Highlights of GAO-06-269, a report to the Secretary of the Treasury

March 2006

DEBT MANAGEMENT

Treasury Has Refined Its Use of Cash Management Bills but Should Explore Options That May Reduce Cost Further

Why GAO Did This Study

One result of persistent fiscal imbalance is growing debt and net interest costs. Net interest is currently the fastest-growing "program" in the budget and if unchecked, threatens to crowd out spending for other national priorities. This report was done under the Comptroller General's authority and examines the Department of the Treasury's (Treasury) growing use of unscheduled cash management bills (CM bills). GAO describes (1) when Treasury uses CM bills and why, (2) the advantages and disadvantages of CM bills, and (3) steps taken by Treasury to reduce the overall borrowing costs associated with CM bills. GAO identifies possible options Treasury could consider to reduce the use and cost of CM bills further.

What GAO Recommends

GAO recommends that Treasury explore options such as those identified in this report and any others it identifies to help it achieve its lowest-cost borrowing objective. If Treasury determines that any of these changes would be beneficial, GAO encourages Treasury to begin discussions with relevant federal agencies and the Congress about obtaining the necessary authorities.

Treasury generally agreed with our findings, conclusions, and recommendations and is committed to exploring ways to reduce financing costs through changes in the use of CM bills.

www.gao.gov/cgi-bin/getrpt?GAO-06-269.

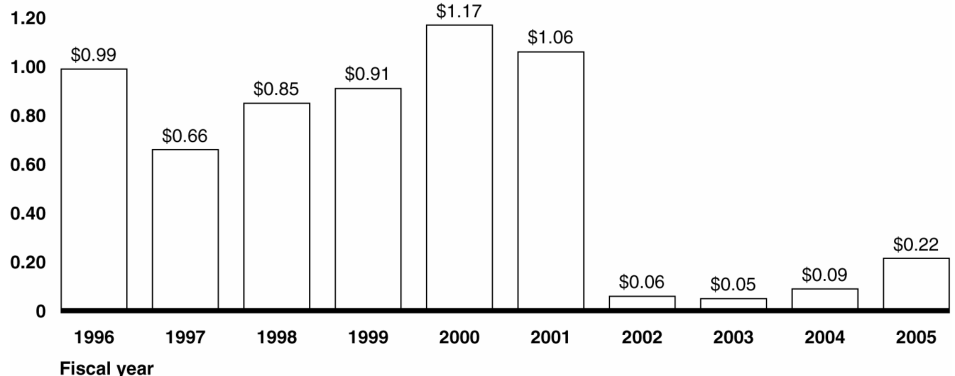
To view the full product, including the scope and methodology, click on the link above. For more information, contact Susan J. Irving at (202) 512-9142, irvings@gao.gov or Thomas J. McCool at (202) 512-2700, mccoolt@gao.gov.

What GAO Found

Treasury makes large, regularly occurring payments, such as Social Security and federal retirement payments, in the beginning of the month and often receives large cash inflows in the middle of the month from income tax payments and note issuances. Because regular bills alone are not sufficient to fill these intramonth cash financing gaps, since 2002 Treasury has increasingly issued CM bills to bridge this gap. CM bills allow Treasury to obtain cash outside of its regular borrowing schedule in varying amounts and maturities, but Treasury pays a premium for doing so. GAO's analysis found that Treasury paid a higher yield on CM bills than that paid on outstanding bills of similar maturity in the secondary market.

Treasury has taken steps to reduce the use and cost of CM bills. Treasury added a 4-week bill to its regular auction schedule in 2001, which led to reduced CM bill issuance, shorter terms to maturity, and lower borrowing costs in 2002. Treasury has also fine-tuned CM bill issuance by borrowing closer to the time when it needs cash. However, borrowing costs associated with CM bills have increased since 2003.

Borrowing Costs Associated with CM Bills (Fiscal Years 1996–2005)



Source: GAO analysis of data from the Bureau of the Public Debt.

While Treasury has made progress towards reducing the cost of CM bills, it may be possible to do more. GAO's analysis indicates that the yield differential has increased as short-term rates have risen. If these rates rise further, as market participants expect, so will the yield differential. While Treasury does not vary its debt management strategy in response to changing interest rates, it should be mindful of their effect on the relative cost of unscheduled CM bills and explore options to reduce the frequent use of CM bills and ultimately overall borrowing costs. GAO identified options worth exploring such as any additional opportunities for closer alignment of large cash flows; possible options for increasing earnings on excess cash balances; and introduction of a shorter-term regular instrument.