May 2004

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Highlights

Highlights of GAO-04-526, a report to congressional committees

DEBT CEILING

Analysis of Actions Taken during the 2003 Debt Issuance Suspension Period

Why GAO Did This Study

GAO is required to review the steps taken by the Department of the Treasury (Treasury) to avoid exceeding the debt ceiling during the 2003 debt issuance suspension period. The committee also directed GAO to determine whether all major accounts that were used for debt ceiling relief have been properly credited or reimbursed. Accordingly, GAO determined whether Treasury followed its normal investment and redemption policies and procedures for the major federal government accounts with investment authority, analyzed the financial aspects of actions Treasury took during this period, and analyzed the impact of policies and procedures Treasury used to manage the debt during the period.

What GAO Recommends

GAO recommends that the Secretary of the Treasury (1) seek statutory authority to restore Civil Service fund losses associated with the October 2002 early redemption of Federal Financing Bank (FFB) obligations and (2) direct the Under Secretary for Domestic Finance to document necessary policies and procedures for exchange transactions between FFB and a federal government account with investment authority and seek any statutory authority necessary to implement the policies and procedures. Treasury agreed with our recommendations and has already taken certain steps to document the policies and procedures.

www.gao.gov/cgi-bin/getrpt?GAO-04-526.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gary T. Engel at (202) 512-3406 or engelg@gao.gov.

What GAO Found

On February 20, 2003, Treasury determined that a debt issuance suspension period was in effect. A debt issuance suspension period is any period for which the Secretary of the Treasury has determined that obligations of the United States may not be issued without exceeding the debt ceiling. During this period, which lasted until May 27, 2003, the Secretary took actions related to the Government Securities Investment Fund of the Federal Employees' Retirement System (the G-Fund), the Civil Service Retirement and Disability Fund (the Civil Service fund), and the Exchange Stabilization Fund (ESF) to avoid exceeding the debt ceiling. Also, during fiscal year 2003, the Secretary initiated several actions involving the Civil Service Fund, FFB, and the Treasury general fund that related to Treasury's efforts to manage the amount of debt subject to the debt ceiling. The Secretary took other actions to avoid exceeding the debt ceiling, such as suspending the sales of State and Local Government Series Treasury obligations and recalling non-interest-bearing deposits held by commercial banks as compensation for banking services provided to Treasury.

The actions taken, which were consistent with legal authorities provided to the Secretary and related to the G-Fund, the Civil Service fund, and ESF, initially resulted in interest losses to the G-Fund and ESF and principal and interest losses to the Civil Service fund. When the debt ceiling was increased to $7.4 trillion on May 27, 2003, the Secretary fully invested the G-Fund's investments and on May 28, 2003, fully restored the interest losses, as required by law. On June 30, 2003, the Secretary fully compensated the Civil Service fund for principal and interest losses, as required by law. The losses related to ESF could not be restored without special legislation. As a result, related ESF losses of $3.6 million were not restored.

The actions initiated by Treasury in fiscal year 2003 that involved the early redemption of FFB debt obligations held by the Civil Service fund and exchanges of obligations among the Civil Service fund, FFB, and the Treasury general fund resulted in all three parties realizing gains or incurring losses. In some cases, GAO has been able to quantify the gains or losses that occurred as a result of these transactions. For example, according to FFB estimates, the Civil Service fund lost more than $1 billion in interest because of FFB's redemption of FFB obligations held by the Civil Service fund before their maturity date and unforeseen interest rate changes. In other cases, however, information needed to understand the potential consequences of these actions will not be available for a number of years. The Secretary currently lacks the statutory authority to restore such losses and has not developed documented policies and procedures that can be used to minimize such losses in future actions that may be taken by Treasury that involve FFB and an account with investment authority such as the Civil Service fund.