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Report to Congressional Requesters

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BUDGET ISSUES

USDA's Commodity Certificates Should Be Recognized in Budget Totals

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The Honorable William H. Gray III
Chairman, Committee on the Budget
House of Representatives

The Honorable Butler Derrick
Chairman, Budget Process Task Force
Committee on the Budget
House of Representatives

This report is in response to your June 10, 1987, request that we examine the current budget treatment of the Commodity Credit Corporation's (CCC) commodity certificates and provide our views on the proper budget treatment. You noted in your letter that CCC has issued certificates worth billions of dollars since the program began in fiscal year 1986 and that, while the certificate issuances have outlay-like effects, there are no outlay recordings at the time of issuance.

The exclusion of the issuance of commodity certificates from the budget authority and outlay totals in the budget is correct under the current cash-based unified budget concepts. The budget is essentially on a cash basis with outlays representing checks issued. However, commodity certificates are not checks, but rather certificates that are used to "expend" commodities in lieu of cash. Most certificates are issued to participants in CCC's crop diversion and deficiency payment program, and the holders may later redeem the certificates for commodities or cash. Most redeem their certificates for commodities.

We believe, however, that the use of commodity certificates should be subject to systematic congressional budget review. This is accomplished by including their issuance in budget totals used in the congressional budget process—currently budget authority and outlay totals. Our preference on how to include commodity certificates in budget totals is to develop a new set of budget concepts and related totals to provide for adequate congressional budget review of CCC's use of commodity inventories in lieu of cash. However, recording budget authority and outlays, as currently defined, rather than developing new totals for the issuance of commodity certificates would also be an improvement over the current budget treatment, which does not record their issuance.

The use of commodity inventories to finance programs represents a cost not accurately reflected in CCC's reported outlays. The outlays now reported for CCC's crop diversion and deficiency payment programs, and for other federal programs using certificates as a means of financing, do not reflect the noncash costs of those programs—the commodities expended through commodity certificates. These commodity costs, under recent market conditions, are indirectly reflected in increased nonrecourse loan outlays. (See appendix I for a discussion of the relationship between commodity certificates and nonrecourse loan outlays.) However, the precise effect of the certificates on total outlays is uncertain and depends largely on existing market conditions for commodities included in the program.

We believe, therefore, that a new budget approach is needed for reporting on the use of certificates. This report presents the current budget treatment of commodity certificates and our preferred new set of concepts and totals, as well as another budget treatment which is also preferable to the current treatment. We also suggest that consideration be given to extending our preferred treatment to other programs which use noncash assets in lieu of cash.

Background

In April 1986, under the authority of the Food Security Act of 1985 (Public Law 99-198), commodity certificates were first issued by CCC, in lieu of cash payments, to eligible farmers who chose to participate in certain price- and income-support farm programs. Since that date and through fiscal year 1989, $28.4 billion worth of certificates has been or is planned to be issued. They can be exchanged by the recipient for cash from CCC, for CCC-owned commodities, or for commodities under nonrecourse loan agreements (another of CCC's farm support programs). Commodity certificates are issued in dollar amounts and are negotiable (ownership can be transferred). Parties other than the initial certificate recipients—for example, farmers with nonrecourse loans—have been willing to pay prices exceeding the face value of the certificates because, depending on the market price of their crop under loan and storage costs in their geographic area, they make additional profits from the certificates. Thus, very few certificates have been redeemed for cash from CCC.

The issuance of $28.4 billion worth of commodity certificates through fiscal year 1989 has not been included in the totals for budget authority or outlays in the budget. Since the budget is generally on a cash basis for receipts and outlays, budget authority recordings generally provide authority to incur obligations that will result in cash outlays. Commodity certificates are not currently treated as cash; thus, while billions of dollars worth of certificates have been issued, no budget authority, outlays, or obligations have been reported in the budget.

We have identified[1] 26 other programs with authority to use noncash assets as a means of financing. We would expect that in times of heightened concern over federal spending, such as in the current budget environment, the use of noncash assets for financing government programs would become increasingly attractive and would therefore increase. The Office of Management and Budget (OMB) is currently studying the budget treatment of all noncash asset transactions, such as bartering, monetary credits, and commodity certificates, with the goal of developing a standard budget treatment which can be applied to all of them.

Objective, Scope, and Methodology

Our overall objective was to determine how commodity certificates should be treated in the budget. Our approach was to develop criteria for assessing budget reporting alternatives, develop alternatives for budget reporting on commodity certificates, weigh the alternatives against the criteria, and recommend one of the alternatives.

In conducting the work and developing the alternatives, we interviewed congressional and executive branch officials familiar with commodity certificates and budgetary practices and reviewed pertinent budget materials and legislation. We also reviewed our past work on the use of noncash assets in federal programs.

Our work was performed in accordance with generally accepted government auditing standards. The Department of Agriculture (USDA), the Congressional Budget Office (CBO), and OMB provided written comments on a draft of this report. These comments are discussed and evaluated in the agency comments section of this report. Specific comments from USDA, CBO, and OMB are included in appendixes IV, V, and VI, respectively. Additional details about our methodology are included in appendix I.

The Criteria and Alternatives

Based on our past work, we believe that criteria important to consider when assessing any budget reporting method are the extent to which the method will reflect or facilitate the following:

[1] Budget Issues: The Use of Spending Authority and Permanent Appropriations Is Widespread (GAO/AFMD-87-44, July 17, 1987).

- stability of budget concepts and related reporting,
- full disclosure of the total resources used in programs,
- consistency in the budget's basis of reflecting transactions (currently the cash basis), and
- systematic congressional budget review of the resources used in programs.

We believe that the last criterion—the enhancement of systematic congressional budget review—is the most important.

We evaluated the following alternative budget reporting methods for commodity certificates against these criteria.

- Alternative 1: Continue to treat commodity certificate issuances as noncash transactions and exclude them from the budget's cash-based budget authority and outlay totals, and include a supplementary table in the budget appendix (the current practice). This alternative involves no change in current budget concepts. It does not, however, ensure systematic congressional budget review of the use of certificates because they are not included in any totals used by the Congress to make resource allocation decisions.
- Alternative 2: Treat commodity certificates as though they were cash transactions and include them in the budget's cash-based budget authority and outlay totals. This alternative does not change current budget reporting mechanisms and enhances the program's budget visibility. Furthermore, it ensures congressional review of the use of commodity certificates by including them in the budget totals for budget authority and outlays currently used in the budget process. This is, however, a change from the current cash-based, unified budget concepts. By including certificates in the outlay total, alternative 2 adds noncash amounts to a generally cash-based total, thus interjecting an inconsistency into the total and distorting its utility for calculating the cash deficit.
- Alternative 3: Continue to treat commodity certificate issuances as noncash transactions but develop a new set of budget terms and totals for the use of noncash assets, such as commodity certificates. to finance government programs. This alternative fully discloses the total amount of resources devoted to individual farm programs and maintains consistency in the current cash-based outlay totals. By creating a new set of noncash totals for use in the budget process, this alternative permits congressional budget review and oversight. However, this new budget reporting method, with its new terms and totals, could initially reduce understanding of budget information.

The preceding criteria and alternatives are fully discussed in appendix II. Illustrations of how each alternative could be shown in the budget appendix are in appendix III.

Conclusions

Commodities and other noncash assets of the government are valuable financial resources, and their use, in lieu of cash payments, should be subject to systematic budget review. This review is not ensured as long as the budget's totals relate solely to cash transactions and exclude noncash asset transactions. Current budget terms and concepts, which use a single set of totals to evaluate the budget—cash receipts and cash outlays—do not include noncash assets used to finance programs.

Both alternatives 2 and 3 satisfy the most important criteria—the enhancement of systematic congressional budget review of CCC's use of commodity certificates—and the use of either would improve the budget treatment of commodity certificates. The third alternative best meets the other criteria we established for assessing budget reporting alternatives.

The use of noncash assets to finance other government programs should also be included in the budget. Many of the other 26 programs authorized to use noncash asset financing could be suitable for a budget treatment which includes the use of noncash assets in budget totals. We have not studied the other programs in sufficient detail to ascertain whether they should receive this treatment, but, as mentioned earlier, OMB is currently assessing their budget treatment. We urge OMB to consider the approaches we describe for their applicability to these other programs.

We recognize that the use of a new set of budget terms and totals as proposed in our preferred alternative 3 could be seen as introducing new complexity into the budget. However, we believe that the new terms and totals provide a way to subject the use of noncash assets for financing government programs to the discipline of the budget process without causing inconsistency in the budget's cash-based budget authority and outlay totals. We believe that the significant dollar size of the commodity certificate program and the potential for the increased use of such financing in other programs justify, and in fact call for, the creation of a new set of budget totals for budget review.

Recommendation

We recommend that the Director of the Office of Management and Budget include the use of commodity certificates in budget totals reviewed by the Congress. We prefer that this be done by developing a new set of noncash-based terms and totals, as proposed in alternative 3. However, it could also be done by treating the issuance of commodity certificates as if they were cash, as proposed in alternative 2. Both of these budget treatments are described in detail in appendix II. The Director should also consider these approaches for applicability to the other programs with authority to use noncash asset financing and should consult on the matter with congressional budget and appropriations committees. If alternative 3 is used by OMB, the Congress should also use the new noncash totals in its budget resolution and in its subsequent resource allocation decisions regarding the amount of government resources to devote to individual government programs.

Agency Comments and Our Evaluation

USDA, OMB, and CBO were asked to comment on our draft report. There was no consensus among these entities regarding which alternative budget treatment was most appropriate for commodity certificates. Only USDA explicitly expressed a preference for alternative 1, which includes a supplementary table in the budget appendix showing the dollar value of commodity certificates issued. OMB used alternative 1 in the 1989 budget, but stated in its response to our draft report that it is still studying the issue of how to treat commodity certificates in the budget. OMB's comments indicated some support for alternative 2, which treats commodity certificates as cash by recording budget authority and outlays at the time of issuance, but OMB also stated that it is too early in its ongoing study to arrive at a conclusion regarding the budget treatment of commodity certificates. CBO supported alternative 2, while USDA strongly opposed it. Each of the entities commenting on our report expressed reservations concerning alternative 3, which proposes new types of budgetary resources and outlays totaled separately from the existing budget authority and outlays.

Comments on Alternative 1

Of the three entities commenting on our report, only USDA explicitly expressed a preference for the budget reporting method described in alternative 1. (See appendix IV.) This reporting method includes a supplementary table in the budget appendix showing the dollar value of certificates issued and does not include them in budget authority or outlay totals. Although OMB did not express a preference for any of the alternatives we presented, it used alternative 1 in the fiscal year 1989 budget appendix. (See appendix VI.)

USDA preferred alternative 1 because, in its view, this method avoids the double counting of outlays and/or budget authority inherent in the other two alternatives. (The double-counting issue is discussed in detail in the following sections on comments on alternatives 2 and 3.) Also, USDA stated that it did not believe that the Congress makes resource allocation decisions based on technical information on CCC that is included in the budget appendix. It preferred alternative 1 and saw no need for a new set of budget concepts for reporting on the use of commodity certificates.

With regard to USDA's assertion on the use of technical information in the budget appendix, our view is that the budget and all related documents should reflect the total program costs of all programs, in terms of cash and noncash assets, so that the Congress and the public can evaluate the distribution of government resources. Showing a program's total cost in the budget is important so that the Congress can make informed budget decisions. Conversely, not disclosing the full costs of a program, including cash and noncash costs, is misleading and can give programs, such as the deficiency and diversion programs, a budgetary advantage by making them appear less costly. We continue to prefer a budget reporting method which includes the actual and planned issuance of $28.4 billion worth of certificates in budget totals reviewed by the Congress.

Comments on Alternative 2

Only CBO clearly preferred alternative 2, which treats certificates as if they were cash. CBO indicated that alternative 2 is advantageous because

- it is readily incorporable into the existing budget review and approval process,
- it will capture government commitments that will ultimately lead to cash outlays under the particular program for which they are made,
- it does not present a double-counting problem, and
- its deviation from a cash-based budget is not a compelling disadvantage. (See appendix V.)

We disagree with parts of CBO's analysis of alternative 2. We agree that alternative 2 is readily incorporable into the budget review and approval process already in place and that it is preferable to the current budget treatment. However, we believe that there are better methods (such as that proposed in alternative 3) to capture government commitments by program and also recognize that the commitment will lead to noncash expenditures. Increased cash expenditures due to certificates, which are not necessarily on a one-to-one basis with certificate issuances, would be appropriately reflected in the loan program.

With regard to CBO's third point that alternative 2 would not present a double-counting problem, CBO noted that the acquisition of commodities by CCC through its nonrecourse loan program results in cash outlays that represent a government expenditure for that program and that the issuance of a certificate for another program represents a separate and additional financial commitment by the government. We agree that this is true; however, commodity certificates generally result in the use of the assets (commodities), not cash, to finance a second, separate program. These assets do not appear in the budget as budgetary resources, but they are, nevertheless, being used as budgetary resources. Since budget authority and outlays are recorded when cash is used to acquire the commodities, we believe, as does USDA, that recording budget authority and outlays again when these assets are used to finance another program would double count the amount of cash resources which have been used.

Finally, CBO did not view deviation from a cash-based budget as a compelling disadvantage of alternative 2. It cited loan asset sales with recourse and FDIC and FSLIC notes as examples of items now being treated on a noncash basis. We believe that these items are different from commodity certificates because if the government makes payments on them, the payments are made in cash. Commodity certificates, which cause increased loan outlays that are reflected in the loan program, also result in providing something of value in lieu of cash—commodities.

Furthermore, we believe that the budget's current exclusive focus on cash expenditures does not allow decisionmakers to consider the full cost of government programs. This is a problem not only for programs which expend noncash assets such as commodity certificates, but also for programs with large accrued liabilities. Cash-based data is needed to reflect the actual borrowing requirements of the government, but other budget reporting methods are necessary to capture all government activities. In the case of commodity certificates, the government is making payments with commodities, not cash, and this should be made clear to users of the budget. Alternative 3 would do this.

OMB indicated some degree of support for alternative 2, pointing out that the certificates are fully negotiable, and thus appear to substitute for cash in satisfying claims against the government. This suggests, to OMB, that they should be counted as outlays and debt at the time of issuance.

However, OMB used alternative 1 in the 1989 budget. OMB also stated that it is studying the issue and that it has not yet arrived at a definitive conclusion.

We note that, although commodity certificates may be a substitute for cash amounts which the government owes to individuals, they cannot be used as cash by the certificate recipient to satisfy all amounts owed to the government. For example, they cannot be used to pay the recipient's income tax. Certificates can be redeemed for cash by the original recipient, but the vast majority are redeemed for commodities.

Comments on Alternative 3

Each of the entities commenting on our report expressed some reservations concerning alternative 3. USDA believed that the major drawback to alternative 3 is that it double counts budget authority and outlays. Neither OMB nor CBO cited this as a problem with alternative 3 and we do not believe that it is a problem. Alternative 3 uses a new type of budgetary resource—noncash asset authority—which is different from budget authority, to authorize noncash asset expenditures to finance government programs. The noncash assets were bought with cash outlays from previously authorized budget authority. Noncash asset authority and noncash asset expenditures would be totaled separately from budget authority resulting in cash outlays. Alternative 3 recognizes that assets acquired with prior budget authority are themselves being used to finance another government program and provide a means for congressional review of this type of financing.

OMB's major concern about alternative 3 was that we were proposing the creation of a supplementary budget. That was not our intent. Instead, we propose an additional type of budgetary resource to be reviewed by the Congress and used in addition to the current concepts in the congressional budget process. Together, these two concepts will ensure that the total cost of the commodity certificate program is available to decisionmakers.

CBO agreed that alternative 3 would draw some additional attention to the use of noncash assets but believed it would be unlikely to be effectively incorporated into the complicated congressional budget process. We believe that the significant dollar size of the commodity certificate program (currently estimated at $28.4 billion) and the potential for the increased use of such financing in 26 other programs justify the creation of a new set of budget totals which should be used in the budget process. Although we agree that changes in the budget process should be made with care, we believe that it is necessary to make some change—if not our preferred creation of new budget totals, at least by treating certificates as if they were cash—before the use of noncash assets to finance programs becomes even more widespread.

USDA also suggested some technical changes to our draft report, which we made where appropriate.

We are sending copies of this report to the Director, Office of Management and Budget; Secretary, Department of Agriculture; Director, Congressional Budget Office; the Chairmen of the House and Senate Committees on Appropriations; and the Chairman of the Senate Committee on the Budget. Copies will also be made available to others on request.

James L. Kirkman for

Frederick D. Wolf
Director

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Abbreviations

ASCS	Agricultural Stabilization and Conservation Service
CBO	Congressional Budget Office
CCC	Commodity Credit Corporation
FHA	Federal Housing Administration
OMB	Office of Management and Budget
USDA	Department of Agriculture

Additional Background Information

Background

Farm support programs, of which commodity certificates are an integr. part, have two principal objectives—to stabilize farm prices and to stabilize and increase farm income. The Department of Agriculture's Commodity Credit Corporation (CCC) and the Agricultural Stabilization and Conservation Service (ASCS)[1] administer various price- and income-support programs, such as nonrecourse loans and deficiency and diversion payments, to achieve these objectives. Nonrecourse loans are made to a farmer at a predetermined loan rate with the farmer's crop used as collateral for the loan. If the farmer chooses not to repay the loan, the government accepts the crop as full payment.

Deficiency payments are made directly to farmers when the national average market prices for certain crops fall below prescribed target prices. They guarantee minimum income levels for corn, feed grain, wheat, rice, and cotton farmers. Farmers may also receive diversion payments for voluntarily reducing the number of acres planted in specified crops. These farm support programs, established by various statutory provisions, are available to all qualifying farmers. The total amount of farm support payments made each year is dependent on the number of qualifying farmers and the overall health of the farm economy.

The Food Security Act of 1985 (Public Law 99-198) provided the Secretary of Agriculture with authority to issue negotiable commodity certificates to make in-kind payments to eligible farmers who choose to participate in deficiency and diversion payment programs for wheat, feed grains, rice, and upland cotton and to companies that participate in the Department of Agriculture's (USDA) export promotion programs. Certificates may also be used for some other programs.[2]

The Secretary of Agriculture started using this authority in April 1986 when CCC issued commodity certificates to farm program participants in place of a portion of the cash payments due to them as a result of program participation. In fiscal years 1986 and 1987, payments of $2.8 billion and $7.9 billion, respectively, were made in commodity certificates. According to the fiscal year 1989 budget appendix, payments of $10.5 billion and $7.2 billion will be made in commodity certificates in fiscal years 1988 and 1989, respectively. Prior to using commodity certificates

[1]CCC is a wholly owned government corporation whose activities are carried out by ASCS.

[2]Approximately 79 percent of all commodity certificates estimated to be issued through fiscal year 1989 are for deficiency or diversion payments. The remaining 21 percent are for the Upland Cotton Inventory Protection, Upland Cotton Loan Deficiency, Upland Cotton First Handler, Rice Marketing, Disaster Certificates, Emergency Feed, Ethanol Plant Assistance, Export Enhancement, Targeted Export Assistance, Conservation Reserve, and Distress Commodity Programs.

to make a portion of these payments, the payments were made in cash, except in 1983 and 1984 when USDA made some payments directly with commodities without issuing commodity certificates. The dollar amounts which will be issued are determined periodically by the Office of Management and Budget (OMB) and USDA based on their analyses of the farm economy.

Commodity certificates have features attractive to program participants. They can be exchanged by the recipient for cash from CCC, for CCC-owned commodities, or for commodities under nonrecourse loan agreements. By exchanging certificates for commodities under nonrecourse loan agreements, farmers avoid the cost of storing their commodity inventory, which is the loan collateral, and may be able to exchange certificates for their loan collateral at prices below those at which the loan was made. They also may realize an additional profit if they can sell the redeemed commodity at a price higher than when the certificate was exchanged for the commodity.

As discussed in the preceding letter, commodity certificates are negotiable and thus can be sold to other interested parties who can exchange them for commodities. Since these other parties—for example, farmers who do not receive enough certificates to exchange for their entire quantity of loan collateral—have been willing to pay prices exceeding the face value of the certificates, very few certificates have been exchanged for cash from CCC.

USDA's objectives for the use of commodity certificates are to:

- reduce CCC inventory and commodity inventories used as collateral for loans;
- enhance U.S. competitiveness in world markets;
- lower storage, handling, and interest costs of holding government stocks;
- permit easy access to all commodity stocks; and
- alleviate tight storage conditions in certain areas of the country.

In prior work,[3] we evaluated the extent to which certificates have met these objectives and the costs of issuing commodity certificates in lieu of cash payments. We concluded that the certificates have resulted in increased cash outlays in another USDA program, its nonrecourse loan

[3] Farm Payments: Cost and Other Information on USDA's Commodity Certificates (GAO/RCED-87-117BR, March 26, 1987).

program. This has occurred because the redemption of certificates for commodities has increased the supply of commodities in the market, thus lowering commodity prices from what they otherwise might have been. This, in turn, increases the demand for CCC nonrecourse loans and the rates of farmer forfeiture of their loan collateral. The precise impact of commodity certificates on total outlays is uncertain and depends largely on existing market conditions for commodities included in the program. We also concluded that certificates have provided certain benefits, such as increased market competitiveness of corn and easier grain industry access to commodity stocks.

It should be noted that this report addresses the lack of budget reporting on the commodity certificates themselves, not the cost of using commodity certificates in terms of increased nonrecourse loan outlays. Increased loan outlays resulting from the use of commodity certificates already are reported in the budget as they occur.

The budget is generally presented on a cash basis in which receipts are recorded when checks are received and outlays[4] are recorded when checks are issued by the government.[5] Therefore, budget authority[6] recordings generally represent the levels of authority to enter obligations[7] that will result in checks being issued by the government. Commodity certificates are not currently treated as checks or cash. Thus, although over $28.4 billion worth of certificates is planned to be issued through fiscal year 1989, budget authority, outlays, or obligations have not been reported in the budget for the certificate issuances. Although the budget appendix's supplementary table entitled, "Value of CCC Certificates Issued" itemizes the dollar value of certificates issued and estimated to be issued, by program, none of this data is included in the budget's totals and thus is not considered in the decision-making process.

[4]Outlays are payments, generally in checks or cash, to liquidate government obligations and are generally reported and estimated on a net basis.

[5]The major exception to this cash basis is that outlays may occur, even though no check is issued, by the maturing of interest coupons in the case of some bonds, or by the issuance of bonds or notes (or increases in the redemption value of bonds outstanding).

[6]Budget authority is authority provided by law to enter into obligations that will result in immediate or future outlays involving federal government funds, except that it does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government.

[7]Obligations include the amounts of orders placed, contracts awarded, services received, and similar transactions requiring payments and reflect the level of program activity. The total of such obligations in any year is financed by budgetary resources.

If certificates were not issued in lieu of cash payments or if certificates themselves were treated as cash, budget authority and outlays for the programs using certificates for financing would increase by $28.4 billion over fiscal years 1986 through 1989 (assuming the same program levels). However, as discussed earlier, certificate issuances result in increased cash outlays in the nonrecourse loan program. Therefore, if certificates were not issued, nonrecourse loan program outlays probably would not increase. In addition to increasing loan program outlays, commodity certificates result in commodity inventories being used to finance part of the farm support programs. This occurs without the budget review that other programs, which do record budget authority and outlays, receive.

Objectives, Scope, and Methodology

The basic objective of our review was to determine whether certificates should be treated for budget purposes like cash. If so, they should be included in the budget authority and outlay totals of the budget. Our second objective was, if we concluded that the certificates should not be treated like cash, to consider other alternatives for disclosing their costs and ensuring an adequate level of congressional budget review.

Our work was performed in Washington, D.C., at USDA, OMB, and the Congressional Budget Office (CBO). We performed our review between July 1987 and February 1988 in accordance with generally accepted government auditing standards. USDA, OMB, and CBO provided written comments on a draft of this report. These comments are evaluated in the agency comments section of the report and are included in appendixes IV, V, and VI.

Our analysis was based on the presentation of commodity certificates in the fiscal year 1989 budget and budget appendix. We addressed the budget reporting for commodity certificates themselves, not the cost of using commodity certificates in terms of increased nonrecourse loan outlays, as discussed earlier in the background section of this appendix. We reviewed the CCC Estimates book prepared by USDA to support CCC's fiscal year 1988 budget proposal, updated budget information from its budget office, and legislation governing commodity certificates. We did not verify the updated budget data provided by USDA.

We interviewed USDA and OMB budget officials to obtain their reasoning for the exclusion of commodity certificates from the budget's totals and discussed possible budget reporting options with them. We also discussed the merits of various options with CBO officials and cognizant congressional staff. After considering the various viewpoints and our prior work on a related matter,[8] we developed the three alternative budget treatments presented in appendixes II and III of this report. We also established criteria, discussed in appendix II, for evaluating budget reporting based on our past work in recent years, and used them to evaluate the three alternatives. Although these are not the only possible alternatives, we think that the options presented represent the most likely budget treatments to be considered, given current budgetary conventions and practices.

[8] Budget Treatment of Monetary Credits (GAO/AFMD-85-21, April 8, 1985).

Criteria and Alternative Budget Reporting Methods

The use of commodity certificates and inventories to finance farm support programs should be disclosed in the budget in a way that ensures congressional review of the transactions during budgetary deliberations. We previously reported[1] that federal decisionmakers should consider the complete costs of governmental programs during their reviews of the budget. This means that the budget should employ concepts and related reporting that facilitate systematic review of the use of noncash assets as well as cash amounts.

Because commodity certificate issuances are not included in the budget authority and outlay totals in the budget, it is unlikely that the Congress will systematically consider such transactions when undertaking reviews of the budget. There are a number of ways in which this problem might be addressed through revised budget reporting. The remainder of this appendix sets forth criteria for evaluating budget reporting alternatives, and then discusses several alternatives.

Criteria for Evaluating Budget Reporting Methods

In considering options for the budget reporting on commodity certificates, we used several criteria which we believe should be considered in evaluating which alternative is better suited to the information needs of the Congress. Based on our past work, criteria important to consider in assessing any budget reporting alternative are the extent to which it reflects or facilitates the following:

- stability of budget concepts and related reporting,
- full disclosure of the total resources used in programs,
- consistency in the budget's basis of reflecting transactions (currently the cash basis), and
- systematic congressional budget review of the resources used in programs.

The last criterion—enhancement of systematic congressional budget review—is, in our opinion, the most important.

A certain stability in budget concepts and reporting is important for maintaining a good understanding of budget information. Any change to the complex set of existing budget terms, definitions, and usages should be carefully evaluated for governmentwide ramifications and for the potential confusion that could accompany a change. Changes in the way

[1] Managing The Cost Of Government: Building An Effective Financial Management Structure (GAO/AFMD-85-35-A, February 1985).

budget data are presented could impair the Congress' ability to identify trends and make historical comparisons of budget data.

Full disclosure is also important. The Congress cannot make informed decisions about budget levels and priorities if it does not know the full costs of programs. Where noncash assets are used in lieu of cash, such noncash amounts should be fully reported.

Furthermore, ad hoc departures from the budget's general cash basis of reflecting transactions should be avoided to minimize the difference between the reported deficit (essentially based on cash outlay and cash receipts totals) and the actual borrowing requirements of the government. This is in line with our support for reporting some accrual-based outlays in budget documents to show the major liabilities incurred during a period that will require future cash expenditures.[2]

Finally, and most importantly, budget reporting should facilitate systematic congressional budget review of the resources used in various programs. This requires reporting that not only discloses all relevant transactions, but also employs definitions and totals that are consistent with those used by the Congress under the Congressional Budget Act of 1974 (titles I through IX of Public Law 93-344), as amended.

Under current procedures, the Congress considers and acts upon budget totals for cash receipts and cash outlays, and the related budget authority amounts. Therefore, the best assurance that an account will receive adequate congressional scrutiny in the budget process is to provide a full disclosure in the budget of its cash receipts, cash outlays, and the related budget authority amounts. If a program uses assets other than cash to finance its operations, the Congress could use alternative budget reporting and definitions to disclose that fact and to facilitate adequate congressional budget review.

[2]Although we support some accrual-based budgeting, it would require a clear reconciliation to the cash totals to report the deficit on a generally cash basis so that it reflects the actual borrowing needs of the government. See Managing The Cost Of Government: Building An Effective Financial Management Structure (GAO/AFMD-85-35-A, February 1985).

Alternative Budget Reporting for Commodity Certificates

The following alternatives vary in the degree to which they meet our criteria. We developed many alternatives based on our analysis of the program and discussions with OMB, USDA, and CBO budget experts. We then narrowed down the alternatives we developed to the three presented in the letter preceding these appendixes.

Examples of the alternative budget treatments appear in tables III.1 through III.3 in appendix III. The tables are based on the fiscal year 1989 budget appendix and on data supporting the midsession review[3] of the President's 1988 budget submission. The specific terms and entries used could differ from those in our examples and still accomplish the objective of providing greater opportunities for congressional budget review.

Alternative 1: Continue to treat commodity certificate issuances as non-cash transactions and exclude them from the budget's cash-based budget authority and outlay totals, and include a supplementary table in the budget appendix.

This alternative continues the current treatment. Commodity certificates continue to be treated as something other than cash and continue to be excluded from the budget authority and outlay totals of the budget. A supplementary table is included in the budget appendix showing the dollar value of certificates issued and planned to be issued by program and fiscal year. Table III.1 in appendix III illustrates this supplementary table.

This alternative does not involve a change in budget reporting since no new budget concepts are involved. It also provides some budget visibility on the use of the certificates without introducing an inconsistency into the cash basis of the budget's totals. However, this alternative, by not including the use of $28.4 billion worth of commodity certificates in the budget authority and outlay totals voted on by the Congress to make resource allocation decisions, does not ensure systematic congressional budget review of commodity certificates. We believe that this is a serious weakness in alternative 1.

[3]The midsession review is a supplemental summary of the budget for the ensuing fiscal year transmitted to the Congress by the President on or before July 15 of each year, pursuant to the Budget and Accounting Act of 1921, as amended. It reflects all substantial alterations in or reappraisals of the estimates of expenditures and receipts originally submitted in the President's budget.

Alternative 2: Treat commodity certificates as though they were cash transactions and include them in the cash-based budget authority and outlay totals.

Under this approach, the budget's totals include budget authority and outlays for the issuance of commodity certificates, and certificate redemptions are treated as offsetting collections (negative outlays). This treatment can be justified on the grounds that the certificates are cash-equivalent instruments. They are denominated in dollar terms and exchangeable for commodities or cash. The sample "Program and Financing" schedule[4] in table III.2 in appendix III shows this budget treatment.

Alternative 2, like alternative 1, does not entail new budget terms. Furthermore, it does not have the deficiency of alternative 1—that is, it includes commodity certificate transactions in the budget totals used in the congressional budget process, thereby ensuring that the Congress will consider the use of certificates in its budget deliberations.

A 1985 amendment to the budget act may be interpreted to include the issuance of certificates within spending authority, leading to the inference that their issuance could be treated as cash.[5] Prior to the amendment, the budget act contained a provision identifying various kinds of "spending authority,"[6] and providing that it shall not be in order for the Congress to consider any bill or resolution which provides new spending authority unless that bill or resolution provides that such new spending authority is to be effective only to the extent or in such amounts as are provided in appropriation acts. The purpose of this provision in the budget act was to integrate more spending decisions into the appropriations process.

The 1985 amendment added two new kinds of spending authority to the budget act's definition of spending authority, one of which was defined

[4]Each account's "Program and Financing" schedule in the budget appendix shows the type and amount of budgetary resources available to finance obligations.

[5]The amendment was section 211 of Public Law 99-177, the Balanced Budget and Emergency Deficit Control Act of 1985.

[6]The original section 401(c) of the budget act defines spending authority basically as authority provided in laws other than appropriation acts to obligate the government to make payments. Examples include contract authority and authority to borrow provided in authorizing legislation.

in the amendment as the authority "to forego the collection...of...offsetting receipts, the budget authority for which is not provided in advance by appropriation Acts..." One might argue that this new kind of spending authority encompasses authority to issue commodity certificates since their issuance and eventual redemption can result in the government forgoing the collection of actual cash. This is the case when the government accepts commodity certificates instead of cash in exchange for commodities. Thus, the 1985 amendment may be interpreted as including commodity certificates within the budget act's definition of spending authority.

However, in expanding the definition of spending authority, the 1985 amendment did not correspondingly require that bills or resolutions, which provide any form of spending authority within the expanded portion of this definition, be effective only to the extent or in such amounts as are provided in appropriation acts. Thus, the law is not clear as to what budget treatment commodity certificates and similar transactions should receive. For example, it is unclear whether budget authority (and thus outlays) should be recorded for transactions such as commodity certificates.

Congressional staff familiar with the background of the 1985 amendment told us that the drafters of the amendment were uncertain about its outlay implications. According to the staff members, the aim of the drafters was to provide in the budget act some recognition of the fact that the forgoing of receipts is a form of spending on which the Congress should focus.

We believe that the budget treatment proposed in alternative 2 would be an improvement over the current budget treatment because it would include commodity certificates in budget totals reviewed by the Congress. We do, however, see several problems with recognizing outlays for commodity certificate issuances as called for in alternative 2. As noted earlier, the increase in loan program outlays due to the use of commodity certificates are already included in the budget. Because the vast majority of certificates are redeemed for commodity inventory, their use does, however, also result in expenditures of noncash governmental assets (commodity inventory). Commodity certificates, while resembling cash in certain ways, are more properly viewed as instruments for making commodity donations in lieu of cash. Therefore, alternative 2 would interject an inconsistency into the budget's general cash basis for outlays. This, in turn, would distort the utility of the budget's outlay totals for calculating the cash deficit and borrowing requirements of the government. We raised a similar concern in our prior report addressing OMB's recording of outlays for the issuance of monetary credits[7] by the Department of the Interior.[8]

Also, under alternative 2, the amount of budget authority and outlays recorded in any fiscal year for the use of commodity certificates would not have a direct relationship with the amount of certificates issued that year because the amounts of outlays and budget authority recorded would be net of offsetting collections (the amount of certificates redeemed for inventory in that year). Thus, if all certificates issued in a given year were redeemed for inventory in that year, no budget authority or outlays would be recorded. If more certificates were redeemed than were issued in a fiscal year, which occurred in fiscal year 1987 as shown in table III.2 in appendix III, reported budget authority and outlays would be reduced.

An additional problem with this alternative is that recording budget authority and outlays for the issuance of commodity certificates results in a double counting of budget authority and outlays. This occurs because, when the commodities are first acquired by CCC, budget authority and outlays are recorded for the loans made to acquire the commodities as collateral. The commodities themselves are not carried in the budget as resources available for subsequent program financing. When the commodities are later used through the certificate program to finance part of the farm support programs, recording budget authority and outlays, as alternative 2 proposes, results in double counting them.

Over the life of the program, this would not be a major problem because the cumulative increase in budget authority and outlays would be only the amount of certificates redeemed for cash (the actual cash disbursements) since certificate redemptions for inventory would be recorded as offsetting collections (income).

Although alternative 2 would be an improvement over the current budget treatment, the problems discussed above make it, in our opinion, a less suitable option than alternative 3.

[7] Monetary credits are dollar-denominated issuances given by the government to another party, instead of cash, in exchange for something of value to the government. The holder of the credits may apply them later to reduce an amount owed the government in other future transactions. The government's acceptance of the credit in the future transaction results in the government forgoing the collection of offsetting receipts in an amount equal to the credit.

[8] Budget Treatment of Monetary Credits (GAO/AFMD-85-21, April 8, 1985).

Alternative 3: Develop a new set of budget terms and totals for reporting the use of noncash assets such as commodity certificates to finance governmental programs.

Our preferred alternative introduces a set of new budget terms and totals—other than the current cash-based budget authority and outlay totals—to provide a full disclosure of certificates and similar costs and a means of including them in budget totals while preserving the cash basis of the current budget authority and outlay totals. This alternative is based on the premise that there should be some recognition in budget totals—but not in the cash-based totals—for the use of noncash assets such as commodity certificates to finance government programs. As discussed earlier, one possible objective of the 1985 amendment to the budget act was to cause some budget recognition of such types of financing. The new concept we propose recognizes that commodity certificates generally represent expenditures of noncash assets rather than funds, and therefore does not treat them as cash outlays.

Inclusion of commodity certificate amounts and other such amounts in budget totals could be accomplished in either of two ways. Under one approach, a whole new set of definitions and totals is developed to allow for congressional budget review of the use of noncash assets. There is a "noncash asset authority" total representing the level of transactions authorized by law (equivalent to the budget authority concept) and a "noncash asset expenditure" total to measure the value of the assets used (equivalent to the outlay concept). In the commodity certificate program, "noncash asset expenditure" represents the value of certificates redeemed for commodities.

Under a second approach, one that only expands upon existing terms, the budget authority and outlay totals in the budget are divided into cash and noncash asset parts. There is a total for "budget authority (cash)" and a total for "budget authority (noncash assets)." Similarly, there is a total for "outlays (cash)" and a total for "outlays (noncash assets)." In the commodity certificate program, "outlays (noncash assets)" represents the level of certificates redeemed for commodities.

The first approach necessitates an amendment to the budget act to require the use of the new definitions and totals in all concurrent resolutions on the budget considered by the Congress.[9] An amendment to

[9]Such resolutions contain budget targets of receipts, budget authority, and outlays that guide the Congress in its subsequent consideration of appropriations and revenue measures.

31 U.S.C. 1104, which sets forth requirements for the President's budget, would also be needed to require the use of the new concepts in the President's budget submission. The second approach of expanding upon the existing definitions of budget authority and outlays probably could be accomplished by the Congress and the executive branch without legislation.

The basic merit of alternative 3 is that either of its two approaches provides a way to include the use of commodity certificates in budget totals while separately identifying cash and noncash transactions. This is an important distinction. Since budget authority and outlays as presently defined (cash-based) are not recorded for commodity certificates (excep for certificates actually redeemed for cash), the double-counting problem would not exist. An example of a "Program and Financing" schedul using this new concept is shown in table III.3 in appendix III.

We acknowledge that introducing a new set of budget terms and totals could be perceived as introducing new complexity in the budget. On the other hand, we believe that the new terms and totals we are proposing provide a means to subject the use of noncash assets for financing government programs to the discipline of the budget process without interjecting inconsistency into the budget's cash-based budget authority and outlay totals. This preserves the relative clarity and meaningfulness of the budget's cash-based amounts and avoids the confusion that would arise if noncash and cash transactions were mixed in a common set of terms and totals (as in alternative 2).

OMB Is Studying the Budget Treatment for Noncash Transactions

OMB officials are currently studying the budget treatment of all noncash transactions, such as bartering, monetary credits, and commodity certificates, with the goal of developing a standard budget treatment which can be applied to all of them. A part of the OMB study involves a comprehensive assessment of existing programs and accounts that use noncash assets in lieu of cash as a means of financing. The results of the study would be helpful in identifying other programs where alternative 3's concepts and treatment would apply equally well.

Illustrative Tables

The tables in this appendix demonstrate how the alternative budget treatments discussed in the preceding pages could be presented. The dollar values for commodity certificate transactions used in the following tables are based on CCC's data supporting its midsession review of the President's 1988 budget and on data in the fiscal year 1989 budget appendix. We have not attempted to present the actual dollar values for budget entries other than commodity certificates because the only purpose of these tables is to demonstrate how the use of certificates could be disclosed under each alternative and the effect of that treatment on budget totals.

Alternative 1

Table III.1 is an example of a supplementary table, as discussed in alternative 1. The table shows the dollar value of commodity certificates issued and planned to be issued, by program and fiscal year. Such a table is currently in the budget appendix. It should be kept in mind that this budget treatment does not result in the inclusion of commodity certificates in any budget totals used by the Congress to make resource allocation decisions.

Table III.1: Value of CCC Certificates Issued

(Dollars in millions)

Item	FY 1986 actual	FY 1987 actual	FY 1988 estimated	FY 1989 estimated
Deficiency payments	1,993	4,468	7,660	5,545
Diversion payments	342	1,209	742	339
Upland cotton loan deficiency	–	64	–	–
Upland cotton inventory protection	389	230	–	–
Upland cotton first handler	14	94	–	–
Rice marketing	1	18	–	–
Disaster certificates	–	556	12	–
Export enhancement program	10	643	1,200	900
Targeted export assistance	16	68	110	110
Ethanol plant assistance	25	29	–	–
Conservation Reserve Program	–	410	778	297
Emergency Feed Program	1	85	–	–
Distress Commodity Program	–	1	–	–
Total[a]	**2,791**	**7,876**	**10,502**	**7,191**

[a]Columns may not total due to rounding.

Source: Budget of the United States Government, 1989—Appendix.

Alternative 2

Table III.2 shows a sample "Program and Financing" schedule for alternative 2 in which commodity certificates are treated as cash. It records obligations, budget authority, and outlays for certificate issuance and offsetting collections for certificate redemption. For example, for fiscal year 1986, the table shows commodity certificate issuances of $2,791 million as an increase in obligations. It shows the amount of certificates redeemed for commodities as offsetting collections of $1,382 million. The difference between the amount issued (obligations) and the amount redeemed for commodities (offsetting collections) is shown as budget authority of $1,409 million. This same amount is "obligations incurred, net"—the difference between obligations and offsetting collections. Total outlays also increase by the same amount.

As is apparent in the data for fiscal year 1987, if more certificates are redeemed for commodities ($8,912 million) than are issued that year ($7,876 million), budget authority and outlays for the year are decreased from the levels they would have been, absent the use of this type of budget reporting for commodity certificates.

This budget treatment increases the opportunity for congressional oversight but departs from the budget's general cash basis for collections and outlays and can result in double counting budget authority and outlays in a given fiscal year.

Table III.2: Sample Program and Financing Schedule for Alternative 2

(Dollars in millions)

		FY 1986	FY 1987	FY 1988
	Program by activities:			
00.XX	Commodity certificates	$2,791	$7,876	$10,502
a				
10.00	Total obligations	+2,791	+7,876	+10,502
	Financing:			
	Offsetting collections from:			
	Nonfederal sources:			
14.00	Commodity certificates[b]	−1,382	−8,912	−4,630
a				
39.00	**Budget authority**	**+1,409**	**−1,036**	**+5,872**
	Relation of obligations to outlays:			
71.00	Obligations incurred, net	$+1,409	$−1,036	$+5,872
a				
90.00	Total outlays	+1,409	−1,036	+5,872

[a]Other Program and Financing schedule entries have been omitted.

[b]This represents certificates redeemed for commodity inventory and is a noncash offsetting collection. The amounts are based on CCC's fiscal year 1988 midsession review estimates.

Alternative 3

Table III.3 is a sample "Program and Financing" schedule for alternative 3. Alternative 3 recognizes that commodity certificates generally result in expenditures of noncash assets rather than funds. It introduces a new set of terms for reporting the use of noncash assets. The new terms can either expand on the definition of budget authority, or, as seen in table III.3, present a new type of budgetary resource. In table III.3, "noncash asset authority" permits obligations which will result in "noncash asset expenditures." The "noncash asset authority" total represents the level of transactions authorized by law (equivalent to the budget authority concept) and the "noncash asset expenditure" total measures the value of the certificates redeemed for commodities (equivalent to the outlay concept). Thus the budget's general cash basis for budget authority and outlays is preserved. With this alternative, the Congress has an increased opportunity for budget review of "noncash asset authority" and "noncash asset expenditure" totals.

Using this approach, certificate-based transactions would be included in the budget, but would not be merged with cash. Instead, by establishing new terms and totals for the use of noncash assets to finance government programs, this alternative provides the Congress with more information regarding the use of commodity certificates by including such financing in budget totals which can be reviewed by the Congress.

To illustrate, for fiscal year 1986, the table shows commodity certificate issuances of $2,791 million as an increase in obligations. However, the use of certificates does not affect budget authority (cash) because the $2,791 million in new obligations would be authorized by "noncash asset authority"—a new term created for the express purpose of reporting the use of noncash assets as a financing mechanism. Reporting the use of certificates separately preserves the budget's general cash basis and markedly enhances the Congress' ability to review noncash transactions.

The next figure in the column for fiscal year 1986 is the amount of commodity certificates authorized and obligated (issued) during the year—the amount of increase in "obligations incurred, net." Certificate holders had not redeemed $1,409 million by the end of the fiscal year, so this amount is shown as the "obligated balance, end of year." The residual, $1,382 million, represents the amount of certificates redeemed for commodities during fiscal year 1986 and is shown as "noncash asset expenditure." Because less than a million dollars worth of certificates were redeemed for cash, and cash totals are maintained separately, there is no effect on total 1986 outlays.

Budget authority totals under the "Financing" caption and total outlays are not affected by the use of certificates unless the certificates are redeemed for cash. Because we estimate that $7 million and $6 million worth of commodity certificates will be redeemed for cash in fiscal years 1987 and 1988, respectively, budget authority and outlays are increased by those amounts to properly show expected cash needs.

Table III.3: Sample Program and Financing Schedule for Alternative 3

(Dollars in millions)

		FY 1986	FY 1987	FY 1988
	Program by activities:			
00.XX	Commodity certificates	$2,791	$7,876	$10,502
[a]				
10.00	Total obligations	+2,791	+7,876	+10,502
	Financing:			
[a]				
39.00	**Budget authority**	**0**	**+7**	**+6**
XX.XX	**Noncash asset authority**	**2,791**	**7,869**	**10,496**
	Relation of obligations to outlays:			
71.00	Obligations incurred, net	$+2,791	$+7,876	$+10,502
	Obligated balance, start of year:			
72.XX	Noncash asset authority	0	1,409	366
	Obligated balance, end of year:			
74.XX	Noncash asset authority	−1,409	−366	−6,232
[a]				
XX.XX	Noncash asset expenditure[b]	1,382	8,912	4,630
90.00	Total outlays	0	+7	+6

[a]Other Program and Financing schedule entries have been omitted.

[b]These amounts are based on CCC's fiscal year 1988 midsession review estimates.

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 THE SECRETARY
WASHINGTON, D.C. 20250

April 7 1988

Mr. Frederick D. Wolf
Director
Accounting and Financial Management Division
General Accounting Office
441 G Street, N.W.
Room 6001
Washington, D.C. 20548

Dear Mr. Wolf:

Thank you for the opportunity to review and comment on the GAO draft report, "USDA's Commodity Certificates Should Be Recognized in Budget Totals." This report focuses on how commodity certificates could be treated in the Budget Appendix, specifically in the CCC "Program and Financing Schedule." Our comments include those of a summary nature and those addressing specifics of the alternative budget reporting methods.

Summary Comments

See comment 1.

The GAO draft report gives a fairly accurate description of CCC programs and the functions of commodity certificates within those programs. The report recognizes that the current method of budgeting for the outlay impact of certificates is in increased nonrecourse loan activity. However, in page 2 of the opening letter and in Appendix I, page 16, GAO implies that the precise impact of certificates on loan activity is somehow "uncertain." The modeling process used to arrive at these certificate-related outlay estimates is the same process used to develop the remainder of the program cost estimates and the supporting supply and use data. Therefore, the estimated cost of certificates as reflected in net lending cannot be less accurate than the other cost estimates.

See comment 2.

USDA disagrees that minimizing cash outlays is the primary objective of the certificate program. It is our opinion that this statement should be entirely removed as an objective. It is true that cash outlays for direct payments are reduced by the use of certificates. However, costs for net lending rise by an equivalent amount. The primary goal of the certificate program is to facilitate the orderly marketing of commodities and to provide ready access to government stocks that otherwise would be unavailable to the market. The preferred ranking of USDA objectives is as follows:

1. Facilitate marketings and permit ready access to government stocks.
2. Enhance U.S. competitiveness.
3. Reduce CCC inventories.
4. Lower storage/handling and interest.
5. Alleviate tight storage.

See comment 3.

We see no need for a new set of budget concepts for reporting on the use of certificates. GAO states in the report that, "the current treatment of commodity certificates in the Budget Appendix does not ensure systematic congressional budget review because certificates are not included in any

Mr. Frederick D. Wolf 2

totals used by Congress to make resource allocation decisions." Apparently, GAO's view is that the process of congressional budgetary scorekeeping is not facilitated by the current Appendix treatment of certificates. We do not believe that technical information in the Commodity Credit Corporation Budget Appendix material is the basis upon which Congress makes resource allocation decisions. It is generally recognized that Budget Appendix materials reflect the estimated outcome of policies already in place and largely mandated by law and that resource allocation decisions are made by appropriation committees on the basis of actual CCC cash outlay projections, available CCC borrowing authority, and CCC appropriation requests.

Comments on Specific Alternatives Addressed by GAO

See comment 3.

Alternative 1

The Department of Agriculture and OMB enhanced the reporting on commodity certificates in the fiscal year 1989 Budget Appendix. The Program and Financing Schedule continues to show the outlay and budget authority impact of issuing commodity certificates within the CCC net lending entries on the schedule. Direct certificate issuance and redemption activity are not included in the schedule because these are noncash transactions. However, a supplementary table showing the dollar value of certificates issued and estimated to be issued in each fiscal year, by program, was included in the Budget Appendix for the first time. This method of reporting is identified as Alternative 1 in the GAO report. We prefer this alternative, which avoids the double-counting of outlays and/or budget authority inherent in the other two alternatives.

Alternative 2

See comment 4.

Alternative 2 would treat commodity certificates as though they were cash transactions and include them in the cash-based budget authority and outlay totals. We agree with GAO that recording budget authority and outlays for the issuance of commodity certificates would result in a double-counting of budget authority and outlays. Conversely, if certificate redemptions exceeded new issuances, an understatement of program costs would result from such double-counting, as GAO recognizes. Implementation of this alternative would also create massive reconciliation and accounting problems in reporting cash outlays to Treasury, not only for CCC, but governmentwide, unless cash outlays were universally redefined (the actual fiscal year amounts shown in the Budget Appendix must agree with the annual Treasury Combined Statement).

Alternative 3

Alternative 3 would develop a new set of budget terms and totals for reporting the use of noncash assets, such as commodity certificates, to finance governmental programs. Elements of this would require legislation. We question the need for a new set of budget terms and totals which separately identify cash and noncash transactions within a discrete budget total. GAO's Alternative 3 combines cash and noncash transactions in order to obtain a "true" program cost. As such, this alternative cannot escape the problem of double-counting.

Mr. Frederick D. Wolf 3

OMB Circular A-11 requires that the Program and Financing Schedule be on an obligation basis, unless a waiver is granted by OMB for some other presentation basis. Including noncash certificate transactions in the schedule would introduce elements of a partial cost-based budget presentation for CCC. Such a presentation would record the use of CCC noncash commodity assets, in addition to the outlays impact already being captured within net lending. However, the use of these commodity assets are not new obligations. These obligations/outlays were originally recorded, along with new budget authority, when a commodity entered the loan program or was purchased. The major drawback to Alternative 3 is the clear double-counting of budget authority. This can be seen sequentially through an example. A loan made last year required an outlay and budget authority and was recorded as such, and the Corporation also recorded an asset. This year, the producer receives a certificate (for a deficiency payment, for example) and redeems the original loan with the certificate. The CCC has therefore used that asset (acquired with last year's outlay) to meet a payment due this year. To again record the certificate use/issuance as budget authority would double-count it. Furthermore, in order to be consistent throughout, any use of a commodity asset under Alternative 3 would have to be taken into account, such as domestic and foreign commodity donations made by CCC for various program purposes --- not just noncash certificate uses.

See comment 5.

See comment 6.

See comment 7.

We readily agree that use of certificates is a cost to the CCC and information on such unrecoverable costs, called "realized losses," is published by USDA extensively; for example, in the annual CCC Report on Financial Condition and Operations and in the CCC Budget Justification materials furnished to appropriations committees in support of the President's Budget. Obligations/outlays and realized losses simply cannot be combined into a meaningful total figure. Alternative 3 would only appear to be viable and of assistance to congressional scorekeepers if the entire CCC Program and Financing Schedule were on a cost-based basis, as it was for many years prior to the 1985 Budget when OMB required program and financing schedules to be on an obligation basis.

Sincerely,

Peter Myers

PETER C. MYERS
Acting Secretary

The following are GAO's comments on the Department of Agriculture's letter dated April 7, 1988.

GAO Comments

1. We did not intend to imply that USDA could not reasonably estimate its costs. The report states that certificates result in increased loan outlays but that their precise effect on total outlays is uncertain and depends largely on existing market conditions for commodities included in the program.

2. Report changed to delete "minimize cash outlays" as an objective of the certificate program. Since USDA objects to its inclusion as an objective and since it is not germane to the main theme of our report, we have deleted it. However, GAO has documentation showing it to be one of the original objectives of the program. The other objectives of the program are not ranked in order of importance.

3. Discussed under alternative 1 in agency comments section of report.

4. Discussed under alternative 2 in agency comments section of report.

5. Discussed under alternative 3 in agency comments section of report.

6. This is true. However, our work concentrated solely on commodity certificates.

7. Discussed under alternatives 1 and 2 in agency comments section of report.

Comments From the Congressional Budget Office

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

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

April 18, 1988

Frederick D. Wolf
Director
Accounting and Financial Management Division
United States General Accounting Office
Washington, D.C. 20548

Dear Fred:

We appreciate the opportunity to comment on GAO's report on the budgetary treatment of USDA's commodity certificates. After reviewing your suggested alternatives, we have concluded that Alternative 2 is the best option for dealing with the commodity certificates, and that Alternative 3 would have little practical effect.

See comment 1.

We agree that Alternative 3 -- the use of a new set of budget terms and totals for noncash assets -- would draw some additional attention to the use of noncash assets. But we believe that the added complexity would severely limit the benefits to be gained from this proposal, and we suspect that it is unlikely that such new categories would be effectively incorporated into the very complicated Congressional budget process. Furthermore, Alternative 3 seems incomplete from an accounting viewpoint, because it would count disbursements of assets but apparently not the receipt of assets. We therefore conclude that the added benefits of this option would be minimal.

See comment 2.

On the other hand, Alternative 2 -- the treatment of commodity certificates as if they were cash -- has the important advantage of being readily incorporable into the budget review and approval process alreadv in place, without adding new terms and categories. It also has the advantage of capturing on the budget government commitments that will ultimately lead to federal cash expenditures. These commitments would be reflected as outlays when the commitments are made (i.e., when the certificates are issued) and outlays would be charged to the particular program for which the commitment is made. This would remedy two defects of the current system. Currently, no direct budget impact occurs when certificates are issued, and the outlays that ultimately result are not charged to the particular program that originated the commitment. (Currently, outlays resulting from the use of certificates appear under CCC price support programs, mostly the corn program, even if the certificates were issued for the conservation reserve or for the wheat, cotton, or rice programs.)

See comment 3.

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April 18, 1988
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See comment 4.

The disadvantages of Alternative 2 noted in the report are, in our view, not compelling. The deviation from a cash-based budget would not be the first and would be consistent with other efforts to more accurately capture the extent of government commitments. For example, loan asset sales with recourse and FDIC and FSLIC notes are now being treated in a non-cash basis. The Treasury and others interested in the government's cash borrowing needs certainly have the capability to make the necessary adjustments in budget totals for that purpose.

See comment 5.

Furthermore, the treatment of commodity certificates as a cash equivalent is not a drastic departure from a cash-based budget, because, as your report points out, the certificates result in increased nonrecourse loan outlays. If issuance of a certificate is counted as an outlay, and redemption as a receipt, then net outlays over time resulting from the use of certificates will be the same as under current procedures, but the budget would provide better information as to the timing of the commitment and the cost of the programs for which certificates are used.

See comment 4.

We also believe that there would be no double-counting problem if the certificates are treated as cash. The acquisition of commodities by CCC through its nonrecourse loan program results in cash outlays that represent a government expenditure for that program. The issuance of a certificate for another program represents a separate and additional financial commitment by the government. When the certificate is redeemed (usually in place of a cash payment), the transaction would appear as an offsetting collection. This procedure would have the effect of moving most of the budget impact to the budget account, program, and time when the first financial commitment is made but would not double-count any commitments or expenditures.

We would be pleased to discuss our views in more detail with you or your staff.

Sincerely,

James L. Blum
Acting Director

The following are GAO's comments on the Congressional Budget Office's letter dated April 18, 1988.

GAO Comments

1. Discussed under alternative 3 in agency comments section of report.

2. Counting the receipt of assets would require that commodity acquisitions and, conceptually, all government acquisitions, be recorded as offsetting collections in the budget. It would also require that commodity inventories acquired in previous years be included in the budget as budgetary resources. We believe that congressional control would be more enhanced by requiring the appropriation of "noncash asset authority" as proposed in alternative 3, than by recording the acquisition of commodities as offsetting collections, which are not subject to congressional budgetary review. Also discussed under alternative 2 in agency comments section of report.

3. We agree that alternative 2 is preferable to the current budget treatment and have changed the report to reflect this, although we maintain our preference for alternative 3. Also discussed under alternative 2 in agency comments section of report.

4. Discussed under alternative 2 in agency comments section of report.

5. As discussed in our report, with alternative 2's budget treatment, the amount of budget authority and outlays recorded in any fiscal year for the use of commodity certificates would not have a direct relationship with the amount of certificates issued that year because the budget authority and outlay amounts recorded would be net of offsetting collections. Alternative 3 provides better information on both the timing of the commitment as well as the cost of the programs for which certificates are used by recording noncash asset authority (and budget authority for certificates estimated to be redeemed for cash) for the full amount of certificates issued each year. Noncash asset expenditures would represent actual redemptions for commodities.

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

April 19, 1988

Mr. Frederick D. Wolf
Director
Accounting and Financial
Management Division
United States General
Accounting Office
Washington, DC 20548

Dear ~~Mr. Wolf~~ Fred:

The Director has asked me to respond to your request for review and comments on the General Accounting Office's proposed report entitled "Budget Issues: USDA's Commodity Certificates Should Be Recognized in Budget Totals". The report examines the current budget treatment of the Commodity Credit Corportation's (CCC) commodity certificate program and provides recommendations for the budgetary treatment of these certificates.

I will defer to the Department of Agriculture to respond with regard to the accuracy of GAO's description of the origin and mechanics of how the commodity certificate program works. My comments will be restricted to the applicability of budget concepts and to GAO's proposals for modification.

As noted in the GAO draft report, OMB is currently conducting a comprehensive study of how to treat the non-cash transfer of resources in the Federal budget. Our approach is that normally the budget is on the basis not only of cash transactions but also of cash-equivalent transactions.

See comment 1.

As one example, the budget records the total amount of Federal employee salaries as outlays, and it records as receipts the amounts withheld from employee pay for Federal income taxes and employee retirement contributions. Another example, potentially closer to the CCC commodity certificates, is financial instruments issued to the public in lieu of cash. We deem these instruments, such as FHA debentures, to be a use of budgetary resources (i.e., we count such instruments as Federal outlays and debt).

See comment 2.

The CCC commodity certificates are an important instrument that we are studying. Apparently, the certificates are fully negotiable, and thus appear to substitute for cash in satisfying claims against the Government. This would suggest that they should be counted as outlays and debt at the time of issuance.

However, it is too early in our study for us to arrive at a definitive conclusion on CCC commodity certificates.

See comment 3.

I am concerned about your proposal to create a supplementary budget. Our objections are two-fold:

1. The President's Commission on Budget Concepts strongly opposed the idea of multiple budgets. It recognized that if the Government issued two or more different budgets, the proliferation of budgets would add more confusion than enlightenment. I believe that if these transactions should be scored as outlays in the proposed supplementary budget, they should be so scored in the regular budget.

See comment 3.

2. The best way to make these transactions count in the budget process is to count them. We should settle the issue one way or another. Creating an additional budget concept that would be used for decision making at the same time the current concept is used for scorekeeping simply would not work.

Thank you for the opportunity to review this report. If you have any further questions regarding OMB's concern with the GAO proposal, please call.

Sincerely,

Edward M. Rea
Chief, Resources Systems
Branch

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The following are GAO's comments on the Office of Management and Budget's letter dated April 19, 1988.

GAO Comments

1. Federal Housing Administration (FHA) debentures are one of the 27 programs, including the commodity certificate program, identified by agencies as having authority to use noncash financing mechanisms. As stated in our report, we did not examine the budgetary treatment of the other 26 programs. We suggest that our recommendation for a new budget treatment of commodity certificates be considered by OMB in its ongoing study of the budget treatment of all of these programs.

2. Discussed under alternative 2 in agency comments section of report.

3. Discussed under alternative 3 in agency comments section of report.

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