimates can be readily understood by and useful to the Congress.
3. As we reported in Financial Audits: Export-Import Bank's 1987 and 1986 Financial Statements (GAO/AFMD-88-48, May 1988), we believe EXIM's losses significantly exceed those reported by the bank as a result of the bank's failure to properly report losses it is likely to sustain due to the uncollectability of (a) a portion of its foreign loans, (b) accrued interest receivable, and (c) estimated recoveries on claims resulting from defaults under its insurance and guarantee programs. We estimate that, as of September 30, 1987, such losses were in excess of \$3.3 billion, creating a deficit of over \$3 billion. Therefore, a portion of the bank's losses has been caused by uncollectable loans.
4. Discussed in "Agency Comments and Our Evaluation" section of the report.

# Comments From the Department of Agriculture

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF AGRICULTURE  
OFFICE OF ASSISTANT SECRETARY FOR ADMINISTRATION  
WASHINGTON, D.C. 20250

April 14, 1989


Honorable Frederick D. Wolf  
Assistant Comptroller General  
Accounting and Financial  
Management Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Wolf:

Reference is made to your February 27, 1989, letter in which you request the Department of Agriculture's (USDA) comments on the General Accounting Office draft report entitled, Budget Issues: Authority to Borrow Should be Granted More Selectively.

Enclosed are USDA's comments on the draft report. Thank you for the opportunity to comment on the draft report.

Sincerely,

  
JOHN J. FRANKE, JR.  
Assistant Secretary  
for Administration

Enclosure

Appendix VI  
Comments From the Department  
of Agriculture

GENERAL ACCOUNTING OFFICE DRAFT REPORT ENTITLED "BUDGET ISSUES: AUTHORITY TO BORROW SHOULD BE GRANTED MORE SELECTIVELY"

General Comments

See comment 1.

GAO should recommend that accounts which have authority to borrow be given the authority to set rates as necessary to cover the cost of borrowing. Although not included in your report, the Rural Electrification Administration (REA) can charge only five (5) percent on loans financed through its Rural Electrification and Telephone Revolving Fund. This is substantially less than REA's cost of borrowing.

See comment 2.

The amount of outstanding debt shown for REA in Table 2.1: Agencies' Outstanding Debt Incurred Under Authority to Borrow as of September 30, 1987, does not agree with REA's figures. The Rural Telephone Bank owed Treasury \$758 million as of September 30, 1987. The total amount owed to Treasury by all REA funds was significantly higher than the \$2,084,872,000 shown in Table 2.1.

Now on p. 36.

See comment 3.

The second to last sentence on page 55 of the report is incorrect. It should read "As of the end of 1987, the Rural Telephone Bank had accumulated profits of \$188 million, including a reserve for contingencies of \$77 million."

GAO Recommendation

GAO recommends that the Congress provide authority to borrow only to accounts that are able to repay their debt with collections.

Departmental Response

See comment 4.

The authority to borrow (indefinite) does not equate to current borrowing needs or even eventual borrowing needs. The budget authority line, authority to borrow in the program and financing schedule, represents the additional obligation authority required during a year to sustain the net obligations of the fund during that year. If any of those obligations are subsequently cancelled, not all of the borrowing authority shown will be required; if appropriations are made (for restoration of losses or any other reason), borrowing will not be required; when accrued borrower interest is paid on schedule, borrowing won't be required for the amount of accrued interest that is received. Since accounts receivable from the public and loans receivable are not included in the budget authority computation, interest payments and loan repayments result in the withdrawing of authority to borrow.

See comment 5.

A major portion of borrowing authority is needed temporarily to finance subsidy costs until reimbursed by the Congress 2 years later. These subsidy costs are inherent to Farmers Home Administration (FmHA) programs since by statute a majority of the loans are made at a rate lower than Treasury's cost of borrowings.

**Appendix VI  
Comments From the Department  
of Agriculture**

GAO Recommendation

GAO recommends that the Congress require accounts to repay their debt with collections and limit the time they can use authority to borrow without renewed congressional approval.

Departmental Response

The apparent insufficiency of borrower repayments to repay borrowings is, to a major extent, a result of subsequent annual Congressional authorized loan levels that disburse the cash receipts of the fund before borrowings can be repaid. As long as the loan portfolio outstanding is increasing because of new loan advances from Congressionally authorized loan levels, there is a continuing need for net new borrowings to sustain the growth, notwithstanding the inherent potential of a program to eventually recover its borrowed funds. Prior to FY 1986, the budgetary treatment of sales of Certificates of Beneficial Ownership (CBO) reduced greatly the need for borrowing authority. These sales of CBOs are now shown as borrowing authority in the budget.

See comment 6.

Congressional and court ordered authorized (mandated) programmatic terms and conditions governing the loan program can change a program that could be expected to recover its costs (i.e., a program that can properly be funded with borrowings) into a program that has little prospect of repaying all borrowings. The ACIF programs were originally authorized as 5 percent loans when 5 percent was a little above the Treasury borrowing rates. Also, while the FmHA was always considered the lender of last resort, and forbearance was allowed during loan servicing, there was not the current myriad of "borrower rights" which, at the very least, defer, if not substantially reduce, the loan program's cash flow back to the fund. Mandated limited resource interest rate terms are substantially below current Treasury rates. Even operating loans made at an originally nonsubsidized rate may be effectively financed with Treasury borrowings at a substantially greater rate if the loan is stretched out 7 to 15 years under the terms of the program.

GAO Recommendation

GAO recommends that the Congress replace authority to borrow with another form of financing for 8 of the 12 accounts we reviewed.

See comment 7.

FmHA generally feels comfortable with the current use of borrowing authority as the funding source for loan programs, while waiting until the actual losses are sustained, calculated, and subsequently appropriated. Its flexibility is its greatest attribute. It does not inhibit program implementation or program evolution as the economic and programmatic environment changes. While total future costs are not available under this system, the stream of estimated appropriations required are estimated in the President's Budget and the Congressional Budget Office's estimates. The large budget authority amounts that are part of the ACIF programs, as they are administered now, are not a secret. These estimates are available for Congressional Committee consideration while deliberating on budgetary matters.

Appendix VI  
Comments From the Department  
of Agriculture

See comment 8.

In addition, if the agency changed its appropriations for loss calculation to reflect provisions for allowances rather than only writeoffs, the appropriation for loss would capture a maximum exposure to future default costs rather than actual realized losses. These amounts might be in keeping with GAO objectives, however, this maximum exposure could possibly overstate the subsidy case, and the result could be an amount that would not be any better for analyzing the "real" program costs than the current "understated" costs.

GAO Recommendation

GAO recommends that the Congress enact legislation requiring annual appropriations of credit subsidy costs for new direct and guaranteed loans.

Departmental Response

See comment 9.

We agree with GAO that the estimated lifetime subsidy cost of a program could be appropriated when the annual program levels are provided in the appropriations. However, legislation submitted by the current and past administrations to appropriate estimated lifetime subsidy costs have not passed the Congress. It should also be noted that appropriating estimated lifetime subsidy costs in advance will not necessarily eliminate the need for borrowing authority to provide rational and orderly financing of programs, particularly loan programs.

Now on p. 28.

See comment 10.

The annual appropriation for credit subsidies as part of credit reform (cited on page 44) are not the same "subsidies" that are involved when FmHA administers a loan program with Treasury borrowings as the funding source. The credit reform subsidy is a more theoretical subsidy that tries to capture the value of program benefits to the borrower as they compare to the private sector loan that they would otherwise qualify for, even if those loans are never made (because of risk, etc.).

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The following are GAO's comments on the Department of Agriculture's letter dated April 14, 1989.

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## GAO Comments

1. Our study did not examine the effect that changing program requirements could have on program beneficiaries, therefore, we cannot make the recommendation you suggest.
2. Note added to table.
3. Report changed.
4. No change to report needed.
5. The Farmers Home Administration needs a source of funds to finance its loan subsidy costs; however, we believe these funds should come from annual appropriations of credit subsidy costs, not from authority to borrow.
6. The reasons an account cannot repay its borrowings are usually related to its program requirements, such as the requirement to make new loans at favorable interest rates. We recognize that to meet the needs of the programs, a source of funds must be available. However, unless the funds will be paid back with collections, they should not be called "borrowings."
7. Although we agree that the Congress has information that ACIF uses a large amount of authority to borrow (budget authority), we believe appropriations of credit subsidy costs will give the Congress a clearer picture of the program's potential costs than its current financing method.
8. Estimates of credit subsidy costs may be overstated or understated in a given year.
9. No change to report needed.
10. GAO disagrees with the method of calculating credit subsidy costs described in this comment. See our report, Budget Issues: Budgetary Treatment of Federal Credit Programs (GAO/AFMD-89-42, April 10, 1989) for further explanation.



# Comments From the Federal Emergency Management Agency

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



## Federal Emergency Management Agency

Washington, D.C. 20472

MAR 28 1989

Mr. Frederick D. Wolf  
Assistant Comptroller General  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Wolf:

Thank you for the opportunity to comment on the draft report entitled, Authority to Borrow Should be Granted More Selectively. The report's stated purpose was to recommend when the authority to borrow is an appropriate means of financing accounts. As part of its analysis, the GAO undertook case studies of several accounts with borrowing authority. One of these accounts was the National Flood Insurance Fund (NFIF), which is administered in the Federal Emergency Management Agency (FEMA).

The National Flood Insurance Act of 1968 authorizes the Director of FEMA to borrow \$500 million from the Treasury with an additional \$500 million available with approval of the President and notification to the Congress. This borrowing authority was recommended by the House Committee on Banking and Currency in its September 1966 report entitled, Insurance and Other Programs for Financial Assistance to Flood Victims to facilitate the prompt payment of claims.

The draft report recommends that Congress replace the authority to borrow with another form of financing. As the report notes, the Fund has received \$1.2 billion in appropriations to reduce its debt. This recommendation is similar to that made in a January 3, 1983, report entitled, National Flood Insurance Program -- Major Changes Needed If It Is To Operate Without A Federal Subsidy. This report stated, in part:

"GAO believes a congressional decision on program financing needs to be closely tied to action the Congress takes on continuing the Federal subsidy. If the Congress chooses to support the Agency's efforts to make the program self-sustaining in a relatively short time frame, GAO believes the revolving fund can be retained, but GAO recommends that the Congress amend the National Flood Insurance Act of 1968 to increase its oversight and control over how the Agency finances its losses."

In fact, the Congress has supported FEMA's goal to the point that the National Flood Insurance Program in 1988 achieved its goal of a self-supporting program for the historical average loss year. That is, for loss years equivalent to the historical average, the NFIF should have adequate premium income to support claims payments. This level of premium income has allowed the NFIF to accumulate over \$500 million during the less than historical average loss years of 1986-1988, which earned over \$37 million in income from investments in Treasury obligations in 1988 alone.

See comment 1.

Appendix VII  
Comments From the Federal Emergency  
Management Agency

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See comment 2.

With reference to the 1983 GAO recommendation on increasing Congressional oversight of the Program's funding, the Committees on Appropriations have included limitations on expenditures for operating costs, agents commissions, and interest on Treasury borrowings in the annual appropriations language beginning in 1985. The limitations provide Congress with particular oversight of the non-claims expenses of the NFIP while retaining the flexibility necessary for the Program to expeditiously settle claims based on our contractual relationship with the policyholders. Any funding mechanism put in place to increase oversight of the NFIP's claims expenditures would have to be structured with a recognition that those expenses will greatly vary from one year to another due to the low frequency, but catastrophic nature of flooding.

Thank you again for the opportunity to comment on the draft report. Please do not hesitate to contact us if we can be of any further assistance.

Sincerely,

  
Julius W. Becton, Jr.  
Director

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The following are GAO's comments on the Federal Emergency Management Agency's letter dated March 28, 1989.

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## **GAO Comments**

1. Discussed in "Agency Comments and Our Evaluation" section of the report.
2. Although the Congress places appropriation act limitations on NFIF's expenditures, the limitations do not affect the NFIF's use of authority to borrow to finance its losses and its inability to repay its borrowings with collections.

# Major Contributors to This Report

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# Glossary

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<b>Account</b>	A budgeting unit that (1) records budgetary resources available for obligation and outlay, (2) is shown in the <u>Budget of the United States Government, 1989—Appendix</u> , and (3) is assigned an eleven-digit identification code.
<b>Appropriations</b>	An authorization by an act of the Congress that permits federal agencies to incur obligations and to make payments out of Treasury for specified purposes.
<b>Appropriation Act</b>	A statute, under the jurisdiction of the House and Senate Committees on Appropriations, that authorizes federal agencies to incur obligations and to make payments out of Treasury for specified purposes. For the purposes of our study, an appropriation act can only provide budget authority that becomes available in a specified (and therefore limited) number of years.
<b>Authority to Borrow</b>	Also called borrowing authority or authority to spend debt receipts. The statutory authority that permits a federal agency to incur obligations and make payments out of borrowed moneys. This does not include Treasury's authority to borrow from the public or other sources under Chapter 31 of Title 31, U.S. Code.
<b>Budget Authority</b>	Authority provided by law to enter into obligations that will result in immediate or future outlays involving federal government funds. It does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government.
<b>Collections</b>	In this report the term is used to refer to offsetting collections that are credited to appropriation or fund accounts. These are collections from government accounts or transactions with the public that are of a business-type or market-oriented nature and can be used without appropriation action by the Congress. When these collections are from the public, they are called offsetting collections from nonfederal sources.
<b>Contract Authority</b>	The statutory authority to enter into contracts or make other obligations without or in advance of appropriations or in anticipation of receipts to be credited to a revolving fund or other account.

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<b>Entitlements</b>	Programs under legislation that requires the payment of benefits (or entitlements) to any person or unit of government that meets the eligibility requirements established by such law. Authorizations for entitlements constitute a binding obligation on the part of the federal government, and eligible recipients have legal recourse if the obligation is not fulfilled.
<b>Forgiveness of Debt</b>	The statutory elimination of an agency's obligation to repay all or part of its debt with Treasury.
<b>Monetary Credits or Bartering</b>	The authority to make purchases by giving the seller credits or something other than money, instead of issuing a check. The holder of the credits may apply them later to reduce an amount owed the government in other, sometimes unrelated, transactions. An agency's acceptance of credits or something other than money as payment results in the agency forgoing the collection of offsetting receipts or collections.
<b>Obligations</b>	Amounts of orders placed, contracts awarded, services received, and similar transactions made during a given period that will require payments during the same or a future period.
<b>Offsetting Collections From Nonfederal Sources</b>	Collections from sources outside the federal government that are credited to appropriation or fund accounts. They include such things as user fees, loan repayments, and proceeds from sales.
<b>Permanent Appropriation</b>	An appropriation that becomes available as the result of previously enacted legislation and does not require current congressional action.
<b>Spending Authority</b>	As defined by the Congressional Budget and Impoundment Control Act of 1974, as amended, a collective designation for spending not subject to the annual control of the appropriations process. It includes contract authority, authority to borrow, and entitlement authority for which the budget authority is not provided in advance by appropriation acts. It

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also includes authority to forgo the collection of proprietary offsetting receipts (monetary credits or bartering) and to make any other payments for which the budget authority is not provided in advance by appropriation acts. The latter includes, but is not limited to, authority to make payments from offsetting collections credited to accounts.









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