

Highlights of [GAO-05-249](#), a report to the Chairman, Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

Why GAO Did This Study

CAFs have been discussed as a new mechanism for financing federal capital assets. As envisioned, CAFs would have two goals. First, CAFs would potentially improve decision making by reflecting the annual cost for the use of capital in program budgets. Second, they would help ameliorate at the subunit level the effect of large increases in budget authority for capital projects (i.e., spikes), without forfeiting congressional controls requiring the full cost of capital assets to be provided up-front. Through discussions with budget experts and by working with two case studies, the Departments of Agriculture and of the Interior, we are able to describe in this report (1) how CAFs would likely operate, (2) the potential benefits and difficulties of CAFs, including alternative mechanisms for obtaining the benefits, and (3) several issues to weigh when considering implementation of CAFs.

CAPITAL FINANCING

Potential Benefits of Capital Acquisition Funds Can Be Achieved through Simpler Means

What GAO Found

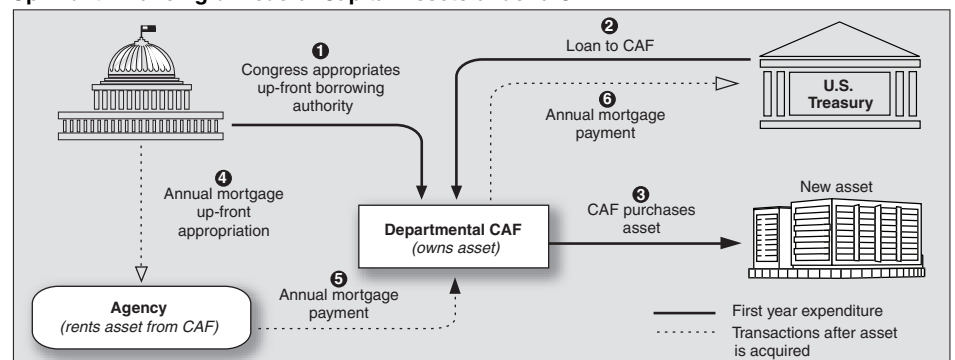
Capital acquisition funds (CAF) have been suggested as department-level funds that would use appropriated up-front borrowing authority to buy new departmental subunit assets. These subunits would then pay the CAF a mortgage payment sufficient to cover the principal and interest payment on the Treasury loan. The CAF would use those receipts only to repay Treasury and not to finance new assets. If existing capital assets were transferred to the CAF, subunits would pay an annual capital usage charge to the CAF.

CAFs might achieve the goals intended, but these goals can be achieved through simpler means. Alternative mechanisms, such as asset management systems, cost accounting systems, and working capital funds may achieve the goal of allocating annual capital costs and improving decision making for capital assets. Our case study agencies generally did not indicate problems with budget authority spikes. They budget in useful segments, use accumulated no-year authority, or finance capital assets using working capital funds. Many concerns about CAFs were raised, including the long-term feasibility of making fixed annual mortgage payments and the added complexity CAFs would create.

Implementation would raise a number of issues. If CAFs were applied only to new assets going forward, all programs would not reflect the full annual cost of capital for decades. Yet the difficulties of including existing capital are numerous. Even if these issues were tackled, there is little assurance that CAFs alone would create new incentives for programs to reassess their use of capital since CAF payments would not affect the deficit.

Implementation issues could overwhelm the potential benefits of a CAF. More importantly, current efforts under way in agencies would reflect asset costs as part of program costs without introducing the difficulties of a CAF. As long as alternative efforts uphold the principle of up-front funding, CAFs do not seem to be worth the implementation challenges they would create. Except for OMB, agencies generally agreed with our conclusions.

Up-Front Financing of Federal Capital Assets under a CAF



www.gao.gov/cgi-bin/getrpt?GAO-05-249.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Susan J. Irving at (202) 512-9142 or irvings@gao.gov.