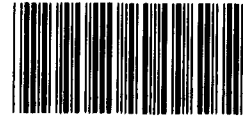


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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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TESTIMONY OF
HARRY S. HAVENS
ASSISTANT COMPTROLLER GENERAL
OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY
COMMITTEE ON GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
ON
H.R. 1244
THE FEDERAL CAPITAL INVESTMENT BUDGET ACT OF 1983



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Mr. Chairman and Members of the Subcommittee:

I am very pleased to appear before you today to discuss planning and budgeting for capital investments. The Federal Capital Investment Budget Act of 1983, H.R. 1244, is designed to provide better information on public capital investments, identify deficiencies in public investments, allocate funds based on priorities, reduce duplication of effort among various levels of government, and improve legislative oversight over the public infrastructure and new capital investments. We support these objectives.

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The federal government has a significant impact on public capital investment. Based on the President's 1985 budget proposals, the federal government will spend \$121.5 billion in fiscal year 1985 for construction and rehabilitation of facilities and the acquisition of major equipment. Of that amount \$86.8 billion will be for defense investment, primarily military equipment, and \$34.7 billion for nondefense investment, primarily grants to state and local governments.

In the past few years, GAO has been very concerned about the important question of how we plan and budget for this Nation's public capital investment. Our general conclusion is that the government as a whole does not do a very good job in this area. The weaknesses in agency capital investment planning are coupled with the lack of an integrated strategy or planning structure for considering investment priorities among agencies. We believe there needs to be greater visibility for capital investment decisions and a better framework for making those decisions than is currently provided in the budget.

The only vehicle currently available in the budget for cross-cutting public facilities information is Special Analysis D, entitled "Investment, Operating, and Other Federal Outlays," which was created in the early 1950s. Special Analysis D has evolved somewhat since then. However, it remains a document that is prepared after all of the budgetary decisions have been made. It simply displays the decisions that have already been made. In addition, Special Analysis D includes research and development and education and training. While these are very important

areas, we believe it is inappropriate to merge them with investment in long-lived physical assets. Doing so tends to obscure some very important distinctions.

OMB has made some changes in the 1984 and 1985 budgets to correct previously identified deficiencies in Special Analysis D. In 1984, in response to a growing interest in public outlays for capital purposes, OMB added outlay data for off-budget entities, information on historical trends in federal investment, and a separate display for major public works programs. For fiscal year 1985 OMB has added a table on net investment financed by the federal government. While these changes have improved the historical usefulness of Special Analysis D, we believe that it is not sufficient as a planning document for the executive branch in setting capital investment policy nor for the Congress in allocating scarce budgetary resources.

In addition to questions about the adequacy of funding, many in both the public and private sectors have questioned the process by which we decide both the level of public capital investment and the allocation of those investment funds. A number of bills were introduced during both the 97th and the 98th Congress to require that the President's budget contain additional information about investment programs. The Senate has passed a bill and the House Committee on Public Works and Transportation has reported favorably on legislation to improve capital investment information in the budget.

The Federal Capital Investment Budget Act, H.R. 1244, as introduced, would require the President's budget to include a

special analysis of appropriations and outlays for public infrastructure investments and a capital budget within the current unified budget.

We agree with the need for improved analysis, but have several concerns:

-- Uniform standards of service:

While there are standards of performance in some cases, such as for highways, agreed standards are lacking for other types of infrastructure such as water distribution systems. We believe that setting national performance standards for the widely diverse types of infrastructure enumerated in this bill may prove extremely elusive.

-- Funds classified as investment:

The definition of investment would exclude acquisition of facilities by other than construction, such as by purchase, trade, or donation. It would also improperly include operation and maintenance costs as investments rather than "operating" costs.

-- Facilities included as capital investments:

The definition of capital would exclude facilities in foreign countries and defense capital investments such as military bases and other defense facilities.

The bill would also require the Secretary of Commerce to prepare an inventory of civilian public facilities and an assessment of the physical condition of such facilities. If such an inventory is to be required, we believe it should be

more comprehensive. In particular, we are concerned about the exclusion of defense facilities. However, there is significant disagreement as to the feasibility of developing a national inventory at this time. We suspect it would prove very difficult to accumulate reliable and comparable data from the myriad of sources that would be involved.

H.R. 1244 was referred jointly to the Committee on Government Operations and the Committee on Public Works and Transportation. The Public Works Committee has reported a substitute version of the bill. We believe that H.R. 1244 as reported by that Committee, if enacted, would help alleviate the existing capital investment information deficiency of Special Analysis D while avoiding some of the more complex requirements of the bill as introduced. The Comptroller General testified favorably on S. 1432, the companion to this version of the bill, last year before the Senate Committee on Governmental Affairs.

Specifically, the bill as reported would require the President to submit with his annual budget an analysis of requested budget authority and outlays for each major public capital investment program, along with summaries thereof. It would also require that the analysis include current service levels and alternative high and low investment levels over a 10-year period in current dollars and for five years in constant dollars; investment needs based on existing assessments over a 10-year period; the identification of major policy issues affecting investment; and a discussion of economic assumptions, engineering standards, and other factors affecting investment needs.

While an analysis of current service levels is important, I question the value of the alternative high and low investment levels. In the absence of explicit criteria, these could become arbitrary numbers, adding little to the decisionmaking process. I would suggest that for decisionmaking purposes, the most important comparison is that between current service levels and the level of investment proposed in the President's budget.

While it is essential to consider needs in establishing priorities, it is important that consistent methodology and discipline be maintained to prevent the needs assessments from becoming little more than a consolidated wish list. Needs identification should be a part of the planning process of the agencies responsible for implementing and administering the programs. Our experience has been that planning of this sort can be meaningful only if conducted within a framework of realistic fiscal guidance.

The definition of public capital investment used in the reported bill includes most federal outlays for civilian capital investments. However, it does not include the defense investments which constitute about 70 percent of total federal investment in capital.

It is our judgment that planning, budgeting, and managing capital investment programs are equally pressing problems in the defense area. As I stated previously, we believe that any capital investment analysis included in the budget should also cover major defense investments such as military bases and other defense facilities. Consideration should be given to including

other long-lived weapons system platforms such as ships and aircraft. The decision on what to include should be based on the asset's use and estimated length of service.

You asked that I address the subject of a council or commission to study the area of public facilities investments. Although the issue is not covered by H.R. 1244, it is included in S. 1330 as passed by the Senate and in H.R. 1144 that was referred to this Committee.

In our opinion, properly constituted study groups, such as commissions and councils can make substantive contributions where public policy issues involve many institutions and diverse views. However, for such a group to be effective, it must be properly chartered, have a properly balanced representation, be properly staffed and funded, and have a fixed life adequate to accomplish its objectives.

I would like to conclude by reemphasizing our view that the government's capital investments need more systematic attention than they are now getting. H.R. 1244, with some of the changes we have suggested, would begin to move us in the direction of a more coherent approach to planning and budgeting for capital investment, provided there is due attention to discipline, methodology, and organization in its implementation. We will no doubt learn more as we progress and additional steps may be warranted as we gain that experience.

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