Statement of
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before the
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NOTICE

This statement is not available for public release until it is delivered at 2:00 p.m. (EDT), Wednesday, April 25, 1990.

Mr. Chairman, I am pleased to appear before the Subcommittee this afternoon to discuss the budgetary impact of S. 370, the "American Heritage Trust Act of 1989."

The bill would create the American Heritage Trust, which would consist of two existing funds: the Land and Water Conservation Fund (LWCF), and the Historic Preservation Fund (HPF). Unexpended balances in these two funds would be invested in public debt securities. The interest earned on that investment would be available for obligation in the following fiscal year--without appropriation action--to acquire land and to provide grants for historic preservation. Obligations from both funds would be subject to limits. Above a certain level, interest income of the Land and Water Conservation Fund would be credited to the general fund of the Treasury.

Apparently, some have suggested that S. 370 is costless--that the additional interest earnings of the two funds would offset the additional spending. This is not the case. The government, as a whole, would earn no additional interest. Furthermore, the Congressional Budget Office (CBO) estimates that, over the 1992-1995 period, S. 370 would create new direct spending authority totaling $3.5 billion, resulting in additional outlays of $2.7 billion over this period. These estimates assume that the Congress would continue to provide annual appropriations for these activities in addition to the funding provided by this bill and that the amounts appropriated would not be affected by

enactment of the bill. The table below shows CBO's estimate of the budgetary impact of S. 370.

In my testimony today, I will discuss separately the budgetary effects of each of the transactions mandated by the bill:

- o Establishing the trust,
- o Investing the funds' balances in Treasury securities, and
- o Creating new direct spending authority from the two funds.

BUDGETARY EFFECTS OF THE PROPOSED AMERICAN HERITAGE TRUST ACT COMPARED WITH THE CBO BASELINE
(Outlays, by fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
Net Interest (Budget Function 900)					
Interest on the Public Debt	0.7	0.8	0.9	1.0	1.0
Interest Received by the LWCF and HPF	-0.7	-0.8	-0.9	-1.0	-1.0
Total, Net Interest	0.0	0.0	0.0	0.0	0.0
American Heritage Trust (Budget Function 300)					
Spending of Interest Credited to the LWCF and HPF[a]	0.0	0.3	0.6	0.8	0.9
Net Budgetary Effect	0.0	0.3	0.6	0.8	0.9

SOURCE: Congressional Budget Office.

NOTES: LWCF = Land and Water Conservation Fund
HPF = Historic Preservation Fund

a. Spending shown is in addition to regularly appropriated spending of $0.3 billion to $0.4 billion a year for land acquisition and historic preservation, which is assumed to be unaffected by this proposal.

ESTABLISHING THE AMERICAN HERITAGE TRUST

Two existing special funds would make up the American Heritage Trust: the Land and Water Conservation Fund, which had an unappropriated balance of $6.6 billion at the beginning of fiscal year 1990, and the Historic Preservation Fund, which had a corresponding balance of $1.3 billion. A portion of federal receipts from the sale of surplus property, leases on the Outer Continental Shelf, and taxes on motorboat fuel is currently earmarked for these funds. Appropriations out of these funds for acquiring land and historic preservation have been less than the earmarked receipts, resulting in the substantial unappropriated balances.

Establishing the trust itself would not affect the budget, which has already recorded all amounts credited to these two funds as federal receipts. Attaching a new name or a new purpose to the funds is not a budgetary transaction.

INVESTING FUND BALANCES

S. 370 would require the Treasury to invest the fund balances in public debt securities. The income, up to a certain limit, on such investments would become part of the funds. Currently, the balances of these two funds do not earn interest, although the balances in many other government funds do.

Investing fund balances in Treasury securities has no net effect on the budget because the government invests in its own securities and pays interest to itself. The investment of the principal in Treasury securities does not affect the budget totals, and the crediting of interest has offsetting budgetary effects. Government receipts are unaffected by the investment in Treasury securities. Additional outlays are recorded as interest on the public debt; an identical amount of offsetting receipts is recorded for interest received by the funds. The two entries would precisely net out.

In practice, no cash would change hands. The investments, redemptions, and payment of interest would all be bookkeeping transactions. Presumably, a fund manager would be responsible for choosing the amounts to be invested at various maturities. The Treasury securities would take the form of special issues created specifically for the purpose of fund investments and geared to current interest rates for marketable government securities. The Treasury would keep track of these paper transactions and would credit the two funds with the appropriate earnings.

It is important to note that this process does not in any way affect the amount of the government's cash balances, its borrowing from the public, or its total interest costs or earnings. The Treasury consolidates cash receipts from many sources, uses them interchangeably for its various cash needs, and borrows when outlays cannot be financed

from cash on hand. Therefore, there is no $8 billion in cash lying around uninvested that would suddenly earn interest and increase government receipts. The unexpended balances in the two funds are bookkeeping entries only. The government has spent the cash receipts that originally generated those balances on various programs and activities, thereby reducing the government's borrowing costs. When cash is needed for spending from the Land and Water Conservation Fund, tax revenues, other receipts, or Treasury borrowing are used to provide the necessary cash; the fund's balances on the Treasury's books are then correspondingly reduced.

The process of investing the funds and crediting interest would have a small cost because personnel at the Interior Department and the Treasury would have to carry out the process. For example, the Postal Service uses three people plus accounting support to manage a portfolio of $5 billion to $6 billion in Treasury securities. This investment process probably costs the agency $200,000 to $300,000 a year, in addition to Treasury's costs. Most such costs could be avoided by providing that interest be credited to a fund without going through the process of investing the balances.

CREATING NEW DIRECT SPENDING AUTHORITY FROM THE TWO FUNDS

The only net budgetary impact from S. 370 results from the new spending authority it would provide. Currently, there is no direct

spending authority from the two funds. Amounts credited to the funds have to be appropriated before they can be spent. They are a form of authorization, making amounts available that can be appropriated but without providing any spending authority. Interest could be credited to the funds in the same way--adding to the balances without increasing the authority to spend.

Under S. 370, however, the interest credited to the funds, up to specified limits, would be available for obligation without appropriation action. Thus, the bill would result in no new interest earnings to the government as a whole, but would provide for additional spending.

Assuming that the amount of annual appropriations from the two funds would continue at baseline levels, CBO estimates that about $4.5 billion in interest would be credited to the funds over the 1991-1995 period. Outlays from the resulting new budget authority would start at about $300 million in fiscal year 1992 and would total $2.7 billion through 1995. Since there would be no corresponding increase in federal receipts, the net effect of S. 370 would be to increase the budget deficit by these same amounts.

These estimates are based on an enactment date of October 1, 1990. If the bill were enacted sooner, there would be additional budget authority and outlays in fiscal year 1991 from interest credited in 1990.