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Accounting and Information
Management Division

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January 26, 1996

The Honorable Daniel Patrick Moynihan
United States Senate

Dear Senator Moynihan:

This letter responds to your January 16, 1996, request for information on past debt ceiling limitations and actions that the Department of the Treasury has taken to avoid defaulting on government obligations. As discussed with your staff, this report provides information on major actions related to trust funds from September 30, 1984, through January 23, 1996. The enclosure to this letter lists those actions.

## BACKGROUND

On November 15, 1995, Treasury reached the current debt ceiling of $4.9 trillion. Although most of this debt is held by the public, about one fourth of it was issued to federal trust funds. On various occasions over the years, normal government financing has been disrupted because Treasury had borrowed up to or near the debt ceiling and legislation to increase the debt ceiling had not yet been enacted. As noted in a September 1979 GAO report,[1] debt ceiling increases are periodically needed to simply allow the financing of budget deficits that have already been approved.

The Secretary of the Treasury has several responsibilities relating to the federal government's financial management operations. These include paying the government's obligations and investing trust fund receipts not needed for current benefits and expenses. The Congress has generally provided the

[1] A New Approach to the Public Debt Legislation Should Be Considered (FGMSD-79-58, September 7, 1979).



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Secretary with the ability to issue the necessary securities to the trust funds for investment purposes and to borrow the necessary funds from the public to pay government obligations. Under normal circumstances, the debt ceiling is not an impediment in carrying out these responsibilities. However, when Treasury is unable to borrow as a result of a debt ceiling, the Secretary is unable to discharge these responsibilities. Such situations are commonly referred to as debt ceiling crises.

## ACTIONS INVOLVING TRUST FUNDS

Since September 30, 1984, Treasury's actions to remain within debt ceiling limits can be categorized as follows:

- not investing or reinvesting trust fund receipts,
- redeeming trust fund securities earlier than normal,
- redeeming securities held by the Exchange Stabilization Fund, and
- exchanging securities held by the Civil Service Retirement and Disability fund (Civil Service fund) for securities issued by the Federal Financing Bank (FFB).

The following sections describe each of these methods.

### Not Investing or Reinvesting Trust Fund Receipts

The trust funds that are allowed to invest their receipts generally invest in nonmarketable Treasury securities. Under normal conditions, the appropriate agency (such as the Office of Personnel Management for the Civil Service fund) notifies Treasury of the amount that should be invested (or reinvested) and Treasury makes the investment. These securities count against the public debt limit. Treasury can avoid an increase in the outstanding debt by not investing trust fund receipts.

Subsequent to the 1985 debt ceiling crisis, the Secretary was provided with the authority to suspend certain investments during periods when obligations of the federal government may not be issued without exceeding the debt ceiling. Specifically, these actions included the following:

- Suspend investment of the Government Securities Investment Fund (G-Fund). Subsection (g) of 5 U.S.C. 8438 authorizes the Secretary of the Treasury to suspend the issuance of additional amounts of obligations of the United States to the Fund if such issuance cannot be made without causing the amount of public debt to exceed the debt ceiling. The subsection contains instructions on how the Secretary is to make the G-Fund whole after the debt ceiling crisis has ended.

- Suspend investment of the Civil Service Retirement and Disability Fund. Subsection (j) of 5 U.S.C. 8348 authorizes the Secretary of the Treasury to suspend additional investment of amounts in the Fund if such investment cannot be made without causing the amount of public debt to exceed the debt ceiling. The subsection contains instructions on how the Secretary is to make the Civil Service fund whole after the debt ceiling crisis has ended.

Redeeming Securities
Earlier Than Normal

Under normal circumstances, agencies provide Treasury with information on the amount needed to pay fund benefits and expenses and Treasury then redeems the fund's securities based on this information. During two of the debt ceiling crises shown in the enclosure, Treasury has redeemed securities earlier than normal.

In 1985, the Treasury redeemed securities earlier than normal in order to borrow sufficient cash from the public to meet the fund's benefit payments. Table 1 shows an example of the use of this procedure during 1985.

Table 1: Procedure Used to Raise Cash

| Date | Action | Effect on Treasury's cash | Effect on outstanding debt |
|---|---|---|---|
| 11-1-85 | Treasury redeems $1.5 billion of trust fund securities for benefit payments | None | Reduces debt by $1.5 billion |
| 11-1-85 | Treasury issues $1.5 billion of securities to the public for cash | Increases cash by $1.5 billion | Increases debt by $1.5 billion |

Subsequent to the 1985 debt ceiling crisis, the Congress authorized the Secretary to redeem securities or other assets of the Civil Service fund before maturity to prevent the amount of public debt from exceeding the debt ceiling (5 U.S.C. 8348(k)). Before exercising this authority, the Secretary must first determine that a "debt issuance suspension period" exists. Such a period is defined as any period for which the Secretary has determined that obligations of the United States may not be issued without exceeding the debt ceiling. The amount of securities that can be redeemed under this authority is limited to an amount equal to the total amount of benefit payments authorized under subchapters 83 (Civil Service Retirement System) and 84 (Federal Employees Retirement System) of Title 5 of the United States Code that would be made during the debt issuance suspension period. The Secretary may redeem securities whether or not the Civil Service fund contains sufficient cash to pay benefits during the suspension period. Subsection 8348 (j) (3) contains instructions on how the Secretary is to make the Civil Service fund whole after the debt ceiling crisis has ended. The Secretary, based on estimates provided by the Office of Personnel Management, has authorized redemption of $39.8 billion of trust fund securities prior to maturity under the 12-month debt suspension period declared on November 15, 1995.

Redeeming Securities Held by the Exchange Stabilization Fund

The Stabilization Fund (31 U.S.C. 5302), commonly referred to as the Exchange Stabilization Fund, was created to help provide a stable system of exchange rates. The Secretary has the authority to invest balances of this fund that are not exchange rates. The Secretary has the authority to invest balances of this fund that are not needed for program purposes in obligations of the federal government. These securities are considered part of the outstanding debt subject to the debt ceiling. Therefore, when the Secretary redeems the securities held by the Exchange Stabilization Fund, the amount of outstanding debt is reduced.

Exchanging Treasury Securities for Securities Issued by the Federal Financing Bank

The FFB is authorized to issue publicly and have outstanding at any one time not in excess of $15 billion in securities. In 1985, the Secretary used about $14.2 billion in Treasury securities held by the Civil Service fund to acquire securities issued by the FFB. This action allowed Treasury to borrow more cash from the public because the amount of debt subject to the debt ceiling was reduced. (FFB securities are not subject to the statutory debt ceiling.) When these securities matured in June 1986, the proceeds were invested in Treasury securities.

According to Treasury, during August and September 1986, the Secretary again used about $15 billion of Treasury securities to acquire securities issued by FFB. As noted earlier, FFB is limited to issuing securities totaling about $15 billion, and this amount was outstanding as of January 23, 1996. Therefore, a transaction using FFB's authority to issue $15 billion of its own securities is not presently available to the Secretary.

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We have provided your staff with previous GAO reports related to these issues. If you have any questions about this matter, please call me at (202) 512-9510 or George Stalcup, Associate Director, at (202) 512-9490.

Sincerely yours,

George Stalcup

for Gregory M. Holloway
Director, Governmentwide Audits

Enclosure

## MAJOR ACTIONS INVOLVING THE TRUST FUNDS TO AVOID DEFAULTING ON GOVERNMENT OBLIGATIONS

(September 30, 1984 Through January 23, 1996)

| **Dates** | **Action** |
|---|---|
| September 30-October 12, 1984[1] | - Did not invest daily trust fund receipts for the Civil Service and Social Security funds.<br>- Redeemed securities from the Exchange Stabilization Fund. |
| October 13, 1984 | - Congress increased debt ceiling. |
| September 3-December 11, 1985[1] | - Did not invest trust fund receipts.<br>- Redeemed securities earlier than normal.<br>- Redeemed securities from the Exchange Stabilization Fund.<br>- Exchanged Treasury securities held by the Civil Service fund for those issued by the FFB. |
| December 12, 1985 | - Congress increased debt ceiling. |

[1]Specific actions taken by Treasury during these debt ceiling crises are discussed in greater detail in the following GAO reports: Civil Service Fund: Improved Controls Needed Over Investments (GAO/AFMD-87-17, May 7, 1987) and Treasury's Management of Social Security Trust Funds During the Debt Ceiling Crisis (GAO/HRD-86-45, December 5, 1985).

| | |
|---|---|
| August 1-20, 1986 | - Exchanged securities held by the Civil Service fund for those issued by the FFB. |
| | - Redeemed securities from the Exchange Stabilization Fund. |
| | - Did not invest trust fund receipts. |
| August 21, 1986 | - Congress increased debt ceiling. |
| September 30-October 20, 1986 | - Exchanged securities held by the Civil Service fund for those issued by the FFB. |
| | - Redeemed securities from the Exchange Stabilization Fund. |
| | - Did not invest Social Security fund receipts. |
| October 21, 1986 | - Congress increased debt ceiling. |
| July 20-29, 1987 | - Did not invest daily receipts for all trust funds. |
| July 30, 1987 | - Congress increased debt ceiling. |
| August 7-9, 1987 | - Did not invest daily receipts for all trust funds. |
| August 10, 1987 | - Congress increased debt ceiling. |
| September 24-28, 1987 | - Did not invest daily receipts for all trust funds. |
| September 29, 1987 | - Congress increased debt ceiling. |
| August 1-6, 1989 | - Did not reinvest a portion of the G-Fund. |
| | - Redeemed securities from the Exchange Stabilization Fund. |
| August 7, 1989 | - Congress increased debt ceiling. |

| | |
|---|---|
| November 1-7, 1989 | - Did not invest daily receipts for all trust funds.<br>- Redeemed securities from the Exchange Stabilization Fund. |
| November 8, 1989 | - Congress increased debt ceiling. |
| October 19-27, 1990 | - Redeemed securities from the Exchange Stabilization Fund. |
| October 28, 1990 | - Congress increased debt ceiling. |
| Current crisis (November 15, 1995 - January 23, 1996) | - Did not reinvest a portion of the G-Fund.<br>- Redeemed securities earlier than normal from the Civil Service fund.<br>- Did not invest December interest payment to Civil Service fund. |

Note: Information on the debt ceiling crises before November 14, 1995, was provided by Treasury and has not been validated by GAO.

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