

GAO

Report to
Congressional Requestors

March 1986

BUDGET ISSUES

Potential for
Excess Funds in
DOD-March 1986
Update



129354

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-219975

March 7, 1986

The Honorable David Pryor
United States Senate

The Honorable Charles E. Grassley
United States Senate

The Honorable Thomas F. Eagleton
United States Senate

This report responds to your letter of December 19, 1985, asking that we update our report, Potential For Excess Funds in DOD (GAO/NSIAD-85-145, Sept. 3, 1985). In particular, you requested (1) updated estimates of any inflation dividend--which we define as the appropriation of funds for inflation in defense program costs which exceed the amounts necessary to finance actual inflation--and (2) updated information on Department of Defense (DOD) unobligated balances.

POTENTIAL INFLATION DIVIDEND

In our September 1985 report, we estimated the inflation dividend between fiscal years 1982 and 1985 for all DOD purchases. This report extends our estimates of dividends through fiscal year 1986. However, the updated estimates include only DOD's non fuel purchases since updated estimates of fuel price decreases are not yet available.

Table 1 shows that the estimated inflation dividend for non fuel purchases was \$32 billion for fiscal years 1982 through 1985 and \$39.5 billion for fiscal years 1982 through 1986. Of

the \$39.5 billion, \$14.2 billion came from a special multiplier used for major weapon systems.¹

Table 1: Comparison Between Estimates of the
Inflation Dividend In Non Fuel Purchases:
September 1985 and March 1986

	<u>Original estimate^a</u>	<u>Updated estimate^b</u>	<u>Difference</u>
	------(billions)-----		
Purchases Dividend	\$22.8	\$25.3	\$2.5
Special Multiplier	<u>9.2</u>	<u>14.2</u>	<u>5.0</u>
Total Purchases Dividend	<u>\$32.0</u>	<u>\$39.5</u>	<u>\$7.5</u>
Fuel Dividend	\$ 4.8	N/A ^c	N/A
Total Purchases and Fuel Dividend	<u>\$36.8</u>	N/A	N/A

^aFor fiscal years 1982-85; estimate as of Sept. 1985.

^bFor fiscal years 1982-86; estimate as of March 1986; estimate does not include any funding decreases mandated by the Balanced Budget and Emergency Deficit Control Act of 1985 (see p. 10 of app. I) or reductions due to specific congressional inflation adjustments (see pp. 2 and 3).

^cUpdated fuel price forecasts were not available.

We could not determine the precise amount of unneeded funds still available in DOD. During fiscal years 1982 through 1986 Congress has routinely reduced DOD budget requests. Although some of the reductions were related to inflation savings, few reductions were explicitly linked to inflation in any official congressional statements. In fiscal years 1985 and 1986, however,

¹Because DOD contends prices of major weapon systems increase more rapidly than the prices of other goods, inflation for major weapon systems was budgeted at a rate 30 percent higher than general inflation. (See p. 6 for additional discussion.)

the Congress clearly recognized inflation savings as a source of appropriations reductions.

For fiscal year 1985, Congress transferred \$839.75 million from procurement accounts, which had benefited from inflation dividends, to underwrite pay increases and additional operations and maintenance expenses in the fiscal year 1985 Supplemental Appropriations Act. Congress also reduced the DOD fiscal year 1986 procurement appropriations by \$1.36 billion in "inflation fairness adjustments" and \$1.7 billion in "inflation premium adjustments." The "inflation fairness adjustments" were originally intended to offset overestimates of inflation used in developing the DOD Budget request. The "inflation premium adjustments" resulted from lowering the special inflation multiplier added onto cost estimates of major weapon system procurements to ensure full funding. The fiscal year 1986 procurement appropriations were further reduced on the basis of updated inflation projections which indicated that an additional \$123 million in inflation related savings could be achieved.

In addition, for fiscal year 1986, Congress provided \$6.3 billion in additional transfer authority for the military pay raise, payments to the military retirement trust fund, and other expenses, of which \$1,094 million was specifically identified as inflation savings.

Table 1 does not include any of these congressional reductions which were specifically attributed to inflation. Nor does it include other congressional actions which reduce requests as a result of lower than projected inflation.

In December 1985 the Congress passed the Balanced Budget and Emergency Deficit Control Act of 1985, which resulted in 4.9 percent cuts in some defense programs in fiscal year 1986. These cuts are in addition to the inflation adjustments made by the appropriation act. Our updated estimates do not reflect these cuts.

Appendix I contains detailed information about the inflation dividend and our methodology for estimating it.

UNOBLIGATED BALANCES AND LAPSING FUNDS

From 1980 to 1985, unobligated balances (in current dollars minus lapses) have grown 154 percent. As a percentage of total available authority, these balances increased from 9.7 percent in fiscal year 1981 to 14.5 percent in fiscal year 1985. Table 2 displays this trend.

Table 2: Comparison of DOD's Unobligated Balances and Total Available for Obligation: Fiscal Years 1980-85

<u>Fiscal year</u>	<u>Unobligated balances^a</u> ----- (billions)	<u>Total available for obligation^b</u> ----- (billions)	<u>Unobligated balances as a percent of total available for obligation^c</u> (Percent)
1980	\$24.2	\$223.6	10.8
1981	26.5	272.4	9.7
1982	34.6	319.7	10.8
1983	43.4	357.2	12.1
1984	51.6	386.0	13.4
1985	61.5	425.4	14.5

^aUnobligated balances net of lapses.

^bIncludes new budget authority, unobligated balances brought forward from prior years, transfers, recoveries of prior year obligations, and reimbursable orders.

^cUnobligated balances net of lapses divided by total available authority.

In our September 1985 report, we estimated that based on historical trends, DOD would have unobligated balances and lapses of \$64.9 billion at the end of fiscal year 1985. We found that actual unobligated balances and lapses at the end of fiscal year 1985 were \$63.7 billion--\$61.5 billion in unobligated balances brought forward and \$2.2 billion in lapsing funds--or \$12.1 billion more than DOD estimated 9 months earlier in February 1985. DOD reports that lapses and estimates of unobligated balances at the end of fiscal year 1986 are likely to be \$62.7 billion, or \$7 billion above the estimate made 1 year ago.

DOD's fiscal year 1986 and 1987 estimates of unobligated balances (including lapsing funds) are slightly lower than actual balances in 1985, but significantly higher than estimates in prior years. Although DOD estimates probably will more closely reflect actual figures, unobligated balances are likely to remain relatively high in fiscal years 1986 and 1987. Table 3 shows (1) DOD's estimates of unobligated balances and (2) actual unobligated balances and lapsing funds in the 1980s.

Table 3: DOD Estimated and Actual Unobligated Balances and Lapsing Funds: Fiscal Years 1980-87

<u>Fiscal year</u>	<u>Estimated unobligated balances^a</u>	<u>Actual unobligated balances^b</u>	<u>Difference</u>	<u>Percent difference</u>
	----- (billions)-----			(Percent)
1980	\$24.7	\$25.6	\$0.9	3.6
1981	26.0	28.3	2.3	8.8
1982	34.5	36.3	1.8	5.2
1983	39.0	47.6	8.6	22.1
1984	43.8	56.4	12.6	28.8
1985	51.6	63.7	12.1	23.4
1986	55.7 ^c	62.7 ^d	7.0	12.6
1987	61.3 ^c	N/A	N/A	N/A

^aFor fiscal years 1980-85, current year estimates of end-of-fiscal-year unobligated balances (including lapsing funds).

^bIncludes lapsing funds.

^cBudget year estimate of end-of-fiscal-year unobligated balances.

^dCurrent year estimate of end-of-fiscal-year unobligated balances.

Appendix II contains detailed information about balances of budget authority in DOD.

MONITORING EXCESS FUNDS

In our earlier report, we made recommendations aimed at bringing the funds provided in congressionally approved DOD budgets in line with what is needed to carry out the programs and activities authorized in those budgets. One of the major recommendations was the elimination of the special inflation multiplier for major weapon systems. Since then, the administration changed this multiplier in the fiscal year 1987 budget from 1.3 times the projected gross national product (GNP) deflator to 1.0. The size of the multiplier will be reviewed each year.

We also recommended in our September 1985 report that DOD should provide information on inflation funds at critical stages in the budget process. The Fiscal Year 1986 DOD Authorization Act mandated that DOD provide such a report both on inflation and unobligated balances. We plan to review the DOD reports and provide the results of our assessments to the Congress.

Tracking how funds are actually being used in DOD and identifying excess funds have always been particularly difficult. To improve this process, we continue to believe that DOD needs to improve and integrate its budget and financial management systems.

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In accordance with your wishes, we did not request official agency comments on a draft of this report. Our work was performed in accordance with generally accepted government auditing standards.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of the report until 30 days from its issue date. At that time, we will send copies to the Chairmen, House Committee on Government Operations, Senate Committee on Governmental Affairs, House and Senate Committees on Appropriations, and House and Senate Committees on Armed Services; the Director, Office of Management and Budget; the Secretaries of Defense, Army, Navy, and Air Force; and other interested parties.



Charles A. Bowsher
Comptroller General
of the United States

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ESTIMATES OF DOD'S INFLATION DIVIDENDOBJECTIVE, SCOPE, AND METHODOLOGY

We first examined the issue of inflation dividends in the defense budget in our report entitled Potential for Excess Funds in DOD (GAO/NSIAD-85-145) dated September 3, 1985. In that report we defined the inflation dividend as the amount of excess funds accruing to the DOD due to the overestimation of future inflation in developing defense budget requests. Since 1982, budget planners have consistently overestimated inflation. We estimated that DOD's dividend due to overestimates of inflation was \$36.8 billion between fiscal years 1982 and 1985.

In preparing our September 1985 report, we used actual inflation data through fiscal year 1984 and the latest inflation forecast then available--that issued by the Office of Management and Budget (OMB) as of April 1985. In a letter to Representative Joseph P. Addabbo on October 2, 1985, we updated our estimates of DOD's inflation dividend using OMB's August 1985 inflation forecast.

In this report, we again update these estimates, using actual inflation data through fiscal year 1985 and inflation projections contained in the Special Analyses volume of the Fiscal Year 1987 Budget of the United States which was submitted in February 1986. Table I.1 displays trends in inflation projections between fiscal years 1982 and 1989.

We explained our methodology for calculating inflation dividends in the defense budget in appendix VI of our September 1985 report. We use the same methodology for calculating these updated estimates of inflation dividends with the following exceptions:

1. We do not include any dividends accruing from decreased fuel prices in these updated estimates. The latest estimate of fiscal year 1986 fuel prices was not available when we completed this work. We plan to evaluate inflation dividends in fuel purchases in a future study.
2. We have slightly revised our procedures for calculating the size of the dividend resulting from the use of the special multiplier for major weapon systems. Army officials suggested this revision to us in discussions concerning our September 1985 report. This revision does not alter the total size of the inflation dividend, but it does increase the size of the estimated dividend due to the special multiplier while decreasing the size of the estimated dividend due to inflation overestimates by a corresponding amount.

3. We have chosen not to reflect any budget reductions imposed by the Balanced Budget and Emergency Deficit Control Act of 1985 (the Gramm-Rudman Act) in these calculations.¹ If these cuts had been included, all inflation funding and dividend estimates for fiscal year 1986 would have been reduced by 4.9 percent. The reduction in inflation dividends in fiscal years 1982 through 1985 would have been less than 4.9 percent. The development of a methodology and the collection of sufficient data to estimate the exact size of the reductions in inflation dividends due to Gramm-Rudman cuts would have required extensive additional work beyond the time permitted for this review.

RESULTS

Tables I.2 and I.3 show our new estimates--based on DOD data--of the amount of inflation funds in each major appropriations category of the defense budget. These estimates include most, but not all, of these inflation funds. First, these estimates do not include any funds resulting from the use of the special multiplier for major weapons systems effective fiscal years 1983 through 1986. (See table I.6 for estimates of funds accruing to DOD through use of a multiplier.) Second, inflation adjustments in military and civilian pay are not included in these tables as they are generally funded separately through supplemental appropriations. Third, we have not included fuel costs and the corresponding savings from currently falling fuel prices in these numbers.

As shown in table I.2, the level of non fuel funding identified by DOD for inflation was greatest in fiscal years 1982 and 1983 when annual inflation forecasts ranged from 5 to 9 percent. By fiscal year 1986 the annual inflation forecasts had fallen to an annual rate of about 4 percent. The majority of the inflation funds are contained in the procurement appropriation accounts because these accounts included substantial amounts of purchases (other than pay and fuel) and the average spendout periods² for these accounts are longer than most other defense programs.

¹Under that act, maximum deficit levels are established for fiscal years 1986 through 1991. In fiscal year 1986, all new budget authority, except military pay which was exempted by the President and certain amounts of unobligated balances from previous fiscal years, were subject to reduction to achieve the deficit target.

²The spendout period is the length of time from the initial appropriation of funds by the Congress to the final expenditure of funds on programs undertaken under these appropriations.

Table I.3 shows the inflation funds which would have been appropriated if inflation had not been overestimated when defense budgets were prepared. The pattern of these funds is similar across appropriation accounts and fiscal years to the inflation funding reported in table I.2. However, the inflation funds shown in table I.3, based on the lower actual levels or more recent projections of inflation, are considerably smaller than the funds shown in table I.2.

In table I.4 we calculate the inflation dividend for non fuel purchases for fiscal years 1982 through 1986. This dividend is the difference between the funds that DOD originally identified for inflation in its non fuel purchases (reported in table I.2) and the funding which would have been allocated given current knowledge about inflation (reported in table I.3.) The cumulative non fuel purchases inflation dividend for 5 fiscal years 1982 through 1986 is \$25.31 billion. Once again, these numbers do not include any dividends resulting from military or civilian compensation programs, fuel purchases, or the major weapons multiplier. Also, these dividends do not include any offsetting adjustments for congressional reductions in defense budget requests which specifically cited inflation savings as the reason for the reduction.

Figures I.1 and I.2 illustrate the estimates of inflation dividends shown in table I.4. Figure I.1 shows the distribution of the inflation dividend across appropriation titles. Over 60 percent of the dividend, even excluding the special multiplier, accrues to the procurement appropriations title. Figure I.2 shows the distribution of the inflation dividend by fiscal year. The largest dividend occurred in fiscal year 1983. Since then, dividends have steadily decreased.

In table I.5 we compare the updated estimates of the inflation dividend to a comparable estimate presented in our September 1985 report. There are only minor differences in the new estimates for fiscal years 1982 through 1984.³ Because most of the expenditures for these fiscal years occurred prior to fiscal year 1986, and because at the time of our 1985 report, inflation for these years was either already known or was based upon an accurate forecast, these estimates are only slightly affected by the latest inflation forecasts. However, the inflation dividend for fiscal year 1985 increases by about

³The methodology we used for these updated estimates increases slightly the size of the special multiplier estimate and decreases slightly the dividend due to inflation overestimates from the estimates shown in our September 1985 report. Therefore, the updated estimates for dividends in fiscal years 1983 and 1984 due to inflation overestimates cited in table I.5 are slightly less than those cited in our September 1985 report.

\$0.81 billion and the inflation dividend for fiscal year 1986 by about \$2.31 billion. In total, our updated estimate of the non fuel purchases inflation dividend for DOD purchases increases by 11 percent from its previous value of \$22.8 billion for fiscal years 1982 through 1985 to \$25.3 billion for fiscal years 1982 through 1986.

Table I.6 shows the amount of the inflation dividend resulting from using the special multiplier for major weapon system purchases. The cumulative dividend accruing to the DOD from using this multiplier is about \$14.2 billion for fiscal years 1983 through 1986.

Tables I.5 and I.6 do not adjust for any congressional reductions to DOD budget requests specifically attributed to inflation savings. Such reductions were discussed on pages 2 and 3 of our letter.

When the amounts accruing from use of the weapon systems multiplier are added to the estimated dividend for purchases cited in table I.4, the total dividend becomes \$39.5 billion for fiscal years 1982 through 1986. This new estimate of the DOD non fuel inflation dividend is about \$7.5 billion higher than our previous estimate adjusted to a comparable base. Figure I.3 compares the combined inflation dividend estimates by fiscal year to similar estimates presented in our September 1985 report.

Table I.1: Forecasts of the GNP Deflator by the Office of Management and Budget: Fiscal Years 1982-89

Forecast Date	Fiscal Year							
	1982	1983	1984	1985	1986	1987	1988	1989
Feb. 1981	8.7	7.3	6.2	5.5	5.0			
Jan. 1982	8.2	6.5	5.1	4.8	4.6	4.5		
Jan. 1983	7.0	5.0	5.3	4.9	4.7	4.5	4.5	
Jan. 1984	7.1	4.3	4.3	4.9	4.6	4.3	4.0	3.7
Jan. 1985	7.1 ^a	4.0 ^a	3.8 ^a	3.7	4.4	4.2	4.0	3.7
Feb. 1986				3.6 ^a	3.4	4.1	3.9	3.4

^aRepresents actual rate.

Sources: Office of Management and Budget, Special Analyses, Budget of the United States Government for FY 1987 [Washington, D.C.: U.S. Government Printing Office, 1986], page A-2; and Office of the Assistant Secretary of Defense (Comptroller), National Defense Budget Estimates for FY 1986 [Washington, D.C.: Office of the Secretary of Defense, 1985], table 5-9.

Table I.2: Inflation Funding for Non Fuel Purchases in the Major Defense Appropriation Titles: Fiscal Years 1982-86 (Using Inflation Forecasts as Presented in Each Year's Presidential Budget Request)^a

<u>Appropriation Title</u>	<u>Fiscal Year</u>					<u>Total by Title</u>
	<u>1982</u>	<u>1983^b</u>	<u>1984^b</u>	<u>1985^b</u>	<u>1986^b</u>	
	----- (billions) -----					
Military Personnel	\$.97	\$.87	\$.73	\$.64	\$.66	\$ 3.87
Operations & Maintenance ^c	5.29	6.15	4.21	4.27	4.19	24.11
Procurement ^d	16.30	16.34	14.14	13.93	13.26	73.97
Research, Development, Test & Evaluation ^c	3.62	3.36	3.00	3.16	3.35	16.49
Military Construction	<u>1.08</u>	<u>.74</u>	<u>.65</u>	<u>.74</u>	<u>.71</u>	<u>3.92</u>
Totals	<u>\$27.26</u>	<u>\$27.46</u>	<u>\$22.73</u>	<u>\$22.74</u>	<u>\$22.17</u>	<u>\$122.36</u>

^aOffice of Management and Budget, Special Analyses, Budget of the United States Government for FY 1987 [Washington, D.C.: U.S. Government Printing Office, 1986], page A-2; and Office of the Assistant Secretary of Defense (Comptroller), National Defense Budget Estimates for FY 1986, [Washington, D.C., Office of the Secretary of Defense, 1985], table 5-9.

^bDoes not include effects of budget reductions mandated by Balanced Budget and Emergency Deficit Control Act of 1985.

^cDoes not include inflation funding for fuel purchases.

^dDoes not include 1.3 multiplier. Estimates of funding for 1.3 multiplier are shown in table I.6.

Table I.3: Funding Required for Inflation Experienced in Non Fuel Purchases in the Major Defense Appropriation Titles: Fiscal Years 1982-86 (Using Actual Inflation Experience or the Most Recent Inflation Forecasts)^a

<u>Appropriation Title</u>	<u>Fiscal year</u>					<u>Total by title</u>
	<u>1982</u>	<u>1983^b</u>	<u>1984^b</u>	<u>1985^b</u>	<u>1986^b</u>	
	----- (billions) -----					
Military Personnel	\$.87	\$.65	\$.54	\$.51	\$.57	\$ 3.14
Operations & Maintenance ^c	4.59	4.53	3.14	3.38	3.69	19.33
Procurement ^d	12.37	12.07	10.54	11.27	11.99	58.24
Research, Development, Test & Evaluation ^c	3.01	2.49	2.23	2.50	2.97	13.20
Military Construction	<u>.82</u>	<u>.55</u>	<u>.49</u>	<u>.59</u>	<u>.64</u>	<u>3.09</u>
Totals	<u>\$21.66</u>	<u>\$20.29</u>	<u>\$16.94</u>	<u>\$18.25</u>	<u>\$19.86</u>	<u>\$97.00</u>

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^aActual inflation data from table 5-9, National Defense Budget Estimates for FY 1986, Office of the Assistant Secretary of Defense (Comptroller), March 1985. Current inflation forecasts from table A-1, Special Analyses, Budget of the United States Government FY 1987, Office of Management and Budget, February 1986.

^bDoes not include effects of budget reductions mandated by Balanced Budget and Emergency Deficit Control Act of 1985.

^cDoes not include inflation funding fuel purchases.

^dDoes not include 1.3 multiplier. Estimates of funding for 1.3 multiplier are shown in table I.6.

Table I.4: Inflation Dividend for Non Fuel Purchases in the Major Defense Appropriation Titles: Fiscal Years 1982-86^a

<u>Appropriation Title</u>	<u>Fiscal years</u>					<u>Total by title</u>
	<u>1982</u>	<u>1983^b</u>	<u>1984^b</u>	<u>1985^b</u>	<u>1986^b</u>	
	----- (billions) -----					
Military Personnel	\$.10	\$.22	\$.18	\$.13	\$.09	\$.72
Operations & Maintenance ^c	.70	1.62	1.07	.89	.50	4.78
Procurement ^d	3.93	4.27	3.60	2.66	1.27	15.73
Research, Development, Test, & Evaluation ^c	.60	.86	.76	.66	.38	3.26
Military Construction	<u>.26</u>	<u>.19</u>	<u>.16</u>	<u>.14</u>	<u>.07</u>	<u>.82</u>
Totals	<u>\$5.59</u>	<u>\$7.16</u>	<u>\$5.77</u>	<u>\$4.48</u>	<u>\$2.31</u>	<u>\$25.31</u>

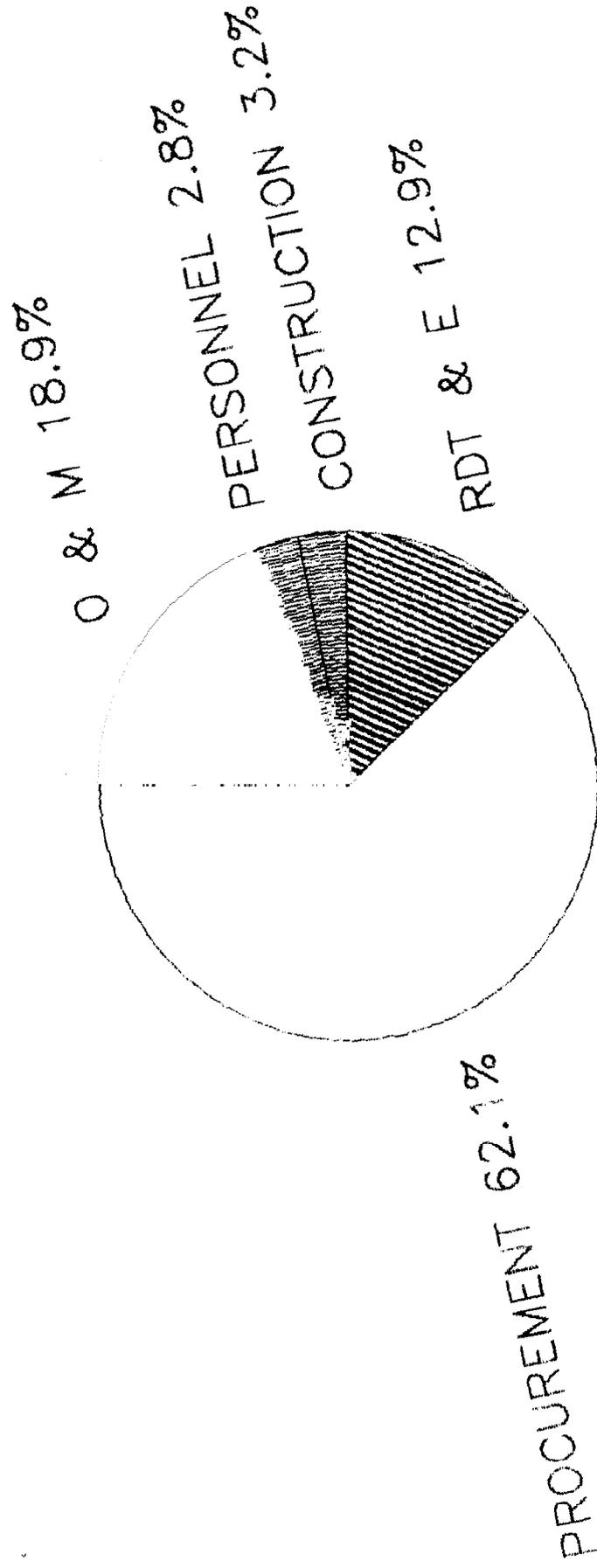
^aInflation dividend defined as difference in inflation funding estimates shown in tables I.2 and I.3. Estimates of this table may differ from the differences of the figures in tables I.2 and I.3 due to rounding.

^bDoes not include effects of budget reductions mandated by Balanced Budget and Emergency Deficit Control Act of 1985.

^cDoes not include any inflation dividend in fuel purchases.

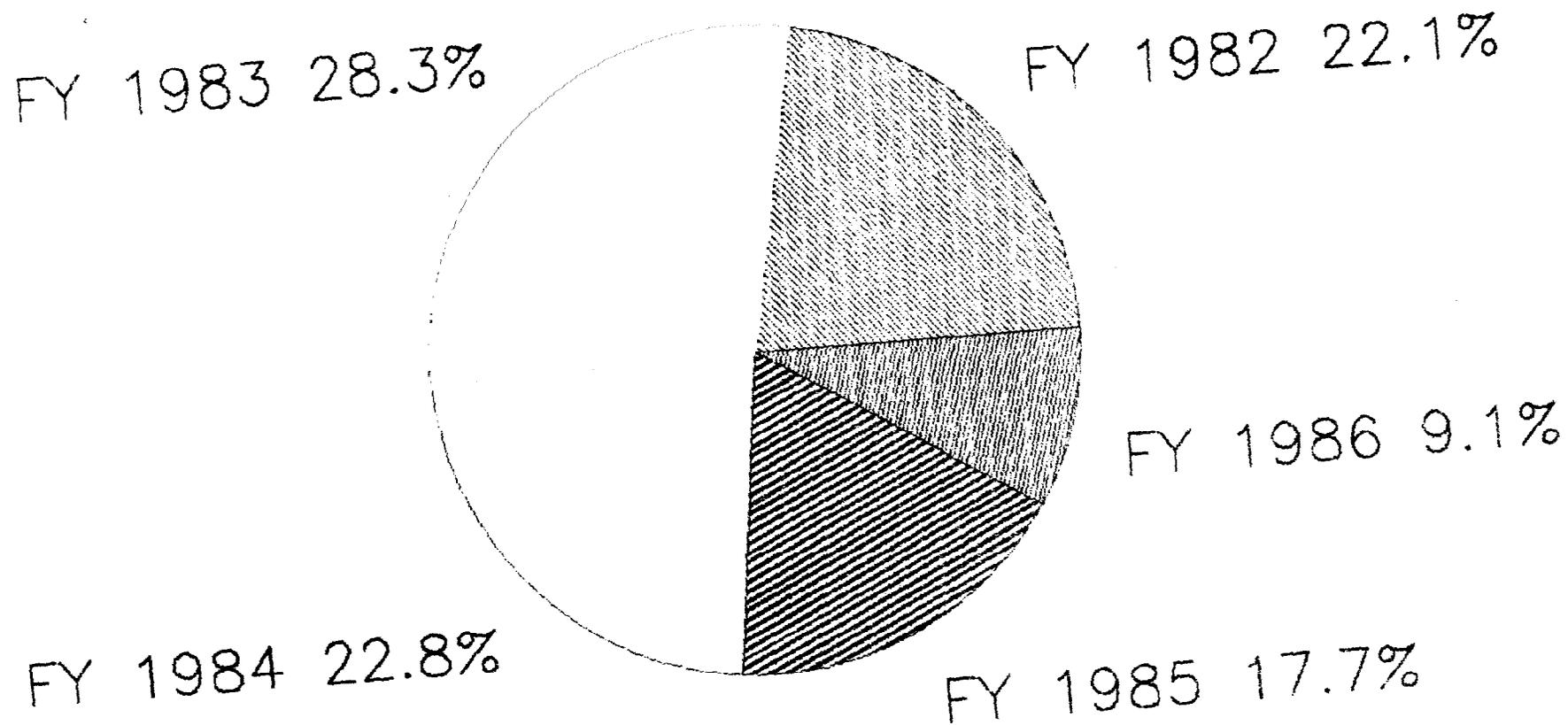
^dDoes not include any inflation dividend accruing due to the use of 1.3 multiplier. Estimates of funding for 1.3 multiplier are shown in table I.6.

Figure I.1: Inflation Dividend for DOD Non Fuel Purchases
by Appropriation Title: Fiscal Years 1982-86



Source: Table I.4.

Figure I.2: Inflation Dividend for DOD Non Fuel Purchases
by Fiscal Year



Source: Table I.4.

Table I.5: Comparison Between Inflation Dividend Estimates

<u>Date and Type of Estimate</u>	<u>1982</u>	<u>1983^a</u>	<u>1984^a</u>	<u>1985^a</u>	<u>1986^a</u>	<u>Total</u>
	----- (billions) -----					
<u>September 1985</u>						
Purchases and Fuel Dividend ^b	\$6.56	\$9.03	\$7.51	\$4.49	N/A	\$27.59
Less Fuel Dividend	1.07	1.27	1.64	0.82	N/A	4.80
Purchases Dividend ^b	5.49	7.76	5.87	3.67	N/A	22.79
<u>March 1986</u>						
Purchases Dividend ^b	5.59	7.16	5.77	4.48	2.31	25.31
Change in Dividend	0.10	-0.60	-0.10	0.81	2.31	2.52

^aDoes not include effects of budget reductions mandated by Balanced Budget and Emergency Deficit Control Act of 1985.

^bDoes not include any inflation dividend accruing due to use of the 1.3 multiplier.

Table I.6: Estimates of the Inflation Multiplier
on Major Weapons Systems^a

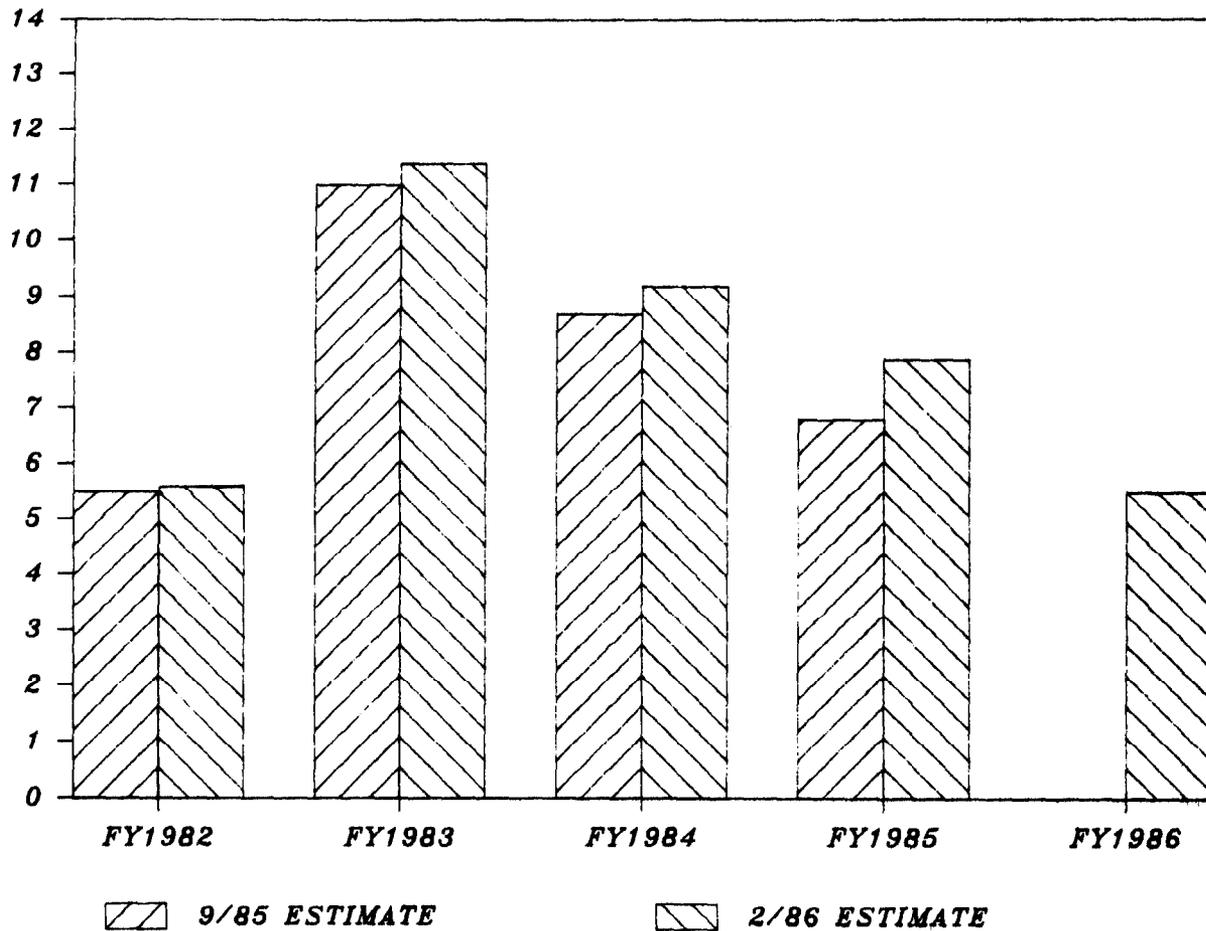
<u>Fiscal year</u>	<u>Original estimate^b</u>	<u>Updated estimate^c</u>	<u>Difference</u>
	------(billions)-----		
FY 1983	\$3.28	\$ 4.17	\$0.89
FY 1984	2.79	3.47	0.68
FY 1985	3.10	3.36	0.26
FY 1986	<u>N/A</u>	<u>3.17</u>	<u>3.17</u>
Total	<u>\$9.17</u>	<u>\$14.17</u>	<u>\$5.00</u>

^aDoes not include effects of budget reductions mandated by Balanced Budget and Emergency Deficit Control of 1985.

^bDated September 1985.

^cDated March 1986.

Figure I.3: Comparison of September 1985 and March 1986 Estimates of the DOD Non Fuel Inflation Dividend: Fiscal Years 1982-86^a



^aIncludes dividend due to use of special multiplier for major weapon systems.

Source: Tables I.5 and I.6.

UNOBLIGATED BALANCES AND LAPSING FUNDSOBJECTIVE, SCOPE, AND METHODOLOGY

This appendix contains updated information about DOD budget trends during fiscal years 1980 through 1987. In particular, it analyzes the portion of total authority available that was obligated, carried forward to the following year as unobligated balances, or identified as lapsing funds.

DOD reports budget data in a series of financial summary tables that depict relationships between budget planning and execution for the various DOD budget categories. Information is updated monthly and then later adjusted to provide a final annual tabulation broken down by the various accounts within the different appropriation titles.

The data are summarized from a variety of accounting and budget execution systems. Because definitions and rules vary between systems, and in the same system from one year to the next, it is sometimes difficult to obtain records that portray consistent relationships and trends over time. To avoid partially the problems of reconciling differences between financial tables, all data in this appendix are based on a single series of DOD year-end financial summary tables.¹ Our analysis of unobligated balances is based on the end-of-year figures to obtain consistency over all fiscal years.

DOD reports actual, current year estimates and budget year plans for the various components of total authority available for obligation. These are identified as unobligated balances brought forward, new budget authority, balances transferred, recoveries of prior year obligations, and reimbursable orders. DOD also reports the actual and expected uses of the total authority available for obligation, breaking out direct and reimbursable obligations, end-of-year unobligated balances to be carried forward, and lapsing funds.

Difficulties arise even in using a single financial table to analyze budget data over time. One difficulty occurs because DOD does not estimate in its formal financial reports the amount

¹DOD Financial Summary Tables, FAD 738, Budget Obligations and Unobligated Balances.

of budget authority expected to lapse at year end.² Thus, estimates of unobligated balances overstate the actual balance likely to be carried forward, since some portion of the estimate will likely lapse.

Another difficulty is that over time the composition of the lapsing funds category has changed. For example, to avoid double counting, in some years DOD has reported reappropriations as lapses in the current year estimates. Also, in the fiscal year 1987 budget estimate, DOD reported decreases in borrowing authority as lapsing funds.

Another difficulty is that in some years, the sum of obligations, unobligated balances, and lapsing funds does not explain the total disposition of funds. For example, in fiscal year 1982 an unexplained difference equaled \$289.2 million. Furthermore, the end-of-year unobligated balance to be carried forward does not necessarily equal the actual balance brought forward.

RESULTS

Total authority available for obligation in the DOD grew \$216.8 billion, or 97 percent between fiscal years 1980 and 1986. (See table II.1 and figure II.1.) Table II.2 shows the total available for obligation for fiscal years 1980 through 1987 in defense appropriation accounts. Procurement has grown more rapidly than other categories--increasing 165 percent between fiscal years 1980 and 1986.

Between fiscal years 1980 and 1985, the rate of obligation declined from 88.6 percent to 85 percent. (See table II.3.) However, DOD projects increasing obligation rates for fiscal years 1986 and 1987.

Between fiscal years 1980 and 1985, total unobligated balances (net of lapsing funds) have grown from \$24.2 billion to \$61.5 billion. Unobligated balances have also grown as a percent of total authority available for obligation from 10.8 percent in fiscal year 1980 to 14.5 percent in fiscal year 1985, although the rate of growth declined in fiscal year 1984 and remained level in fiscal year 1985 (see table II.4). Table II.5 shows that in each year most of the unobligated balances occurred in procurement. For example, in fiscal year 1985, \$46.1 billion (75 percent) of the \$61.5 billion in unobligated balances are in the procurement accounts.

²However, in its estimates, DOD includes within the lapsing funds category authority which for accounting purposes is called lapsing funds. For example, known reductions in the level of borrowing authority in fiscal years 1986 and 1987 are reported as part of DOD's current year and budget year estimates.

Tables II.6 and II.7 show trends of lapsing funds. Between fiscal years 1980 and 1985, lapsing funds grew in absolute dollars. However, since the DOD definition of lapsing funds changed throughout this period, aggregate totals cannot be analyzed without a more complete breakdown of the components of this category of funds. This information is not readily available in DOD financial summary tables.

In February 1986, DOD reported lapsing funds and estimates of unobligated balances for fiscal years 1986 and 1987 at \$62.7 billion and \$61.3 billion, respectively. These amounts are below the fiscal year 1985 actual figure of \$63.7 billion, but are significantly higher than prior years' figures. Also, the percent overestimate peaked in fiscal year 1984 and appears to be declining. Thus, although it is likely that actual unobligated balances and lapsing funds in fiscal years 1986 and 1987 will remain higher than in past years, DOD estimates may more closely reflect the actual figures that will occur. (See table II.8 and figure II.3.)

Table II.1: Major Components of Total Available for Obligation
Fiscal Years 1980-87

Military Function 051	1980	1981	1982	1983	1984	1985	1986 (a)	1987 (b)
				(thousands)				
Total Obligations (c)	\$198,066,181	\$244,313,270	\$283,698,317	\$309,582,265	\$329,550,594	\$361,735,811	\$377,770,653	\$399,270,274
Total Unobligated Balances (d)	\$24,229,959	\$26,539,009	\$34,633,953	\$43,385,866	\$51,619,810	\$61,487,039	\$62,604,625	\$61,268,591
Lapsing Funds (e)	\$1,341,507	\$1,771,970	\$1,664,012	\$4,247,653	\$4,782,786	\$2,174,966	\$70,342	\$29,820
Total Available for Obligation (f)	\$223,637,646	\$272,375,619	\$319,707,082	\$357,215,779	\$385,953,200	\$425,397,812	\$440,445,620	\$460,568,685

(a) Reported current year estimates.

(b) Reported as budget year estimates.

(c) Direct and reimbursable obligations.

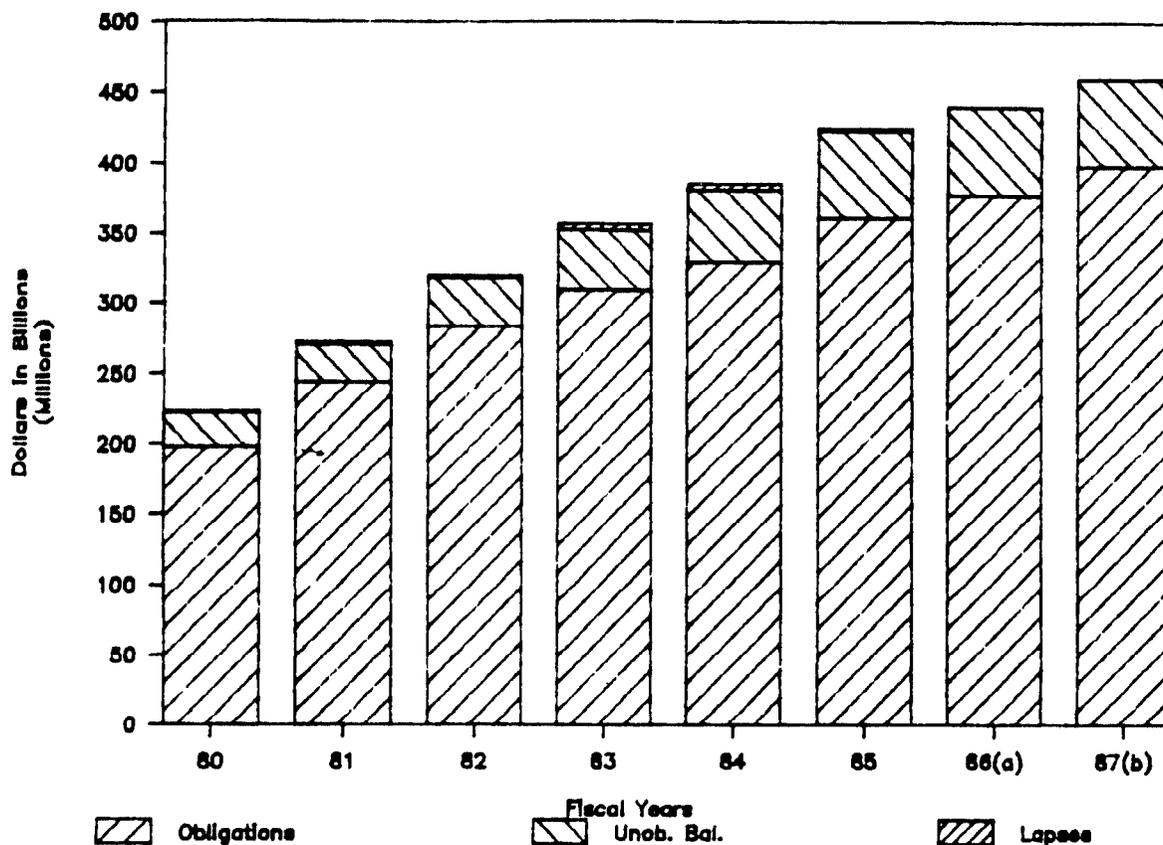
(d) Unobligated balances net of lapsing funds.

(e) Writeoffs reported in fiscal years 1980-82; lapses, unexpired/expiring accounts reported in fiscal years 1983-85; actual lapses, unexpired/expiring accounts and borrowing authority reported for fiscal years 1986-87.

(f) The source of total available for obligation is new budget authority, unobligated balance brought forward from prior years, transfers, recovery of prior year obligations, and reimbursable orders. The sum of obligations, unobligated balances, and lapsing funds do not equal DOD's reported total available for obligation. DOD adjustments in total available authority are: FY 1980, \$1,000; FY 1981, \$248,630,000; FY 1982, \$289,200,000; FY 1983, \$5,000; FY 1984, -\$10,000; FY 1985 \$4,000.

Source: DOD Financial Summary Tables, FAD 738, Budget Obligations and Unobligated Balances

Figure II.1: Major Components of Total Available for Obligation: Fiscal Years 1980-87



Source: Table II.1.

Table II.2: Total Available for Obligation
Fiscal Years 1980-87(a)

Military Function 051	1980	1981	1982	1983	1984	1985	1986 Est.	1987 Est.
	(thousands)							
Military Personnel	\$31,405,999	\$37,223,628	\$43,287,504	\$46,091,077	\$65,269,827	\$68,715,467	\$72,876,089	\$74,702,876
Retired Pay, Defense	11,964,700	13,840,000	14,986,000	16,154,800	(b)	(b)	(b)	(b)
Operations and Maintenance	52,562,621	62,678,158	69,579,667	74,722,120	80,032,623	87,740,562	90,058,046	94,898,800
Procurement	53,283,965	67,170,651	86,696,202	109,096,389	122,712,187	138,309,149	141,131,518	146,121,243
Research, Development, Test & Eval.	16,070,089	18,964,393	23,246,885	26,285,178	31,054,444	36,442,549	40,913,525	48,664,156
Military Construction	4,593,569	5,878,160	8,061,936	8,793,891	9,591,385	10,635,026	10,516,611	11,324,797
Family Housing	1,785,549	2,160,673	2,393,262	2,995,586	3,042,006	3,197,263	3,358,818	3,870,347
Special Foreign Currency Program	20,209	8,607	5,688	6,821	6,850	11,520	5,535	4,655
Revolving and Management Funds	52,356,481	64,766,578	71,816,993	73,083,835	74,511,388	80,408,230	81,823,286	78,014,292
Deductions for Offsetting Receipts	(728,335)	(650,226)	(715,997)	(366,027)	(673,902)	(510,944)	(692,180)	(720,010)
Trust Funds	334,752	349,983	366,435	375,153	428,387	469,810	425,292	459,819
Interfund Transfers (c)	(11,953)	(14,986)	(17,493)	(23,044)	(21,995)	(20,820)	(20,920)	(22,790)
Defense-Wide Contingencies							50,000	3,250,500
Total, Department of Defense	\$223,637,646	\$272,375,619	\$319,707,082	\$357,215,779	\$385,953,200	\$425,397,812	\$440,445,620	\$460,568,685

(a) The source of total available for obligation is new budget authority, unobligated balances brought forward from prior years, transfers, recovery of prior year obligations, and reimbursable orders. Actual balances are reported in fiscal years 1980-85, DOD current year estimates in fiscal year 1986, and DOD budget year estimates in fiscal year 1987.

(b) Included in Military Personnel.

(c) Intragovernmental Trust Funds in fiscal years 1980-82.

Source: DOD Financial Summary Tables, FAD 738, Budget Obligations and Unobligated Balances

Table II.3: Obligation Rates (a)
Fiscal Years 1980-87

Military Function 051	1980	1981	1982	1983	1984	1985	1986 Est.	1987 Est.
				(percents)				
Military Personnel	99.9	99.6	99.9	99.9	99.7	99.7	100.0	100.0
Retired Pay, Defense	99.6	99.2	99.7	98.8				
Operation and Maintenance	99.8	99.0	98.6	98.9	98.1	97.9	99.9	99.9
Procurement	66.6	69.6	69.1	68.0	65.5	66.0	66.0	67.4
Research, Develop., Test and Eval.	93.4	92.0	93.6	93.1	90.8	90.6	90.0	90.0
Military Construction	67.3	70.5	61.9	57.3	58.9	64.3	68.4	67.1
Family Housing	91.0	91.5	89.0	87.6	90.2	86.7	87.2	87.0
Special Foreign Currency Program	38.7	1.9	23.0	7.6	33.9	60.2	79.1	58.6
Revolving and Management Funds	90.9	95.1	95.5	92.3	93.0	91.4	91.9	94.5
Deductions for Offsetting Receipts								
Trust Funds	66.6	69.0	76.5	74.3	78.2	79.4	78.4	84.8
Interfund Transactions (b)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Defense-Wide Contingencies							100.0	100.0
Total, Department of Defense	88.6	89.7	88.7	86.7	85.4	85.0	85.8	86.7

(a) Direct and reimbursable obligations divided by total available for obligation. DOD current year estimates in fiscal year 1986 and budget year estimates in fiscal year 1987.

(b) Intragovernmental Trust Funds in fiscal years 1980-82.

Source: DOD Financial Summary Tables, FAD 738, Budget Obligations and Unobligated Balances

Table II.4: Comparison of Unobligated Balances and Total Available for Obligation
Fiscal Years 1980-87 (a)

Military Function 051	1980	1981	1982	1983	1984	1985	1986 Est.	1987 Est.
				(billions)				
Total Unobligated Balances (b)	\$24.2	\$26.5	\$34.6	\$43.4	\$51.6	\$61.5	\$62.6	\$61.3
Total Available for Obligation (c)	\$223.6	\$272.4	\$319.7	\$357.2	\$386.0	\$425.4	\$440.4	\$460.6
Unobligated Balances as a % of Total Available for Obligation	10.8%	9.7%	10.8%	12.1%	13.4%	14.5%	14.2%	13.3%
\$ Growth in Unobligated Balances (Year Over Year)		\$2.3	\$8.1	\$8.8	\$8.2	\$9.9	\$1.1	(\$1.3)
% Growth in Unobligated Balances (Year Over Year)		9.5%	30.5%	25.3%	19.0%	19.1%	1.8%	-2.1%

(a) Actuals in fiscal years 1980-85, current year estimates in fiscal year 1986, and budget year estimates in fiscal year 1987.

(b) Unobligated balances net of lapsing funds.

(c) New budget authority, unobligated balance brought forward from prior years, transfers, recoveries of prior year obligations, and reimbursable orders.

Source: DOD Financial Summary Tables, FAD 738, Budget Obligations and Unobligated Balances

Table II.5: Unobligated Balances Net of Lapses
Fiscal Years 1980-87(a)

Military Function 051	1980	1981	1982	1983	1984	1985	1986 Est.	1987 Est.
	(thousands)							
Military Personnel								
Retired Pay, Defense								
Operation and Maintenance	\$57,569	\$487,138	\$987,418	\$506,080	\$970,000	\$1,319,928	\$130,328	\$130,328
Procurement	16,751,838	19,416,117	25,622,701	33,500,375	39,894,739	46,066,327	47,949,759	47,708,501
Research, Develop., Test and Eval.	934,537	1,462,862	1,412,053	1,706,089	2,749,350	3,314,399	4,089,256	4,887,797
Military Construction	1,490,887	1,713,011	3,073,654	3,667,031	3,929,038	3,781,228	3,324,092	3,728,630
Family Housing	128,121	157,527	255,350	326,526	271,129	371,898	428,595	502,418
Special Foreign Currency Program	5,847	2,605	2,933	3,800	2,870	3,435	1,155	1,925
Revolving and Management Funds	4,749,498	3,191,313	3,193,557	3,579,639	3,709,097	6,533,265	6,601,526	4,239,213
Trust Funds	111,662	108,436	86,287	96,326	93,587	96,559	79,914	69,779
Interfund Transactions (b)								
Defense Wide Contingencies								
Total, Department of Defense	\$24,229,959	\$26,539,009	\$34,633,953	\$43,385,866	\$51,619,810	\$61,487,039	\$62,604,625	\$61,268,591

(a) Actual unobligated balances carried forward and available for obligation the next year in fiscal years 1980-85, DOD current year estimate in fiscal year 1986, and DOD budget year estimate in 1987.

(b) Intragovernmental Trust Funds in fiscal years 1980-82.

Table II.6: Comparison of Unobligated Balances and Lapsing Funds
Fiscal Years 1980-85(a)

Military Function 051	1980	1981	1982	1983	1984	1985
			(thousands)			
Total Unobligated Balances (b)	\$24.2	\$26.5	\$34.6	\$43.4	\$51.6	\$61.5
Lapsing Funds (c)	\$1.3	\$1.8	\$1.7	\$4.2	\$4.8	\$2.2
Total, Unobligated Balances and Lapses	\$25.6	\$28.3	\$36.3	\$47.6	\$56.4	\$63.7
% Growth in Lapsing Funds		32.1%	-6.1%	155.3%	12.6%	-54.5%
Lapsing Funds as a % of Total Unobligated Balances and Lapses	5.2%	6.3%	4.6%	8.9%	8.5%	3.4%

(a) DOD does not estimate lapsing balances.

(b) Unobligated balances net of lapsing funds.

(c) Components of reported lapsing funds have changed over the 1980s:

--writeoffs in fiscal years 1980-1982

--lapses unexpired/expiring accounts in fiscal years 1983-85

--lapses, unexpired/expired accounts and borrowing authority in fiscal year 1986-87

Source: DOD Financial Summary Tables, FAD 738, Budget Obligations and Unobligated Balances

Table II.7: Lapsing Funds
Fiscal Years 1980-87(a)

Military Function 051	1980	1981	1982	1983	1984	1985	1986(b)	1987(b)
			(thousands)					
Military Personnel	\$44,077	\$190,279	\$46,217	\$50,289	\$186,327	\$182,551		
Retired Pay, Defense	45,083	115,573	45,525	200,950	(c)	(c)		
Operations and Maintenance	30,866	332,143	302,191	337,683	540,531	498,360		
Procurement	1,043,279	1,028,640	1,186,426	1,370,533	2,388,437	923,320		
Research, Development, Test & Eval.	126,646	52,717	66,995	115,533	97,661	95,276		
Military Construction	11,600	20,639		91,777	16,954	19,504		
Family Housing	33,325	26,139	15,419	44,708	26,526	53,676	\$1,042	320
Special Foreign Currency Program	6,537	5,840	1,448	2,501	1,660	1,145		
Revolving and Management Funds	94		(209)	2,033,679	1,524,690	401,134	57,300	29,500
Trust Funds								
Interfund Transactions (d)							12,000	
Defense-Wide Contingencies								
Total, Department of Defense	\$1,341,507	\$1,771,970	\$1,664,012	\$4,247,653	\$4,782,786	\$2,174,966	\$70,342	\$29,820

(a) Lapsing balances shown as writeoffs in fiscal years 1980-82; lapses unexpired/expiring accounts in fiscal years 1983-85; and lapses, unexpired/expiring accounts and borrowing authority in fiscal years 1986-87 estimates.

(b) Lapses in fiscal years 1986 and 1987 reported as of Feb. 4, 1986.

(c) Included in Military Personnel.

(d) Intragovernmental Trust Funds in fiscal years 1980-82.

Source: DOD Financial Summary Tables, FAD 738, Budget Obligations and Unobligated Balances

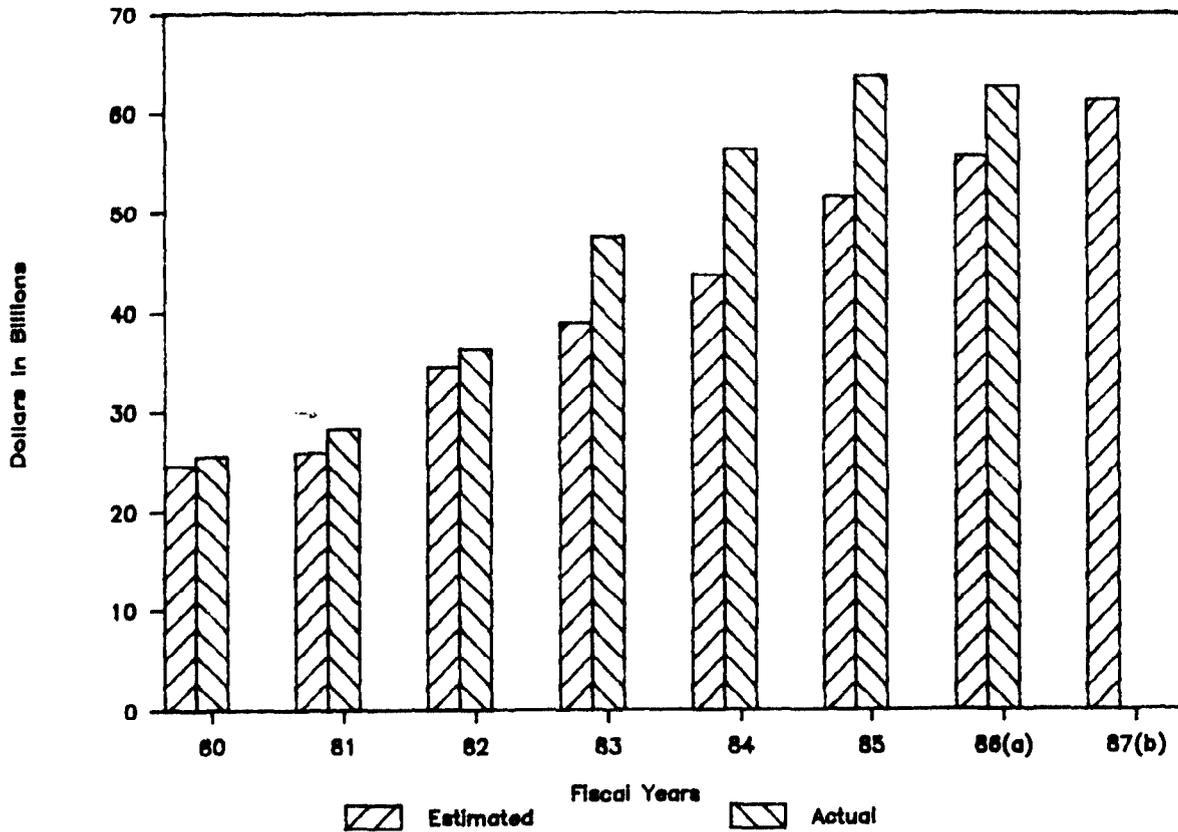
Table II.8: Comparison of Actual and Estimated Unobligated Balances (Including Lapsing Funds)
Fiscal Years 1980-87(a)

Military Function 051	1980	1981	1982	1983	1984	1985	1986 Est.	1987 Est.
Actual (a)	\$25.6	\$28.3	\$36.3	\$47.6	\$56.4	\$63.7		
DOD Current Year Estimate	\$24.7	\$26.0	\$34.5	\$39.0	\$43.8	\$51.6	\$62.7	
DOD Budget Year Estimate							\$55.7	\$61.3
Difference	\$0.9	\$2.3	\$1.8	\$8.6	\$12.6	\$12.1	\$7.0	
% Difference	3.6%	8.8%	5.2%	22.1%	28.8%	23.4%	12.6%	
Change in Overestimate (year over year)		\$1.4	(\$0.5)	\$6.8	\$4.0	(\$0.5)	(\$5.1)	

(a) In fiscal year 1986, comparison of current year and budget year estimates.

Source: DOD Financial Summary Tables, FAD 738, Budget Obligations and Unobligated Balances

Figure II.2: Comparison of Actual and Estimated Unobligated Balances (Including Lapsing Funds): Fiscal Years 1980-87



^aIn fiscal year 1986, comparison of current year and budget year estimates.

^bIn fiscal year 1987, budget year estimate only.

Source: Table II.8.

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December 19, 1985

Honorable Charles A. Bowsler
Comptroller General of the United States
General Accounting Office
441 G St., N.W.
Washington, D.C. 20548

Dear Mr. Bowsler:

The GAO's important study of the "Potential for Excess Funds in DoD" covered the fiscal years 1982 - 1985. Congress has just passed the FY 1986 defense budget. We are writing to ask the GAO to update its "Potential for Excess" study to determine what inflation related excess may exist in this recently enacted legislation.

We are particularly interested in whether the Department of Defense's appropriations for FY 86 contain an accurate assumption for GNP deflator inflation for the current fiscal year, according to the most recently available projections, and what excess may exist for the Major Commodity Index, on which the previous study commented to considerable and very useful extent. We would also welcome an update of the GAO's estimates for unobligated balances in DoD and to what extent they may continue to be above projections. In addition, we are interested to know if the 86 DoD appropriations bill has identified all available excess monies from previous years and what amounts, if any, may remain available for actual savings. Finally, any additional comments or new findings found appropriate would be given our fullest attention.

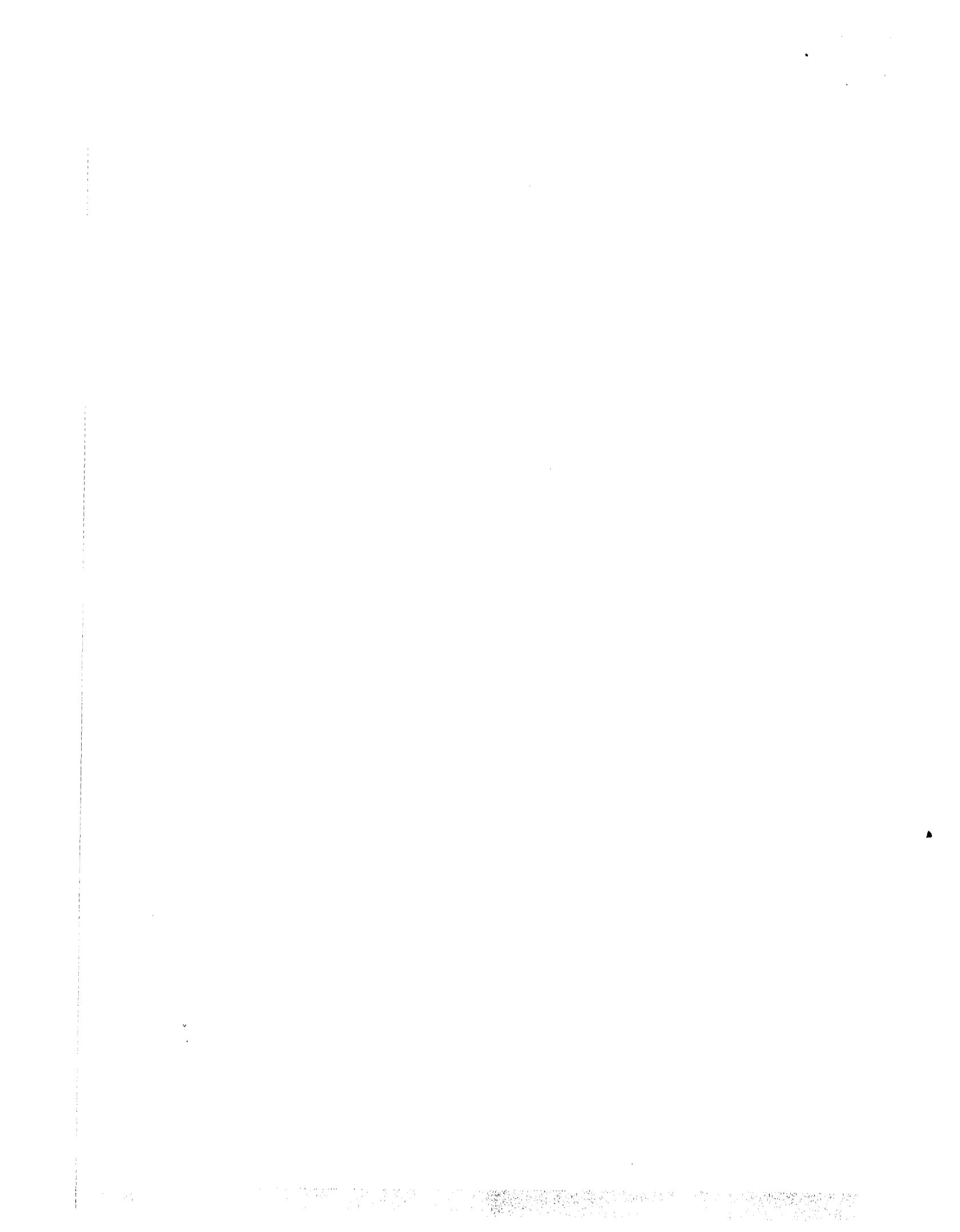
We believe the previous GAO study on this subject to be one of the most helpful and fundamentally important studies available for the purpose of identifying budget related problems to be solved. We intend to make substantial use of it and the study we are now requesting in the upcoming FY 1987 budget cycle, which will start in February. Accordingly, it would be essential for us to receive the requested study in the beginning of that month.

Sincerely,


David Pryor


Charles E. Grassley


Thomas F. Eagleton



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