Joint Committee on Taxation
May 11, 1983
JCX-10-83

PUBLIC DEBT LIMIT, LONG-TERM BOND AUTHORITY AND FEDERAL FINANCING BANK

(Scheduled for a Hearing and Markup by the Committee on Ways and Means on May 12, 1983)

The following is a summary description of three items scheduled for public hearings and markup by the Committee on Ways and Means on May 12, 1983: (1) increase in the public debt limit; (2) increase in amount of Treasury long-term bond authority; and (3) budget treatment of Federal Financing Bank activities.

I. Public Debt Limit

Present Law

The Second Liberty Bond Act contains a statutory limit on the amount of debt that the Federal Government may issue. The current limit on the issue of Federal debt is $1,290.2 billion. The limitation consists of a permanent component of $400 billion and a temporary component of $890.2 billion. The temporary component is in effect through September 30, 1983.

The debt limit applies to debt issued to finance Federal budget activities, investment of Federal trust fund reserves in Treasury special debt issues, and debt issued by or for Federal agency credit programs (both off-budget and on-budget).

Current Debt Situation

At the close of business on May 9, 1983, the outstanding Federal debt subject to limit was $1,256.3 billion. The operating cash balance was $17.9 billion, which is $2.1 billion below the constant level operating cash balance assumed for purposes of meeting daily financial needs.

Treasury announced on April 27, 1983, that it will raise an additional $9.8 billion on May 15, as part of its quarterly financing plans. Net borrowing needs in the July-September quarter have been estimated at $55 to $60 billion.

Treasury is required, under the Social Security Amendments of 1983, to transfer about $23 billion of noncontributory military wage credits to the social security trust funds on May 20, 1983. These funds will be invested in Treasury securities that are included in the public debt limit. The public debt level will

also increase on June 1 by the amount of OASDHI estimated receipts for June, which must be invested at the beginning of the month as required by the Social Security Amendments of 1983; heretofore these receipts usually were invested as received or by the end of the month.

Administration Proposal

Fiscal year 1983.--The Treasury has indicated that a debt limit increase of $99 billion, to $1,389.2 billion, would meet its needs through the remainder of fiscal year 1983. This amount has been recommended as the appropriate level for the debt limit through September 30, 1983, in H. Con. Res. 91, the House-passed budget resolution.

Fiscal year 1984.--Treasury has requested that the public debt limit be increased to $1,624 billion through fiscal year 1984. This level would include an estimate for a $20 billion operating cash balance and a $5 billion allowance for contingencies. This level of debt limit through fiscal year 1984 would require an increase of $235 billion over the level proposed for fiscal year 1983. The House-passed budget resolution, H.Con. Res. 91, recommended $1,607.45 billion as the appropriate public debt limit for fiscal year 1984; this amount does not include any allowance for contingencies.

II. Long-Term Bond Authority

Present Law

Bonds generally may not be issued bearing interest rates above 4-1/4 percent. Congress has enacted a series of exceptions which now provide that up to $110 billion may be issued to the public without regard to the 4-1/4 percent limit. Bonds are defined as obligations issued with a period to maturity greater than 10 years.

Administration Proposal

Treasury will request that the exception be increased by an additional $40 billion to $150 billion. The present limit will be reached early in 1984. At the current rate of issuing bonds, the increased authority requested by the Treasury will be sufficient through 1984.

III. Federal Financing Bank

Present Law

The Federal Financing Bank (FFB) was enacted in 1973 as an off-budget Federal agency in the Treasury Department as a means of coordinating Federal borrowing efforts, reducing the costs of Federal borrowing from the public, and minimizing the disruption of Federal borrowing in the private markets. The FFB is

authorized to purchase the obligations of any Federal agency and obligations guaranteed by Federal agencies. The FFB borrows directly from the Treasury, and the Treasury in turn borrows the amount loaned to the FFB, which is in addition to the borrowing needed to finance the budget deficit. Hence, the Federal debt is increased as the Treasury borrows to accommodate the FFB. Because of the process used in purchasing new loans guaranteed by Federal agencies, FFB purchases of such guaranteed loans have the effect of converting guaranteed loans into direct loans of the Federal Government. When the FFB purchases the loan assets of other Federal agencies, the effect is to transfer the direct agency loan into an off-budget loan of the FFB. When the agency loan is on-budget, whether a direct loan or sale of loan assets, the sale to the FFB converts an on-budget loan into an off-budget loan.

The Administration expects the off-budget outlays of the FFB to be $14.1 billion for fiscal year 1983. During recent years, questions have been raised about the appropriateness of the current budget treatment of FFB activities.

Proposed Amendments (H.R. 2868)

This bill (introduced by Mr. Gradison) would require that the amounts of loan guarantees of any Federal agency financed by FFB be included in the unified budget as outlays of the agency. Receipts and disbursements of FFB with respect to any obligation that is issued, sold or guaranteed by a Federal agency would be treated as a means of financing the agency, for purposes of the unified budget. Off-budget agency (e.g., Postal Service, REA or U.S. Railway Assn.) receipts from and disbursements to FFB also would be reported in the unified budget.

Federal agencies, in effect, would be required to go to the FFB unless the Secretary determines that obligations are (1) financed in a manner which is least disruptive of private financial markets or (2) not suitable investments for FFB because of the risks entailed in such obligations.

The bill would be effective on October 1, 1984. Subsequent changes to the FFB Act, as amended by H.R. 2868, would have to be made by enactment of legislation specifically amending the Federal Financing Bank Act.