118050

FOR RELEASE ON DELIVERY
Expected at 9:30 a.m.
Tuesday, April 6, 1932

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

STATEMENT OF

J. DEXTER PEACH, DIRECTOR
ENERGY AND MINERALS DIVISION

BEFORE THE
SUBCOMMITTEE ON CONSUMER AFFAIRS AND COINAGE

OF THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

ON
1984 OLYMPIC COMMEMORATIVE COINAGE

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to comment on legislative proposals to mint coins to commemorate the 1984 Los Angeles Summer Olympic Games and to help finance these Games and amateur athletics without the use of tax revenues. Certainly, we have no objection to a well designed coinage program and believe such a program can provide important financial support for the 1984 Summer Olympic Games and U.S. amateur athletics.

In the final analysis, decisions on the ultimate size and nature of an Olympic coinage program are policy judgments for the Congress. Our testimony today, however, does raise several important issues and provides useful information which I believe the Congress should carefully consider in evaluating the various legislative proposals for a coinage program. In addition, we also discuss options for revising existing legislative proposals to resolve the issues raised.

THREE ISSUES SHOULD BE RESOLVED BEFORE THE CONGRESS ENACTS LEGISLATION

The 1984 Olympic Games are intended to be the first in history not to receive either direct or indirect government financing. However, a coinage program, while not requiring a direct Federal appropriation from tax revenues, may result in indirect Federal financing of the Games through foregone Federal revenues and assumption by the Federal Government of financial risk and associated costs.

Essentially there are three issues which will ultimately determine the extent to which the Federal Government will indirectly finance the Olympic Games through a coinage program. They are:

--First, the extent to which the Federal Government bears the financial risk of depreciation in the market price of the gold and silver and other costs associated with redemption of the coins at face value.

--Second, the extent to which the Federal Government incurs uneconomical manufacturing costs, thereby foregoing revenues which the Federal Government historically has derived from minting coins.

--And finally, the extent to which the coins are marketed as tax-deductible contributions, resulting in foregone future Federal tax revenues.

These issues are important in that, depending on the size and nature of the coinage program, indirect Federal financing could actually exceed the proceeds accruing to the Los Angeles Olympic Organizing Committee (the Olympic Committee).

HIGH FACE VALUES COULD RESULT
IN THE FEDERAL GOVERNMENT BEARING
CAPITAL INVESTMENT RISK AND RELATED COSTS

The first issue relates to the risk to the Federal Government of issuing bullion coins with high face values.

There are two types of financial risk and related costs associated with a coinage program. One is the risk that the capital investment, that is the gold and silver, will depreciate in value. The other is the risk that operating costs, such as packaging, advertising, promoting, distributing, and reselling the coins, will not be recovered.

The cost of the coins' gold and silver constitutes, by far, the greatest single program expense and related risk. However, if the coins' face values are about equal to or higher than the value of their bullion content, the Federal Government could bear all the financial risk of capital investment depreciation. The coins' face values would serve as a "floor" or minimum value at which they can be used as circulating money or redeemed by the Federal Government. This risk persists into the indefinite future until all the coins are either melted down by their owners or presented for redemption.

If the coins are presented for redemption or if they do not circulate as money, the Federal Government will become a depository for the coins. The costs associated with their meltdown plus storage of the bullion, including security, would then become Federal costs associated with the program. Further, if the gold and silver are ultimately sold or used and their market value has decreased since the time they were minted into Olympic coins, the Federal Government would have incurred an additional cost.

Conversely, bullion coins afford their owners all benefits of appreciation in the value of their gold and silver content. Thus, any coins remaining unsold at the end of the program can be melted down if the value of their bullion content exceeds their face values or returned to the Treasury for exchange into lawful currencies.

UNECONOMICAL MANUFACTURING COSTS
CONSTITUTE FOREGONE REVENUES

The second issue relates to the uneconomical manufacturing costs associated with substituting gold and silver for copper and nickel in the Olympic coins.

In the past, the Federal Government has "contributed" the Bureau of the Mint's manufacturing costs, including the value of the coins' metal composition, to the private commission or committee in charge of an event by including them in, instead of adding them to, the face value purchase price. This was because the coins were identical to circulating coins of the period in face value, metal composition, and fineness, and were thus economical to mint.

When the market price of gold and silver rose to a level where seigniorage, or the difference between the coins' face values and the value of their metal content, was eliminated, the coins' composition was changed to copper and nickel. Therefore, substituting gold and silver for copper and nickel in the Olympic coins, thereby reducing seigniorage, constitutes foregone revenues in the form of uneconomical manufacturing costs.

TAX REVENUES WILL BE REDUCED IF THE COINS ARE MARKETED AS TAX-DEDUCTIBLE

The third issue relates to the manner in which the coins are marketed. The Olympic Committee is a tax-exempt, nonprofit organization, and contributions, usually in the form of cash, are tax-deductible. As such, the Federal Government has always subsidized amateur athletics in the form of foregone tax revenues. Although it is the expressed intent of the Olympic Committee not to accept personal or corporate contributions in order to avoid competing for these funds with charities and educational institutions, the coins could be marketed as tax-deductible contributions. The resulting reduction in Federal tax revenues would also constitute indirect Federal financing.

COMPARISON OF THE VARIOUS LEGISLATIVE PROPOSALS

There are currently three legislative proposals which can be measured against the above three issues.

One, H.R. 5708, passed by the Senate on March 29, 1982, is the current version of the original Olympic coinage bill (S. 1230) introduced in the Senate on April 27, 1981, and initially passed by the Senate on December 9, 1981. Both the Department of the Treasury and the Los Angeles Olympic Organizing Committee support this bill. It calls for one copper/nickel, 12 silver, and 4 gold coins with face values ranging from $1 to $100, totaling a maximum aggregate face value of $325 million. The coins are to be marketed by a private organization and current preparations for such a program include a License and Marketing Agreement between the Olympic Committee and the existing marketer.

Another version, H.R. 6058, of the Senate bill was introduced on April 1, 1982, by the Chairman of the House Committee on Banking, Finance and Urban Affairs. It contains the same number of coins and face values as the Senate passed bill and also provides for a private marketer.

Finally, your bill, H.R. 6069, Mr. Chairman, first introduced on June 11, 1981, as H.R. 3879, proposes a single $1 silver coin with a maximum total face value of $25 million. This bill proposes that the coins be sold directly to the public by the Secretary of the Treasury.

Indirect Federal Financing Could Exceed Revenues To The Olympic Committee Under The Senate Passed Bill

Let me apply the three issues I discussed earlier to the Senate passed bill.

A July 14, 1981, justification prepared by the Olympic Committee and the existing marketer states that the marketer "will bear the entire financial risk of the proposed coin program." However, under the Senate passed bill, the Federal Government will bear the capital investment risk of depreciation in the market price of the gold and silver as well as all redemption costs. The owners of the coins, on the other hand, will benefit from any appreciation in the value of the coins' gold and silver content. This is because the bill sets the value of the coins' bullion content about equal to or less than their face value and proposes to sell them to the Olympic Committee at face value or value of their metal content and a nominal surcharge. The coins' face values would then serve as a "floor" or minimum value, since they could be used as circulating money or returned to the Federal Government for redemption.

Under the bill, all rights to the coins are transferred to the Olympic Committee at the time of sale by the Secretary of the Treasury. Under the terms of the License and Marketing Agreement, any coins remaining unsold at the end of the program will be melted down or returned to the Treasury. Thus, any benefit of appreciation in the value of the unsold coins' bullion content accrues to the marketer and/or to the Olympic Committee. Further, if the value of the coins' bullion increases during the life of the program, it may be to their financial advantage not to sell the coins, but to melt them down as provided for under the agreement. On the other hand, if the value of coins' bullion decreases, they can be returned to the Treasury for redemption at face value, with the Federal Government bearing all the costs associated with the downside risk.

Seigniorage to the Federal Government was virtually eliminated when the diameter, total weight, and metal composition of the coins in the original Olympic coinage bill were subsequently changed to increase the amounts of gold and silver. Changing these technical specifications also increased the risk to the Federal Government relating to depreciation in the market price of the bullion as well as the costs associated with redemption of the coins at face value.

The technical specifications in the original Senate bill were consistent with those of certain historic U.S. coins. The July 14, 1981, program justification stated that:

> "By making the technical specifications of the Olympic commemorative coins consistent with the technical specifications of certain historic U.S. coins, the link between the commemorative coins and the United States' coinage traditions will be strengthened, thereby <u>increasing marketability</u>." (Emphasis added.)

However, according to a Treasury Legal Counsel, when it became apparent that the coinage program may not be as successful at raising proceeds as originally anticipated, the coins' technical specifications were changed to increase the value of their gold and silver. For example, at today's market price, 1/ the value

---

1/For illustrative purposes, market prices of $7.50 per troy ounce for silver and $350 per troy ounce for gold were used. On March 31, 1982, the cash price of industrial silver and gold was $7 and $320 per troy ounce, respectively.

of the gold in the $100 coin was increased from about $84 to about $100 or by 19 percent. Without knowing more, we find this change interesting since we are not aware of any marketing study done by the Treasury or the existing marketer to support these changes or to examine other alternatives for a successful program not requiring the Federal Government to forego hundreds of millions of dollars in seigniorage revenues.

Although bullion prices fluctuate, at today's market price, the Federal Government will forego seigniorage revenues under the Senate passed bill of about $260 million, $50 million of which resulted from revising the specifications in the original Senate bill, including placing about $360,000 of silver in the gold coins. Further, while the probability that the coins will be redeemed and the related costs to the Federal Government have not been quantified, in many cases, past U.S. commemorative coinage programs have not met their anticipated goals. The unsold coins were redeemed by the Federal Government at face value and subsequently melted down.

The Senate passed bill is also silent on marketing the coins as tax-deductible contributions. Should the marketing strategy permit the premium paid for the coins to be tax-deductible, foregone Federal tax revenues could exceed $100 million. 1/

1/Assuming that 60 percent to 70 percent of the coins' sales are to U.S. citizens.

Thus, indirect Federal financing under the Senate passed coinage program could exceed $360 million. However, estimated proceeds to the Olympic Committee and amateur athletics, under the existing agreement have not been provided to the Congress, and could conceivably be less than the total of the indirect Federal financing. Any remaining funds will, in effect, be passed on to the private marketer for operating expenses and as profit.

The only way to assure that the Federal Government does not forego seigniorage revenues is to recover the value of the coins' bullion content plus their face value in the sales price. This would also relieve the Federal Government of the risk of depreciation in the market price of the gold and silver since both the benefit of appreciation as well as the risk of depreciation in the value of the coins' bullion content would be transferred with ownership of the coins. Similarly, any enabling legislation could make it clear that the coins cannot be marketed in such a way as to imply that they are tax-deductible.

H.R. 6058 Addresses Some Issues

H.R. 6058, introduced last week, contains provisions addressing some of the issues we have raised. The bill changes the coins' technical specifications back to those in the original Senate bill, thus reducing foregone Federal seigniorage revenues by over $50 million. It also makes clear that the coins are not to be marketed in such a way as to imply that they are tax-deductible, which could save the Federal Government an additional $100 million in foregone future tax revenues. However, the bill does not require the Treasury to recover the value of the coins' bullion content plus their face value in the sales price. Thus, under this bill, the Federal Government would not only forego about $210 million in seigniorage revenues, but also assume the risk of depreciation in the market price of the gold and silver.

Concern has been expressed that if the $10, $50, and $100 face values in the bill are added to the value of the coins' gold and/or silver content, the sales price to the Olympic Committee, its marketer, and ultimately the general public would be prohibitive. However, if the coins' face values are reduced to the traditional Kennedy half dollar, the Liberty Head or Morgan type silver dollar, and the Indian Head gold quarter eagle ($2.50) and gold half eagle ($5.00) to coincide with their technical specifications, the aggregate sales price by the Treasury will actually be reduced by about $77 million.

Changing the coins' face values to those of historic U.S. coins may also increase their marketability. While commemorative coins are usually sold at a price above their face value, a subjective element enters into the price collectors are willing to pay. According to both the American Numismatic Association, a nonprofit, congressionally chartered, national organization of coin collectors, and Krause Publications, a major U.S. numismatic publisher, the price collectors will be willing to pay for the Olympic coins is substantially reduced, in part, because the silver coin's $10 face value and the gold coins' $50 and $100 face values are not those historically issued for general circulation, making them less appealing to coin collectors.

Numismatists comprise not only a potential market for the coins, but also their support may be essential to the program's ultimate success. Unless numismatic interest is generated and maintained, those who acquire the coins may find that they cannot recover their investment because a resale market does not exist. This has already occurred for the coins purchased under the 1976 Canadian Olympic program, resulting in the Canadian government having to redeem the coins at face value.

Changing both the coins' face values and technical specifications to those of the historic U.S. coins identified above would, therefore, strengthen the link between the Olympic coins and U.S. coinage traditions, thereby possibly increasing numismatic interest in the program.

H.R. 3879 Provides An Alternative Approach

H.R. 6069, introduced yesterday, would require the Secretary of the Treasury to recover the coins' $1 face value plus the cost of issuing the coins, including their silver content, in their sale price. The $1 silver coin may also stimulate numismatic interest since historically, the United States has issued similar coins for general circulation.

Under your proposal, the Treasury would also retain ownership of the coins until they are sold to the public. Thus, the Federal Government will retain the benefit of appreciation as well as the risk of depreciation in the market price of the unsold coins' silver content.

The proposed Treasury program also makes clear that the coins cannot be marketed in such a way as to imply that they are tax-deductible. Therefore, all the issues we have raised are favorably resolved. However, since no marketing study has been performed, the success of this program compared to those proposed under the other bills cannot be adequately projected. Thus, pertinent information on which to make an informed selection from among the legislative proposals is lacking.

- - - -

Let me conclude by recapping the most essential points in my testimony. Unless an Olympic coinage bill is well devised, the Federal Government could both forego substantial revenues which it has historically derived from manufacturing coins and bear other indirect future costs which cannot now be precisely quantified. The foregone reavenues and future costs could arise in four ways:

--First, the seigniorage revenues foregone by substituting gold and silver for copper and nickel in the Olympic coins and not recovering their face value plus the value of their bullion content in the sales price.

--Second, the additional seigniorage revenues foregone by the subsequent changes in the coins' technical specifications which increased the amounts of gold and silver beyond those of historic U.S. coins.

--Third, the risk accruing to the Federal Government should the value of the coins' bullion content depreciate and the coins be presented to the Treasury for redemption. Conversely, the Federal Government will not derive any benefit should the value of the coins' bullion content appreciate and they are melted down.

--And finally, future foregone tax revenues should the coins be marketed as tax-deductible contributions.

As outlined earlier, total foregone revenues and future costs could exceed the proceeds accruing to the Olympic Committee under at least one of the legislative proposals. However, options do exist to resolve these issues:

--The foregone tax revenue issue can be resolved by making it clear that the coins are not to be marketed in such a way as to imply that they are tax-deductible. For example, we believe that H.R. 6058 adequately addresses this issue.

--Both the foregone seigniorage revenue issue and the issue of capital investment risk and related costs can be resolved by recovering both the coins' face values and value of their bullion content in the sales price. Because two bills now propose $10, $50, and $100 face values for the bullion coins, consideration could be given to reducing them to $1, $2.50, and $5 to coincide with historic U.S. coins containing silver or gold. Although the impact this may have on the coins' marketability cannot be precisely determined since a marketing study has not been performed, it could increase numismatic interest in the program while reducing the aggregate sales price by the Treasury.

--At a minimum, the amount of foregone seigniorage revenues can be reduced by changing the coins' technical specifications back to those of the historic U.S. coins in the original Senate bill, as proposed in H.R. 6058.

As I stated at the outset of my testimony, decisions on the size and nature of an Olympic coinage program are policy judgments for the Congress. I hope my testimony today will be of assistance to the Congress in evaluating the various legislative proposals.

Mr. Chairman, that concludes my statement. I welcome any questions the Subcommittee may have.