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U.S. Department of the Treasury

PRESS RELEASES

DEPARTMENT OF THE TREASURY

TREASURY NEWS

1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
May 10, 1995

Contact: Chris Peacock
(202) 622-2960

TREASURY DEVELOPS PLAN FOR A NEW COMMUNICATIONS SYSTEM

The Department has developed a strategic plan for a Treasury Communications System (TCS) that will use telecommunications and information technology to reinvent its internal and external business services.

Treasury bureau representatives helped create this plan by formulating 12 strategic visions:

- Electronic commerce services
- Electronic messaging services
- Internetworking services
- Security services
- Network management and control services
- Intra/intergovernment financial network services
- Multimedia/video conferencing/broadcast services
- Network-based computing services
- Public access to government information and services
- Intra/intergovernment enforcement network services
- Wireless communications services
- Telecommuting support services

These services will be supported by an infrastructure consisting of communications, computing, management and facilities within a layered open services network approach.

TCS will succeed the Consolidated Data Network, the largest wide area network supported by a civilian federal agency, and will empower users and facilitate the integration of work processes so that business can be accomplished more effectively.

TCS networked information services will promote greater effectiveness across the Treasury organization. As part of this initiative, the strategic plan recommends establishing information servers such as universal electronic mailboxes, facsimile on-demand, public access to government information and electronic commerce functions.

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(MORE)

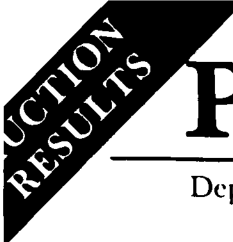
TCS will ensure Treasury bureaus access to a cost-effective, technologically sound foundation for delivering information services. The performance, reliability, and security inherent in these information services will be available to all Treasury personnel and their communities of interests. With assured secure desktop access to accurate data, Treasury personnel will be able to respond to U.S. citizens and businesses in a more timely and well-informed manner.

The National Performance Review (NPR) recommendations point to Treasury as a key player within the federal government to implement, coordinate, and/or support federal government policy for Electronic Commerce and "Electronic Government." The TCS will be the telecommunications and information services utility that will enable Treasury to fulfill this leadership role.

As the basis for the Treasury Information Infrastructure, TCS will affect the dynamics among all government organizations from international to local and provide an important portion of the National Information Infrastructure.

The TCS vision document is available electronically by dialing FedWorld at (703) 321-3339. Once connected, enter your name and password. At the main menu, type "UFSTEL" and press enter to access the Treasury Electronic Library (TEL). Select and download file name "T00TCSV.DOC" according to menu instructions.

Internet users can reach the TEL via anonymous ftp or telnet to "fedworld.gov" under parent directory pub/tel. On the World Wide Web, use the URL http:\\www.ustreas.gov, click on Treasury Services and link to the TEL under Treasury Bulletin Board Systems. Questions regarding electronically accessing the documents should be directed to the FedWorld help desk at (703) 487-4608.



PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 10, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 10-YEAR NOTES

Tenders for $12,503 million of 10-year notes, Series B-2005, to be issued May 15, 1995 and to mature May 15, 2005 were accepted today (CUSIP: 912827T85).

The interest rate on the notes will be 6 1/2%. The range of accepted bids and corresponding prices are as follows:

	Yield	Price
Low	6.576%	99.449
High	6.680%	98.702
Average	6.608%	99.219

$5,000,000 was accepted at lower yields.
Tenders at the high yield were allotted 92%.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$20,931,252	$12,503,227

The $12,503 million of accepted tenders includes $368 million of noncompetitive tenders and $12,135 million of competitive tenders from the public.

In addition, $200 million of tenders was awarded at the average price to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $2,000 million of tenders was also accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing securities.

The minimum par amount required for STRIPS is $400,000. Larger amounts must be in multiples of that amount.

The United States Mint

Mint News

From the Office of Public Affairs *Washington, D.C. 20220*

IMMEDIATE RELEASE
MAY 10, 1995

FOR FURTHER INFORMATION:
DONALD R. NICHOLS (202) 874-6450

MINT GOES NATIONAL WITH RETAIL PROGRAM FOR OLYMPIC COINS

- Reaches Agreements with Three Retailers, Sports Merchandiser, Jewelry Firm, Consumer Products Brokers -

Washington, D.C. -- The U.S. Mint has expanded its retail sales initiative coast-to-coast through new agreements with three retailers, a national jewelry company, a sports marketer, and a four-firm consortium of consumer products brokers to sell 1995-96 Coins of the Atlanta Centennial Olympic Games.

The three new official retailers of the 1995-96 Olympic Coin Program are Mercantile Department Stores, Kroger Grocery and the Navy & Marine Corps Exchange System. They join Wal-Mart, J.C. Penney and the Army-Air Force Exchange System, which became official Olympic coin retailers in March.

Cincinnati-based Mercantile Stores will initiate Olympic coin sales in its Southeast stores and potentially carry the coins in each of its five operating divisions. Kroger's will feature the coins at 134 of its Atlanta area food-and-drug combination stores, and the Navy & Marine Corps Exchange System will sell the coins in its December catalogue and at 218 facilities at military installations worldwide.

The retailers will stock self-standing displays specially designed by the Mint's Olympic marketing task force. Displays hold 216 "blister pacs" containing Olympic basketball or baseball clad coins alongside an Olympic Games pin. The stores also will carry gold and silver coins in "Olympic Games premium pacs," specially designed secure counter displays. The added-value packages contain individual Olympic silver dollars with a program that outlines events, dates, and stadium locations of Olympic venues.

Florida-based Ravel Jewelry Company, a national manufacturer and mass marketer, will market gold and silver Olympic coins across the country to jewelry stores and retail store jewelry departments for purchase by the public. Ravel's clients include Zale's, Marshall's, Macy's, T.J. Max and numerous others.

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In addition, Trigon Sports, a Virginia supplier of premium incentives to sports marketers nationwide, will purchase gold, silver and clad Olympic coins and sell them as premium incentives to its clients, which include national governing bodies that oversee individual Olympic sports.

Hynes Sales Company will head the group of four consumer products brokers selling Olympic coins nationwide to wholesale and retail firms such as drug stores, mail order houses, mass merchandisers, specialty stores, housewares stores and department stores. The consortium will mobilize a sales force of 1,000 professionals to market, merchandise and distribute Olympic coins.

Hynes will sell through its network in 21 Northeast, Southeast and Southwest states. Its partners in the marketing consortium--Pankow Associates, The Keystone Organization and Morgan & Sampson Pacific--fill in the Mint's national atlas of Olympic coin retail coverage. Pankow, in Skokie, IL, will sell to clients in 13 Midwestern states. Keystone operates in New York State and the New York City metro area. California-based Morgan & Sampson will sell Olympic coins to wholesale and retail clients in 13 Western states, including Alaska and Hawaii.

"These agreements carry us several steps closer to the goal of putting Olympic coins within reach of every household in the country," said Mint Director Philip N. Diehl. "Americans who might never have considered buying Olympic coins now will see them in grocery stores, convenience stores, drug stores, jewelry stores, department stores and other places they visit every day."

He added, "These agreements and others under discussion are very promising for Olympic coin sales. What's more, we're creating a lasting retail sales presence that expands sales possibilities for other coin programs."

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
May 11, 1995

Contact: Scott Dykema
(202) 622-2960

U.S., TURKEY INITIAL INCOME TAX TREATY

The Treasury Department announced Thursday that delegations from the United States and Turkey have reached agreement on a new income tax convention.

The text of the new convention was initialled on May 11 by Leslie B. Samuels, Assistant Secretary of the Treasury for Tax Policy, and His Excellency, Ambassador Nuzhet Kandemir. Once the treaty with Turkey is signed, Treasury will have concluded agreements with all members of the Organization for Economic Cooperation and Development. The treaty between the United States and Turkey represents a central component of their economic relationship. It will facilitate cross-border flows of capital, technology, and business activity.

The initialling confirmed the mutual commitment of Treasury and the Turkish Ministry of Finance to move forward on signing and ratifying the new convention. A final text of the treaty will be made public once it has been signed. Following signature, the treaty will be transmitted to the U.S. Senate, which must give its approval before the treaty can enter into force.

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For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 11, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 38-DAY BILLS

Tenders for $17,136 million of 38-day bills to be issued May 15, 1995 and to mature June 22, 1995 were accepted today (CUSIP: 912794S70).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.79%	5.92%	99.389
High	5.81%	5.94%	99.387
Average	5.81%	5.94%	99.387

Tenders at the high discount rate were allotted 98%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$66,504,700	$17,135,700
Type		
Competitive	$66,503,000	$17,134,000
Noncompetitive	1,700	1,700
Subtotal, Public	$66,504,700	$17,135,700
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$66,504,700	$17,135,700

5.80 - 99.388

Department of the Treasury
Financial Crimes Enforcement Network

FinCEN**news**

2070 Chain Bridge Road, Suite 200, Vienna, VA 22182-2536
1500 Pennsylvania Avenue, NW, Suite 3210, Treasury Annex, Washington DC 20220

FOR IMMEDIATE RELEASE
May 10, 1995

Contact: Joyce McDonald
FinCEN
(703) 905-3770

TREASURY ISSUES REVISED CURRENCY TRANSACTION REPORT (CTR), REDUCING REGULATORY BURDEN ON FINANCIAL INSTITUTIONS

The Treasury Department's Financial Crimes Enforcement Network (FinCEN), issued today an ADVANCE COPY of the revised Currency Transaction Report (CTR) Form 4789 and instructions. This CTR revision reduces the amount of information required on the CTR by approximately 30 percent, and substantially furthers the goal of reducing regulatory burdens on financial institutions.

"For the first time in the 25-year history of the Bank Secrecy Act's requirement that CTRs be filed by financial institutions, the form has been revised to reduce the amount of regulatory information required," said Stanley E. Morris, Director of FinCEN. "This revision is mutually beneficial to law enforcement and the financial community because it focuses on the quality of information rather than the quantity."

FinCEN establishes policies to prevent and detect money laundering and also serves as the central source of financial intelligence in support of financial crimes investigations. As part of its regulatory responsibilities, FinCEN administers the Bank Secrecy Act, which requires that domestic financial institutions file a CTR on each single or multiple "deposit, withdrawal, exchange of currency or other payment or transfer, by, through, or to such financial institution which involves a transaction in currency of more than $10,000." CTRs have a high degree of usefulness in criminal, tax, and regulatory investigations and proceedings.

The revised CTR requires only basic information, such as who conducted the transaction, on whose behalf it was conducted, the amount, a description of the transaction, and where it occurred. The revised form also lists broad categories of transactions which will make it easier to complete and analyze.

-more-

FinCEN revised the CTR in cooperation with the Bank Secrecy Act Advisory Group, which is comprised of about 30 private (bank and non-bank) and government representatives. The Treasury Department established this Group in March of 1994 as a "think tank" to recommend ways for both private and public sectors to implement anti-money laundering efforts.

An ADVANCE COPY of the revised CTR will allow financial institutions to train employees and make other necessary changes required in order to complete and file the revised CTR, effective October 1, 1995. Filers must continue to use the current CTR Form 4789 (Rev. July 1994) for reportable transactions that occur before October 1, 1995.

An ADVANCE COPY of the revised CTR Form 4789 (Rev. October 1995) may be ordered from the Internal Revenue Service (IRS) Forms Distribution Centers by calling 1-800-TAX-Form (1-800-829-3676).

FinCEN is drafting additional guidance on how to complete the revised CTR. These guidelines will be distributed to financial institutions in the near future. To assist in developing this guidance, questions concerning the revised CTR are encouraged. Members of the financial community interested in asking questions should call the IRS Detroit Computing Center, Compliance Review Group, at 313-226-4431 or FinCEN at 1-800-949-2732. You may also write to FinCEN, Office of Financial Institutions Policy, ATTN: CTR, 2070 Chain Bridge Road, Suite 200, Vienna, VA 22182.

Specifications for magnetic filing of the revised CTR will be issued soon by the IRS Detroit Computing Center. Any questions concerning magnetic filing should be directed to the IRS Detroit Computing Center, ATTN: CTR Magnetic Media Coordinator, P.O. Box 33604, Detroit, MI 48232-5604.

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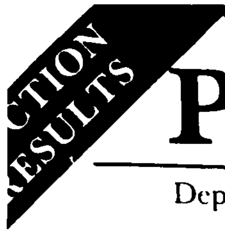

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 15, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,281 million of 13-week bills to be issued May 18, 1995 and to mature August 17, 1995 were accepted today (CUSIP: 912794U51).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.69%	5.87%	98.562
High	5.71%	5.89%	98.557
Average	5.71%	5.89%	98.557

$40,000 was accepted at lower yields.
Tenders at the high discount rate were allotted 48%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$54,084,730	$13,281,167
Type		
Competitive	$48,987,743	$8,184,180
Noncompetitive	1,449,567	1,449,567
Subtotal, Public	$50,437,310	$9,633,747
Federal Reserve	3,378,985	3,378,985
Foreign Official Institutions	268,435	268,435
TOTALS	$54,084,730	$13,281,167

An additional $187,165 thousand of bills will be issued to foreign official institutions for new cash.

5.60 -- 98.584 5.70 -- 98.559

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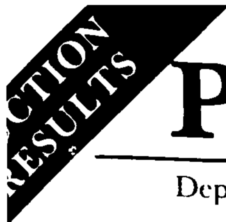

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 15, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,324 million of 26-week bills to be issued May 18, 1995 and to mature November 16, 1995 were accepted today (CUSIP: 912794T53).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.67%	5.93%	97.134
High	5.69%	5.96%	97.123
Average	5.69%	5.96%	97.123

Tenders at the high discount rate were allotted 39%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$44,226,370	$13,324,298
Type		
Competitive	$37,571,417	$6,669,345
Noncompetitive	1,304,288	1,304,288
Subtotal, Public	$38,875,705	$7,973,633
Federal Reserve	3,350,000	3,350,000
Foreign Official Institutions	2,000,665	2,000,665
TOTALS	$44,226,370	$13,324,298

An additional $1,395,135 thousand of bills will be issued to foreign official institutions for new cash.

5.68 - 97.128

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
TEXT AS PREPARED FOR DELIVERY
MAY 16, 1995

ORAL STATEMENT OF ROBERT E. RUBIN
CHAIRMAN OF THRIFT DEPOSITOR PROTECTION OVERSIGHT BOARD
TO THE GENERAL OVERSIGHT AND INVESTIGATIONS SUBCOMMITTEE
HOUSE COMMITTEE ON BANKING AND FINANCIAL SERVICES

Mr. Chairman, Mr. Mfume and members of the Committee. I am pleased to have the opportunity to appear before you this afternoon as Chairman of the Thrift Depositor Protection Oversight Board. I apologize that I can stay for only part of the hearing today. As the Chairman knows, I have an unavoidable conflict and will have to leave. Deputy Secretary Newman will be here throughout the hearing to answer questions.

I am joined by the other members of the Oversight Board: Alan Greenspan, Chairman of the Federal Reserve Board; Ricki Helfer, Chairman of the Federal Deposit Insurance Corporation (FDIC); Jonathan Fiechter, Acting Director of the Office of Thrift Supervision (OTS); Robert Larson, Chairman of Taubman Realty Group; and Jack Ryan, Acting Chief Executive Officer of the Resolution Trust Corporation. We also are joined by Dietra Ford, Executive Director of the Oversight Board. While I am delivering the opening remarks for the entire Board, I plan to call on each of the Board members to address topics in their area of expertise.

The President has recently nominated Herbert F. Collins, Chairman of the Board of Boston Capital Partners, Inc., to serve as the other independent member of the Oversight Board. We look forward to his rapid confirmation. He will be a great asset as we oversee this final phase of the RTC's work.

This is my first appearance before Congress in this role, and it comes just over seven months from the day the RTC will close its doors. The Oversight Board's jurisdiction over the RTC is limited. It reviews overall strategies, policies and goals established by the RTC for its activities. The Oversight Board is prohibited by statute from involvement in case-specific matters involving individual institutions, specific asset dispositions or generally the day-to-day operations of the RTC. Therefore Jack Ryan, who is Acting CEO of the RTC as well as a member of the Oversight Board, will address issues relating to the RTC's operations.

RR-295 (MORE)

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

This is a time of tremendous change for the RTC as the FDIC/RTC Transition Task Force and its numerous subgroups have been meeting to plan the RTC's closing. Two of RTC's six field offices will have closed by the end of next month. The overall staff of the RTC has decreased from a peak of about 8600, to about 5400 on December 31, 1994, to approximately 5000 at the end of March 1995.

It is possible to close the RTC entirely in December 1995, a year earlier than initially anticipated, because the job has been done rapidly and because the thrift industry is sound and healthy. The thrift industry now has had four consecutive profitable years.

I want to use this opportunity to emphasize the importance of resolving the problems of the Savings Association Insurance Fund (SAIF). One of the lessons RTC has taught us is that not providing sufficient funding in a timely manner can result in very costly problems that will ultimately fall on the taxpayers.
This suggests we should move promptly to address the SAIF issues before a crisis develops.

RTC FUNDING

Over a period of six years, $105 billion has been provided to the RTC to protect deposits and pay for losses of failed thrifts. We expect the total actual loss funds used by the RTC will be approximately $87 billion to $95 billion. In view of early estimates this effort should be viewed as a success.

RTC PROGRESS

The RTC has accomplished a great deal since its creation almost six years ago. In August 1989, the RTC immediately became responsible for 262 failed institutions with $114 billion in assets. As of today, the RTC has closed or sold a total of 747 failed institutions with more than $460 billion in assets. In the process, it has protected over 25 million deposit accounts, with average balances of $9,000. In doing this, the government's guarantee of deposit insurance to millions of Americans was fulfilled.

At the same time, the largest asset liquidation project in our history was undertaken. Using all the methods available including auctions, securitizations, small investor offerings, Land Fund sales and others, most of the assets acquired from the nation's failed thrift institutions have been sold. As of today, more than $440 billion in assets have been sold or collected for approximately 88 percent of their book value.

This undertaking also has contributed to our national goals for affordable housing by selling more than 102,000 units under the RTC Affordable Housing Disposition Program.

In addition, under the RTC's minority and women owned businesses outreach program, approximately 53,500, or 35 percent, of all 152,600 contracts awarded by the RTC went to minority and women-owned firms through the end of March 1995. Under the RTC Predominantly Minority Neighborhood Sales Program, 37 percent of available branches were sold to minority acquirers, or 24 of the 65 marketed. Keeping thrift branches open in minority communities provides access to capital to help them grow as well as giving residents access to financial services.

Passage of the Completion Act in late 1993 was a major step forward since the Oversight Board last appeared before this committee. When this Administration took office the RTC had many perceived problems that made it difficult to obtain Congressional approval of funding. Secretary Bentsen's nine management reforms -- increased to 21 reforms in the Completion Act -- were designed to reduce the cost and improve management of the RTC.

Today, I am pleased to report that all 21 management reforms contained in that funding legislation have been implemented by the RTC. Some, like the appointment of a Chief Financial Officer, have been completed. Others are ongoing. For instance, the preparation of a Business Plan with regular updates is now part of the RTC's regular procedures. And the Audit Committee, chaired by Oversight Board member Robert Larson, has been established and continues to meet regularly.

The RTC's accomplishments in addressing this financial crisis, under very difficult circumstances have been many. I believe that despite some inevitable mistakes, history will look favorably on the success of this effort.

THE TASK REMAINING

With just over seven months before the RTC ceases all its operations, a large amount of time and effort is, of course, being devoted to the smooth transfer of remaining assets and responsibilities to the FDIC.

Closing down such a large and complex agency, and transferring its remaining responsibilities efficiently to another agency, is a complicated and time-consuming undertaking.
The structure for transition activities was provided by the RTC Completion Act.

The FDIC/RTC Transition Task Force, which consists of two RTC and two FDIC representatives, has been meeting regularly. It provided a report to Congress at the end of 1994 and will provide another report to Congress by July 1, 1995, as required by law.

Currently the RTC holds just over $20 billion of assets to be sold. When the FDIC takes over the RTC's responsibilities at the end of 1995, it is estimated that $8 billion in assets will remain to be sold. A large portion of those assets will be properties with serious environmental problems that make them difficult to sell. The balance of the inventory will also be hard-to-sell assets that will take a good deal of FDIC time and effort to liquidate.

Secretary Bentsen determined that June 30, 1995, would be the last date on which the RTC will accept additional thrifts. Thereafter, failed thrifts will be accepted by the FDIC for the SAIF.

On January 1, 1996, the FDIC will become responsible for administering all activities for which the RTC had been responsible. This will include not only asset disposition and resolution of any new thrifts acquired after July 1, 1995, but also the myriad of operational matters such as contract administration, financial administration, legal work and report submission.

As you know, all assets and liabilities that remain on the books of the RTC on its sunset date will transfer to the FSLIC Resolution Fund (FRF), which is managed by the FDIC. The FDIC then will become responsible for managing and disposing of those remaining assets as expeditiously and cost-effectively as possible.

The RTC and the FDIC are conducting a detailed review of the RTC's financial position to determine the appropriate level of contingency funding above reserves that might be necessary to absorb losses from adverse changes in economic conditions, current or potential litigation, and other factors beyond RTC's and FDIC's control.

In reviewing the determination of the RTC and FDIC regarding contingency funding above reserves, the Oversight Board will be mindful of the need to use the least amount of the taxpayers' money for the work remaining. It is also important to note that the funds approved will not be drawn down if the money is not needed.

THE OVERSIGHT BOARD

The Oversight Board structure and function was designed to provide ongoing policy oversight of the RTC. The sale of some $460 billion in assets by a new and independent Federal agency was a matter of great concern to Congress. Meeting six times a year, the Oversight Board members have continuing dialogue with top RTC officials on their work, but do not become involved in case specific matters.

In 1994, the Oversight Board strengthened its review of the RTC's programs, policies and management practices and will continue throughout 1995 to undertake these reviews. The Board has continued to review the RTC's quarterly Financial Operating Plan, its internal controls, organizational goals and satisfaction of these goals. The Audit Committee reviews audit findings by the General Accounting Office (GAO), the RTC Office of Contractor Oversight and Surveillance and the RTC Inspector General (IG). The Committee meets with the auditors and the RTC to ensure that issues raised by GAO and the IG are addressed satisfactorily. It also reviews financial operating reports and internal controls and financial statements of the Corporation.

Finally, the Oversight Board staff has administered the Regional and National Advisory Boards and the Affordable Housing Advisory Boards. These citizen advisory bodies have provided public input into the RTC decision-making process. Among the Advisory Boards' recommendations that had significant impact on RTC's policies are those in support of the Small Investor Program, support for seller financing in asset disposition, support for the use of securitization and auctions and support for greater efforts to ensure minority acquisition of thrifts.

The Board's staff office will close during 1996, after completing certain statutory reports and duties. The precise closing date for the staff office will be determined by the Board later in the year after a complete review of post-RTC closing responsibilities. The Board staff of approximately thirty people are Federal employees who do not have return rights to FDIC and will seek new employment when the office closes.

Much has been learned from the RTC's experience. These lessons ought not be lost. The Oversight Board staff is helping to ensure that they will not be. The RTC is preparing a history of the RTC involvement in the thrift crisis. While contributing to that effort, the staff also is working with the advisory boards to create a history of that process and their participation. Together, these documents will provide a ready source of information.

CONCLUSION

In conclusion, let me state that the RTC is on course toward closing and transferring its remaining responsibilities to the FDIC. We expect that not all of the funds appropriated will be spent by the RTC. As we close this chapter in the nation's history, we do so with a legacy of strong and sound financial institutions across this country.

Responses to the questions that FIRREA requires be addressed at these appearances are contained in Attachment I.

The members of the Oversight Board and I would be pleased to respond to any questions you may have.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
May 15, 1995

Contact: Hamilton Dix
(202) 622-2960

U.S. TREASURER TO AWARD SAVINGS BOND POSTER CONTEST WINNERS

United States Treasurer Mary Ellen Withrow will award the fourth annual U.S. Savings Bonds poster contest national winners at 2 p.m., Thursday, May 18, in the Cash Room of the main Treasury Building, 1500 Pennsylvania Avenue.

And the winners are:

First place: Ethan Custer, 10, fourth grader, East Grand Forks, Minnesota

Second place: Kevin Dufendach, 11, fifth grader, Ionia, Michigan

Third place: Sara Beth Silling, 12, sixth grader, Troy Virginia

The Treasurer will be joined by Commissioner of the Bureau of the Public Debt Richard L. Gregg, Savings Bonds Executive Director Dino DeConcini, Savings Bonds National Volunteer Committee Chairman and former Chairman/C.E.O. of the NYNEX Corporation William C. and Mrs. Joyce Ferguson.

Comedian Tony Randall, designer Alexander Julian, Mrs. Ferguson and Treasurer Withrow served as judges. The contest, open to fourth through sixth graders, is held every year by the Treasury Department to encourage students to learn the importance of saving. The winning posters were chosen from 51 entries from the contest winners in each of the 50 states and the District of Columbia.

More than 25,000 elementary school students entered posters with the theme, "Invest in Your Future Today - Buy U.S. Savings Bonds." The national winners receive a trip to Washington, D.C. and $5000, $1000 and $500 Savings Bonds respectively. The prize for the state winners is a $1000 Savings Bond.

Media without Treasury, White House, State, Defense or Congressional credentials should contact the Office of Public Affairs at (202) 622-2960, with the following information: name, date of birth and social security number by noon Thursday, May 18. This information may be faxed to (202) 622-2960.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

ADV 10:15 A.M. EDT
Text as prepared for delivery
May 16, 1995

REMARKS OF TREASURY SECRETARY ROBERT E. RUBIN
U.S.-MEXICO BINATIONAL COMMISSION

Thank you very much. Fourteen years ago our two countries created the Binational Commission to serve as a forum for cooperation on important bilateral issues. Since that time our nations' economic, political, and social ties have evolved in ways that the Commission's founders could not have envisaged. The bonds between our two countries have deepened to hold out great promise for our peoples.

Mexico over the past seven years has accomplished a great deal in the economic arena. Reforms have opened and changed the Mexican economy, removed barriers to investment and initiative, and created the foundations for prosperity. The adoption of the NAFTA signalled our own and Canada's recognition that ever greater trade and integration represent the surest path to better lives for all the hemisphere's citizens. By last year Mexico had become the third largest United States export market, as commerce and investment between our two countries flourished.

Economic integration has gone hand in hand with an expanding relationship on other fronts. Cross-border narcotics trafficking represents a corrosive threat to our societies. We are battling this lethal trade both through domestic efforts, such as Operation Hard Line, as well as stepped up cooperation with Mexican law enforcement agencies. Financial crimes which can support drug trafficking threaten our peoples and the health of our financial systems. Here too, our work together is intensifying and bearing fruit.

I would like to say a few words about both of these issues: our effort to help Mexico stabilize its economy on the one hand, and our heightened campaign against drug trafficking and financial crimes, on the other.

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Mexico's Financial Crisis

Mexico made unfortunate macroeconomic policy errors last year. These included monetary and credit policies that were, in retrospect, unsustainable given the government's exchange rate policies. In late December Mexico was forced first to widen the peso's trading band, then allow the currency to float. The financial instability that followed threatened to destroy all that Mexico's people had accomplished. We in the United States also faced important dangers -- to American jobs that depend on Mexico's economy, to our increasingly important trade with Mexico, and to the array of security and immigration interests which stem from the 2,000 mile border that we share.

Recognizing the danger to both our nations' interests, President Clinton put forward a $20 billion support package for Mexico. That package was matched by Mexico's own courageous decision to undertake rigorous economic adjustments and reforms. These are and will be difficult for some time, but they represent Mexico's surest route back to health in the long term.

Progress to Date

It has been three months since Mexico began the job of stabilizing its economy, with United States support. I don't think any one of us imagined then how far Mexico would be able to come, and the extent to which financial markets would stabilize in such a short span of time. Mexico is on its way toward accomplishing the objectives on which our support was based, and which are necessary for economic health to return.

Mexico has sharply reduced the outstanding stock of dollar-linked Mexican government obligations, mostly tesobonos, by more than half, from nearly $30 billion outstanding at the end of 1994 to about $12 billion. This is a major step towards eliminating the liquidity pressures which have threatened Mexico since December. We expect that following another heavy redemption period for tesobonos this summer, that instrument will become extinct for all practical purposes.

Mexico's own adjustment program has had a number of essential components. The first has been pursuit of a disciplined monetary policy, necessary to restore confidence. Mexico has held monetary policy tight. Nominal money stock fell by 16 percent over this year through May 4, while real money stock declined by 34 percent through April 27.

Second, Mexico has taken important steps to create fiscal and balance of trade surpluses. In fact, Mexico now has a trade surplus, which doubled from $235 million in February to $460 million in March. In early March Mexico enacted an array of budget cutting and revenue raising measures to accomplish its fiscal goal.

Third, Mexico has moved quickly to enact further structural reforms necessary to strengthen and liberalize the Mexican economy. The Mexican congress has passed constitutional amendments to allow private and foreign investment in railroads and satellite transmissions. The congress is also considering legislation to open and privatize other key sectors, such as natural gas transmission, long-distance telecommunications and petrochemicals. The PACTO, through which caps on wages were set nationally, has been eliminated. This should make Mexican labor markets more flexible and efficient.

Fourth, to instill confidence among investors, Mexico has begun to publish the central bank's balance sheet and an array of other important financial and economic statistics on a regular and timely basis. This greater transparency means that official and market analysts can now monitor the progress Mexico is making, removing uncertainty, and encouraging private capital to return sooner, rather than later.

The economic foundation which Mexico has established over the past several years should, over time, reassert itself. Mexico's exports grew 32 percent over the first three months of the year, against as against only 0.1 percent for imports. We expect Mexico's current account to move to balance, from a deficit of 8 percent of GDP last year.

Success should not be judged from day to day market movements. Nonetheless, I think it is notable that financial market confidence in Mexico' future has been returning. In recent weeks the peso has appreciated to about 5.9, and volatility is much diminished. The bolsa has increased by roughly 30 percent in peso terms since its trough on March 20, and by roughly 45 percent in dollar terms. Brady bonds have risen by about a third since March 16, and by about 60 percent if the U.S. treasury bill component is stripped out. Interest rates on Mexican treasury bills have fallen some 20 percent from a peak of 80 percent. Some Mexican government agencies and banks have even been able to issue new securities abroad, another encouraging sign.

Challenges Ahead

Clearly, it is too early to declare victory. Mexico must continue to persevere with the reform effort. Discipline is essential. Important challenges remain. Let me highlight two.

The first is the continuing fragility of the Mexican banking sector. The stock of non-performing loans is large and increasing. Important regulatory reforms are underway. These must continue. Banking sector losses which could ultimately have a fiscal impact must be addressed. Mexico must ensure that bank owners continue to have capital at risk.

Mexico has adopted several programs to shore up bank balance sheets. So far, banks' dollar liquidity problems have been satisfactorily addressed. The World Bank and the Inter-American Development Bank are providing critical support, along with technical assistance from the United States. Also, Mexico's authorities have committed to intervening in banks should capital drop below a specific floor. We view these steps as appropriate.

Mexico faces a second, broader challenge -- social acceptance of the sacrifices which the country is now undergoing. Mexico's working and middle classes accepted seven years of reforms on the understanding that they were laying a better future for themselves and their children. Now, they have been asked to endure an additional period of sacrifice before that promise can be fulfilled.

So far, Mexico's citizens have accepted the need for continued adjustment. The dismantlement of the PACTO and the satisfactory record on wage settlements all suggest that Mexico's people understand the wisdom of staying the course their government has adopted. It is important for Mexico's government to do all that is possible, within the confines of adjustment, to continue to invest in its peoples' education, health, and economic future. That is the way to provide the greatest economic health over time, as the return for the brave path Mexico's people have chosen.

Finally, in the economic arena, Mexico must continue the rigorous fiscal and monetary policies it has adopted, so that it can rebuild international financial market confidence.

Law Enforcement

I would like to turn to another area of challenge on which each of our governments has been working separately and in cooperation: the need to combat cross-border drug trafficking and illicit financial activity. Money laundering and other financial crimes can play just as destabilizing a role in the domestic economy as can poor macroeconomic, trade, and structural policies. Drug trafficking and other crimes supported by a financial black market corrode our societies from within. Measures to fight the poisonous traffic across our borders, while closing off the financial avenues these criminals manipulate, are therefore just as important as good monetary or fiscal policy for the strength of our two nations' economies.

U.S. Attorney General Janet Reno will speak in some detail about law enforcement efforts on our border. Let me say just a few words about the Treasury's role in these important efforts.

Narcotics Trafficking

U.S. Customs, a bureau of the Treasury, is intensifying its efforts to halt cross-border narcotics trafficking. Seizures of cocaine and marijuana through the first quarter of 1995 rose by over 17,000 and 15,920 pounds, respectively, over the first quarter of 1994.

Enhanced border efforts, as well as a stepped up attack on air smuggling, have increased border violence at ports of entry sharply. "Port running," a new method in which smugglers try to race high-speed vehicles across the border, has become epidemic.

To fight this new form of violence we initiated Operation Hard Line. Hard Line has led to the strengthening of certain border ports of entry with new traffic barriers, increased lighting, improved communications technology, and better training and intelligence information for our officers. In areas where it has been implemented, Hard Line is working -- sharply reducing incidents of "port running," and leading to the dismantlement of a major "port running" operation in El Paso. In fact, there are reports that the street price for a kilo of cocaine in El Paso rose from $8,000 to $12,000 soon after Hard Line went into effect.

Because of the success of the current Hard Line program, and the likelihood that drug traffickers will only intensify their efforts at all ports of entry along the Southwest Border, we are seeking ways to expand the program even further. We know that you share our belief that effective drug control policy for both governments requires our collaboration and joint commitment. We look forward to continuing to work with Mexico on this vital issue.

Financial Crimes

Drug trafficking is often facilitated by money laundering and other financial crimes. Over the past year the Department of the Treasury, the Board of Governors of the Federal Reserve System, and other U.S. agencies have moved across a range of fronts to deal with many of the financial cracks which criminals have learned to exploit, and which make it difficult for law enforcement officials to track illicit fund transfers.

One important step has been Treasury's and the Federal Reserve's recent publication of rules standardizing and enhancing record-keeping for wire transfers. These rules, which will come into effect on January 1, 1996, will ensure that information identifying originators and beneficiaries of such transfers is recorded and travels with related payment orders. The information will now be retrievable and available to law enforcement agencies, making it much easier to trace suspected criminal financial activity.

Treasury is working on and will soon publish proposed regulations to require financial institutions to implement "Know Your Customer" policies and procedures. Financial institutions will have clearer guidelines for identifying and reporting suspicious transactions. Other proposed regulations will ensure that the identity of approximately 60,000 informal, non-bank financial institutions operating in the United States is known to law enforcement agencies.

On all of these reforms the Treasury worked in close collaboration with the U.S. private financial sector, through the Bank Secrecy Act Advisory Group. Convened over the past year, the Advisory Group has assembled representatives from Treasury, the bank regulators, banks, and nonbank financial institutions. It has provided valuable insight into the operation of financial institutions, and the impact of new regulations on them. In designing U.S. reforms we have laid a heavy stress on the need to minimize burdens on our financial institutions, while maximizing our ability to detect criminals. The Advisory Group has played an important role in that process.

The reforms now being implemented here and in Mexico, combined with the high level of cooperation between our two countries, will greatly enhance our efforts to protect the integrity of our financial systems and to interdict cross-border criminal activity. I want to emphasize how integral Mexican-U.S. cooperation is to our war on crime. All of our domestic reforms would do little to stop cross-border crime were our two governments not so committed to fighting this battle together.

The foundations for cooperation are solid. Treasury's and Hacienda's Customs Mutual Assistance Agreement enhances our joint efforts to combat narcotics trafficking across our joint border. Other international instruments , including the Tax Information Exchange Agreement and the Double Taxation Treaty, create a solid foundation for our cooperation in tax related matters.

The Financial Information Exchange Agreement, signed last October by my predecessor, Lloyd Bentsen, and by Pedro Aspe, the predecessor of Secretary Ortiz, came into effect in February. It marks the latest step in a new era of U.S.-Mexican cooperation that is already delivering results.

Working together in Operation Choza Rica, we produced 19 money laundering cases and seized approximately $50 million. In another case, Treasury and Hacienda assisted U.S. law enforcement in apprehending a "most wanted" suspect accused of defrauding U.S. and Mexican citizens of $1.5 million.

These are small but significant steps toward our common goal. Important challenges remain. We have seen an increase in the activity of international organized crime, particularly in emerging democracies. We have seen that methods employed by money launderers keep pace with and subvert our regulatory reforms, so that our task is never done. What we can with confidence declare is our resolve individually and jointly to confront these challenges and to continue our campaign to protect the integrity of our financial systems and our economies.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
May 15, 1995

Contact: Chris Peacock
(202) 622-2960

REMARKS OF TREASURY SECRETARY ROBERT E. RUBIN
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS POLICE WEEK RECEPTION
WASHINGTON, D.C.

It's a privilege and a pleasure to be here. And it's nice to see familiar faces -- from around the building and the Treasury Bureaus; friends of law enforcement from the Hill; and members of our Treasury law enforcement community, and their families. It's great to have you here tonight.

I am honored to welcome you to the Treasury Department as we celebrate National Police Week. Earlier today I was at the Peace Officers' Memorial Day Service with the President. It was a moving ceremony honoring the 155 men and women in the law enforcement community who died in the line of duty.

I'm new to the law enforcement community. Most of you know that I spent the largest portion of my professional career in investment banking in New York. I knew a lot about the Treasury Department when I came here, both from that Wall Street experience and from my time in the White House, but not about the law enforcement component. But, since I've been here, I've learned a great deal about that law enforcement component, and its enormous importance to the nation.

I know about the commitment, the dedication, the long hours and the courage.

Not long ago I had the opportunity to honor nine officers of the Secret Service's Uniformed Division who saved twenty-one residents from a burning apartment building, here in the District.

Most of us know what the Secret Service does: it protects the President, it deals with counterfeiting, money laundering, and other similar and critical issues. But, you don't ordinarily think about the Secret Service rescuing people trapped in a burning building. However, that didn't matter to these officers. What mattered was public service and protecting the community.

(more)

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I was down in Oklahoma City after the tragic bombing. I visited with the families of those from our bureaus who were killed. There is nothing in my life that prepared me for the senseless horror of such destruction, the loss of human life, and the tragedy.

But I also saw a remarkable coming together in Oklahoma City, a spirit of kindness and giving. As the President said in his remarks on Friday at Babi Yar in Ukraine, where the Nazis executed over 100,000 men, women and children in 1942, human nature is capable of great horror, but also great goodness.

A final word with respect to Oklahoma City, and let me be very clear. This federal government will never rest until the perpetrators of this horrible crime have been brought to justice.

I want to say a word or two about the men and women of ATF who are sponsoring tonight's event. I've learned a great deal about your organization since I began this job. Every day ATF agents are on the frontlines. You know the risks, you know the dangers, but you do it all the same -- day-in and day-out.

You are true professionals who uphold, enforce and respect the law. Your job is one of the most difficult in America, and you approach it with great dedication.

In a moment I will turn the program over to John Magaw, the Director of the Bureau of Alcohol, Tobacco and Firearms for the presentation of five awards. But before I do, I want each of you here to know, both you in the ATF and all others in the law enforcement community, that you have and richly deserve my full support, and the full support of this administration, for your selfless dedication to protecting and serving others, and for the absolutely critical role that you play in the life of our country.

And a word to the families, as well. We know that families of law enforcement officers go through so much. You, the families, also deserve our respect and support. This nation is deeply indebted to you for the love and support you give to the men and women of law enforcement throughout the country.

There are those who are attempting to deflect attention from the tragedy in Oklahoma City by criticizing federal law enforcement officers. As the President has said so forcefully, that is outrageous, and must not be allowed to stand. Federal law enforcement officers, as you know so well, have a difficult, sometimes dangerous, and vitally important job, and you need and deserve the full support of everyone in our society.

Thank you.

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FOR RELEASE AT 2:30 P.M.
May 16, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $27,200 million, to be issued May 25, 1995. This offering will result in a paydown for the Treasury of about $125 million, as the maturing weekly bills are outstanding in the amount of $27,336 million.

Federal Reserve Banks hold $6,641 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $2,515 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

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HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS TO BE ISSUED MAY 25, 1995

May 16, 1995

Offering Amount	$13,600 million	$13,600 million
Description of Offering:		
Term and type of security	91-day bill	183-day bill
CUSIP number	912794 T2 0	912794 V7 6
Auction date	May 22, 1995	May 22, 1995
Issue date	May 25, 1995	May 25, 1995
Maturity date	August 24, 1995	November 24, 1995
Original issue date	August 25, 1994	May 25, 1995
Currently outstanding	$30,406 million	- - -
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids

Competitive bids . . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . Prior to 12:00 noon Eastern Daylight Saving time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

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**MODERNIZING
THE FEDERAL HOME LOAN BANK SYSTEM**

**STATEMENT OF THE HONORABLE
RICHARD S. CARNELL
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON CAPITAL MARKETS,
SECURITIES, AND GOVERNMENT SPONSORED ENTERPRISES
UNITED STATES HOUSE OF REPRESENTATIVES
MAY 17, 1995**

Mr. Chairman, Representative Kanjorski, Members of the Subcommittee. I appreciate this opportunity to present the Administration's proposal to restructure the Federal Home Loan Bank System.

After 30 months of study, we have before us two bills to restructure and modernize the System. Mr. Chairman, your bill, H.R. 1487, and ours have much in common. Their similarities reflect the degree of consensus on the major issues that has developed since Congress, in the Housing and Community Development Act of 1992, required five comprehensive studies of the System.

I know you share our conclusion, and the conclusion of these five reports, that the Federal Home Loan Bank System remains an important element of our housing finance system. Indeed, both bills include a statement of purpose affirming the basic mission the System has had since its creation in 1932.

Congress took several steps to update the System's membership rules and public purpose in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). However, these changes were incomplete, and they had the unintended consequence of creating certain structural problems and perverse incentives that undercut the System's public purpose and long-term viability. While the System remains safe and sound today, its future is less than certain for the following reasons:

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- Membership rules differ based on a member's charter. Such differences treat members unequally, and create perverse incentives to take risks.

- The regulatory structure has built-in conflicts of interest. A fundamental conflict exists between the Federal Housing Finance Board's roles as the System's manager and regulator. The Board is, in effect, managing the very enterprises it is responsible for regulating.

- The Banks must redeem a withdrawing member's capital stock at par so long as the Bank's capital is not impaired. Ninety-eight percent of Bank capital consists of stock, none of which would have sufficient permanence to qualify as capital if the Banks were FDIC-insured depository institutions. This lack of permanence, combined with a lack of regulatory capital requirements that take account of the Banks' particular structure and risks, underscores the need to strengthen the System's capital structure.

- The Resolution Funding Corporation (REFCorp) allocation formula disproportionately burdens certain Banks and creates a perverse incentive to not make advances to savings associations. The disproportionate financial burden weakens the System's financial integrity, and the penalty on making advances to savings associations runs counter to the System's purpose.

The five System studies mandated by Congress, and Deputy Secretary Newman's testimony last June before the Senate Banking Committee, document each of these weaknesses and the need for comprehensively restructuring the System.

Today, we seek, through legislation, to accomplish this restructuring and modernizing of the System to help it meet America's housing needs into the next century.

In doing so, we rely on five simple principles to guide us. The results of our efforts must be to:

- keep the System safe, sound, and focused on its public purpose;
- maintain the System's important role in supporting housing and community development finance, particularly through portfolio lending;
- make membership voluntary, with equal rights and responsibilities, for all members;
- correct the System's potential instabilities; and
- protect taxpayers from the costs of the System's REFCorp obligation and from any risk from financial losses in the System.

Let me begin by briefly describing the Federal Home Loan Bank System as it exists today, including its continuing role in contributing to the expenses arising from the 1980s thrift debacle. I will then describe the Administration's view of the System's public purpose, detail the System's key weaknesses -- in membership rules, regulatory structure, capital requirements, and REFCorp allocation -- and outline our proposal for resolving each of these weaknesses.

I. THE FEDERAL HOME LOAN BANK SYSTEM: AN OVERVIEW

A. THE SYSTEM IS A GOVERNMENT-SPONSORED ENTERPRISE

Since its inception in 1932, the Federal Home Loan Bank System has been an important source of mortgage credit for home buyers. The System is a government-sponsored enterprise (GSE). That is, it has a federal charter that specifies its permissible activities. The System consists of 12 regional Federal Home Loan Banks, each owned by its members, who are also its customers. The Banks are each run by a board of directors. Members select the majority of their directors; the Finance Board appoints the rest.

Federal Home Loan Banks jointly sell bonds in the securities market at rates only slightly higher than those on Treasury securities. The System's debt securities (called consolidated obligations), are the joint and several liability of all the Banks. Consolidated obligations, like debt securities of other GSEs, trade at yields that reflect the market's perception that Congress would enact legislation to prevent the System from defaulting on its obligations, although the consolidated obligations expressly state that the obligations are not guaranteed by the federal government. Interest earned on consolidated obligations is exempt from state and local income taxes, and the Banks themselves pay no federal income taxes.

The Banks lend most of the proceeds of the consolidated obligations, in the form of "advances", to their thrift, commercial bank, credit union, and insurance company members, who in turn can lend this money to home buyers. These borrowers must provide high-quality collateral exceeding the amount borrowed. Collateral generally consists of residential mortgage loans.

The housing finance market has changed dramatically since 1932. Two other housing-related GSEs, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), as well as the Government National Mortgage Corporation (Ginnie Mae) and various private firms, now provide means for depository institutions to sell in the secondary market the mortgages they originate. Commercial banks have also become a significant source of mortgage credit.

At the same time, the Federal Home Loan Bank System continues to operate largely as initially structured, and remains oriented towards depository institutions that originate and hold mortgages in their own portfolio. As of March 31, 1995, the System had about $247 billion in assets, including $121 billion in advances outstanding and $122 billion in investment securities (including about $37 billion in mortgage-backed securities). As of March 31, 1995 the System also had $210 billion in consolidated obligations outstanding and almost $14 billion in capital.

B. FIRREA Introduced Several Major Changes In the System

FIRREA introduced the first major structural changes in the System by opening System membership to commercial banks and credit unions that had 10 percent of their assets invested in residential mortgage loans. As of March 31, 1995, the System had added 3,285 commercial bank members and 95 credit union members, which together with the 2,040 thrift members and 22 insurance company members brings total membership to 5,442 institutions. Thus, commercial banks now constitute more than half of all System members.

FIRREA also created the Federal Housing Finance Board to oversee the System. The Finance Board has 5 members: the Secretary of HUD and 4 directors appointed by the President and confirmed by the Senate. All of the appointed directors serve full-time, and the President designates one of them as chairman. FIRREA made the Board responsible for

overseeing the Banks' safety and soundness and compliance with their housing finance mission. However, the Finance Board also has various statutory responsibilities for managing the System, which I will describe later (see section IV).

FIRREA added two new public policy goals for the System. It required each Federal Home Loan Bank to establish an Affordable Housing Program (AHP) in which the Bank makes subsidized advances and grants for qualifying affordable housing ventures. FIRREA also added the Community Investment Program (CIP), under which the Banks make at-cost advances for qualifying mortgages and community development purposes.

At the time of FIRREA, System membership consisted almost entirely of savings associations and savings banks -- that is, thrift institutions. Because of statutory requirements to build retained earnings, the Banks had almost $3 billion in retained earnings at the beginning of 1989. At the same time, chronic liquidity problems at many thrifts generated record advances and profits for the Banks in the late 1980s. Since the System's retained earnings and ongoing profits resulted from past and current lending to thrifts, and because thrifts owned the Banks, Congress and the Reagan and Bush Administrations saw the System's retained earnings as an appropriate source of funds to help offset some of the taxpayers' costs in dealing with failing thrifts.

Therefore, FIRREA directed the System to contribute $2.5 billion of its retained earnings to capitalize the Resolution Funding Corporation (REFCorp).[1] Congress established REFCorp in FIRREA to issue bonds whose proceeds went to pay for thrift losses. REFCorp used the $2.5 billion paid by the Banks to purchase zero-coupon bonds. These bonds ensure ultimate repayment of principal to REFCorp bond holders. Together,

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[1]Earlier, in the Competitive Equality Banking Act of 1987, Congress directed the Banks to use some of their retained earnings towards the efforts made in that bill to pay for thrift losses.

the Banks and the taxpayers make semi-annual interest payments to REFCorp bond holders.[2] Each year, the Banks pay $300 million; taxpayers pay about $2.3 billion. Should the Banks fail to make their payment, the taxpayers would absorb that cost as well. The Banks' $300 million annual REFCorp obligation will continue for another 35 years.

The System's payments related to the thrift crisis did two things. First, the payments to capitalize REFCorp consumed nearly all of the System's retained earnings, its only non-redeemable capital. Second, the annual $300 million obligation created a large, fixed annual payment for a System with a cyclical income stream. The statutory allocation formula used to distribute this obligation among the Banks creates significant difficulties, as I will describe later in my statement (see section VI).

Now I will turn to the Administration's view of the System.

II. DEFINING THE SYSTEM'S PURPOSE

Despite tremendous changes in housing finance over the past 60 years, the basic operation of the Federal Home Loan Bank System has remained remarkably unchanged. The changes made in FIRREA were significant in expanding System membership and the System's public purpose. However, some of these changes are incomplete or have created other problems that now need to be addressed. Before dealing with these problems, we believe it is important to first set forth a clear vision of the System's public purpose.

As the cornerstone of our efforts to comprehensively restructure and modernize the System, we propose that Congress enact the following statutory statement of purpose:

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[2]While FIRREA identifies other sources of funds for these interest payments, as a practical matter, nearly all of the interest payments have come from funds paid by the Banks and the taxpayers.

> The Federal Home Loan Bank System is a profit-making enterprise whose purpose is to support residential mortgage lending (including mortgages on housing for low- and moderate-income families), as well as community development lending, throughout the Nation, safely and soundly, primarily through a program of collateralized advances to System members. The System facilitates such lending by increasing the liquidity and improving the distribution of investment capital available through its member institutions.

This statement of purpose affirms the System's important role in making mortgage credit available both for residential lending and community development lending. The statement of purpose also recognizes the need for the System to be a profit-making enterprise that operates safely and soundly.[3]

Our proposed statement of purpose closely resembles the one proposed in H.R. 1487. Our proposal differs from H.R. 1487 primarily in that the purpose statement in H.R. 1487 provides that the System can facilitate lending through advances and other financial services. We see no need to give the Banks an opening to offer "other financial services". None of the recent studies of the System identified unmet financial service needs of System members that the Banks are uniquely situated to provide. We therefore believe that the System's current statutory purpose suffice.

In short, we begin from the same base with H.R. 1487: despite the need for comprehensive restructuring and modernization, the System's core purpose should remain unchanged.

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[3]We propose no changes in collateral requirements and we would oppose any changes in those requirements. The collateral requirements serve two critical purposes. First, they minimize the credit risk to the Banks in making advances. Second, they preserve the link between advances and mortgage lending that is central to the System's public purpose.

III. EQUALIZING MEMBERSHIP RULES

System members currently have unequal rights and responsibilities. Some must join; others join voluntarily. Some must meet the qualified thrift lender (QTL) test to receive advances; others do not. Some have much higher stock purchase requirements than others. These differences create competing interests among members and different tolerances for risk-taking because members have such different exposure to potential future losses. Equalizing the terms of membership would give all System members the same rights and responsibilities, and would improve System stability.

A. UNEQUAL MEMBERSHIP RULES CREATE INEQUITIES AND MAY RESULT IN DIFFERING RISK MANAGEMENT INCENTIVES

Before 1989, nearly all Federal Home Loan Bank members were required to join the System. In opening System membership to commercial banks and credit unions, Congress made such institutions voluntary members of the System, meaning they were free to join and free to leave the System. Last month, state-chartered savings associations became voluntary members. Today, only federal savings associations must be members. Thus, of the 5,442 System members (as of the end of March), only 1,182 are "mandatory" members. The rest are voluntary: they can leave the System and redeem their capital stock by giving six months' notice of their withdrawal. Of course, a federal savings association member could obtain a different charter and, then apply to leave the System.[4]

Having different rules for different members poses several problems. The rules discriminate against mandatory members by keeping them in the System while permitting

[4]Such a maneuver takes time and involves transaction costs not incurred by voluntary members that wish to leave the System. As a practical matter, then, all members are now "voluntary" but not on the same terms.

voluntary members to leave freely. This puts mandatory members' capital stock investment more at risk than voluntary members' investment. As a result, voluntary members have weaker incentives than mandatory members to limit their Bank's risk-taking and keep it safe and sound.

Access to advances also differs among members. First, stock purchase requirements for members differ based on the mix of mortgage-related and non-mortgage related assets in their portfolio. Second, a member's capacity to borrow against its Federal Home Loan Bank stock investment (that is, the ability to leverage) declines as the share of mortgage-related assets in its portfolio declines. Third, a savings association cannot obtain new advances if it fails the QTL test.

Finally, the System's total advances to non-QTL members cannot exceed 30 percent of the System's total advances. This limit, although not currently a binding constraint, will eventually become binding as the number of non-QTL members continues to grow.

These differential membership rules no longer have any economic basis. As I have just described, they provide different members with different risk exposures, and different relative returns to System membership based on factors other than a member's usage of the System.

B. System Membership Should Carry the Same Rights and Responsibilities for All Members

A distinctive characteristic of the System is its being a member-owned cooperative. We believe that in this cooperative structure, it is important that all members have the same rights and responsibilities. Otherwise, competing incentives within the System could erode its underlying soundness and stability. Therefore, we propose to offer System membership

on the same terms to all eligible members. All members will have equal access to advances, and all Banks will share the System's REFCorp and Affordable Housing Program obligations equitably.

Full voluntary membership has numerous advantages for current members, whether mandatory or voluntary. Full voluntary membership will:

- *Strengthen Bank managers' incentives to operate their Banks efficiently and be responsive to their members* by allowing all members to vote with their feet by voluntarily withdrawing from the System.

- *Give all members the same incentives to ensure their Bank is prudently managed* by equalizing members' relative risk exposure.

- *Strengthen commercial bank and credit union members' stake in the System* by equalizing their membership rights, improving their access to advances, and equalizing the cost of advances to all members.

On these points, our bill and H.R. 1487 agree. Both bills also stipulate that, to remain eligible for System membership, members must maintain 10 percent of its assets in certain mortgages (although the bills differ in the type of mortgages). Currently, insured depository institutions must meet a 10 percent requirement only at the time they apply for System membership. There is, however, one point on which the bills differ somewhat. To maintain the nexus between advances and home mortgage lending, we believe that the mortgages used to satisfy the ongoing 10 percent requirement should be whole residential first-mortgages, not mortgage-backed securities or other partial interests in mortgage-related assets as permitted under H.R. 1487.

Our reasoning here is that the System exists primarily to provide liquidity to members that make and hold residential mortgages. Portfolio lenders specialize in making mortgage loans that may not meet secondary market underwriting requirements. Limiting System membership to institutions that have at least 10 percent of their assets in whole first residential mortgage loans serves to reinforce the Bank System's public purpose by encouraging institutions to maintain more diversity and flexibility in their mortgage lending than the more narrow secondary market standards permit. System membership gives such institutions access to credit in order to fund and manage the risks associated with these loans.

Additionally, System membership confers funding cost advantages. These advantages do not exist to give members investing in mortgage-backed securities a funding advantage in making those investments. Rather, their purpose is to facilitate credit flows from the capital markets into new mortgage loans. Stated differently, members that use advances to finance a portfolio of mortgage-backed securities are not themselves acting to expand the availability of mortgage credit; lenders that make and hold mortgages financed with advances do expand access to mortgage credit.

IV. ENSURING PRUDENT REGULATORY OVERSIGHT WHILE ENCOURAGING SYSTEM SELF-MANAGEMENT

The Federal Housing Finance Board, as structured under FIRREA, has built-in conflicts in its responsibilities. While charged with supervising the System to ensure its safety and soundness, the Finance Board also has an array of responsibilities oriented towards managing the System. Just as we support clarifying the System's purpose, we support clarifying the Finance Board's role and structure. We also support letting the Federal Home Loan Banks assume responsibility for managing themselves and the System, consistent with the System's public purpose and safety and soundness.

A. THE FINANCE BOARD'S RESPONSIBILITIES SHOULD NOT INCLUDE MANAGING THE SYSTEM

The Finance Board is responsible for ensuring the System's safety and soundness and has many of the powers and responsibilities typical of a financial safety and soundness regulator. The Finance Board also ensures that the Federal Home Loan Banks meet their statutory requirements in carrying out their normal business operations and the Affordable Housing and Community Investment Programs.

Currently, the Finance Board also has numerous statutorily mandated managerial responsibilities for the System such as approving applications for advances, the Banks' budgets, and their managers' salaries. It also supervises all elections to the Banks' boards of directors and appoints the chair and vice-chair of each Bank. Finally, the Finance Board itself issues all System debt (through the Office of Finance). While the Finance Board has been taking some steps to move System management out to the Bank level, further devolution requires legislation.

A 1991 General Accounting Office (GAO) report explained the inherent conflict in these dual roles:

> We are concerned that having broad management oversight powers may undermine [the Finance Board's] regulatory independence. By involving itself in the business operations of the FHLB System, and by making business decisions on behalf of the system, [the Finance Board] is not arm's length from the outcome of those decisions. In effect, it becomes an advocate for the system. As a result, [the Finance Board] would not be an impartial judge of outcomes arising from such decisions. A better way to provide centralized

accountability and control would be to establish a systemwide governance mechanism within the system overseen by an arm's-length regulator.[5]

Without such legislation, the Finance Board's dual roles as regulator and manager will continue to conflict. The System, like all government-sponsored enterprises, needs a strong safety and soundness regulator, independent of the enterprises it regulates. It is important that Congress correct the Finance Board's structural weaknesses before problems arise.

The Finance Board's responsibility for ensuring the System's safety and soundness grows more critical and complex as the System itself grows in size and complexity. At the end of March, the System had $210 billion in consolidated debt obligations outstanding, an all-time high. Beyond the immense size of these obligations lies another story. The System's debt obligations have grown increasingly complicated as it has become more involved in financial derivatives as an issuer and a user. Of the System's $148 billion in bonds outstanding at the end of 1994, $31 billion, or 21 percent, consisted of structured notes such as dual-indexed bonds, inverse floaters, and range bonds. Besides financing traditional advances (whose repayment provisions are themselves growing in complexity), these obligations fund complex investment portfolios, including $36 billion of mortgage-backed securities. At the end of 1994, the Banks had interest rate swaps outstanding with a total notional value of $134 billion.

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[5]U.S. General Accounting Office, Government-Sponsored Enterprises: A Framework for Limiting the Government's Exposure to Risks, GAO/GGD-91-90, May 1991, pp. 33-34.

B. The Finance Board's System Management Responsibilities Should Devolve to the Banks and the Board Should be Reconstituted

We propose that the Finance Board's managerial responsibilities devolve to the Banks. This will remove the inherent conflicts between the Finance Board's regulatory and managerial responsibilities, while strengthening all members' stake in the System. As part of this change, we propose authorizing the System, rather than the Finance Board, to issue the System's debt securities.

At the same time, we believe that the Finance Board's structure and authority can and should be strengthened so that it can more effectively carry out its core responsibilities. To that end, we propose making two changes in the agency's board structure.

First, we believe that the Secretary of the Treasury (or his designee) should become a member of the Board. The ever-increasing size and complexity of the System's operations require the Treasury's financial expertise. Having the Secretaries of both Treasury and HUD on the Board should help to ensure that the System remains safe, sound, and true to its public purpose.

Second, in keeping with the Vice-President's efforts to reinvent government, we believe that the System does not require a full-time board. While setting policy direction will require a well-informed and strong board, the Finance Board's revised oversight responsibilities will be less time-consuming than its current responsibilities. A full-time Board with time on its hands will also tend to micromanage the System. Additionally, having part-time members will increase the pool of qualified candidates. We therefore believe that the Board should consist of a full-time appointed chair, the two Secretaries, and two appointed part-time directors. This should lower the Board's operating expenses while

involving qualified citizens in overseeing what, in some sense, is a public/private venture. The full-time chair will act as the Board's chief executive officer.

H.R. 1487 would provide for a Board of three full-time members, and would not include either the Treasury or HUD Secretaries on the Board. Given the Federal Home Loan Banks' limited charter and statutory public purpose, we believe that it is essential for the HUD Secretary to retain his position and for the Treasury Secretary to be added. Having both Secretaries on the Board accomplishes three crucial objectives.

First, the Federal Home Loan Bank System, although the third largest debt issuer in the country (after the Treasury and the Federal National Mortgage Association), is neither well-known nor well-understood. Yet the immense size, variety, and complexity of its debt obligations and its importance in supporting housing finance make it a significant player in our financial markets generally, and housing markets in particular. We believe that the System's prominence in the market demands similar prominence in its government oversight. Having the Treasury and HUD Secretaries on the Board lends that prominence. Additionally, their presence strengthens the Finance Board's ability to give the government an early warning of problems in housing finance.

Second, any regulator that oversees just one entity will find it increasingly difficult to remain at arm's length from that entity over time. The 1993 GAO report on the System strongly criticized the Finance Board's lack of independence from the System. The GAO reported that the Finance Board had "become a direct advocate for the System" and was "operating inappropriately as the System's advocate and manager."[6] We recognize, as did the GAO, that the Board's statutory responsibilities for managing certain aspects of the

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[6]U.S. General Accounting Office, Federal Home Loan Bank System: Reforms Needed to Promote Its Safety, Soundness, and Effectiveness, GAO/GGD-94-38, December 1993, p. 109.

System helped blur the distinction between regulating and managing the Banks and diminish the Board's independence. To fully and effectively establish a strong, arm's-length regulator and devolve management to the Banks, we believe that the presence of the Treasury and HUD Secretaries is crucial.

Third, as a government-sponsored enterprise, the System has a public purpose: to support housing finance safely and soundly. The presence of the Treasury and HUD Secretaries will both reinforce and balance these public goals.

VI. STRENGTHENING THE CAPITAL STRUCTURE FOR A VOLUNTARY, MEMBER-OWNED COOPERATIVE

The System's current capital structure lacks resiliency for two reasons. First, most members can redeem their Federal Home Loan Bank stock without a meaningful check on how such redemptions would affect their Bank's soundness. Second, the REFCorp obligation is a fixed dollar expense and will remain so even if the System's capital and earnings were to shrink. This lack of resiliency threatens the System because stock redemptions could leave it without sufficient capital just when it needs capital the most. Also, large-scale Bank losses could result in losses on members' Bank stock. Such losses, in turn, would reduce the capital of the members, nearly all of which are insured depository institutions.

The System's current capital structure also lacks prudent regulatory capital rules. In particular, System capital rules lack two characteristics common to nearly all other depository institutions and housing-related government-sponsored enterprises: risk-based capital requirements and prompt corrective action rules.

A. Member Stock Purchase Requirements and Bank Capital Requirements Need Restructuring

The Federal Home Loan Banks' current capital structure rests on statutory requirements governing members' required purchase of stock in their Bank. This structure bears no direct relation to the risks the Banks undertake. Instead, it bases a member's stock purchase requirement on the member's total assets, mortgage-related assets, and outstanding advances. Nearly all of the System's $13.7 billion in capital (98%) comes from stock purchased by members; the remainder comes from retained earnings.

This structure does not provide a stable, permanent capital base because voluntary members seeking to leave the System can redeem their Federal Home Loan Bank stock at par (assuming their Bank's capital is not impaired). Currently, the Finance Board can prevent a Bank's capital from melting away during a crisis only by directing the Bank to withhold a portion of the amount paid-in for stock by a withdrawing member -- and then only if the Bank's capital is, or is likely to become, impaired. Moreover, the Finance Board currently has no regulations or guidelines defining impairment or establishing procedures for reviewing capital impairment when handling membership withdrawals. Thus, Bank stock serves as a buffer for absorbing losses only to the extent that the Finance Board issued orders requiring such withholding.

Withholding a portion of the amount paid-in for stock by a withdrawing member would signal that the Finance Board has found or expects impairment of that Bank's capital. Such an action would affect all members of that Bank because their regulators and accountants could require members to write down a portion of their Bank stock investment. The Finance Board might therefore tend to allow full redemptions until presented with clear evidence of impairment.

To deal with our concerns regarding the permanence of Banks' capital, we did not find it necessary to dramatically change the current capital structure. Instead, we believe it is important to clarify the rules relating to capital stock redemptions. Establishing clear stock redemption and retirement rules should advise members, Banks, and the Finance Board of how stock redemption requests and Bank initiated stock retirements would be handled. Such rules should improve the resiliency of members' redeemable stock without requiring an overhaul of the System's capital structure.

B. Capital Restructuring Requires Changes in Capital Standards, Stock Purchase Requirements, and Stock Redemption and Retirement Rules

We believe that the System's capital structure needs fundamental reform in three areas: capital standards, stock purchase requirements, and stock redemption and retirement rules.

1. Capital Standards: Risk-Based Capital Requirements and Prompt Corrective Action

The first crucial step in strengthening the System's capital structure is to base each Bank's required capital level on the Bank's level of risk. Should a Bank fail to meet its risk-based capital requirement, clear rules should require prompt action by the Bank and the Finance Board to correct the problem. As REFCorp is an obligation of the System, and not a direct obligation of the individual Banks, appropriate System-wide capital rules should also apply. I will describe our proposed System capital rules later in my statement (see section VI.B). At the same time, any risk-based capital requirement for the individual Banks must reflect the Banks' responsibility to contribute to the System-wide obligation.

Following capital rules developed in recent years for banks, thrifts, and the other housing-related government-sponsored enterprises, we propose that the Finance Board be required to establish risk-based and leverage capital rules for the Banks. Specifically, the risk-based requirement should have three components, with the overall capital requirement consisting of the sum of the capital needed for each component:

- First, a credit-risk component no less than the tier 1 risk-based capital required for well-capitalized banks and thrifts. This component would cover both on- and off-balance sheet risk exposures.

- Second, an interest rate risk component based on an interest rate risk stress test developed by the Finance Board. Such a test should rigorously test a Bank's ability to withstand large changes in interest rates, as well as severe rate volatility and changes in the shape of the yield curve.

- Third, additional capital sufficient for the Bank to generate the earnings needed to meet its ongoing obligations, including its payments for REFCorp and the Affordable Housing Program.

In addition to these risk-based requirements, the Finance Board should establish a leverage capital requirement for the Banks of no less than 4 percent capital-to-assets. Thus, a Bank's effective capital requirement would be the greater of the risk-based or leverage capital requirements.

Because Federal Home Loan Bank stock is redeemable, Banks need some capital that will always be available to cover losses and generate earnings. Before FIRREA, each bank had a statutory requirement to retain 20 percent of its annual earnings in a "permanent" reserve. These reserves were unrelated to the Banks' actual risks. Indeed, in

view of mandatory System membership for most thrifts, FHLBank-related safety and soundness reasons did not require such reserves. As a result, given the System's intimate connections to the thrift industry, Congress used these reserves to help pay for thrift losses.

The situation today is much different. With the fully voluntary membership and risk-based capital rules proposed in our bill, it is both sound economics and sound public policy to require each Bank to have some appropriate amount of retained earnings. While we understand the concern of the Banks and their members that retained earnings might again be used for purposes unrelated to the System, we believe that will not happen if the retained earnings are integral to the Banks' satisfying their regulatory capital requirements.[7]

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[7]H. R. 1487 would give Bank members a property right in the retained earnings of their Home Loan Bank. We understand System members' desire for such a provision. We, however, have serious concerns that such an interest (which members have never had) could impair the government's ability to supervise and regulate the System. For example:

- Could this interest impede the Finance Board from taking appropriate action to assure the System's safety and soundness, if such action would result in diluting a member's interest in its Bank's retained earnings?

- How would this interest affect the fundamental capital structure of the System. Could members insist on redeeming stock at book value, rather than par value, in order to realize their *pro rata* interest in their Bank's retained earnings? Similarly, would a new member joining a Bank have to acquire stock at book value, rather than par value, to avoid diluting existing members' interest in their Bank's retained earnings?

- Could a member's interest take priority over the Bank's REFCorp obligation, and thereby increase the cost to the taxpayers (*e.g.*, if the System were to liquidate, could members insist on receiving all retained earnings and leaving no residual value to help offset the System's remaining REFCorp obligation)?

- Could this interest prevent a future Congress from modifying the System's charter, operations, or capital rules?

Therefore, we propose that Congress direct the Finance Board to establish a retained earnings requirement for the Banks. The Finance Board should base such a requirement on an interest rate risk stress test (since interest rate risk is the most significant, measurable financial risk undertaken by the Banks) or some other standard the Finance Board deems appropriate to ensure the Banks' safety and soundness. The requirement could be built directly into the risk-based capital requirement or could be a separate requirement. Since the Banks' retained earnings are so small today -- only $250 million in a System with nearly $250 billion in assets -- the Finance Board would need to phase in this requirement gradually.

As we have learned through hard experience during the 1980s, having proper capital rules alone does not ensure safety and soundness. Such rules require timely and meaningful enforcement. Consistent with statutory prompt corrective action rules established for banks, thrifts, and the Federal National Mortgage Association and Federal Home Loan Mortgage Association, we believe that the capital rules we propose for the Banks should be supported by similar prompt corrective action rules. Therefore, a critical element of our capital proposal adapts to the Federal Home Loan Bank System the prompt corrective action rules already applicable to insured depository institutions.

Wherever possible, we have followed the rules in section 38 of the Federal Deposit Insurance Act. When necessary, we have adapted those rules to the specific nature of the System. Of special note, prompt corrective action ties stock redemption rules to capital requirements. Specifically, to redeem stock at par a Bank must be adequately capitalized, net of all pending redemptions.

2. Stock Purchase Requirements

Rules governing members' stock purchase requirements must be changed to conform with the risk-based capital requirements and full voluntary membership. Just as a Bank's members should have equal responsibility for the operation of their Bank, those members should all have the same *pro rata* stock purchase requirement.

Under our proposal, a member's stock purchase requirement results from a two-step process. First, the amount of total capital in a Federal Home Loan Bank would be determined by the Bank itself, as long as it satisfies the regulatory capital requirements I just described. Second, after a Bank decides on its desired capital level, it would then determine how much capital stock its members must hold. To equitably distribute the capital stock holdings across all members, the Bank should require all members to hold capital stock equal to the same percentage of each member's total assets. Using total assets as the basis upon which a member's stock purchase is calculated ensures that members of like size will have the same relative stock purchase requirement in their Bank. For example, if a Bank decides that it needs $10 in capital, and its members had combined assets of $500, then each member would be required to purchase stock equal to 2 percent (10/500) of its assets. This would raise the desired $10 in Bank capital. In this way, each member has the same *pro rata* investment in its Bank, giving it a *pro rata* share of the returns and a *pro rata* share in the risks.

3. Stock Redemption and Retirement Rules

Currently, a Federal Home Loan Bank may redeem a member's stock under three general sets of circumstances: first, if the member withdraws from the System altogether; second, if the member holds more shares than it is required to hold and chooses to redeem the "excess" shares; and third, if the Bank, in managing its capital, reduces the total stock it

has outstanding. To add resiliency to Bank capital -- that is, to ensure that such capital remains there when needed -- Congress should more clearly specify the rules governing stock redemptions.

These rules need to achieve the appropriate balance between ensuring the resiliency of Bank capital and preserving members' right to leave the System. We believe that this balance is best accomplished by requiring that an appropriate time period elapse between a member's stock redemption notification and the Bank's actual repayment on that stock. We propose handling stock redemption requests under the following rules:

- A member will normally receive payment for its stock in two equal installments, one six months after submitting a redemption notice, the second six months after that.

- If the Bank is experiencing large capital outflows, the redemption period will extend to 3 payments over 18 months.

- If the Bank is undercapitalized, the Finance Board will reduce (*i.e.*, haircut) any redemption by the member's *pro rata* share of the Bank's capital deficiency.

- In all cases, the Finance Board will measure a Bank's capital net of all pending stock redemptions and retirements.

- As under current law, a member that withdraws from the System may not rejoin for ten years.

- A member that files a redemption notice and then cancels the notice would pay a fee. The fee would discourage members from attempting to defeat the waiting period or other safeguards on redemption by continually filing redemption notices -- notices

filed not because the member actually intends to make a partial redemption or leave the System but because it wants to keep its options open.

C. New Capital Rules Require An Appropriate Transition Period

Moving the System from its current capital structure to the one I have outlined would not happen overnight. We propose that the Finance Board have one year to develop the new capital rules. The Banks will then have 30 days to establish their requirements. We envision the Banks developing their own capital targets based on the new requirements. Once a Bank sets its new target level of capital, members would have two years to comply with such requirements.

As a safety and soundness check on this capital restructuring, our bill requires each Bank to submit a capital plan to the Finance Board once it sets its capital targets. This capital plan should describe the Bank's transition plans in implementing the new capital rules and meeting the new capital requirements.

D. Comparison to H.R. 1487

Each of the three areas of our capital proposal is similar to H.R. 1487. Each bill calls for time to elapse between a member's stock redemption request and the actual redemption, as a means of ensuring that capital stock has some time resiliency. Each bill calls for risk-based capital rules that take into account credit risk, interest rate risk, and all other risks and obligations of the Banks, as well as a leverage requirement. And each bill would permit the Banks to determine stock purchase requirements for their members as long as the Banks satisfy all regulatory capital requirements.

We believe, however, that the greater specificity in certain elements of the Administration's bill provides meaningfully greater assurance of System stability in the long-run.

Let me now briefly summarize the differences in the two bills.

- Risk-Based Capital Rules: Our proposal specifies how the Finance Board is to establish risk-based and leverage capital rules, and sets 4 percent of assets as the floor for the leverage capital requirement. H.R. 1487 more generally directs the Finance Board to establish capital requirements that consider interest rate risk, credit risk, and all other risks and obligations incurred by the Banks. It sets the leverage requirement at the greater of 2.5 percent of assets plus 0.45 percent of off-balance sheet exposure, or 10 percent of risk-weighted assets. While the Finance Board should have some flexibility to set, and adjust, capital requirements, we believe that Congress needs to establish a firmer minimum base by statute.

  Our proposal also contains strong prompt corrective action provisions. As I have already said, capital rules alone do not ensure safety and soundness. Regulators and regulated entities need to have strengthened incentives to take timely, effective action when an entity's financial condition weakens or becomes questionable.

- Member Stock Purchase Requirements: Both proposals provide the Banks with some flexibility in determining member stock purchase requirements, based on their regulatory capital requirements. H.R. 1487 establishes minimum and maximum percentages for member stock purchase requirements.

- Stock Redemption Rules: Our proposal generally allows adequately capitalized Banks to redeem their stock at par over a twelve month period. If the Bank is

undercapitalized, it could still redeem stock, after subtracting from par value the member's *pro rata* share of the capital deficiency.

H.R. 1487 permits members to withdraw from the System and redeem their stock at par provided the member's Bank would be adequately capitalized after that and all other pending redemptions. If the member's Bank would not be adequately capitalized, redemption could be delayed for up to twelve months. If it would be critically undercapitalized, redemption would be at less than par until the Bank's capital restoration plan is terminated.

We believe that our approach preserves the certainty of stock redemptions on a known schedule while ensuring that such redemptions do not add to the capital problems of an undercapitalized Bank. H.R. 1487 may delay a stock redemption if the member's Bank is undercapitalized but eventually that redemption could take place at par (less the nominal exit fee that H.R. 1487 would assess on all stock redemptions) even though the Bank had a capital deficiency. We believe that permitting redemptions at par when a Bank is undercapitalized shifts the burden of that capital deficiency from the member redeeming stock to the rest of the Bank's members.

V. ALLOCATING THE REFCORP OBLIGATION

No other issue in Federal Home Loan Bank modernization is more contentious than dealing with the perverse incentives created by the current formula for allocating the System's REFCorp obligation among the various Banks. While the different Banks have taken their own positions on this issue, the taxpayers have a real stake in the issue too. Since a failure by the System to meet the annual REFCorp obligation would directly increase the cost to the taxpayers, the taxpayers have a clear interest in assuring the future

payment of the System's obligation. Our proposal seeks a balance between competing interests but is grounded in the need to ensure the System's safety and soundness while assuring, as much as possible, the System's continued payment on this obligation.

A. The REFCorp Allocation Formula Creates Perverse Incentives

Currently, each Bank pays up to 20 percent of its income to REFCorp. If this amounts to less than $300 million, as it has each year since 1990, the shortfall is collected from each Bank in proportion to its advances to members whose deposits are insured by the Savings Association Insurance Fund (SAIF). Since some Banks have relatively more SAIF-insured members than other Banks, the allocation formula spreads the System's REFCorp obligation in a manner unrelated to Banks' capital or earnings.

This allocation formula creates two significant problems. Specifically, the formula:

(1) discourages Bank lending to SAIF-insured members (which was the original mission of the System); and

(2) poses a significant obstacle to System self-management.

These problems have been thoroughly documented in the recent reports on the System. For example, the CBO report noted that the Banks have responded to the earnings pressure created by the REFCorp obligation by building arbitrage portfolios of mortgage-backed securities (MBS). As the Congressional Budget Office (CBO) noted, "these MBS

investments introduce some new management and operations risks into the system." CBO went on to note that

> The most perverse aspect of the $300 million REFCORP payment is that the formula for allocating the payment among the [B]anks can discourage the [Banks] from making advances to savings and loan associations (S&Ls) . . . . Thus, if a [B]ank provides an advance to an S&L, the [B]ank has to pay a larger share of the REFCORP payment. No such penalty applies if the [B]ank invests in a mortgage-backed security or provides an advance to a member insured by the Bank Insurance Fund.
>
> . . . .
>
> This situation undercuts the original purpose of the [Banks]. The FHLB System was set up largely to provide liquidity to members and to enable them to manage interest rate risk. It is not clear how incentives for the [B]anks to invest in MBSs, rather than make advances to members, further these goals.[8]

Recently we have seen evidence that, because of this perverse incentive to avoid making advances to SAIF-insured institutions, some Banks have been pricing advances or using alternative methods of extending credit in order to reduce their liability under the REFCorp shortfall allocation (*i.e.*, the second round of the current formula). Such strategies flow from the incentives built into the current formula.

The allocation formula is also a major impediment to System self-governance. The 1993 GAO report describes how:

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[8]Congressional Budget Office, The Federal Home Loan Banks in the Housing Finance System, July 1993, pp. xiii-xiv, and p. 29.

Both FHLBank officials and System members acknowledge that the disproportionate REFCorp burden has made it difficult for them to reach agreement on other issues of mutual concern. We believe that a lack of comity across the FHLBanks and their shareholders impedes the cooperative action and understanding needed in a System where debt obligations are a jointly shared liability. This disproportionate burdening of individual FHLBank districts could create internal frictions within the System and, in our view, does not contribute to a stable situation over the long run.

Thus, we conclude that the shortfall allocation ensures that the REFCorp obligation is paid, but in doing so, it may impede the System's ability to support housing finance in a safe and sound manner.[9]

The difficulties that the disproportionate REFCorp allocation formula create for cooperation among the Banks raise serious public policy concerns in light of (1) the joint and several liability of the Banks for the System's $210 billion in debt obligations, and (2) the widespread agreement that the Banks should manage themselves, instead of being managed by the Finance Board.

As Deputy Secretary Newman testified last June, we believe that the System would be strengthened by restructuring the allocation of the REFCorp obligation. Revising the allocation formula would not simply shift costs from one Bank to another. Rather, it should provide benefits to all Banks, as well as to the taxpayers. First, a revised formula (that did not allocate REFCorp costs based on advances to SAIF-insured members) would remove the disincentive to make advances to SAIF members -- a disincentive that directly conflicts

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[9]U.S. General Accounting Office, Federal Home Loan Bank System: Reforms Needed to Promote Its Safety, Soundness, and Effectiveness, GAO/GGD-94-38, December 1993, p.44.

with the System's mission. Second, revising the formula would ease decisions on major System issues. Reducing the inter-Bank bickering and posturing over this issue should facilitate consensus building on important issues of System self-management.

Because the REFCorp obligation is a fixed annual dollar amount -- regardless of System assets, capital, or earnings -- it creates incentives for added risk-taking by the Banks, especially those disproportionately burdened by the obligation. To generate the earnings needed to pay the REFCorp obligation, all of the Banks have significantly increased their investments in mortgage-backed securities. The earnings pressures are greatest on those Banks that pay a disproportionately large share of the System's obligation. Additionally, while mortgage-backed security investments help the Banks to generate earnings, they do not advance the System's public purpose because they do not increase the overall credit available for housing.

B. THE REFCORP OBLIGATION SHOULD BE SHARED EQUITABLY AMONG ALL BANKS AND THEIR MEMBERS

In place of the existing REFCorp allocation formula, our proposal would distribute the REFCorp obligation among the Banks based on their regulatory required capital. As the risk-based capital rules we propose would apply uniformly across the Banks, this approach would proportion each Bank's REFCorp payment to the size and risk of its operations.

Our preferred REFCorp allocation formula is substantially the same as that in H.R. 1487. This proposed reallocation would accomplish three critical objectives:

- eliminating the current penalty on making advances to SAIF-insured members by dropping the shortfall allocation formula;

- enhancing the Banks' ability to work cooperatively in dealing with the broad array of new responsibilities being delegated to them; and

- by relating a Bank's share of the obligation to its risk-taking, mitigating the incentive to generate additional earnings for REFCorp payments by taking on increased risk.

While this is our preferred solution, we recognize that this issue remains contentious within the System. In the spirit of encouraging System self-management, we support giving the Banks an opportunity to identify a solution on which they can collectively agree within 60 days after enactment. The Banks would have 60 days after enactment to propose a REFCorp allocation formula acceptable to (i) three-fourths of the Banks and (ii) Banks with combined total assets at least equal to three-fourths of the System's total assets. The Finance Board would have 45 days to approve the proposal adopted by the Banks if the Board found that the proposal:

- is reasonable and consistent with the objectives of assuring payment of the System's REFCorp obligation;

- is equitable to the Banks and members;

- does not create incentives for the Banks to engage in conduct inconsistent with the purpose of the System; and

- is readily understood and predictable in its effects.

If the Banks fail to propose an alternative within 60 days, or the Finance Board does not approve the Banks' alternative, then our proposed allocation formula would become effective.

C. The REFCorp Obligation Must Be Dealt With on a Systemwide Level

In our view, fixing the problems in the REFCorp allocation formula would greatly enhance the System's long-run viability and stability. However, it would not deal with the risk to the taxpayers should the System, for whatever reason, become troubled in the future. At the System level, the $300 million annual REFCorp obligation adds an additional challenge to structuring System capital rules. Congress imposed this requirement on the Banks collectively, not individually. Therefore, we believe that the System needs a System-wide capital requirement separate and distinct from the Bank-level requirements.

A System-wide capital requirement would afford taxpayers some protection from the risk of having to absorb the System's REFCorp obligation. While the chances of severe System shrinkage appear remote today, we believe that comprehensive legislation to restructure the System must deal with this possibility. Severe shrinkage could leave the System unable to generate the earnings needed to pay the fixed dollar amount of the REFCorp obligation. At some point, the System could shrink past some critical level at which all remaining members could find it in their interest to leave the System in order to avoid capital losses arising from the fixed REFCorp obligation.

This raises a legitimate question of taxpayer protection, since any failure by the System to meet its REFCorp obligation results in an immediate cost to taxpayers. Today, this obligation amounts to roughly $3.9 billion in present value terms. Therefore, we believe it is prudent, as a matter of taxpayer protection, to build in some early warning signals that the System's capital level -- and hence its earnings potential -- has declined to the point at which this risk may become a greater concern. We propose the following System-wide capital requirements:

- If System capital falls below $7 billion (currently, it is nearly $14 billion), the System must submit a System-wide capital restoration plan to the Finance Board. This capital plan would describe how the Banks, individually and collectively, will deal with the declining System-wide capital base. The plan would be required to focus first on dealing with any undercapitalized Banks. Requiring such a plan would center attention on the System's capital before significant problems take hold. The plan would also focus attention and action on any individual Banks whose particular difficulties give rise to the System-wide problem.

- If System capital falls below $6 billion, no Banks could distribute retained earnings. This restriction represents a modest first step toward conserving capital to prevent a dissipation of retained earnings before, or in connection with, withdrawals from the System.

- If System capital falls below $5 billion, no Bank could pay dividends. At $5 billion, the fixed REFCorp obligation will likely be considerably burdensome to all the Banks. The objective at this point is to protect taxpayers from a System liquidation. Conserving capital by prohibiting dividends assures taxpayers that there will be some residual left in the System if taxpayers must absorb the System's REFCorp obligation. Even in this situation, however, we propose that Banks could continue to redeem capital stock under the rules I just described.

These System capital requirements provide taxpayer protection not found in H.R. 1487, but we believe they are both necessary and fair. They are necessary to protect taxpayers in recognition of the benefits members have received from their participation in this government-sponsored enterprise. They are fair in that they are quite modest relative to the benefits received. I note again that the System capital requirements do not call for a

haircut of members' par value in their Bank stock because of System capital deficiencies, nor do these rules prohibit members from leaving the System.

VII. CONCLUSION

Mr. Chairman, both you and the Administration have long prepared to bring these comprehensive bills to the table. We differ on certain issues. But, more importantly, we have a broad common base on which to resolve those differences.

We look forward to working with you, Representative Kanjorski, and all the Members of this Subcommittee to enact a comprehensive System modernization bill that:

- keeps the System safe, sound, and focused on its public purpose;
- maintains the System's important role in supporting housing and community development finance, particularly through portfolio lending;
- makes membership voluntary, with equal rights and responsibilities, for all members;
- corrects the System's potential instabilities; and
- protects taxpayers from the costs of the System's REFCorp obligation and from any risk from financial losses in the System.

I would be pleased to answer any questions.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR RELEASE UPON DELIVERY
Text as prepared for delivery
May 18, 1995

RECORD TESTIMONY OF TREASURY SECRETARY ROBERT E. RUBIN BEFORE THE SENATE APPROPRIATIONS SUBCOMMITTEE ON TREASURY, POSTAL SERVICE AND GENERAL GOVERNMENT

Chairman Shelby, Senator Kerrey, members of the Subcommittee:

With me today are Ron Noble, Treasury's Under Secretary for Enforcement, and George Muñoz, our Assistant Secretary for Management and Chief Financial Officer. I have a longer statement for the record, and at the close I'll be glad to take your questions. Undersecretary Noble and Assistant Secretary Muñoz have particular areas of expertise I may call upon.

However, before I discuss the details of Treasury's budget, there is something I want to say about the staff at Treasury. I spent 26 years in the private sector working with highly talented and accomplished individuals. Treasury has always had a reputation for excellence, and after four months as Secretary and seeing it first-hand, I know why. I've found a department doing what government should be doing -- reinventing itself, working effectively and efficiently, trying to satisfy its customers. During this period, whether it's been Mexico, or the budget, or global trade, or the Oklahoma City tragedy, throughout the department I've found dedicated professionals willing to work at all hours to do the country's business, and I just wanted you to know at the outset of my remarks how impressed I am with the commitment to public service at Treasury.

A month ago Treasury, like our sister agencies in government, suffered a tragic loss. Eight Treasury employees -- six in the Secret Service and two from the Customs Service -- were murdered in the Oklahoma City bombing. Beyond that, two children of an IRS employee, and eight other members of what you might call the extended Treasury family -- family members of our employees and former Treasury employees -- were killed. One of the 11 Treasury or Treasury-related people who were injured is a child in critical condition with brain damage. We shall not forget them, and our law enforcement people won't rest until all of those responsible are brought to justice.

RR-301 (MORE)

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As you are aware, we asked for a supplemental appropriation to cover the costs of responding to this situation over both the short and long term. The conference committee provided us with $43.7 million, with the bulk of the funding designated for the Bureau of Alcohol, Tobacco and Firearms to deal with security upgrades and enhanced counter-terrorism capabilities. The full budgetary implications of the Oklahoma City bombing and the White House Security Review, as well as the implications of the conference committee action for the 1996 appropriation request are now under deliberation in the Administration. We are grateful for your support of our funding request.

I appreciate the opportunity to testify on the Department's Fiscal 1996 request for $11.3 billion in operating funds. In the current fiscal year Treasury appropriated resources of $10.5 billion will, among other things, support the collection of $1.3 trillion in revenues through the Internal Revenue Service, the Customs Service and the Bureau of Alcohol, Tobacco and Firearms.

It is Treasury's responsibility to be deeply involved in developing the policies that keep the economy healthy, create jobs and increase incomes, including the policies that guide our international economic agenda, such as opening markets and supporting the international financial institutions. We have extensive responsibilities in law enforcement, and in areas as diverse as revenue collection, financial management and regulation, and manufacturing our currency and coins. And we try to accomplish our goals in the most efficient and effective manner possible.

To do that, we are reinventing the process of government and where sensible downsizing, offering regulatory reforms that make sense, and seeking the most effective information processing possible throughout Treasury. I can tell you that already the notion of reinvention has permeated the Treasury Department and it is now part of the departmental culture. And the Department, with this budget, will have 4,000 fewer full-time-equivalent positions than in January 1993. It would have been almost 11,000 lower, but as you're aware we're strengthening the compliance program at IRS.

I'd like to summarize just briefly what has been accomplished in some fair measure due to the administration in the past two years on the economic front, review certain Treasury-specific accomplishments, then lay out our priorities for the coming year.

From the beginning of the administration the President has had a consistent, broad-based economic strategy to promote and then protect our recovery, to position the country for the long-term and to increase the incomes of working Americans.

The strategy consists of fiscal discipline, boosting both private and public investment to increase long-run productivity, opening markets, reforming government and regulation, and achieving health care and welfare reform.

We have had remarkable success in just two years. The deficit as a percentage of GDP has come down from 4.9 percent in 1992 to a projected 2.7 percent this year. Our aggressive deficit reduction program jump-started the economy. We now have a strong investment-led recovery which is creating jobs -- well over 6 million at last count. Unemployment has declined, and we have introduced other measures directed toward long-term economic health. We opened markets with NAFTA and GATT. But over the long run, the success of our economy will depend on raising productivity growth. The President's budget for the coming years is increasingly focused on productivity while still maintaining a strong deficit reduction effort.

Now, I'd like to highlight some of the successes more specific to Treasury.

Law Enforcement

Treasury is our government's second-largest law enforcement agency and has substantive responsibilities. Our law enforcement bureaus contribute to both revenue and crime control. Last year the Customs Service brought in duties of $20 billion, and the Bureau of Alcohol, Tobacco and Firearms collected excise taxes of $13 billion. Those two bureaus, along with the Secret Service, made nearly 23,000 arrests related to crimes of violence, drug trafficking and financial fraud. Internal Revenue Service agents provided investigative support for the trail of criminal cases and money laundering schemes. Other specific Treasury law enforcement responsibilities include:

- protecting the President, the vice president, their families and visiting heads of state;
- credit card and financial institution fraud;
- prevention and detection of money laundering;
- encouraging compliance with and enforcing our trade laws;
- stopping the importation of products of forced labor or copyright violations;
- enforcing economic sanctions; and
- reducing firearms violence.

Last year's crime bill bans the manufacture, transfer, and possession of 19 specific types of semiautomatic assault weapons as well as the transfer and possession of large capacity ammunition clips. The ATF inventoried stocks at each of the 33 locations where these weapons are made to establish a baseline. ATF has prepared regulations to assure that the continued availability of these weapons to active duty police officers does not become an illegal conduit for new weapons and ammunition clips. These and other crime bill regulations were published last month in the Federal Register. Additionally, the ATF is assisting the Customs Service in ensuring that the ban on the importation of these weapons is not circumvented. Enforcement of this provision of the Crime Bill is a very high priority for ATF.

Financial Management

The Department has made significant progress in improving financial management. This year, under the Chief Financial Officers (CFO) Act, eleven audits were conducted resulting in seven unqualified opinions, four more than we received last year. Additionally, departmental oversight of financial systems has been removed from OMB's High Risk list. However, work still needs to be done, and I am committed to making Treasury a model of good financial management within government. We need your support to ensure resources are there to fix the problems. Our current focus is on developing a single, integrated financial management system within the Department.

We have recently created a Chief Financial Officers (CFO) Council within Treasury, which is made up of all our bureau CFOs and is chaired by the Department's CFO. The Council addresses training, systems, audit, and financial statement issues to ensure coordination.

We have also made progress on implementing the Government Performance and Results Act of 1993, which requires us to measure the achievements of our programs. Treasury is a lead participant in the GPRA pilot program, with over 80 percent of our FTEs and budget resources involved. We're using GPRA as a tool to manage more effectively and responsibly.

We have included over 200 performance measures in our Fiscal Year 1996 budget request. During the past year, our Treasury-wide budget, planning, and reinvention staffs have worked closely with the bureaus to develop suitable measures of performance for each appropriation. To assure the greatest value for each dollar and position provided to the Treasury Department, we look forward to working with you to further develop these measures.

We have made substantial progress at Treasury over the past two years, and I want to continue that momentum. Our FY 1996 operating budget has several other major initiatives, and I'd like to spell out our top priorities for you.

Improved Customer Service and Reinventing Government

First, we plan to continue to meet the challenges of the National Performance Review. As a department, we will downsize our personnel, budget, and procurement operations, as well as reducing the number of supervisory and headquarters personnel. We've already made major reductions in our workforce. We anticipate further cuts. A total of $38.2 million and 854 FTEs will be saved in FY 1996 as a result of downsizing.

But we will not sacrifice customer service. We're continuously surveying our customers to ensure service to them doesn't slip. The next time you travel overseas, look for Customer Service standards the Customs Service has posted at our nation's ports-of-entry. They've also posted a telephone number to call to get your questions answered, complaints addressed, and praises gladly heard. We are proud that all of our bureaus have developed customer service standards for the customers they serve.

Our two largest bureaus, the Internal Revenue Service and the Customs Service, have been commended by the Vice President for their efforts in re-engineering their operations. Both have undergone major reviews to determine what their organizations need to look like in the future and how to get there. Our other bureaus are engaged in similar undertakings. The National Performance Review Phase II provides the incentive for the other bureaus to quickly match what Customs and the IRS have done. We have involved bureau leadership in developing and analyzing proposals to devolve, privatize, franchise, terminate, or reinvent selected programs and activities.

Modernizing Computer Systems

Second, and very much tied to our ability to downsize, we plan to continue to modernize our existing information systems to allow us to operate effectively in the electronic environment of the next century.

Most importantly, we must continue to develop and fully implement Tax Systems Modernization (TSM) in the Internal Revenue Service. TSM's success is absolutely essential because taxpayer frustration with processes and services as outdated as ours will, over time, erode the voluntary nature of our Nation's tax system. No private sector firm would engage in the type of activities performed by the IRS without modern systems capabilities, and TSM will provide these capabilities. It is a very good investment for the American taxpayer.

Our combined challenge -- for Treasury, the IRS, and the Congress -- is to ensure that TSM is successfully delivered in the most cost-effective manner possible. The IRS has responded aggressively to the management issues raised by the General Accounting Office and by the Subcommittee. For example, they have taken actions to strengthen lines of authority and accountability for TSM management; they have established priorities and timetables for project development; and they have improved their capacity to quantify the costs and benefits of TSM in hard dollar terms.

And, we at Treasury have established an oversight group within specifically to ensure departmental participation in and support for the long-range policy and management decisions that affect IRS modernization.

The Modernization Management Partnership we have created is intended to make certain that not only are the management concerns regarding TSM addressed, but also that the core business processes of the IRS are realigned most efficiently to meet the needs of the taxpayers in the next century. The Partnership will, for example, take part in and approve the strategic decisions that affect policies for and the management of the IRS Modernization. It will monitor the progress of IRS modernization toward specific program milestones and critical decision points, taking corrective actions where necessary. The Partnership also will oversee TSM program priorities, resource allocation, staffing levels and implementation schedules. It will ensure that oversight recommendations are responded to properly, see to it that the Modernization planning process includes performance measures., and oversee the achievement of management goals.

TSM remains Treasury's top information systems priority, and I look forward to continuing to work with the Congress and others to closely monitor its progress and ensure its success.

Other examples of systems modernization efforts in Treasury include:

- The Customs Service's program to improve revenue collection and merchandise processing through redesign of its Automated Commercial System (ACS). The redesigned system allows us to target violations without disrupting the flow of legitimate trade. When you're responsible for processing as many as 20 million entries a year, targeting is a must.

- The Departmental Offices' programs to increase capacity in the computer data center to improve policy office productivity and to meet workload demands. We will also install an emergency power source to provide continuity of operations and replace obsolete office automation equipment to allow shared access to data.

Tax Compliance Initiative

Third, we plan to continue our tax compliance initiative. Under last year's budget resolution, for five years some $405 million a year in additional IRS compliance activity spending was exempted from counting against the discretionary spending caps and committee allocations because it produces a four-to-one revenue return. We now have more than 4,000 additional compliance personnel on board, and will have the full 5,000 in place by the end of this fiscal year. I can tell you that through the first quarter of this year we are on track to exceed our first-year goal for additional compliance and will meet our goal of an additional $9.2 billion in collections over the five-year period. The compliance program is clearly working.

As you know, the President's budget, by law, cannot show that spending outside the caps. The House Budget Committee Budget Resolution retains the language agreed to last yea keeping the compliance funding outside the caps. However, the Senate Budget Committee's Budget Resolution does not include that language, and we urge the full Senate and the Congress to adopt the House Budget Committee's position.

Crime Control

Fourth, we plan to use our legal authority aggressively under the 1994 crime bill to reduce the crimes of violence, fraud and drug abuse. Through our $30 million Violence Reduction Alliance, crime control resources will be used to provide grants to state and localities and expand cooperative efforts to attack firearms crimes. Resources will be used to facilitate tracing firearms, gathering and sharing law enforcement intelligence, and targeting illegal firearms sales.

FY 1996 crime control resources will also be used to expand the Secret Service's attack on overseas counterfeiting and to continue ATF's GREAT Program (Gang Resistance Education and Training Program), which provides direct intervention with school children to discourage participation in illegal gang activity. Crime control funding will also be used to improve law enforcement training, intelligence, and communications functions.

Financial Stewardship

Finally, Treasury will continue its efforts to improve cash management, debt collection, and government-wide financial information systems. The Financial Management Service will continue the expansion of electronic payment capabilities through the Electronic Benefits Transfer (EBT) Program and the Electronic Data Interchange (EDI) program. The EBT program streamlines the benefit and welfare payment delivery system, while EDI supports computer-to-computer exchange of bureau and financial information.

International Policy Development

The development of international economic policy is a critical element of the Treasury Department's responsibilities. It is not before this committee, but I would like to offer a few brief comments about this area.

National economies are more closely connected in the global economy than ever before. To safeguard American jobs, exports and border and security concerns, we have undertaken a cooperative effort with the international financial institutions to assist Mexico. For the long term, we need to ensure that those international institutions are as modern as the situations they confront, that they can play a more central role in resolving cases like Mexico. The President and other heads of state will be discussing that issue at the G-7 Halifax, Nova Scotia next month. A key to our ability to help guide and strengthen these institutions is to ensure that the United States meets its commitments to the institutions and makes progress in paying our arrearages. One of my highest priorities is seeing that our request for the international institutions is fully funded because American jobs, American exports and our nation's security are at stake.

Before closing, I would like to express my strong interest in achieving harmony between the appropriations process and our reinvention actions. Reinvention requires openness to new approaches for achieving programmatic goals, and so requires flexibility in how resources are applied. Appropriation actions that assign ceilings and floors to specific personnel and spending categories will constrain our options for achieving the most efficient and effective programmatic outcomes. We look forward to collaborating with you throughout the appropriations process, so that we can arrive at funding and personnel decisions that maximize the effectiveness of the department's operations.

Again, I appreciate this opportunity to come before you and share our successes and our plans. I would be happy to address any questions you may have.

# # #

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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ADVANCE FOR 2 P.M. EDT
Text as prepared for delivery.
May 18, 1995

ORAL STATEMENT OF TREASURY SECRETARY ROBERT E. RUBIN BEFORE THE SENATE APPROPRIATIONS SUBCOMMITTEE ON TREASURY, POSTAL SERVICE AND GENERAL GOVERNMENT

Chairman Shelby, Senator Kerrey, members of the subcommittee:

With me today are Ron Noble, Treasury's Under Secretary for Enforcement, and George Muñoz, our Assistant Secretary for Management and Chief Financial Officer. I have a longer statement for the record, and at the close I'll be glad to take your questions. Undersecretary Noble and Assistant Secretary Muñoz have particular areas of expertise I may call upon.

However, before I discuss the details of Treasury's budget, there is something I want to say about the staff at Treasury. I spent 26 years in the private sector working with highly talented and accomplished individuals. Treasury has always had a reputation for excellence, and after four months as Secretary and seeing it first-hand, I know why. I've found a department doing what government should be doing -- reinventing itself, working effectively and efficiently, trying to satisfy its customers. During this period, whether it's been Mexico, or the budget, or global trade, or the Oklahoma City tragedy, throughout the department I've found dedicated professionals willing to work at all hours to do the country's business, and I just wanted you to know at the outset of my remarks how impressed I am with the commitment to public service at Treasury.

A month ago Treasury, like our sister departments in government, suffered a tragic loss. Eight Treasury employees -- six in the Secret Service and two from the Customs Service -- were murdered in the Oklahoma City bombing. Beyond that, two children of an IRS employee, and eight other members of what you might call the extended Treasury family -- family members of our employees and former Treasury employees -- were killed. One of the 11 Treasury or Treasury-related people who were injured is a child in critical condition with brain damage. We shall not forget them, and our law enforcement people won't rest until all of those responsible are brought to justice.

RR-302 (MORE)

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As you are aware, we asked for a supplemental appropriation to cover the costs of responding to this situation over both the short and long term. The conference committee provided us with $43.7 million, with the bulk of the additional funding designated for the Bureau of Alcohol, Tobacco and Firearms to upgrade security and enhance our counter-terrorism capabilities. The full budgetary implications of the Oklahoma City bombing and the White House Security Review, as well as the implications of the conference committee action for the 1996 appropriation request are now under deliberation in the Administration. We are grateful for your support of our funding request.

Mr. Chairman, I appreciate the opportunity to testify on the Department's Fiscal 1996 request for $11.3 billion in operating funds. In the current fiscal year Treasury's resources of $10.5 billion will, among other things, be used to collect in excess of $1.3 trillion in revenues.

Before I talk about some of the specifics and discuss our priorities for the future, I want to say that from the beginning, the President has had a consistent economic strategy, for now and for the long term, and it is working. We have had remarkable success in the economy in the past two years.

Treasury's job to help develop and implement policies to keep the economy healthy, create American jobs and increase American incomes. We help open foreign markets and guide the international financial institutions in ways that advance American interests. We have extensive responsibilities to enforce the law, to collect revenue, to manage the nation's finances and to mint our nation's coins and print the currency.

To accomplish all our goals in the most efficient and effective manner possible, we are reinventing the process of government and where sensible downsizing, offering regulatory reforms that make sense, and seeking the most effective information processing possible throughout Treasury. After adding staff for the IRS compliance initiative, in fiscal 1996 we're going to be nearly 4,000 FTE's smaller than in January 1993, and at an average cost of $40,000 per FTE that translates into a savings for the taxpayers of almost $160 million a year. And I can tell you the spirit of reinvention is part of the departmental culture now.

Having said that, I'd like to highlight some of the successes more specific to programs within the Treasury Department.

Law Enforcement

Treasury is our government's second-largest law enforcement agency. Our responsibilities range from protecting the president and fighting financial crimes and smuggling to enforcing economic sanctions and reducing firearms violence.

Last year's crime bill bans the manufacture, transfer, and possession of 19 specific semiautomatic assault weapons as well as the transfer and possession of large capacity ammunition clips. Regulations ensuring that continued access to remaining inventories of these weapons by active duty police officers does not become an illegal conduit for new weapons and ammunition clips, as well as other regulations related to the crime bill, were published last month in the Federal Register. Enforcing the assault weapons ban is a very high priority for ATF.

Today, though, I ask not only for material support, but your personal support for law enforcement officers. They have been assailed and criticized in some quarters recently -- unfairly, unwisely, and at times, outrageously. They protect us, and we must stand with them.

One of our priorities this year is to use our legal authority aggressively under the 1994 crime bill to address the crimes of violence, fraud and drug abuse rampant in our society. Through our $30 million Violence Reduction Alliance, we will provide grants to states and localities and expand cooperative efforts between ATF and state and local governments to attack firearms crimes. Fiscal 1996 crime control resources will also be used to expand the Secret Service's attack on overseas counterfeiting and to continue ATF's GREAT Program (Gang Resistance Education And Training Program), which helps school children resist the lures of illegal gang activity.

Financial Management

We have made significant progress in improving financial management -- increasing the number of unqualified audits under the Chief Financial Officers Act and removing departmental oversight of financial systems from OMB's High Risk list. However, more remains to be done. I am committed to making Treasury a model of financial management and we will need your support to ensure resources are available. Our current focus is on developing a single, integrated financial management system within the Department.

We have also made progress on implementing the Government Performance and Results Act of 1993, which requires us to measure the achievements of our programs. Treasury is a lead participant in the GPRA pilot program. We have included over 200 performance measures in this budget request.

I want to build upon the success of the past two years. This budget has several major initiatives in the areas I've mentioned, and beyond those areas I've already discussed, I'd like to spell out our other top priorities for you.

Improved Customer Service and Reinventing Government

First, we plan to continue to meet the challenges of the National Performance Review. As a department, we will downsize our personnel, budget, and procurement operations and reduce the number of supervisory and headquarters personnel. A total of $38.2 million and 854 FTEs will be saved in FY 1996 by downsizing. But we will not sacrifice service. Every Treasury bureau has developed customer service standards for the customers they serve.

The Vice President has commended our two largest bureaus, the IRS and the Customs Service, for re-engineering their operations. Our other bureaus are engaged in similar undertakings.

Modernizing Computer Systems

Second, and very much tied to our ability to downsize, we plan to continue to modernize our existing information systems.

Most importantly, we must continue to develop and fully implement Tax Systems Modernization (TSM) in the IRS. TSM's success is absolutely essential because taxpayer frustration with processes and services as outdated as ours will, over time, erode the voluntary nature of our tax system. No private sector firm would engage in the type of activities performed by the IRS without modern systems capabilities, and TSM will provide those capabilities. It is a very good investment for the American taxpayers.

Our combined challenge -- for Treasury, the IRS, and the Congress -- is to ensure that TSM is delivered in the most cost-effective manner possible. The IRS has responded aggressively to the management issues raised by the General Accounting Office and by the Subcommittee, and we at Treasury have established an oversight group within specifically to ensure departmental participation in and support for the long-range policy and management decisions that affect IRS modernization.

The Modernization Management Partnership we have created is intended to make certain that not only are the management concerns regarding TSM addressed, but also that the core business processes of the IRS are realigned most efficiently to meet the needs of the taxpayers in the next century. The Partnership will, for example, take part in and approve the strategic decisions that affect policies for and the management of the IRS Modernization. It will monitor the progress of IRS modernization toward specific program milestones and critical decision points, taking corrective actions where necessary. The Partnership also will oversee TSM program priorities, resource allocation, staffing levels and implementation schedules. It will ensure that oversight recommendations are responded to properly, see to it that the Modernization planning process includes performance measures, and oversee the achievement of management goals.

TSM remains Treasury's top information systems priority, and I look forward to continuing to work with the Congress and others to closely monitor its progress and ensure its success, but we need funding from Congress

Tax Compliance Initiative

Third, we plan to continue our tax compliance initiative. Under last year's budget resolution, for five years some $405 million a year in additional IRS compliance activity spending was exempted from counting against the discretionary spending caps and committee allocations because it produces a four-to-one revenue return. We now have more than 4,000 additional compliance personnel on board, and will have the full 5,000 in place by the end of this fiscal year. I can tell you that through the first quarter of this year we are on track to exceed our first-year goal for additional compliance and will meet our goal of an additional $9.2 billion in collections over the five-year period. The compliance program is clearly working.

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Financial Stewardship

Finally, Treasury will continue its efforts to improve cash management, debt collection, and government-wide financial information systems. The Financial Management Service will continue the expansion of electronic payment capabilities through the Electronic Benefits Transfer (EBT) Program and the Electronic Data Interchange (EDI) program.

International Policy Development

The development of international economic policy is a critical element of the Treasury Department's responsibilities. It is not before this committee, but I would like to offer a few brief comments about this area. As recent months have shown, national economies are far more closely connected in the global economy than ever before. Treasury has programs under way in several areas to ensure our engagement with the global economy, and is working to see that our international financial institutions are as modern as the situations they confront. It will be a topic for President Clinton and the heads of state at the G-7 summit in Halifax, Nova Scotia, next month.

In closing, I would like to express my strong interest in harmonizing the appropriations process with our reinvention actions taken to date. Reinvention requires openness to new approaches for achieving our goals, and it requires flexibility in how resources are applied. Assigning ceilings and floors to specific personnel and spending categories will constrain our options for increasing program efficiency and effectiveness. We look forward to collaborating with you throughout the appropriations process, so that we can arrive at funding and personnel decisions that maximize the effectiveness of the department's operations.

Again, I appreciate this opportunity to come before you and share our successes and our plans. I would be happy to address any questions you may have.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR RELEASE AT 2:30 P.M.
May 17, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION 2-YEAR AND 5-YEAR NOTES TOTALING $29,250 MILLION

The Treasury will auction $17,750 million of 2-year notes and $11,500 million of 5-year notes to refund $16,300 million of publicly-held securities maturing May 31, 1995, and to raise about $12,950 million new cash.

In addition to the public holdings, Federal Reserve Banks hold $1,227 million of the maturing securities for their own accounts, which may be refunded by issuing additional amounts of the new securities.

The maturing securities held by the public include $1,905 million held by Federal Reserve Banks as agents for foreign and international monetary authorities. Amounts bid for these accounts by Federal Reserve Banks will be added to the offering.

Both the 2-year and 5-year note auctions will be conducted in the single-price auction format. All competitive and non-competitive awards will be at the highest yield of accepted competitive tenders.

For both auctions, competitive yields must be expressed with three decimals, for example, 7.123 percent.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

oOo

Attachment

RR-303

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HIGHLIGHTS OF TREASURY OFFERINGS TO THE PUBLIC OF
2-YEAR AND 5-YEAR NOTES TO BE ISSUED MAY 31, 1995

May 17, 1995

Offering Amount	$17,750 million	$11,500 million
Description of Offering:		
Term and type of security	2-year notes	5-year notes
Series	AE-1997	L-2000
CUSIP number	912827 T9 3	912827 U2 6
Auction date	May 23, 1995	May 24, 1995
Issue date	May 31, 1995	May 31, 1995
Dated date	May 31, 1995	May 31, 1995
Maturity date	May 31, 1997	May 31, 2000
Interest rate	Determined based on the highest accepted bid	Determined based on the highest accepted bid
Yield	Determined at auction	Determined at auction
Interest payment dates	November 30 and May 31	November 30 and May 31
Minimum bid amount	$5,000	$1,000
Multiples	$1,000	$1,000
Accrued interest payable by investor	None	None
Premium or discount	Determined at auction	Determined at auction

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . Accepted in full up to $5,000,000 at the highest accepted yield

Competitive bids . . . . (1) Must be expressed as a yield with three decimals, e.g., 7.123%
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all yields, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . Prior to 12:00 noon Eastern Daylight Saving time on auction day

Competitive tenders . . . Prior to 1:00 p.m. Eastern Daylight Saving time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

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STRIKING A BETTER BALANCE BETWEEN THE COSTS AND BENEFITS OF REGULATION

Testimony of
The Honorable Richard S. Carnell
Assistant Secretary of the Treasury

On H.R. 1362

Before the Subcommittee on Financial Institutions and Consumer Credit
Committee on Banking and Financial Services
United States House of Representatives

May 18, 1995

RR 304

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SUMMARY

The Administration has a strong commitment to reducing the costs and improving the quality of bank regulation. Over the past two years, we have taken numerous steps to achieve that objective (see Appendix A). We can and we should improve the regulatory environment for depository institutions. Accordingly, we support, as drafted or with some modification, a large portion of H.R. 1362's provisions.

We welcome the opportunity to participate in the Subcommittee's efforts to identify and eliminate needless regulatory costs, consistent with our commitment to promote efficiency and competition, keep federally insured depository institutions safe and sound, and protect the interests of consumers.

Community Reinvestment Act

We have major concerns about provisions of the bill that would amend, or otherwise impair the operation of, the Community Reinvestment Act (CRA). We strongly oppose any weakening of the CRA, and urge the Subcommittee to keep the CRA outside the scope of the bill.

Two years ago, responding to complaints about how the CRA has been implemented over the years, the President called on the federal banking agencies to rewrite their CRA rules to stress performance, not paperwork. Last month, after one of the most comprehensive rulemaking proceedings in recent times, the agencies promulgated final regulations, culminating a lengthy process in which they sought and obtained the input of thousands of interested parties.

In the course of their rulemaking, the agencies considered and dealt effectively with the problems of the old CRA system. There is thus no need for statutory changes. The thoughtful, carefully balanced reforms adopted by the agencies fulfill both the promise of the statute and the President's request. They provide real incentives for depository institutions to serve all our communities, and a streamlined, straightforward process for assessing their success.

The new rules deserve a chance to work, and we believe they should be implemented as scheduled. To amend the CRA in any respect before the new rules' effectiveness can be evaluated would be counterproductive, and the Administration would firmly oppose it.

Banking laws have long required banks to obtain regulatory approval for such transactions as establishing branches, acquiring new institutions, and merging

institutions. We believe the process for reviewing such transactions can and should be streamlined. To preserve current opportunities for review of an institution's record of serving its community, we would: retain existing requirements to publish notice of the transactions in question; give interested persons at least 30 days to comment on an institution's CRA record; and specify that, for purposes of the CRA, institutions must follow these procedures for a full application if regulators receive a substantial CRA protest. This approach would provide a streamlined notice process in the overwhelming majority of cases, while maintaining the integrity of the CRA.

Fair Lending

The bill rightly seeks to encourage institutions to test themselves for discrimination. We want institutions to be able to self-test and to then take corrective action, and we support incentives toward those ends. We would be glad to work with the Subcommittee on appropriate language to encourage self-testing without hindering appropriate enforcement action.

Truth in Lending; RESPA

We support simplifying the Truth in Lending Act and the Real Estate Settlement Procedures Act (RESPA).

The Truth in Lending Act should not permit borrowers to avoid responsibility altogether because of truly technical violations by a lender, and we support appropriately drafted provisions to prevent them from doing so.

We support efforts to improve disclosures (*e.g.*, about adjustable-rate mortgages and the transfer of loan servicing).

We oppose exempting second mortgages from the protections of RESPA.

Safety and Soundness Safeguards

We oppose permitting small banks and thrifts to go two years between examinations. Interest rates and local economic conditions can change dramatically during such a period, and capital can erode very rapidly. A two-year examination cycle would undercut the system of "prompt corrective action" enacted in 1991, under which FDIC-insured depository institutions face progressively more stringent supervisory safeguards as their capital declines. This system depends on timely and accurate measurement of capital, including the results of examinations.

We generally oppose permitting an institution's managers to serve on its audit committee. Such a committee is typically the principal point of contact between an institution's board of directors and the institution's own internal audit function. Internal auditors -- who are, of course, employees of the institution -- must be able to communicate their concerns and findings to the board without control by, or fear of reprisal from, the very management whose actions they may be reviewing.

Conclusion

We look forward to working with the Subcommittee to craft legislation that eliminates regulatory burdens while maintaining important and necessary public benefits.

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APPENDIX A: THE ADMINISTRATION'S ACHIEVEMENTS IN REDUCING THE COSTS AND IMPROVING THE QUALITY OF REGULATION

STRIKING A BETTER BALANCE BETWEEN THE COSTS AND BENEFITS OF REGULATION

Testimony of the Honorable Richard S. Carnell
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On H.R. 1362

Before the
Subcommittee on Financial Institutions and Consumer Credit
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United States House of Representatives

May 18, 1995

Madam Chairwoman, Representative Vento, Members of the Subcommittee. I am pleased to be here today to present the Administration's views on H.R. 1362, the Financial Institutions Regulatory Relief Act of 1995.

I would like to commend you, Madam Chairwoman, for holding this hearing. I would also like to commend Representative Bereuter and others who have kept attention focused on improving the regulatory environment in which depository institutions operate.

The Administration has a strong commitment to reducing the costs and improving the quality of bank regulation. Over the past two years, we have taken numerous steps to achieve that objective (some of which I summarize in Appendix A). We can and we should improve the regulatory environment for depository institutions. Accordingly, we support, as drafted or with some modification, a large portion of H.R. 1362's provisions.

I. THE NEED FOR A BALANCED APPROACH

Banking regulation serves many goals: maintaining a safe and sound financial system; protecting consumers; and assuring that communities' needs are served. Congress enacted the provisions of existing law we are considering today to further such goals. Nevertheless, many see these laws today as presenting burdens which warrant extensive amendment. We can ask ourselves, why? I submit, there are a variety of answers.

First, in many cases the issues addressed by these laws have turned out, in the implementation, to be far more complex than anyone imagined. This complexity is generally reflected in the rules written by the agencies Congress has directed to carry out its mandate.

Second, when violations of these laws carry significant penalties, the industry itself has often sought considerable specificity and certainty about its obligations, which makes the rules more detailed and difficult.

Third, market participants find ways to avoid restrictive statutes, prompting the agencies to engage in repetitive loophole-plugging to shore up the statutes. This cycle of avoidance and stringency makes regulation more burdensome, particularly for those careful about complying with the law.

Thus, it is appropriate to review the regulatory framework and eliminate any unwarranted burdens that have crept in, while also keeping in mind the original objectives of promoting safety and soundness and protecting taxpayers and consumers. We welcome the opportunity to participate in this review. Indeed, this Administration

has committed itself to removing unwarranted barriers to efficiency in both government and the private sector (see Appendix A).

II. H.R. 1362, THE FINANCIAL INSTITUTIONS REGULATORY RELIEF ACT OF 1995

Against this background, let me turn to the specifics of H.R. 1362.

A. COMMUNITY REINVESTMENT ACT

We have major concerns about provisions of H.R.1362 that would amend, or otherwise impair the operation of, the Community Reinvestment Act (CRA). We strongly oppose any weakening of the CRA, and urge the Subcommittee to keep the CRA outside the scope of this bill.

The CRA is important to the Administration's objective of encouraging depository institutions to look in all communities for good business opportunities. As the President declared on April 19, 1995, "the CRA can create miracles in small towns and big cities from coast to coast -- miracles like mortgage or business loans for people who never thought they could own a house or business, multifamily housing loans, and commercial development loans in low- to moderate-income communities." And these miracles come in the form of good business that had gone ignored before CRA.

1. Amendments to CRA

Two years ago, responding to complaints about how the CRA has been implemented over the years, the President called on the federal banking agencies to rewrite their CRA rules to stress performance, not paperwork. Last month, after one of the most comprehensive joint rule-making proceedings the banking agencies have ever conducted, the agencies promulgated final regulations, culminating a lengthy process in which they sought and obtained the input of thousands of interested parties, including banks, savings institutions, trade associations, customers, and community groups. The agencies received over 6,700 comments in 1993, and over 7,200 comments in 1994.

In the course of their rulemaking, the agencies considered and dealt effectively with the problems of the old CRA process. In other words, this extensive reexamination has already addressed the very problems that also prompted current legislative proposals to amend the CRA. There is thus no need for statutory changes. The thoughtful, carefully balanced reforms adopted by the agencies fulfill both the promise of the statute and the President's request. They provide real incentives for depository institutions to serve all our communities, and a streamlined, straightforward process for assessing their success.

The banking industry itself has responded favorably to the new rules. For example, the American Bankers Association hailed the new rules as a "regulatory rightsizing of CRA" that was "long overdue" -- one that "slows the spiral of paperwork for paperwork's sake and restores some sanity to the process." The Independent Bankers Association of America declared that the new rules "should alleviate the paperwork nightmare of CRA for community banks and allow them to

concentrate on what they do best -- reinvest in their communities." Such leading financial institutions as Chemical Bank, Bank of America, NationsBank, First National Bank of Chicago, American Savings Bank, and Home Savings of America, joining a coalition of civic and community groups and mayors from around the country, praised the new rules for striking "a balance between the banking industry's desire for reduced regulatory burden and the need for all American communities to have access to better information . . . . They represent a significant move in the right direction . . . Now, we urge that they be given a chance to work."

The right approach, after all of this thoughtful work by the regulatory agencies and the public, is to implement the new rules on schedule. To revisit and amend the CRA in any respect before the new rules' effectiveness can be evaluated would be counterproductive, and the Administration would firmly oppose it.

2. Procedural Changes Affecting CRA

Banking laws have long required banks to obtain regulatory approval for such structural changes as the establishment of branches, the acquisition of new institutions, or the merger of existing institutions. We believe the process for reviewing such transactions should be streamlined. (Indeed, the OCC and OTS have already taken steps, within the limits of their current statutory authority, to expedite and simplify that process.)

Thus we support the objectives of section 202 (acquisitions of banks by bank holding companies), section 203 (mergers of FDIC-insured depository institutions), section 204 (Oakar transactions), and section 207 (branch applications) of H.R. 1362, which would revise the procedures for reviewing such transactions. Under sections

202 and 207, well-capitalized, well-managed institutions with satisfactory CRA records could generally give regulators notice before a transaction and then proceed with the transaction unless regulators acted within a specified time to require an application.

As currently drafted, however, these sections could insulate such transactions from effective CRA review -- review that current law specifically requires, and that has played an important role in assuring the CRA's effectiveness. No longer would persons concerned about an institution's record of meeting community needs receive notice of, or have a meaningful opportunity to comment on, a proposed transaction. These sections would thus, in effect, establish a safe harbor against CRA-based challenges -- in addition to the explicit safe harbor proposed in section 124. Just as we strongly oppose section 124, we strongly oppose that result here.

Our opposition to CRA safe harbors accords with the principles of the bill. In section 202, for example, institutions with satisfactory CAMEL ratings would not automatically receive approval for their transactions. The Federal Reserve would evaluate the transaction to confirm that other considerations do not warrant a more complete review despite the bank's rating. This same logic underlies our position on CRA review: a satisfactory CRA rating does not mean that an opportunity to consider other information relevant to CRA performance is unnecessary.

To reconcile our CRA-related concerns with the shared objective of streamlining the application process, we would preserve existing requirements to publish notice of the transactions in question; give interested persons at least 30 days to comment on an institution's CRA record; and specify that, for purposes of CRA, institutions must follow the procedures for a full application if regulators receive a

substantial CRA protest. This approach would provide a streamlined notice process in the overwhelming majority of cases, while preserving the integrity of CRA.

Section 202, which we have already discussed in the context of CRA, also raises a question about the proper role of the Justice Department Antitrust Division in considering the competitive effects of bank acquisitions. As drafted, section 202 would allow an expedited 15-day prior notice process if certain preconditions were satisfied. Among these would be a requirement that the proposal comply with guidelines adopted by the Federal Reserve, in consultation with the Department of Justice, to "identify proposals that are not likely to have a significantly adverse effect on competition in any relevant financial services market."

We support this approach, with a slight modification. The Department of Justice has raised a procedural question about its ability to receive simultaneous notice of a transaction. Giving the Department simultaneous notice of the transaction would expedite the process if done in conjunction with an amendment to waive the typical 30-day post-approval waiting period contained in 12 U.S.C.1849(b), except for those transactions where the Department has informed the Federal Reserve, within the 15-day period contained in this section, that the effect of the transaction may be substantially to lessen competition. This will enable transactions that do not raise significant antitrust concerns to proceed expeditiously.

3. Small Business Lending Data

We strongly oppose section 230, which would repeal the current requirement that depository institutions report information on their lending to small businesses and small farms. Such information is both useful and not otherwise available. For

example, the Justice Department's Antitrust Division uses this data in dozens of bank merger cases each year in various local markets throughout the country. This data is the only readily available source of information on banks' small business lending, and is therefore of great importance in evaluating the anticompetitive effects of proposed mergers. The Small Business Administration also uses the data to rank the small business lending of all the nation's commercial banks and to provide information to small business on bankers serving their needs.

B. FAIR LENDING

I think everyone would agree that discriminating against loan applicants based on such characteristics as race or sex is reprehensible. The Equal Credit Opportunity Act and the Fair Housing Act prohibit such discrimination, and the Fair Credit Reporting Act plays an important preventive role by allowing consumers to be informed of the reasons for a creditor's adverse action and the information underpinning that action. This Administration is firmly committed to eliminating such discrimination. And when such discrimination relates to home mortgage credit we believe it is particularly reprehensible, because it not only offends basic rights, but contravenes as well our strong national policy of encouraging home ownership, which this Committee has had a major role in formulating and advancing.

Section 145 rightly seeks to encourage institutions to test themselves for discrimination. We want institutions to be able to self-test and then to take corrective action. We support incentives toward those ends. Section 145 as drafted is overly broad, however, and we, the Department of Justice, and HUD would be happy to work with the Subcommittee on appropriate language that encourages self-testing without hindering appropriate enforcement action.

We cannot support section 116's proposed reduction in the number of institutions reporting under the Home Mortgage Disclosure Act, given the role these reports play in identifying discrimination. These reports can serve to alert an institution of possible discriminatory practices in its own operations. They also assist the regulators in determining compliance with CRA and enforcing the fair lending laws.

C. Truth in Lending Act; RESPA

1. Coordinating RESPA and the Truth in Lending Act; Responsibility for Administering RESPA

The Truth in Lending Act (TILA) establishes a methodology for calculating and disclosing the true cost of credit. TILA disclosures must be delivered within three days of a loan application, or sooner if the loan is closed first. The Real Estate Settlement Procedures Act (RESPA) requires that lenders provide borrowers, within three days of a loan application, with a good faith estimate of *all* settlement costs associated with a closing on a purchase money mortgage loan. Typically, the TILA disclosures are provided separately but concurrently with the good faith estimate and other RESPA disclosures. Additional disclosures are also required under both statutes at the time of closing.

TILA applies to most consumer credit transactions, including, for example, credit cards, car loans, and home mortgages. RESPA applies only to single family housing. Both statutes apply to lenders, but RESPA provisions also apply to real estate agents and brokers; title agents and underwriters; credit reporting companies;

appraisers; attorneys; escrow or closing agents; and providers of mortgage, casualty, and homeowners' insurance.

This brief recitation suggests the compliance difficulties lenders have faced in dealing with these two laws. Action to harmonize the workings of the Truth in Lending Act and RESPA is clearly appropriate. Eliminating duplicative and needlessly burdensome disclosures and unworkable requirements in the home mortgage lending process would reduce the cost of loan originations and relieve consumers from information overload.

Indeed, we believe that simplifying, consolidating, and coordinating *all* the disclosures required in the home purchase and finance process (including, for example, environmental disclosures), and eliminating needless requirements, would best serve the interests of consumers and the industry. We further believe that this objective should be pursued through an interagency process, rather than by giving a mandate to the Federal Reserve simply to make the disclosures uniform. The problem that creates the overlap is primarily statutory, not regulatory, and does not lend itself to solution by creating minor exemptions from one provision or another. We suggest that the Federal Reserve, HUD, and Treasury be directed jointly to study the entire process as it relates to home finance and to develop recommendations for changes in all the relevant laws that would simplify and coordinate this process, to ensure that consumers receive the information and protection they need and to avoid needless burdens on lenders and other participants.

H.R. 1362 also provides for the transfer of all RESPA rulemaking responsibilities to the Federal Reserve and the dispersion of enforcement among many agencies. Recognizing that HUD is the only agency with comprehensive expertise on

the full scope of housing-related matters, we should leave rulemaking authority under RESPA with HUD. In the meantime, we support the clarification that the financial regulatory agencies have concurrent jurisdiction with HUD in enforcing RESPA.

2. **Specific Provisions**

We agree on the value of simplifying TILA and RESPA. We support the objective of the bill's amendments to those Acts, and believe we can support most of them with modifications.

TILA should not permit borrowers to avoid responsibility for their obligations altogether because of truly technical disclosure violations by the lender. Accordingly, we support the objectives of sections 106, 107, 108, 109 and 111. We are concerned, however, that some of the drafting of these sections is overly broad. We would be glad to work with the Subcommittee to develop appropriate language.

We would support a modified version of section 103, under which the Federal Reserve may, by regulation, exempt transactions from TILA if the Fed finds that coverage by the Act does not benefit consumers by providing useful information or protection. However, we believe that the requirement that such benefits be "measurable" is overly restrictive, and should be deleted.

We support the efforts to improve disclosures. Section 104 would simplify disclosure regarding the transfer of loan servicing, and section 105 would simplify disclosure of how interest rates on an adjustable-rate mortgage may change. The current regulatory requirement to provide a hypothetical example of how the annual percentage rate and minimum payment would have changed during the past 15 years is

overly complex. But borrowers should be made clearly aware of how their monthly payments can increase -- for example, by basing disclosures on a worst-case scenario.

We oppose section 104's elimination of the RESPA protection for second mortgages, which Congress adopted in 1992 "because of the unfortunate potential for fraud and abuse among the elderly and inner city homeowners."

Section 112 would limit the "actual damages" that could be recovered by a borrower given inaccurate disclosures. The borrower would first have to demonstrate "reliance" on the inaccurate disclosure that prevented the borrower "from accepting better credit terms actually available" from another creditor, and damages would then be limited to the difference between the amount actually paid and the amount that would have been paid to another creditor from whom the credit was available. We believe this is an excessively stringent standard, and that, as a practical matter, it would be exceedingly difficult to satisfy. In our view it would more closely comport with usual contract remedies if the borrower were able to recover the difference between what was actually paid and terms more favorable than those paid, but less favorable than those disclosed that were being offered by one or more comparable lenders in the community at the time, without the need to prove either "reliance" on the faulty disclosure or that credit was actually offered to the borrower by another lender on more favorable terms than those actually paid.

We support section 113's objective of clarifying of assignees' TILA liability.

D. Truth in Savings Act

Section 131 would largely repeal the Truth in Savings Act. Although we agree that the Act warrants review, we do not support wholesale changes. We note that the Act is still relatively new, and that the major costs of compliance, which related to setting up the basic disclosure procedures, have, to a significant degree, already been expended. We strongly support H.R. 1362's retention of the Act's protections against inaccurate and misleading statements, and we would support including fraudulent statements within the scope of these protections. We see value in promoting clear and accurate disclosure of account terms, the annual percentage yield, and applicable fees and penalties.

A better approach, however, may be to identify and improve the aspects of the Truth in Savings Act that cause problems. For example, institutions without automated systems to calculate interests rates do have difficulty complying with the Act, and appropriate exemptions could address these concerns.

E. Safety and Soundness Safeguards

Several provisions of H.R. 1362 directly affect the supervisory process and have significant implications for safety and soundness. With memories of massive bank and thrift failures still fresh in the public's memory, and with public confidence in bank supervision still being restored, we think it especially important to move with great caution in this area.

Three topics give us serious concern: the frequency of examinations, the independence of audit committees, and insider lending.

1. Annual Examinations

Current law generally requires an annual examination of every bank with assets of $250 million or more. Regulators can examine smaller banks on an 18-month cycle, depending on the institution's size and examination rating. Section 226 would expand these exceptions so that regulators could examine the overwhelming majority of FDIC-insured institutions only every two years.

We believe that two years is too long a period to forego examination of even small banks. In two years, the local economy or interest rates can change dramatically, or management could be replaced. To extend the annual examination exception to two years would work to contravene the objectives that Congress sought to achieve through the FDIC Improvement Act of 1991 (FDICIA).

In FDICIA Congress adopted "prompt corrective action" -- a new approach to supervision under which depository institutions face progressively more stringent supervisory safeguards as their capital declines. Two aspects of this new system are of critical importance: timely and accurate measurement of capital levels, and prompt intervention as capital falls.

The experience of the past decade has taught us that capital can erode with amazing speed when an institution comes under stress. Frequent bank examinations are crucial to maintaining the integrity of prompt corrective action. Two years is simply too long, in our view, for a bank of any size to go without examiner oversight, and permitting a two-year cycle for small banks would simply increase the loss exposure of the deposit insurance funds.

2. Independent Audit Committees

The importance of an effective independent audit function in depository institutions cannot, in our judgment, be overstated. It is an essential internal check and balance. Weakening this important safeguard, in the name of reducing burdens, would be misguided.

We are particularly concerned about a retreat from the current requirement that audit committees consist entirely of outside directors. To permit management directors to sit on the audit committee would, we believe, impair the committee's objectivity and independence, and we believe there is substantial experience to bear this out.

This is particularly important because the audit committee is typically the principal point of contact not only with the independent outside auditors, but between an institution's board of directors and the institution's own internal audit function. Internal auditors -- who are, of course, employees of the institution -- must be able to communicate their concerns and findings to the board without control by, or fear of reprisal from, the very management whose actions they may be reviewing. Allowing management directors to sit on audit committees would compromise the effectiveness of this process.

While we support giving regulators some limited discretionary flexibility to grant hardship exemptions, under carefully defined circumstances, for only a limited number of positions on the audit committee, we oppose any change in the basic requirement.

We do support eliminating the requirement that an institution's independent accountant attest to the institution's compliance with safety and soundness laws. As implemented, the requirement is virtually meaningless -- focusing as it does on minute compliance with only two sets of rules: insider lending restrictions and certain dividend restrictions. We do not believe the requirement yields benefits that justify its costs.

3. Insider Lending

Ensuring not only a safe and sound banking system, but one that is perceived by the public as fair, demands that loans to bank insiders face special scrutiny and that insiders not receive preferential access to credit. Tracking loans to insiders helps protect against abuses. Section 225 would amend several of the tracking rules.

While we support certain of these proposed changes, we would not eliminate the requirement for reports of loans to officers by unaffiliated banks where the loans exceed the amount the officers could borrow at the employing banks. Nor would we eliminate reports to the board of directors regarding correspondent bank loans to executive officers and shareholders who control more than 10 percent of the bank's voting securities. In each of these cases the potential for conflicts of interest is great, and the required reports are an important safeguard.

4. Culpability Standards for Outside Directors

Section 236 would exempt an outside director from the federal banking agencies' enforcement authority -- unless the director acted knowingly or recklessly. In so doing, the section could create perverse incentives for a director to avoid

learning about, or following up on, facts that could give rise to liability. We believe the knowing-or-reckless standard proposed here is better suited to independent contractors (e.g., outside lawyers, accountants, and appraisers) than to directors. Accordingly, although we are concerned about disincentives to service as a director, we must oppose this section.

5. Brokered Deposits

Current law prohibits an undercapitalized institution from accepting brokered deposits, and permits an institution that is adequately capitalized (but not well-capitalized) to do so only with a waiver from the FDIC. Similar restrictions apply to soliciting high-cost deposits directly (e.g., through a "money desk" offering a toll-free telephone number). The FDIC has defined high-cost deposits as those with interest rates more than 75 basis points above the prevailing rates. Section 237 would permit an institution that is adequately capitalized (but not well capitalized) to solicit high-cost deposits without an FDIC waiver. Brokered deposits and money desks are close substitutes for each other, and hold similar potential for abuse. We believe that they should be governed by similar rules, and that the record does not demonstrate the need for the proposed change.

F. HOLDING COMPANY REGULATION

As we have already noted, we support the proposal for streamlined procedures for allowing bank holding companies to expand their nonbanking activities, as well as for acquiring additional banks -- subject to our strong objection to any weakening of CRA procedures.

A banking organization that owns both a bank and a savings association is both a bank holding company and a savings and loan holding company, and as such is regulated by both the Federal Reserve and the Office of Thrift Supervision. Section 205 would eliminate OTS regulation in such instances. We do not object to the proposal, but we want to ensure that the OTS retains its authority to address holding company matters unique to savings associations. We therefore believe the OTS and the Federal Reserve should be directed to work out necessary procedures for addressing these matters. For example, the Federal Reserve should be directed to cooperate with the OTS on enforcement matters, the OTS should receive access to inspection reports, and the OTS should have the authority to comment on applications for the acquisition of a new thrift.

G. MISCELLANEOUS

There are several provisions of H.R. 1362 that do not lend themselves to a more general classification. I would like to touch upon several of these, while noting that this is not an exhaustive list.

Current law requires all national and state member banks to obtain regulatory approval to invest in bank premises in an amount exceeding the bank's capital stock. We support giving well-capitalized banks with satisfactory CAMEL ratings additional flexibility, by permitting their investments in bank premises to go up to 150 percent of the bank's capital stock without regulatory approval. We care concerned that section 209 goes to far -- and needlessly opens the door to real estate speculation -- by allowing unlimited investments without approval.

Section 221 would eliminate the per-branch capital rule for national and state member banks, which modern consolidated capital requirements render unnecessary. We support this section.

We also support section 208's elimination of branch application requirements for ATMs. ATMs differ qualitatively from brick-and-mortar branches; they are more limited in the availability of services they offer and in the competitive impact they may have upon other institutions in the market, and they do not involve a comparable commitment of resources. The application process should reflect this.

We believe section 210 goes too far in proposing to eliminate the requirement that institutions file a notice at least 30 days before hiring new directors or senior executive officers for newly chartered institutions, undercapitalized institutions, or institutions that have recently undergone a change in control. Eliminating this notice requirement would also eliminate the background check requirement. While the quality of management is very important in these critical situations, we recognize that the regulators may know individuals being considered for management positions, making lengthy background checks unnecessary. We therefore believe regulators should continue to receive notice of changes in management, but with authority to waive the requirements for a background check.

Section 239 would amend the Foreign Bank Supervision Enhancement Act of 1991, which required the Federal Reserve Board to establish and implement standards for foreign bank entry into the U.S. and established the Federal Reserve as the primary federal regulator for state-licensed offices of foreign banks covered by this section. We support reducing delays in reviewing and acting on such foreign bank applications. However, we do not think it would be prudent or justified to relax or

roll back the standards necessary to ensure that foreign banks are adequately supervised and capitalized. The challenge is to find the right balance, and we have some concerns about the approach this section takes. We would be happy to work with the Subcommittee on alternative approaches.

We support section 240's elimination of the duplicative examination procedures for foreign banks. We support the current moratorium on imposing examination fees on offices of foreign banks, as enacted in the Interstate Banking and Branching Act of 1994, and therefore oppose section 240's override of the underlying fee provision.

Section 301 limits the liability under federal environmental laws of lenders, others that hold a security interest in property, fiduciaries, and federal banking and lending agencies. We support the intent of these provisions, particularly to the extent they balance environmental and credit-availability objectives. We have concerns about whether section 301 strikes an optimal balance, and we would be glad to work with the Subcommittee to develop the appropriate language to address these concerns.

III. CONCLUSION

We look forward to working with the Subcommittee and other Members of Congress as this bill works its way through the legislative process. Working together, we can eliminate regulatory burdens while maintaining important and necessary public benefits.

I would be glad to respond to any questions the Subcommittee may have.

APPENDIX A:
THE ADMINISTRATION'S ACHIEVEMENTS IN REDUCING THE COSTS AND IMPROVING THE QUALITY OF REGULATION

The Administration has taken substantial steps to reduce regulatory costs and improve the quality of regulation. These actions may be grouped under the following headings: (1) the Credit Availability Program; (2) Bank Secrecy Act compliance; (3) reviewing, rethinking, and revising banking regulations; (4) refocused supervision; and (5) reduced administrative costs of supervision resulting from greater interagency cooperation.

A. CREDIT AVAILABILITY PROGRAM

In March 1993, soon after taking office, the President took steps to address the need to create a better climate for bank lending. The Program addressed (1) real estate lending and appraisals; (2) appeals of examination decisions and complaint handling; and (3) examination processes and procedures.

The concern about appraisals was that in some cases costly formal appraisals may render otherwise sound loans uneconomical. Three significant changes resulted. First, the agencies increased from $100,000 to $250,000 the threshold level at or below which certified or licensed appraisals would not be required for a real estate-related transaction. They identified additional circumstances, particularly for small business lending, in which appraisals are not required. Finally, they permitted renewals and refinancings without an appraisal if there had been no deterioration in market conditions.

The agencies also revamped their appeals processes to ensure bankers had a fair and prompt review of examination disagreements. The OCC and OTS have each created an Office of the Ombudsman, which manages the appeals process. The OCC has also revamped its procedures for handling the nearly 15,000 general complaints it receives annually. For example, it has established a toll-free number and improved its complaint tracking system.

Third, the regulators have begun to coordinate many of their interactions with the industry. For example, they have determined that examinations will be conducted by the primary federal regulator. Moreover, the OCC and FDIC share examination schedules to better coordinate the supervision of holding companies with both national and state-chartered banks, and coordinate enforcement actions.

B. STREAMLINING COMPLIANCE WITH THE BANK SECRECY ACT

A key to our "partnership program" for improving the BSA process is Treasury's Bank Secrecy Advisory Group, composed of 30 representatives of financial institutions and federal and state regulatory and enforcement officials. Working with the Advisory Group, Treasury has eliminated the requirement that institutions record and retain for five years special records of all cash purchases of travelers checks, bank checks, and cashier's checks over $3,000 in cash. Proposed regulations that would have required mandatory electronic filing of currency transaction reports, and would have established a mandatory system to "aggregate" cash transactions, were withdrawn.

Treasury also streamlined the currency transaction report (CTR), a form long criticized as too cumbersome by bankers, by 30 percent. The new form should be introduced in October. Treasury finalized long-pending rules relating to casinos and to wire transfers in a way that responded to industry calls for burden reduction, and it plans such further actions as reducing the number of CTRs filed by banks by at least 30 percent (which amounts to three million forms per year). According to the American Bankers Association (ABA), the last reform could save banks more than $40 million. Overall, the ABA has applauded the Administration's reform efforts on the BSA; "The banking industry is very pleased at the direction of the Treasury's Bank Secrecy Act efforts. We appreciate the good faith efforts of this Administration to see to it that banks report and retain only information that helps curtail money laundering."

C. A-TO-Z REVIEW OF REGULATIONS

The President has directed each agency to undertake a line-by-line review of their regulations with the goal of eliminating redundant unnecessary requirements, streamlining procedures, and rewriting the rules to be more easily understood.

The OCC has been conducting this type of review for nearly two years. To date, all of their regulations have been reviewed, three major parts have become or will soon become final, and 11 parts have been published for comment. The OTS is doing a similar review.

There are concrete examples of the burden-reducing benefits resulting from this intense review. The OCC and OTS reduced, by six times, the number of lending limit calculations institutions must perform, requiring quarterly, rather than daily, analyses. The OCC has also reduced some of its fees and its national bank assessment

rate, which covers the costs of examination and supervision. For example, the fee for establishing a shared ATM will be reduced from $1,500 to zero, corporate application fees have been reduced by 50 percent, and the national bank assessment rate has been reduced by six percent. In addition, to these concrete examples, the OCC and the OTS are putting their rules in clearer language, and making the rules more user friendly, which should reduce the time and costs associated with interpreting and complying with rules.

D. REFOCUSED SUPERVISION

Our nation's thousands of depository institutions vary greatly in size, complexity, and financial strength. Yet regulations often ignore these differences by treating all institutions alike and relying on generally-applicable procedures. This provides institutions with little regulatory incentive to reduce risk or increase their capacity to manage risk. It also creates needless regulatory burden and costs when rules are inappropriate, irrelevant, or even counterproductive as applied in certain instances.

The OCC and OTS have been diligently working to make appropriate differentiations in their regulations. For example, both bureaus have streamlined the examinations process for smaller, well-capitalized, well-managed institutions. Materials requested for noncomplex small national bank examinations have been reduced by nearly 600 percent, from some 200 items (or more at the examiner's discretion) to 35 standardized items. Moreover, the streamlined nature of such examinations is evidenced from the OCC small bank examination handbook, which has been reduced from 1,216 pages to just over 30 pages. In addition, small, well-capitalized, well-managed savings associations need no longer automatically obtain a costly annual independent audit.

The difficulty of supervising a diverse banking industry has also led regulators to focus on eliminating and streamlining procedures. The Administration has worked to refocus supervision on results instead, and to thereby provide institutions with the incentive to perform well, rather than simply to avoid criticism or follow needless procedures. In this vein, the OCC's new examination guidelines emphasize operational results, such as default rates, rather than operational procedures, such as loan underwriting. Moreover, all of the banking agencies worked on the recently released final rules on the Community Reinvestment Act, which emphasizes results over process.

E. Reducing Administrative Overhead Costs

The Administration's efforts to reduce the expense of regulation have focused on both direct and indirect costs. By controlling a regulator's overhead costs, the cost of regulation declines when those savings are passed through in the form of reduced assessments: the OCC and OTS have done just that.

One of the primary means of reducing overhead has been an increase in jointly issued or coordinated regulations, such as the appraisal regulations and the real estate lending guidelines.

Another way in which overhead costs are being reduced has been through coordinated examinations. The banking agencies, the Securities and Exchange Commission (SEC), and the National Association of Securities Dealers (NASD) have agreed that the banking agencies and NASD will coordinate the examination of bank brokerage units. The OCC and SEC plan joint examinations of bank and bank-advised mutual funds. Finally, the regulators will use securities industry qualification tests for bank-employed brokers. Not only has this coordination indirectly reduced the cost of regulation, but it has also directly reduced the burden of multiple examinations.

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FOR RELEASE AT 2:30 P.M.
May 19, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY'S 52-WEEK BILL OFFERING

The Treasury will auction approximately $18,250 million of 52-week Treasury bills to be issued June 1, 1995. This offering will provide about $1,325 million of new cash for the Treasury, as the maturing 52-week bill is currently outstanding in the amount of $16,913 million. In addition to the maturing 52-week bills, there are $27,446 million of maturing 13-week and 26-week bills.

Federal Reserve Banks hold $11,345 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $5,016 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $552 million of the maturing 52-week issue.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights.

oOo

Attachment

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HIGHLIGHTS OF TREASURY OFFERING OF 52-WEEK BILLS
TO BE ISSUED JUNE 1, 1995

May 19, 1995

Offering Amount	$18,250 million
Description of Offering:	
Term and type of security .	364-day bill
CUSIP number	912794 Y9 9
Auction date	May 25, 1995
Issue date	June 1, 1995
Maturity date	May 30, 1996
Original issue date	June 1, 1995
Maturing amount.	$16,913 million
Minimum bid amount	$10,000
Multiples	$1,000
Submission of Bids:	
Noncompetitive bids	Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids
Competitive bids . . .	(1) Must be expressed as a discount rate with two decimals, e.g., 7.10% (2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position are $2 billion or greater. (3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.
Maximum Recognized Bid at a Single Yield . . .	35% of public offering
Maximum Award	35% of public offering
Receipt of Tenders:	
Noncompetitive tenders . .	Prior to 12:00 noon Eastern Daylight Saving time on auction day
Competitive tenders	Prior to 1:00 p.m. Eastern Daylight Saving time on auction day
Payment Terms	Full payment with tender or by charge to a funds account at a Federal Reserve bank on issue date

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FOR IMMEDIATE RELEASE
May 19, 1995

Contact: Jon Murchinson
(202) 622-2960

RUBIN ANNOUNCES DOMESTIC FINANCE UNDER SECRETARY NOMINEE

Treasury Secretary Robert E. Rubin announced today, Friday, May 19, that President Clinton has nominated John D. Hawke Jr. to be Treasury Under Secretary for Domestic Finance.

Mr. Hawke has been serving as a senior advisor to Secretary Rubin since April 5. Prior to that he was with the law firm of Arnold & Porter in Washington, D.C. as an associate from 1962 to 1966 and as a partner from 1967 to 1975. Mr. Hawke was general counsel to the Board of Governors of the Federal Reserve System from 1975 to 1978. In 1978, he rejoined Arnold & Porter as a partner and served as chairman of the firm from 1987 to 1995.

Mr. Hawke was counsel to the House of Representatives Select Subcommittee on Education from 1961 to 1962. From 1960 to 1961 he was a law clerk to Judge E. Barrett Prettyman on the United States Court of Appeals for the District of Columbia Circuit.

Mr. Hawke was an adjunct professor of law at the Georgetown University Law Center for 17 years, where he taught federal regulation of banking. He has also taught courses on bank acquisitions and financial regulation at the Boston University School of Law and the Columbia University School of Law.

Mr. Hawke received a B.A. in English from Yale University in 1954 and an LL.B from Columbia University School of Law in 1960. He was the Editor-in-Chief of the Columbia Law Review from 1959 to 1960.

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International Economic Challenges
Remarks by
Lawrence H. Summers
Institute of International Bankers
New York City
May 17, 1995

Introduction

Thank you very much. This evening I would like to discuss with you international economic challenges. In that regard, I think we live in a somewhat paradoxical age.

Never before in human history have economic prospects been brighter for more nations, and for more of humankind. Whole new regions of the world are moving toward industrialized status. Three billion people in Asia, Latin America, and parts of Africa have mounted the rapid escalator toward prosperity. New technologies, new forms of commerce and investment link our world more closely than ever before.

And yet, never before have we faced greater challenges. The speed with which international capital markets proceed promises great benefits, but also potential problems with which we must deal, as recent episodes of turbulence suggest. With the shrinking of the financial world, nation states must reassess their own policies and international financial institutions through which, together, we seek to address the economic issues of the day.

Tonight I would like to address what I think are three central issues faced by policymakers and all participants in the global economy. The first is the need to lay the global macroeconomic foundations necessary for growth and prosperity. The second involves preserving financial stability in this new world of international capital. Third, we must maintain the momentum for ever more open markets and greater world trade.

Macroeconomic Foundations

I will begin with the macroeconomic foundations for growth, in the United States as well as the G-7 as a whole.

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Here, the outlook is very bright. With the exception of Japan, almost all of our economies are witnessing a remarkable combination of low inflation, a strengthening expansion, and an increase in job creation. Growth for the G-7 as a whole averaged 3 percent last year and should keep pace this year. Inflation held steady at 2 1/4 percent in 1994, and is expected not to rise extravagantly.

The United States remains the linchpin of this bright structure. Our country is now enjoying the first investment-led, low-inflation recovery in the United States since John F. Kennedy was President. We had a low-inflation expansion in the early 1980s. We witnessed investment-led recoveries in the 1970s. We have not had that combination in decades.

Four years into our recovery, inflation remains contained at near 3 percent. Investment in equipment, the tools that will keep capacity growing and inflation low, soared to 10.59 percent over the first quarter, higher as a share of GDP than it has been in 60 years, when records of this sort were first assembled. Meanwhile, our economy has managed to create 6.3 million jobs over the past two years.

The bright inflation outlook is important. It is important, because every business expansion since World War II has met the same ultimate fate: reversal as interest rates have had to rise to accomplish the goal of containing inflationary pressures.

This time inflation is contained, and investment is strong enough to expand capacity more rapidly than in 60 years. That is why this recovery has a very good chance of continuing long into the future.

Alot of that may be the result of natural developments in our economy. But I believe that macroeconomic policies over the past two years have made an enormous contribution, and can teach us much about the route to success.

First, this Administration strongly shares the Federal Reserves' objective of a sustained recovery with low inflation. The President has consistently recognized that the Federal Reserve must act independently toward these crucial objectives.

Second, no Administration in recent memory has been more devoted to fiscal rigor. The federal budget deficit has been sliced in half, as a percentage of GDP, over the past two years, and it is now the lowest among the G-7 countries. Capital markets have responded to that rigor with lower long-term interest rates, which are now running some 30 to 40 basis points lower than when President Clinton entered office. These are exceptionally auspicious interest rates, four years into a strong recovery. They reflect a vote of confidence in our commitment to continued fiscal rigor.

In short, we have begun the process of increasing our total volume of savings, and making available the capital for continued increases in investment. That is why inflation and interest rates are so low, why investment remains strong, and why the outlook for continued

sustainable growth is good. This holds out important lessons for the policies other nations should be following.

Some point to the weakness and volatility of the dollar as a worrisome sign. Let me just emphasize that, as Secretary Rubin has often stated, this administration is committed to a stronger dollar. A strong currency helps to contain inflationary pressure, promotes financial stability by making U.S. assets more attractive, and raises the buying power of Americans. There is absolutely no merit to the argument that the dollar should become a tool of trade policy.

Ultimately, the value of the dollar depends on economic fundamentals in the United States. We are putting in place the right kind of fiscal and monetary policy. We must continue to strengthen the macroeconomic fundamentals of our economy, through continued budget rigor, and monetary discipline. The Administration is committed to this path.

To be sure, challenges remain. One is the low savings rate in the United States and in other industrial nations. This has raised our current account deficit to levels which may be unhelpful, over time. At least one can assert that the current account deficit of today is being used to fund investment, rather than consumption. Some proposals now being considered in Washington, such as possible IRAs to encourage savings, may be helpful steps in addressing this issue.

Financial Market Stability

Let me turn to a second challenge that we face: the need to maintain the stability of international financial markets.

Former Secretary Bentsen used to say that international financial markets were the nervous system to the world's economic muscle -- sending signals to that muscle, by channelling capital and investments to their optimal uses.

If capital markets of 20 years ago were a two-lane road, today's are a super-highway. Never have they been able to take developing countries to their destinations more surely or more efficiently. Latin America will need some $20 billion in annual infrastructure investments alone over the next few years simply to maintain its present economic level. In Asia that figure may well be over $100 billion. International capital markets are what have made those investments conceivable.

But the new speed and liquidity of international finance comes at a price. Just as a super-highway gets one to the destination faster, it can also increase the dangers from precarious driving. Today's capital markets punish poor economic policies more quickly than ever before. Turbulence and investor panic can spread. Instability in one area can pose important systemic risk, and can spread rapidly to other sectors of the globe.

The world received a vivid example of that danger in Mexico. Over the span of a few hours, macroeconomic errors made by Mexico -- but which did not affect Mexico's fundamentally sound economic foundations -- brought Mexico to the brink of a liquidity crisis. And as the tremors on other markets -- in Argentina, in Brazil, as far away as Thailand or South Africa revealed, Mexico's difficulties threatened the enormous gains made in other developing countries.

That is what President Clinton grasped instantly, and that is what Congressional leaders from both parties understood, when they moved to support President Clinton's bold decision to offer Mexico financial support. Mexico used that support to enact a rigorous series of further economic adjustments. While the end is not yet in sight, I think we are all cautiously optimistic, given the progress Mexico has made over the past three months.

Mexico has sharply reduced the outstanding stock of dollar-linked Mexican government obligations by more than half. That is a major step towards eliminating the liquidity dangers which have threatened Mexico since December.

Monetary policy is tight. New fiscal measures were announced in March, and privatization and regulatory reform are proceeding. Success should not be judged from day to day market movements. Nonetheless, I think it is encouraging that the peso has stabilized, while the bolsa has increased sharply in dollar and peso terms over the past six weeks. Brady bonds are way up, and some Mexican government agencies and banks have been able to issue new securities abroad in recent weeks.

Perhaps more important in the global context, emerging markets are showing signs that they have begun to uncouple from one another, as investors gain confidence in individual governments' policies. Latin American stock markets are enjoying a solid recovery since their March troughs, and are all above their 1993 averages. Argentinean, Brazilian, Venezuelan and Ecuadoran Brady Bond yields -- when stripped of their U.S. Treasury Bill component -- offer a good indicator of market confidence. And all of those bonds' yield spreads over U.S. Treasury bills have fallen since highs in early March.

Lessons from Mexico

What lessons should the world draw from Mexico's difficulties. I think there are several.

The most foolish conclusion some have drawn is that governments are powerless in the face of international markets. Nothing could be more further from the truth. Mexico brought on its own difficulties by making key macroeconomic policy errors over the course of last year. Never before have international capital markets been more swift to punish such policies, even as they are quick to reward wise ones. In short, never in human history has proper macroeconomic policy -- disciplined fiscal policy, rigorous monetary policy, structural policies that encourage investments and savings -- been so important.

Developing countries must learn from Mexico's example. Current account deficits must not be allowed to grow to unsustainable levels. Savings must rise, so that investment can remain high even as current accounts deficits are contained. And transparency -- the accurate and timely revelation of financial data to markets and international financial institutions, is essential. That is the only way markets can perform the proper monitoring function, so that policy discipline is maintained.

The Mexico experience has also pointed out important weaknesses in the international financial architecture. Structures that were right for the world of 50 years ago may no longer be adequate. International surveillance of economies by the IMF must be enhanced, to take account of the more capital-account centered world in which we live. The international community must be better equipped to respond in a methodical manner to financial emergencies, when they arise. The establishment of a work-out mechanism for sovereign debt, similar to domestic corporate bankruptcy systems, may be appropriate.

Moral hazard is a problem. But I am not one of those who believes there should be no fire department, because it encourages people to smoke in bed. We must not plan to fail. But we cannot fail to plan.

Expanding Global Trade

Finally, let me turn to an issue which I think must be a third global priority -- open markets, and the removal of trade barriers around the world.

If one thinks of this period in human history, the most significant development will not be the present business cycle, or even perhaps the end of the Cold War. It will be the fact that this was the 20-year period of human history in which more people than ever before joined the global trading system.

It is estimated that by the year 2010 there will be 600 million people in India, China and Indonesia with a standard of living that is equal to Spain's average. That is a tremendous change, underway in today's world. It is a change that reflects the successful export of one of the things the United States has been trying to export for a generation -- a philosophy about economic liberalization and open markets. It what has allowed Poland to grow near 4 percent last year with projections for 6 percent this year. Or India to be enjoying 5.3 percent growth.

Developing countries have become our fastest growing markets, taking a full 40% of our exports, while creating nearly 4 million United States jobs. There can be no more important objective for United States international economic policy, or for global economic good, than reinforcing and maintaining the momentum of that trend.

That is why the Clinton administration has made further opening of the global trading

system such a priority. I call our strategy export activism. It is not the reactive protectionist strategy of the past that seeks to erect walls, to benefit industries that are able to squawk loudly. Nor is it the turn the other cheek, *laissez-faire* policy that some of my friends in the economics profession would recommend.

Instead, it is a strategy based on a simple premise: more trade leads to more prosperity.

That has been the heart of the administration's trade policy. That was the philosophy behind the Uruguay Round, which will provide the largest tax cut in the history of humankind, some $750 billion for the entire planet. The new trade regime will bring down barriers to manufactured goods by a full 1/3. For the first time, trade rules will extend the discipline of international competition to areas where the United States has a huge advantage -- intellectual property, agriculture, and services, which accounts for $180 billion in exports, and 70 percents of U.S. jobs. Most important, the new structure will bring whole new regions of the globe into the world trading system, setting an example of liberalism, prosperity, and integration for vast new populations.

That was the philosophy behind the NAFTA. As you know, there are some who suggest the NAFTA somehow exacerbated Mexico's difficulties. I strongly disagree. NAFTA locked in the market-opening reforms which Mexico has courageously pursued over the past seven years. NAFTA enhanced investor confidence that Mexico would not retreat in the face of adversity. Knowing that Mexico would experience its present difficulties would have made the case for adopting the NAFTA stronger, rather than weaker.

We are confronting the many barriers to trade in Japan and in China. We are going to pursue free trade in this hemisphere, and began that task at the Summit of the Americas. We are moving toward free trade in Asia through APEC.

Financial Services

We did not reach final agreement during the Uruguay Round in several service sectors. One of these was financial services. Many offers made during the round did not provide acceptable market access and national treatment commitments. We did not feel we could commit ourselves to granting essentially full market access and national treatment to firms from countries that would not open their markets.

In the end, we reached an interim agreement. The United States and some others took reservations and an exemption to the GATS most favored nation obligation. However, we agreed to suspend these reservations and exemptions for the first six months of the World Trade Organization's existence, while we negotiated further. The deadline is June 30. We are asking other GATS members to commit to granting our firms substantially full access to their markets and national treatment in those markets within some defined time period. If we reach that objective, we will give up our MFN exemption. If others do not come forward, we

will keep our exemption. That will allow us to take account of how our firms are treated when a foreign financial firm asks to establish or expand operations here.

The Importance of Financial Services

Why have we focussed on financial services? There are three reasons.

First, financial services are an area of major importance for the United States economy. Our financial companies account for nearly 7 percent of GDP -- over $400 billion in revenues each years. We simply cannot allow this key United States sector to be excluded from progress elsewhere in the international trading system.

Second, financial services are a sector in which the barriers which exclude our firms are almost all within governments' reach. The issues all involve government regulation, and the discriminatory effect they have in keeping American and other foreign firms out.

Third, financial services have a significance which goes far beyond their importance to specific firms, or even to the United States alone. As I have said, well-functioning capital markets are essential to the health of the global economy. Openness to foreign firms with high levels of expertise is one of the surest ways to help deepen a nation's capital markets, as your presence in the United States so aptly demonstrates.

Japan

I believe that the bilateral agreement we reached earlier this year with Japan provides tangible evidence that policymakers realize they must open up and deepen their financial markets, if they are to remain on the path to economic growth. We agreed with Japan to take on most-favored nation and national treatment obligations between our countries. In exchange, the Japanese agreed to profound market-opening measures, including unrestricted access to the $200 billion public pension fund market, substantial new opportunities in private pensions, liberalization of securities instruments, and a new domestic asset-backed securities market.

Japan has pledged to extend the benefits we received in our agreement to others on an MFN basis. It is important for Japan to implement that pledge and commit to doing so in the GATS.

GATS

We, for our part, have turned our sights toward winning substantially full market access and national treatment in other markets including rapidly emerging ones where our financial companies cannot establish and compete effectively.

As shown by the bilateral agreement we negotiated with Japan, we are prepared to

provide national treatment and take on most favored nation obligations when we are assured reasonable access. However, we will not allow those who are unwilling to remove unacceptable restrictions, even over time, to be free riders.

We are now in the final intensive phase of negotiations. We are making progress. Some countries are coming forward with improved offers. But overall, we have not yet met our objectives. This could be a missed opportunity to bring financial services under the multilateral auspices of the WTO. Let me note, however, that whatever the GATS outcome, we will not close our markets to those whose home markets are open, or to firms which are already established here.

All of you in this room have a stake in the outcome of the GATS negotiations. You are the beneficiaries of the unmatched market-openness that the United States has granted to foreign financial institutions for decades. Your opportunities in the United States are expanding, and will continue to expand with interstate banking and branching reform, and the potential for far-reaching Glass-Steagall reform. I am convinced that successful conclusion of the GATS negotiations can only add momentum to important reform efforts here in the United States, while assuring that foreign firms continue to be fully welcome on United States soil.

I urge you all to communicate that message to your parent banking institutions. Free trade in financial services is not a zero-sum game. It is a classic example of how removal of barriers benefits all national economies, and the international trading and financial system as a whole.

Conclusion

Make no mistake. Our objective in financial services is an agreement that opens markets on a non-discriminatory basis under the World Trade Organization. If countries are not ready to do that at present, this in no way diminishes our commitment to the World Trade Organization, and the need for all nations to persist with the work of expanding global trade.

Put all of what I have discussed together. The United States and other nations are committed to laying a solid macroeconomic foundation for growth. We stand ready to seize the opportunities offered by burgeoning global capital markets. We will persevere in our effort to foster free trade and open markets. I am convinced that for all the challenges, the international economic horizon has never been brighter. Thank you.

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Lessons from Mexico
Remarks by
Lawrence H. Summers
Under Secretary of the Treasury
Council on Foreign Relations
New York City
May 4, 1995

Introduction

It has been said that Mexico was the first 21st Century crisis. I think that is right. It was economic, not political. It was global, not regional. It unfolded in a matter of hours, not months or years. It was perpetuated by information technology. And it has been resolved by United States leadership.

The current situation in Mexico is certainly more encouraging than one would have imagined would be the case three months ago. Mexico has very clearly embarked on the right policy path. Mexico this year will have a balanced budget, and indeed had one over the first quarter. Mexico's money stock is today, in nominal terms, about 15 percent lower than it was on January 1st.

Mexico transformed its economy over the past seven years -- liberalizing, privatizing, and removing restrictions to investment and initiative. The new Mexican economy has shown tremendous flexibility over the past three months of stress. Exports were up 32 percent over the first quarter compared to the period a year ago, as against only 1/10th of a percent for imports. Mexico has become a more mature economy in that it no longer relies on the centralized PACTO arrangement to set wages. Now, decentralized wage bargaining is the norm. Wage settlements have so far trailed inflation, as employees look for job security rather than wage increases. The potential for a wage-price inflationary spiral therefore appears much lower than was feared.

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It is, of course, too early to reach any conclusive judgment, but it is certainly encouraging that the peso has been under 6.00 to the dollar for several days now. The bolsa has risen by about 50 percent in dollar terms over the past six weeks. And if one strips out the portion collateralized by U.S. Treasury Bills, the value of Brady Bonds is up nearly 50 percent in the last 6 weeks.

If Mexico's experience teaches us anything, it is the wisdom of what a tennis coach I had when I was a boy once told me. You're never as good as you think you are when you think you're good. And you're never as bad as you think you are when you think you're bad. That was the right thing to keep in mind last summer. That was the right thing to keep in mind early this year. And to be sure, it is the right thing to keep in mind now, even as we take satisfaction from the markets' recent rally.

Challenges Ahead

If one looks at the areas of principal concern going ahead, the outlook in each has improved markedly over the past six weeks. One central question is whether Mexico will have the funds to continue to meet short-term obligations. Of the $37.8 billion in support that was to be provided by the U.S., about 40 percent, some $16 billion, has been provided. Mexico has managed to retain half of this support in its reserves. Yet more than half of Mexico's tesobono and CD obligations have already been worked off. The stock of outstanding tesobonos has fallen from more than $30 billion to nearly $12 billion since the beginning of the year. And an increasing fraction of tesobonos -- 60 percent at the last auction -- are now being redeemed for dollars.

A second concern many have had has been political and social -- whether stability will hold. Obviously, after a shock of this magnitude, doubts are likely to be with us for some time to come. Nonetheless, I think that if I had suggested to you six or 12 months ago that what has happened in Chiapas would happen, that the brother of a former president would be implicated in a major political assassination, that the peso would fall to 6, and then asked you to predict President Zedillo's popularity, you would have predicted a political implosion in his support. That certainly has not taken place. Indeed, it is revealing that May Day passed with very little comment, despite predictions of destabilizing protests.

A third challenge has been to ensure that the financial system withstands present strains. There was and remains some conflict between pursuing the right monetary policy for externally-directed financial stability, which requires maintaining higher interest rates, and the right monetary policy for preserving internal financial stability, which suggests lower interest rates. After some hesitation, the Mexicans have followed the correct approach, recognizing that tight monetary policies represent the best way to restore confidence, and therefore bring interest rates down over the medium to long term.

So far, Mexico's policies have worked to restore much needed confidence and maintain the credibility of the financial system. Some of the major banks' first quarter

results, while a long way from conclusive, were better than analysts had expected. Interest rates have started to come down. Benchmark cetes rates are down to about 60 percent, from about 80 percent. Demand at recent auctions has been healthier than was the case at auctions earlier in the year.

There is some quite limited evidence of funds finding their way back into Mexican financial institutions. Authorities have put plans in place to address the problems of the banking system in ways other than the pure provision of liquidity. Again, it is too soon to declare victory. Still, things are proceeding far more smoothly than we would have imagined could be possible even a month ago.

Progress in Other Emerging Markets

In thinking about this crisis, it is important to remember another positive development that has occurred, and that was an important motivation for American policy regarding Mexico's difficulties. We have begun to see a great deal of recovery in various emerging markets. Moreover, possible disillusionment with market-based development strategies, which was a threat in many developing countries, has been avoided.

In the wake of Mexico's initial crisis there were immediate consequences in many emerging financial markets -- in Argentina, in Thailand, in South Africa, even in Russia. Today, because of Mexico's successful performance, and because of the passage of time, emerging markets have begun to uncouple from Mexico and from one another. There is much more of a sense that each country tells its own story. Analysts and investors have far more ability to distinguish what is going on in individual markets. There is much less of a sense of a generalized emerging market pattern than there was in January.

Ten Truths from Mexico

Let me widen the picture a bit. I would like to discuss what might be called ten truths that emerge from the Mexican experience -- truths both for policymakers in emerging market countries, and for the entire international financial community. I was going to call these ten lessons, but that suggests a kind of new knowledge that was not known before. Much of what the Mexican crisis has done is reaffirm old truths that were known but which some had forgotten.

First. Sound policies are absolutely essential. The most foolish thing that people say about the international economy these days is that because capital moves so fast, somehow government policies have little influence. The truth is that the difference between having the right government policies and having the wrong government policies has never been greater.

Twenty-five years ago it was inconceivable for countries to grow at 7 or 8 or 9 percent a year, year after year. That has now become possible in an open economy that attracts capital with the right government policies.

Similarly, in earlier times countries made the same mistakes that Mexico recently made, pursuing unsustainable exchange rate and monetary regimes. But rarely have they been brought to grief as quickly. Never before has the market been more able to magnify and increase the effects of government policies, whether those policies are sound, or whether those policies are unsound.

Second. Unsustainable policies cannot be sustained. It is a cliche, and it is tautological, but it is actually very important. Economic historians can debate whether, with a different kind of tighter monetary policy implemented early enough in 1994, Mexico could have sustained its exchange rate regime, could have sustained a 3.5 peg. What is clear is that the combination of Mexican monetary policy and the exchange rate pursued was -- as a number of observers in both the official and the private sector, though perhaps not a majority of observers warned -- simply not sound. These policies were certain to end sooner or later in some kind of collision.

This points up a broader issue. There is a natural human tendency, magnified by the political process in every country, to regard good news as permanent and bad news as temporary. Policymakers, like many individuals, treat bad news as temporary. When capital flows taper off they dip into savings and reserves, then sterilize their interventions so that there is no contractionary effect on monetary policy. On the other hand, good news is often treated as permanent. It prompts policymakers to move quickly to announce broad new spending programs.

The reality of capital flow and other shocks is much closer to the opposite. Well managed countries recognize that. They treat capital outflows as a permanent adjustment, and allow themselves to be pleasantly surprised when flows turn out to be something else.

Third. Even given the increasing development of international capital markets, domestic savings are essential.

Look at the difference between Latin America and Asia, and the fact that somehow the discussion of average growth starts at 5 percent of GDP in Asia and it starts at 0 or 1 percent in much of Latin America. I think there are two factors behind that difference. One is that disciplined Asian governments make enormous investments in human capital. That is important, but it is less directly relevant to our discussion here today. The one that is relevant is the very high rates of domestic savings in Asia compared to the much lower rate of domestic savings in Latin America.

It is all very well to say that obviously, Mexico should not have been running a current account deficit that was 8 percent of GDP, and that this was a dangerous policy that was going to lead to grief. However, if Mexico had not been running a deficit at 8 percent of GDP, and if Mexico had maintained the same low level of domestic savings, then Mexico would not have had the funds to invest in its future. In a way, Mexico would have been neglecting to lay the foundation for very strong growth.

Similarly, if Mexico is now going to grow at a reasonable rate, without returning to an unsustainable current account deficit, then Mexico will have to put in place longer term measures that will increase the savings rate. These include getting the rate of inflation down, reforming the pension system, and improving the returns to savers by reducing intermediation costs through financial liberalization, and reductions in fiscal and quasi-fiscal deficits. All of these steps contribute to increased savings rates.

Fourth. Beware of short-term capital flows. Nigel Lawson believed that current account deficits were not dangerous so long as they were not caused by government budget deficits. Well, he was right in the sense that current account deficits caused by budget deficits are a serious problem. However, that is not the only instance in which current account deficits are a serious problem.

Current account deficits are a serious problem when they are too large -- more than 5 percent of GDP -- whatever is causing them. Current account deficits are a serious problem when they are fueling consumption rather than investment. And they are a serious problem when funds are being borrowed on increasingly unattractive terms for the debtor. Shorter and shorter maturities and higher and higher interest rates, particularly when borrowings are indexed to foreign currencies, suggest that capital flows are becoming problematic.

These criteria -- the size of the current account deficit, whether or not it is going into investment, and the terms under which capital is being attracted -- give a much clearer idea of when capital flows are healthy, and when capital flows are less healthy.

Fifth. Transparency is essential. This cannot be overemphasized. True, Mexico published outstanding tesobono stocks every week, and not as many people noticed as should have noticed. Moreover, published reports throughout 1994 gave a fairly accurate assessment of the level of Mexico's reserves. However, that was much less true with respect to the activities of Mexican development banks and much less true with respect to certain monetary aggregates. It was difficult to ferret out this information even when it was published.

Countries want access to the international capital market. The only way to do that is by making financial information fully and readily available.

That is important, because it will generate a faster response from private analysts and public institutions when trouble is on the horizon. Such discipline will help to combat policymakers' temptation to believe that they can somehow slip and slide their way through problems by making use of clever reporting.

Sixth. The international financial community must become better at surveillance. The IMF's surveillance efforts, and indeed, I think it is fair to say the analyses that go on in many of the world's treasuries, were right for the current account centered world of 20 years ago. Alone, they are not appropriate for today's more capital account centered world. Rather,

analyses today must focus far more attention on the composition of capital flows, including where capital flows are going, whether they are funding investment or consumption, and how large funding requirements have grown relative to other denominators. These are things that are just not the chief subject of today's economics exercises. And yet they are essential indicators.

The once a year cycle of sending teams of analysts to interview national officials and examine the books was probably appropriate to the rhythms of earlier eras. But it is not longer sufficient today. A substantial change in surveillance practices toward a more constant, more capital account centered process, is essential.

Seventh. The international community has got to be able to better respond to emergencies. The Mexican emergency could have happened with considerable potential worldwide consequences in a country that was not a neighbor of the United States. It could have happened with a less courageous president leading the United States. It could have happened at a moment when the IMF was less flexibly positioned to move than it was in January. There clearly will be financial emergencies in the future, and there clearly needs to be some kind of framework for responding rapidly to those emergencies.

There is, of course, an enormous moral hazard problem. One does not want to fail to plan. On the other hand, one does not want to plan to fail. That problem has to be taken very seriously in the design of whatever mechanisms are put in place.

Nonetheless, I am not ready to believe that we should abolish fire departments, on the grounds that they encourage people to smoke in bed. I think that there is a balance that has to be struck.

Eighth. The international community must examine mechanisms for handling workouts, when debt cannot be paid. We have systems in place domestically to coordinate workouts when failure occurs. We had a crude international system in place during the 1980's. It involved gathering bankers in rooms about this size. Government officials who had certain suasion over them by way of regulatory authority could then encourage bank creditors and debtors to work out a mutually beneficial solution.

The world and the composition of international debt has changed since the 1980s. The informal system will not work for groups of 37,000 holders of the Fidelity or some other emerging market fund. The suasion is no longer there. The small size, and the ability to identify creditors is no longer there. In a world in which much of global finance will be securitized, we need to think about how we handle financial accidents. The mechanisms presently in place do not appear to be sufficient.

Ninth. Long-term investment must be promoted. Latin America needs an estimated $60 billion per year in infrastructure. Asia almost certainly requires well over $100 billion a year. Public international financial institutions developing power plant by power plant can

only contribute a drop in the bucket of those needs.

International financial institutions like the World Bank and other multilateral development banks must recognize that their role is to support, not supplant private sector finance. They must enhance their use of guarantee programs that were intended to catalyze longer-term investments. Such programs can help countries meet infrastructure needs if they encourage long-term private capital to enter, on terms that are acceptable and ultimately healthy for the developing countries involved.

Tenth. There is still no substitute for American leadership. If anything, I think that is more clear today than it was 5 years ago. It is more clear because of what our economy has done versus what the Japanese and European economies have done over the last 5 years. It is more clear because of the tendency of international problems to languish until the United States is in a position to take action. It is therefore absolutely essential that the United States remain internationally engaged.

There are people who interpret Mexico's difficulties as showing that NAFTA was a mistake. The opposite is much more the case. The right case for NAFTA is that people continue to live on our border in a society that was and is moving toward democratic capitalism. NAFTA has locked in that trend, and made it irreversible. NAFTA has enhanced, not weakened confidence.

If we had known one year ago that the kind of fragility we have encountered was in the offing, the case for locking in Mexico's progress through NAFTA would have been stronger, and not weaker.

Conclusion

Every problem represents a learning experience. Mexico's difficulties today are certainly a learning experience. The Mexican experience testifies to the need for policymakers in other developing countries to move toward the right policies. I also believe that it has provided important impetus to efforts underway to think about what sort of international financial architecture is appropriate in a contemporary world which is very different from the one for which that architecture was initially designed. In that sense, it is true that every problem represents an opportunity. Mexico's is no exception. Thank you.

Department of the Treasury
Financial Crimes Enforcement Network

FinCENnews

2070 Chain Bridge Road, Suite 200, Vienna, VA 22182-2536
1500 Pennsylvania Avenue, NW, Suite 3210, Treasury Annex, Washington DC 20220

For Immediate Release
May 18, 1995

Contact: Joyce A. McDonald
(703) 905-3770

Registration of Money Transmitters

The Money Laundering Suppression Act of 1994 amended the Bank Secrecy Act (BSA) to require the registration of money transmitting businesses with the Secretary of the Treasury. The BSA is the core of Treasury's programs to combat financial crimes including money laundering.

The necessary regulations concerning registration have not yet been proposed; the delay reflects Treasury's desire to increase the time for consultation with representatives of affected businesses about the most efficient and least burdensome way to implement the registration requirement.

Therefore, the Treasury's Financial Crimes Enforcement Network ("FinCEN") which administers the BSA, announced today, in FinCEN Notice 95-1, that no penalties will be imposed on money transmitting businesses for failure to register before final regulations become effective concerning the form and manner in which these businesses must register. Money transmitters also include check cashers, issuers and redeemers of money orders, and travelers checks.

The FinCEN Notice will be widely disseminated and is available electronically on the BSA Bulletin Board, which may be accessed by modem, dialing (313) 961-4704.

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RR-309

FINANCIAL CRIMES
ENFORCEMENT NETWORK
2070 Chain Bridge Road, Suite 200, Vienna, VA 22182, Telephone (703) 905-3520

FinCEN Notice
95-1

Deferral of Date for Registration of Money Transmitting Businesses

Title II of the Currency and Foreign Transactions Reporting Act of 1970 (the "Bank Secrecy Act") as amended by the Money Laundering Suppression Act of 1994 (the "MLSA"), requires any person who owns or controls a money transmitting business to register that business with the Secretary of the Treasury. See 31 U.S.C. section 5330. A money transmitting business for this purpose can include any business that provides "check cashing, currency exchange, or money transmitting or remittance services, or issue or redeem money orders, travelers' checks, or other similar instruments." 31 U.S.C. section 5330(d).

Registration is directed by the statute to commence no later than March 22, 1995, the end of the 180 day period beginning on the date of enactment of the MLSA. A business established after September 23, 1994, is to register within the 180 day period beginning on the date the business is established.

The form and manner of the required registration must be prescribed by regulation. The necessary regulations have not yet been proposed; the delay reflects the Treasury's efforts to increase the time for consultation with representatives of affected businesses about the most efficient and least burdensome way to implement the registration requirement.

The registration regulations, when issued and published in the Federal Register, will not require initial registration of money transmitting businesses before the 90th day following the effective date of the interim or final rule specifying the form and manner of registration. No penalty or other compliance sanction will be imposed under the provisions of the Bank Secrecy Act on account of the failure of any money transmitting business to register before the last date for initial registration specified in such regulations.

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Department of the Treasury
Financial Crimes Enforcement Network

FinCEN news

2070 Chain Bridge Road, Suite 200, Vienna, VA 22182-2536
1500 Pennsylvania Avenue, NW, Suite 3210, Treasury Annex, Washington DC 20220

FOR IMMEDIATE RELEASE
May 18, 1995

Contact: Joyce McDonald
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(703) 905-3770

FINCEN ANNOUNCES SETTLEMENT OF CIVIL PENALTY CASES AGAINST SACRAMENTO FIRST NATIONAL BANK AND METROPOLITAN BANK AND TRUST COMPANY

The Treasury's Financial Crimes Enforcement Network (FinCEN) announced today the settlement of two civil penalty cases, both for failures to report certain cash transactions within the time required by the Bank Secrecy Act (BSA).

Sacramento First National Bank, Sacramento, California, has paid a civil money penalty of $20,000 and Metropolitan Bank and Trust Company, Agana, Guam, has paid a $6,000 civil money penalty.

"As our first line of defense, it is essential that banks implement effective BSA compliance programs," said Stanley E. Morris, Director of FinCEN, which is responsible for administering the BSA. "Weaknesses in BSA compliance and failures to report currency transactions, whatever their cause, potentially deprive Treasury of financial information which is a vital weapon in the battle against money launderers, tax evaders and others who attempt to disguise their transactions from the government."

Sacramento First National Bank failed to file Currency Transaction Reports (CTRs) between 1987 and 1992 for reportable currency transactions of four customers who conducted check cashing and money transfer services.

-more-

FinCEN, in accepting the Sacramento First settlement offer, considered the voluntary disclosure of the violations, as well as subsequent corrective actions by the Bank, and improvements to its BSA compliance program. FinCEN also considered the change in Sacramento First's management effected by its recent acquisition by the Business & Professional Bank, Woodland, California.

As a condition of the settlement, Business & Professional Bank agreed to commission a comprehensive outside BSA audit within three months, and to cooperate completely with a full scope BSA examination by its federal regulator within six months, of the merger.

The Metropolitan Bank and Trust Company violations, which occurred between April 1986 and September 1987, each involved single currency transactions in excess of $10,000 conducted at the Bank's Guam Branch. The Internal Revenue Service identified the violations during a BSA compliance examination.

FinCEN and Metropolitan Bank agreed upon the amount of the penalty in complete settlement of the bank's civil liability under the BSA. In determining the amount of the penalty, FinCEN considered the number and nature of the violations as well as the bank's full cooperation.

FinCEN has no evidence that Sacramento First National Bank or Metropolitan Bank and Trust Company or any of the banks' officers, directors or employees engaged in criminal activity in connection with the reporting violations.

The BSA requires banks and other financial institutions to keep records of transactions and file currency transaction reports on currency transactions in excess of $10,000. The Act also now permits Treasury to require institutions to implement anti-money laundering programs and compliance procedures and report to the government potentially suspicious transactions. The authority of the Secretary of the Treasury to administer the BSA is delegated to the Director of FinCEN.

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Monthly Treasury Statement

of Receipts and Outlays
of the United States Government

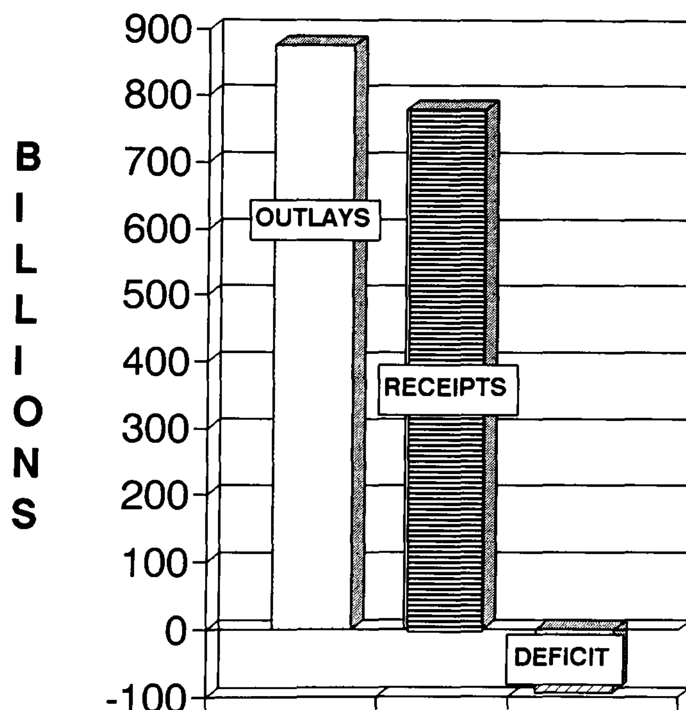
For Fiscal Year 1995 Through **April 30, 1995,** and Other Periods

Highlight

This issue includes the presentation of the new Social Security Administration, formed as the result of the Social Security Independence and Program Improvement Act of 1994.

The impact of large individual and corporation tax deposits sent budget receipts to a record high of $165.4 billion this month.

RECEIPTS, OUTLAYS, AND SURPLUS/DEFICIT THROUGH APRIL 1995



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Compiled and Published by

Department of the Treasury
Financial Management Service

Introduction

The *Monthly Treasury Statement of Receipts and Outlays of the United States Government* (*MTS*) is prepared by the Financial Management Service, Department of the Treasury and after approval by the Fiscal Assistant Secretary of the Treasury, is normally released on the 15th workday of the month following the reporting month. The publication is based on data provided by Federal entities, disbursing officers, and Federal Reserve banks.

Audience

The *MTS* is published to meet the needs of: Those responsible for or interested in the cash position of the Treasury; Those who are responsible for or interested in the Government's budget results; and individuals and businesses whose operations depend upon or are related to the Government's financial operations.

Disclosure Statement

This statement summarizes the financial activities of the Federal Government and off-budget Federal entities conducted in accordance with the Budget of the U.S. Government, i.e., receipts and outlays of funds, the surplus or deficit, and the means of financing the deficit or disposing of the surplus. Information is presented on a modified cash basis: receipts are accounted for on the basis of collections; refunds of receipts are treated as deductions from gross receipts; revolving and management fund receipts, reimbursements and refunds of monies previously expended are treated as deductions from gross outlays; and interest on the public debt (public issues) is recognized on the accrual basis. Major information sources include accounting data reported by Federal entities, disbursing officers, and Federal Reserve banks.

Triad of Publications

The *MTS* is part of a triad of Treasury financial reports. The *Daily Treasury Statement* is published each working day of the Federal Government. It provides data on the cash and debt operations of the Treasury based upon reporting of the Treasury account balances by Federal Reserve banks. The *MTS* is a report of Government receipts and outlays, based on agency reporting. The *U.S. Government Annual Report* is the official publication of the detailed receipts and outlays of the Government. It is published annually in accordance with legislative mandates given to the Secretary of the Treasury.

Data Sources and Information

The Explanatory Notes section of this publication provides information concerning the flow of data into the *MTS* and sources of information relevant to the *MTS*

Table 1. Summary of Receipts, Outlays, and the Deficit/Surplus of the U.S. Government, Fiscal Years 1994 and 1995, by Month

[$ millions]

Period	Receipts	Outlays	Deficit/Surplus (−)
FY 1994			
October	78,662	124,085	45,422
November	83,102	121,483	38,381
December	125,403	133,108	7,705
January	122,961	107,713	−15,248
February	73,186	114,752	41,566
March	93,107	125,422	32,315
April	141,321	123,867	−17,454
May	83,541	115,597	32,057
June	138,119	123,269	−14,850
July	84,822	118,020	33,198
August	97,333	121,617	24,284
September	135,895	131,785	−4,110
Year-to-Date	**[1]1,257,452**	**[1]1,460,719**	**[1]203,267**
FY 1995			
October	89,024	120,365	31,342
November	87,673	124,915	37,242
December	130,810	134,941	4,130
January	131,801	115,171	−16,629
February	82,544	120,536	37,992
March	92,532	142,458	49,927
April	165,392	115,673	−49,720
Year-to-Date	**779,775**	**874,059**	**94,284**

[1]The receipt, outlay and deficit figures differ from the *FY 1996 Budget*, released by the Office of Management and Budget on February 6, 1995, by $98 million due mainly to revisions in data following the release of the Final September Monthly Treasury Statement.

Table 2. Summary of Budget and Off-Budget Results and Financing of the U.S. Government, April 1995 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Budget Estimates Full Fiscal Year[1]	Prior Fiscal Year to Date (1994)	Budget Estimates Next Fiscal Year (1996)[1]
Total on-budget and off-budget results:					
Total receipts	165,392	779,775	1,346,414	717,742	1,415,456
On-budget receipts	126,170	574,908	995,158	524,760	1,045,095
Off-budget receipts	39,222	204,867	351,256	192,982	370,361
Total outlays	115,673	874,059	1,538,920	850,430	1,612,128
On-budget outlays	90,628	709,495	1,246,936	691,942	1,307,105
Off-budget outlays	25,045	164,564	291,984	158,488	305,023
Total surplus (+) or deficit (−)	+49,720	−94,284	−192,506	−132,688	−196,671
On-budget surplus (+) or deficit (−)	+35,542	−134,587	−251,778	−167,182	−262,010
Off-budget surplus (+) or deficit (−)	+14,178	+40,303	+59,272	+34,494	+65,338
Total on-budget and off-budget financing	−49,720	94,284	192,506	132,688	196,671
Means of financing:					
Borrowing from the public	−27,638	97,986	207,936	118,141	217,151
Reduction of operating cash, increase (−)	−19,973	−2,127	−4,058	3,775	......
By other means	−2,109	−1,574	−11,372	10,772	−20,480

[1]These figures are based on the *FY 1996 Budget*, released by the Office of Management and Budget on February 6, 1995.

... No Transactions.

Note: Details may not add to totals due to rounding.

Figure 1. Monthly Receipts, Outlays, and Budget Deficit/Surplus of the U.S. Government, Fiscal Years 1994 and 1995

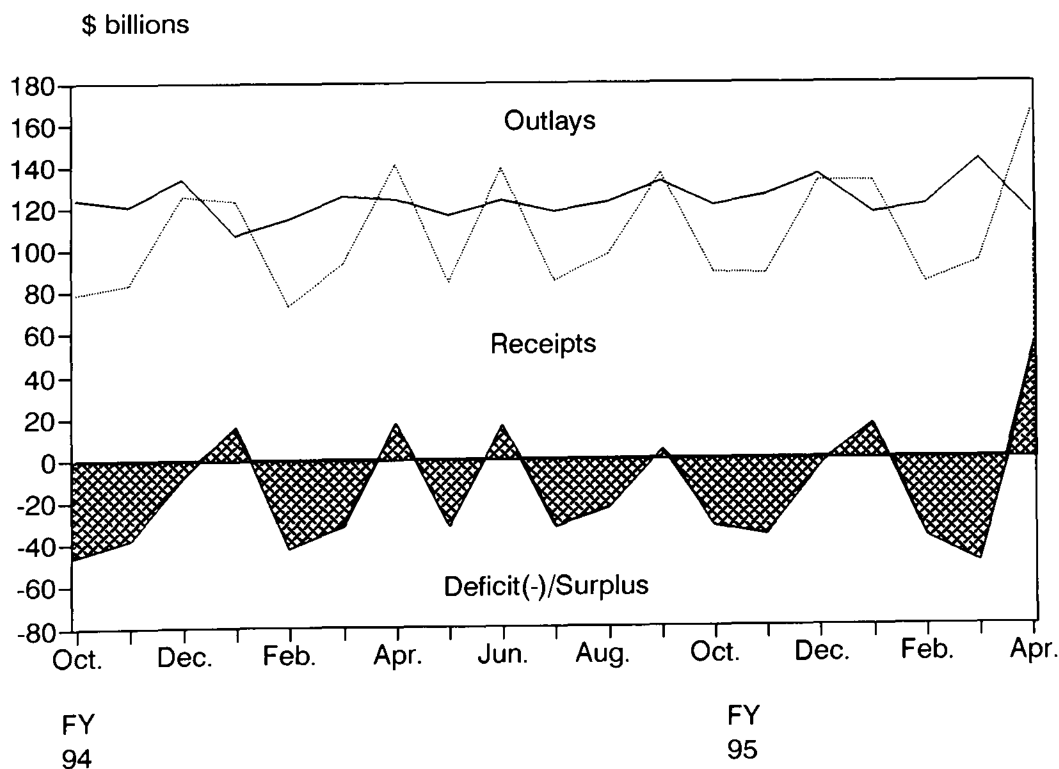

Figure 2. Monthly Receipts of the U.S. Government, by Source, Fiscal Years 1994 and 1995

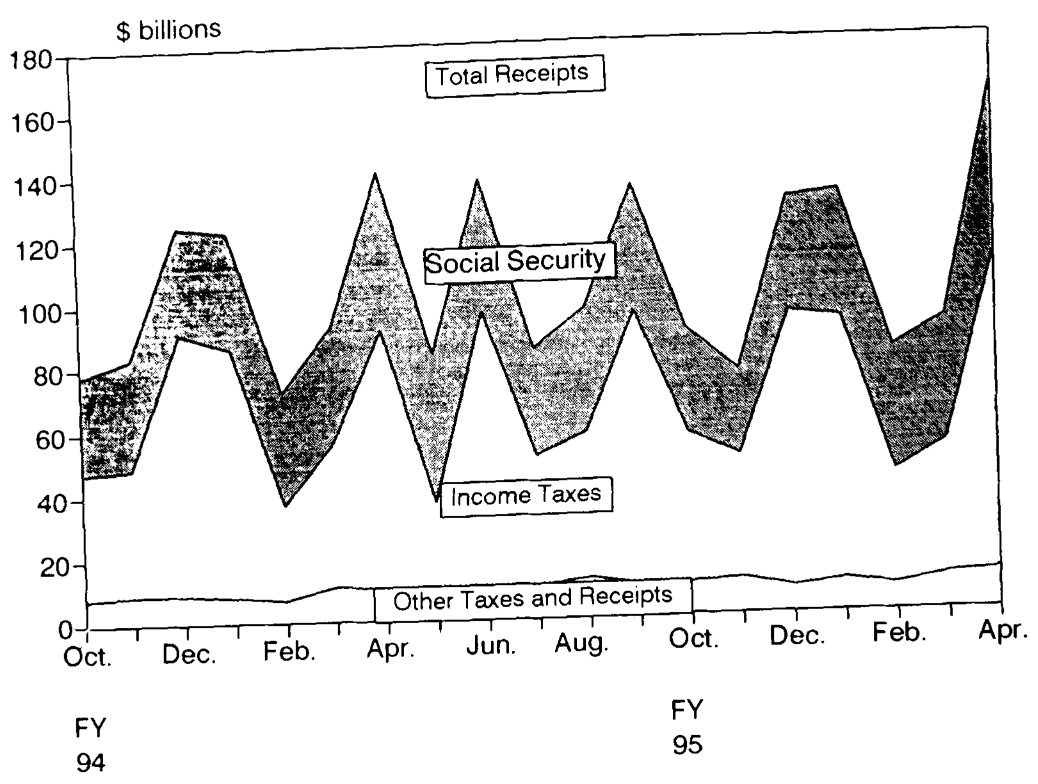

Figure 3. Monthly Outlays of the U.S. Government, by Function, Fiscal Years 1994 and 1995

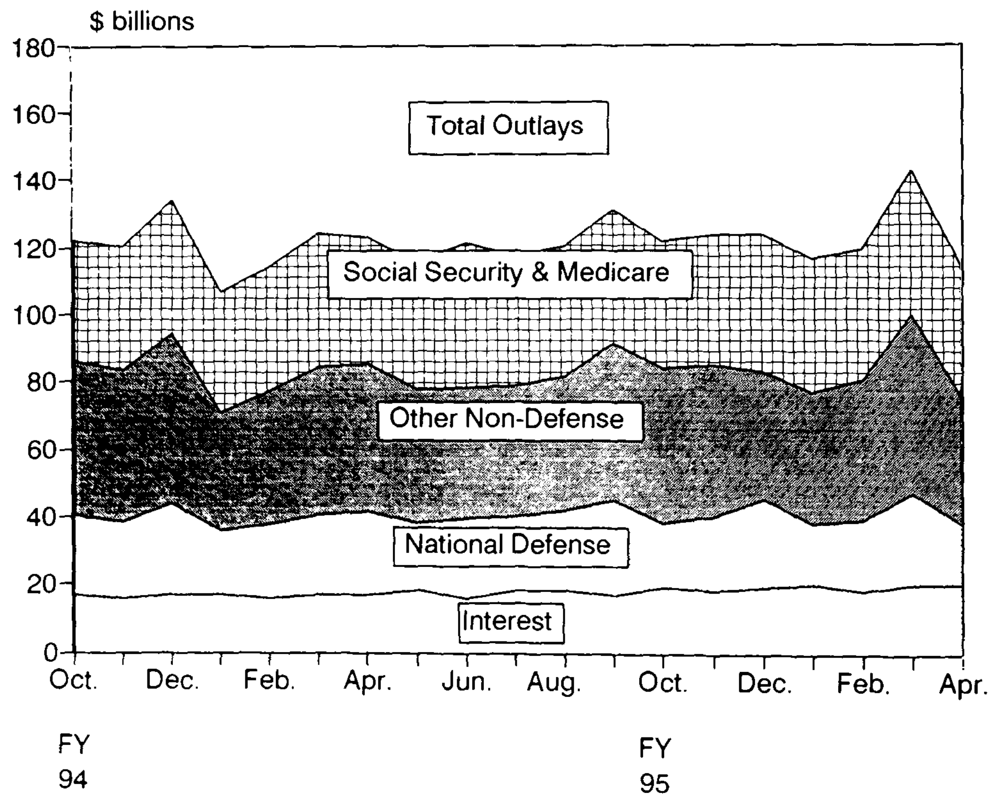

Table 3. Summary of Receipts and Outlays of the U.S. Government, April 1995 and Other Periods

[$ millions]

Classification	This Month	Current Fiscal Year to Date	Comparable Prior Period	Budget Estimates Full Fiscal Year[1]
Budget Receipts				
Individual income taxes	76,441	351,121	322,042	588,460
Corporation income taxes	23,482	80,132	74,275	150,864
Social insurance taxes and contributions:				
Employment taxes and contributions (off-budget)	39,222	204,867	192,982	351,256
Employment taxes and contributions (on-budget)	11,201	59,617	53,369	100,538
Unemployment insurance	3,061	11,632	10,662	28,057
Other retirement contributions	354	2,629	2,704	4,558
Excise taxes	4,602	32,162	29,695	57,600
Estate and gift taxes	1,906	8,559	9,261	15,587
Customs duties	1,349	11,214	11,149	20,913
Miscellaneous receipts	3,774	17,842	11,603	28,581
Total Receipts	**165,392**	**779,775**	**717,742**	**1,346,414**
(On-budget)	**126,170**	**574,908**	**524,760**	**995,158**
(Off-budget)	**39,222**	**204,867**	**192,982**	**351,256**
Budget Outlays				
Legislative Branch	178	1,651	1,563	2,793
The Judiciary	202	1,608	1,491	3,101
Executive Office of the President	18	130	125	192
Funds Appropriated to the President	48	7,106	8,066	10,860
Department of Agriculture	4,204	39,226	38,589	62,313
Department of Commerce	227	1,997	1,805	3,601
Department of Defense—Military	16,828	144,329	156,679	260,269
Department of Defense—Civil	2,592	18,249	17,566	31,207
Department of Education	1,974	18,181	13,073	32,888
Department of Energy	1,188	10,114	10,240	16,135
Department of Health and Human Services	23,053	171,436	159,860	301,439
Department of Housing and Urban Development	2,707	17,360	15,343	26,854
Department of the Interior	499	4,311	3,910	7,329
Department of Justice	920	6,134	5,809	11,821
Department of Labor	2,899	18,647	23,493	31,942
Department of State	371	3,464	3,344	6,272
Department of Transportation	2,571	21,681	20,518	37,992
Department of the Treasury:				
Interest on the Public Debt	20,883	182,868	163,167	333,704
Other	3,732	12,324	10,851	18,112
Department of Veterans Affairs	1,828	20,691	22,324	38,231
Environmental Protection Agency	493	3,569	3,263	6,274
General Services Administration	−767	−58	−499	1,131
National Aeronautics and Space Administration	1,028	7,499	7,789	14,241
Office of Personnel Management	3,548	23,754	22,261	40,308
Small Business Administration	53	525	345	703
Social Security Administration	28,080	204,856	198,653	363,419
Other independent agencies:				
Resolution Trust Corporation	−436	−6,535	901	−6,753
Other	468	4,462	2,586	15,399
Undistributed offsetting receipts:				
Interest	−596	−46,130	−42,996	−91,465
Other	−3,121	−19,391	−19,689	−41,392
Total outlays	**115,673**	**874,059**	**850,430**	**1,538,920**
(On-budget)	**90,628**	**709,495**	**691,942**	**1,246,936**
(Off-budget)	**25,045**	**164,564**	**158,488**	**291,984**
Surplus (+) or deficit (−)	**+49,720**	**−94,284**	**−132,688**	**−192,506**
(On-budget)	**+35,542**	**−134,587**	**−167,182**	**−251,778**
(Off-budget)	**+14,178**	**+40,303**	**+34,494**	**+59,272**

[1]These figures are based on the *FY 1996 Budget*, released by the Office of Management and Budget on February 6, 1995.

Note: Details may not add to totals due to rounding.

Table 4. Receipts of the U.S. Government, April 1995 and Other Periods

[$ millions]

Classification	This Month Gross Receipts	This Month Refunds (Deduct)	This Month Receipts	Current Fiscal Year to Date Gross Receipts	Current Fiscal Year to Date Refunds (Deduct)	Current Fiscal Year to Date Receipts	Prior Fiscal Year to Date Gross Receipts	Prior Fiscal Year to Date Refunds (Deduct)	Prior Fiscal Year to Date Receipts
Individual income taxes:									
Withheld	[1]32,447			296,124			275,248		
Presidential Election Campaign Fund	16			40			41		
Other	[1]64,937			109,667			100,084		
Total—Individual income taxes	**97,400**	**20,959**	**76,441**	**405,831**	**54,711**	**351,121**	**375,373**	**53,331**	**322,042**
Corporation income taxes	**25,779**	**2,297**	**23,482**	**92,726**	**12,595**	**80,132**	**82,964**	**8,689**	**74,275**
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	[1]25,292	......	25,292	149,097	......	149,097	163,681	......	163,681
Self-Employment Contributions Act taxes	[1]7,977	......	7,977	10,920	......	10,920	10,672	......	10,672
Deposits by States	(* *)	......	(* *)	1	......	1	-45	......	-45
Other	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—FOASI trust fund	33,268	......	33,268	160,019	......	160,019	174,309	......	174,309
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	[1]4,469	......	4,469	42,310	......	42,310	17,535	......	17,535
Self-Employment Contributions Act taxes	[1]1,485	......	1,485	2,538	......	2,538	1,139	......	1,139
Receipts from railroad retirement account	......	......	......	......	......	......	......	......	......
Deposits by States	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Other	......	......	......	......	......	......	......	......	......
Total—FDI trust fund	5,954	......	5,954	44,848	......	44,848	18,674	......	18,674
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	[1]7,690	......	7,690	52,626	......	52,626	47,418	......	47,418
Self-Employment Contributions Act taxes	[1]3,182	......	3,182	4,508	......	4,508	3,561	......	3,561
Receipts from Railroad Retirement Board	......	......	......	......	......	......	......	......	......
Deposits by States	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Total—FHI trust fund	10,872	......	10,872	57,135	......	57,135	50,979	......	50,979
Railroad retirement accounts:									
Rail industry pension fund	178	1	177	1,362	10	1,353	1,332	25	1,307
Railroad Social Security equivalent benefit	152	......	152	1,130	......	1,130	1,083	......	1,083
Total—Employment taxes and contributions	50,424	1	50,423	264,494	10	264,484	246,376	25	246,351
Unemployment insurance:									
State taxes deposited in Treasury	2,144	......	2,144	8,897	......	8,897	8,303	......	8,303
Federal Unemployment Tax Act taxes	940	27	914	2,776	57	2,719	2,386	58	2,327
Railroad unemployment taxes	4	......	4	16	......	16	18	......	18
Railroad debt repayment	......	......	......	......	......	......	14	......	14
Total—Unemployment insurance	3,088	27	3,061	11,689	57	11,632	10,721	58	10,662
Other retirement contributions:									
Federal employees retirement – employee contributions	348	......	348	2,576	......	2,576	2,647	......	2,647
Contributions for non-federal employees	7	......	7	54	......	54	57	......	57
Total—Other retirement contributions	354	......	354	2,629	......	2,629	2,704	......	2,704
Total—Social insurance taxes and contributions	**53,866**	**28**	**53,839**	**278,812**	**67**	**278,745**	**259,801**	**83**	**259,718**
Excise taxes:									
Miscellaneous excise taxes[2]	1,953	-172	2,125	16,103	521	15,582	17,016	423	16,594
Airport and airway trust fund	430	11	419	3,019	21	2,998	2,796	24	2,773
Highway trust fund	2,216	211	2,005	13,643	421	13,222	10,301	327	9,974
Black lung disability trust fund	53	......	53	360	......	360	355	......	355
Total—Excise taxes	**4,652**	**50**	**4,602**	**33,125**	**963**	**32,162**	**30,469**	**774**	**29,695**
Estate and gift taxes	**1,938**	**32**	**1,906**	**8,787**	**229**	**8,559**	**9,481**	**220**	**9,261**
Customs duties	**1,490**	**141**	**1,349**	**12,184**	**970**	**11,214**	**11,636**	**487**	**11,149**
Miscellaneous Receipts:									
Deposits of earnings by Federal Reserve banks	3,514	......	3,514	15,270	......	15,270	9,499	......	9,499
All other	261	1	261	2,580	8	2,572	2,116	12	2,105
Total — Miscellaneous receipts	**3,775**	**1**	**3,774**	**17,850**	**8**	**17,842**	**11,615**	**12**	**11,603**
Total — Receipts	**188,899**	**23,507**	**165,392**	**849,316**	**69,541**	**779,775**	**781,338**	**63,596**	**717,742**
Total — On-budget	**149,677**	**23,507**	**126,170**	**644,449**	**69,541**	**574,908**	**588,356**	**63,596**	**524,760**
Total — Off-budget	**39,222**	......	**39,222**	**204,867**	......	**204,867**	**192,982**	......	**192,982**

[1]In accordance with the provisions of the Social Security Act as amended, Individual Income Taxes Withheld have been decreased and Federal Insurance Contributions Act Taxes correspondingly increased by $1,051 million to correct estimates for the quarter ending March 31, 1994. Individual Income Taxes Other have been increased and Self Employment Contributions Act Taxes correspondingly decreased by $1,184 million to correct estimates for calendar year 1992 and prior.

[2]Includes amounts for the windfall profits tax pursuant to P.L. 96-223.

... No Transactions.

(* *) Less than $500,000.

Note: Details may not add to totals due to rounding.

Table 5. Outlays of the U.S. Government, April 1995 and Other Periods

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Legislative Branch:									
Senate	32	(* *)	32	249	1	248	246	1	245
House of Representatives	57	(* *)	57	425	1	424	441	11	430
Joint items	7	......	7	45	......	45	45	......	45
Congressional Budget Office	1	......	1	12	......	12	13	......	13
Architect of the Capitol	14	1	13	117	5	112	118	5	114
Library of Congress	31	......	31	481	......	481	342	......	342
Government Printing Office:									
Revolving fund (net)	−11	......	−11	15	......	15	40	......	40
General fund appropriations	10	......	10	57	......	57	54	......	54
General Accounting Office	32	......	32	234	......	234	252	......	252
United States Tax Court	4	......	4	19	......	19	20	......	20
Other Legislative Branch agencies	3	......	3	19	......	19	18	......	18
Proprietary receipts from the public	......	1	−1	......	8	−8	......	1	−1
Intrabudgetary transactions	−1	......	−1	−8	......	−8	−7	......	−7
Total—Legislative Branch	**180**	**2**	**178**	**1,667**	**15**	**1,651**	**1,581**	**18**	**1,563**
The Judiciary:									
Supreme Court of the United States	2	......	2	15	......	15	15	......	15
Courts of Appeals, District Courts, and other judicial services	192	(* *)	192	1,529	3	1,527	1,412	1	1,411
Other	9	......	9	67	......	67	65	......	65
Total—The Judiciary	**202**	**(* *)**	**202**	**1,611**	**3**	**1,608**	**1,492**	**1**	**1,491**
Executive Office of the President:									
Compensation of the President and the White House Office	4	......	4	22	......	22	24	......	24
Office of Management and Budget	5	......	5	33	......	33	34	......	34
Other	9	......	9	76	......	76	67	......	67
Total—Executive Office of the President	**18**	**......**	**18**	**130**	**......**	**130**	**125**	**......**	**125**
Funds Appropriated to the President:									
International Security Assistance:									
Foreign military loan program	56	15	41	523	356	167	482	349	134
Foreign military financing program	102	......	102	2,563	......	2,563	3,185	......	3,185
Economic support fund	83	......	83	2,195	......	2,195	2,194	......	2,194
Peacekeeping Operations	3	......	3	49	......	49	35	......	35
Other	4	......	4	16	......	16	30	......	30
Proprietary receipts from the public	......	10	−10	......	415	−415	......	403	−403
Total—International Security Assistance	247	26	221	5,346	771	4,575	5,926	752	5,174
International Development Assistance:									
Multilateral Assistance:									
Contribution to the International Development Association	235	......	235	743	......	743	637	......	637
International organizations and programs	22	......	22	418	......	418	122	......	122
Other	16	......	16	267	......	267	280	......	280
Total—Multilateral Assistance	272	......	272	1,429	......	1,429	1,039	......	1,039
Agency for International Development:									
Sustainable development assistance program	128	......	128	689	......	689	775	......	775
Assistance for eastern europe and the baltic States	3	......	3	20	......	20	38	......	38
Assistance for the new indenpendent States of the former soviet union	86	......	86	490	......	490	117	......	117
Development fund for Africa	46	......	46	435	......	435	363	......	363
Operating expenses	40	......	40	296	......	296	292	......	292
Payment to the Foreign Service retirement and disability fund	......	......	......	45	......	45	44	......	44
Other	38	2	36	349	26	323	260	37	223
Proprietary receipts from the public	......	57	−57	......	470	−470	......	419	−419
Intrabudgetary transactions	......	......	......	......	......	......	(* *)	......	(* *)
Total—Agency for International Development	341	59	282	2,324	496	1,828	1,889	456	1,433
Overseas Private Investment Corporation	3	7	−4	27	129	−103	24	105	−81
Peace Corps	17	......	17	131	......	131	118	......	118
Other	8	(* *)	8	54	2	52	50	2	48
Total—International Development Assistance	641	66	575	3,964	628	3,337	3,120	563	2,557
International Monetary Programs	−111	......	−111	−909	......	−909	−22	......	−22
Military Sales Programs:									
Special defense acquisition fund	10	25	−16	99	115	−17	106	169	−64
Foreign military sales trust fund	800	......	800	7,487	......	7,487	7,693	......	7,693
Kuwait civil reconstruction trust fund	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Proprietary receipts from the public	......	1,424	−1,424	......	7,381	−7,381	......	7,304	−7,304
Other	2	......	2	15	......	15	32	......	32
Total—Funds Appropriated to the President	**1,589**	**1,541**	**48**	**16,002**	**8,896**	**7,106**	**16,854**	**8,789**	**8,066**

Table 5. Outlays of the U.S. Government, April 1995 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Agriculture:									
Agricultural Research Service	61	......	61	432	......	432	425	......	425
Cooperative State Research Education and Extension Service									
Cooperative state research activities	37	......	37	253	......	253	235	......	235
Extension Service	40	......	40	258	......	258	247	......	247
Other	2	......	2	26	......	26	30	......	30
Animal and Plant Health Inspection Service	40	......	40	295	......	295	273	......	273
Food Safety and Inspection Service	47	......	47	296	......	296	303	......	303
Agricultural Marketing Service	33	......	33	493	......	493	430	1	429
Farm Service Agency:									
Salaries and expenses	54	......	54	407	......	407	387	......	387
Conservation programs	12	......	12	1,813	......	1,813	1,824	......	1,824
Federal crop insurance corporation fund	78	1	77	491	449	42	1,291	345	946
Commodity Credit Corporation:									
Price support and related programs	1,336	1,201	135	14,786	5,813	8,973	14,163	4,398	9,765
National Wool Act Program	93	......	93	99	......	99	193	......	193
Agricultural credit insurance fund	161	99	63	723	983	−260	1,120	1,262	−142
Other	9	......	9	152	......	152	154	......	154
Total—Farm Service Agency	1,744	1,301	443	18,470	7,245	11,225	19,130	6,005	13,125
Natural Resources Conservation Service:									
Conservation operations	47	......	47	333	......	333	359	......	359
Watershed and flood prevention operations	17	......	17	165	......	165	152	......	152
Other	2	......	2	46	......	46	47	......	47
Rural Utilities Service:									
Rural electrification and telephone fund	46	128	−82	1,459	1,719	−260	1,652	2,239	−586
Rural development insurance fund	123	18	105	504	266	238	541	348	192
Other	28	11	16	239	118	120	243	309	−67
Rural housing and Community Development Service:									
Rural housing insurance fund	185	197	−12	2,079	1,456	624	2,095	1,915	181
Other	99	......	99	31	......	31	−24	......	−24
Foreign Agricultural Service	15	......	15	610	......	610	736	......	736
Food and Consumer Service:									
Food stamp program	2,133	......	2,133	15,195	......	15,195	14,912	......	14,912
State child nutrition programs	719	......	719	4,752	......	4,752	4,424	......	4,424
Women, infants and children programs	234	......	234	2,070	......	2,070	1,878	......	1,878
Other	25	......	25	283	......	283	315	......	315
Total—Food and Consumer Service	3,111	......	3,111	22,300	......	22,300	21,529	......	21,529
Forest Service:									
National forest system	105	......	105	758	......	758	787	......	787
Forest and rangeland protection	31	......	31	376	......	376	186	......	186
Forest service permanent appropriations	15	......	15	450	......	450	239	......	239
Other	75	......	75	474	......	474	470	......	470
Total—Forest Service	226	......	226	2,057	......	2,057	1,682	......	1,682
Other	6	3	4	299	22	277	314	21	294
Proprietary receipts from the public	......	48	−48	......	593	−593	......	973	−973
Intrabudgetary transactions	(* *)	......	(* *)	(* *)	......	(* *)	......	......	......
Total—Department of Agriculture	**5,910**	**1,706**	**4,204**	**50,646**	**11,420**	**39,226**	**50,400**	**11,810**	**38,589**
Department of Commerce:									
Economic Development Administration	22	1	21	195	8	187	161	9	151
Bureau of the Census	−29	......	−29	187	......	187	164	......	164
Promotion of Industry and Commerce	24	......	24	211	......	211	180	......	180
Science and Technology:									
National Oceanic and Atmospheric Administration	169	(* *)	169	1,137	12	1,125	1,125	8	1,118
National Institute of Standards and Technology	22	......	22	243	......	243	124	......	124
Other	18	2	16	74	18	57	94	20	74
Total—Science and Technology	209	2	207	1,454	30	1,424	1,343	28	1,316
Other	15	......	15	62	(* *)	62	63	......	63
Proprietary receipts from the public	......	10	−10	......	73	−73	......	70	−70
Intrabudgetary transactions	......	......	......	(* *)	......	(* *)	(* *)	......	(* *)
Offsetting governmental receipts	......	......	......	......	......	......	......	......	......
Total—Department of Commerce	**240**	**13**	**227**	**2,108**	**111**	**1,997**	**1,911**	**107**	**1,805**

Table 5. Outlays of the U.S. Government, April 1995 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Defense—Military:									
Military personnel:									
Department of the Army	1,028	......	1,028	13,819	......	13,819	16,434	......	16,434
Department of the Navy	1,368	......	1,368	14,115	......	14,115	15,903	......	15,903
Department of the Air Force	743	......	743	10,418	......	10,418	11,117	......	11,117
Total—Military personnel	3,138	......	3,138	38,352	......	38,352	43,454	......	43,454
Operation and maintenance:									
Department of the Army	1,625	......	1,625	12,833	......	12,833	12,227	......	12,227
Department of the Navy	1,937	......	1,937	12,240	......	12,240	12,602	......	12,602
Department of the Air Force	1,618	......	1,618	13,975	......	13,975	14,207	......	14,207
Defense agencies	1,570	......	1,570	11,169	......	11,169	11,446	......	11,446
Total—Operation and maintenance	6,749	......	6,749	50,218	......	50,218	50,482	......	50,482
Procurement:									
Department of the Army	547	......	547	4,343	......	4,343	4,837	......	4,837
Department of the Navy	2,203	......	2,203	13,420	......	13,420	15,221	......	15,221
Department of the Air Force	1,357	......	1,357	12,563	......	12,563	14,050	......	14,050
Defense agencies	292	......	292	2,253	......	2,253	2,398	......	2,398
Total—Procurement	4,399	......	4,399	32,579	......	32,579	36,505	......	36,505
Research, development, test, and evaluation:									
Department of the Army	372	......	372	2,892	......	2,892	3,369	......	3,369
Department of the Navy	787	......	787	5,322	......	5,322	4,303	......	4,303
Department of the Air Force	750	......	750	7,188	......	7,188	7,354	......	7,354
Defense agencies	509	......	509	4,441	......	4,441	4,698	......	4,698
Total—Research, development, test and evaluation	2,417	......	2,417	19,843	......	19,843	19,723	......	19,723
Military construction:									
Department of the Army	70	......	70	534	......	534	515	......	515
Department of the Navy	72	......	72	494	......	494	331	......	331
Department of the Air Force	98	......	98	753	......	753	596	......	596
Defense agencies	274	......	274	1,929	......	1,929	1,060	......	1,060
Total—Military construction	514	......	514	3,711	......	3,711	2,501	......	2,501
Family housing:									
Department of the Army	88	......	88	675	......	675	735	......	735
Department of the Navy	107	......	107	609	......	609	457	......	457
Department of the Air Force	61	......	61	592	......	592	610	......	610
Defense agencies	15	4	11	87	28	59	60	20	40
Revolving and management funds:									
Department of the Army	-7	......	-7	-29	......	-29	-30	......	-30
Department of the Navy	-62	......	-62	122	......	122	222	......	222
Department of the Air Force	......	......	......	......	......	......	......	......	......
Defense agencies:									
Defense business operations fund	-211	......	-211	-1,513	......	-1,513	2,067	......	2,067
Other	30	(* *)	29	-102	2	-104	-225	3	-228
Trust funds:									
Department of the Army	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
Department of the Navy	2	......	2	17	3	14	19	8	11
Department of the Air Force	(* *)	......	(* *)	(* *)	(* *)	(* *)	6	6	(* *)
Defense agencies	44	......	44	143	......	143	142	......	142
Proprietary receipts from the public:									
Department of the Army	......	32	-32	......	194	-194	......	109	-109
Department of the Navy	......	64	-64	......	231	-231	......	85	-85
Department of the Air Force	......	311	-311	......	737	-737	......	351	-351
Defense agencies	......	34	-34	......	223	-223	......	181	-181
Intrabudgetary transactions:									
Department of the Army	-5	......	-5	33	......	33	152	......	152
Department of the Navy	25	......	25	403	......	403	522	......	522
Department of the Air Force	-10	......	-10	103	......	103	116	......	116
Defense agencies	-20	......	-20	-96	......	-96	-74	......	-74
Offsetting governmental receipts:									
Department of the Army	......	......	......	......	1	-1	......	6	-6
Defense agencies	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Total—Department of Defense—Military	**17,274**	**446**	**16,828**	**145,747**	**1,417**	**144,329**	**157,447**	**768**	**156,679**

Table 5. Outlays of the U.S. Government, April 1995 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Defense—Civil									
Corps of Engineers									
Construction, general	82	......	82	616	......	616	517	......	517
Operation and maintenance, general	68	......	68	795	......	795	607	......	607
Other	95	......	95	818	......	818	945	......	945
Proprietary receipts from the public	......	9	−9	......	73	−73	......	89	−89
Total—Corps of Engineers	245	9	235	2,228	73	2,155	2,068	89	1,979
Military retirement									
Payment to military retirement fund	......	......	......	11,470	......	11,470	11,908	......	11,908
Military retirement fund	2,338	......	2,338	16,001	......	16,001	15,435	......	15,435
Intrabudgetary transactions	......	......	......	−11,470	......	−11,470	−11,908	......	−11,908
Education benefits	13	......	13	57	......	57	115	......	115
Other	6	(* *)	6	46	2	44	45	2	43
Proprietary receipts from the public	......	1	−1	......	7	−7	......	7	−7
Total—Department of Defense—Civil	**2,603**	**10**	**2,592**	**18,332**	**83**	**18,249**	**17,664**	**98**	**17,566**
Department of Education:									
Office of Elementary and Secondary Education:									
Education for the disadvantaged	603	......	603	4,057	......	4,057	4,124	......	4,124
Impact aid	28	......	28	638	......	638	672	......	672
School improvement programs	126	......	126	844	......	844	887	......	887
Other	9	......	9	66	......	66	52	......	52
Total—Office of Elementary and Secondary Education	766	......	766	5,605	......	5,605	5,735	......	5,735
Office of Bilingual Education and Minority Languages Affairs	17	......	17	125	......	125	130	......	130
Office of Special Education and Rehabilitative Services:									
Special education	234	......	234	1,940	......	1,940	1,816	......	1,816
Rehabilitation services and disability research	188	......	188	1,349	......	1,349	1,351	......	1,351
Special institutions for persons with disabilities	14	......	14	84	......	84	81	......	81
Office of Vocational and Adult Education	168	......	168	940	......	940	854	......	854
Office of Postsecondary Education:									
College housing loans	(* *)	10	−10	14	45	−31	1	32	−30
Student financial assistance	480	......	480	4,685	......	4,685	4,847	......	4,847
Federal family education loans	−61	......	−61	2,146	......	2,146	−2,651	......	−2,651
Higher education	41	......	41	456	......	456	421	......	421
Howard University	19	......	19	127	......	127	119	......	119
Other	85	......	85	314	......	314	32	......	32
Total—Office of Postsecondary Education	565	10	555	7,742	45	7,697	2,770	32	2,738
Office of Educational Research and Improvement	35	......	35	239	......	239	252	......	252
Departmental management	12	......	12	250	......	250	220	......	220
Proprietary receipts from the public	......	16	−16	......	49	−49	......	104	−104
Total—Department of Education	**2,000**	**26**	**1,974**	**18,274**	**93**	**18,181**	**13,209**	**136**	**13,073**
Department of Energy:									
Atomic energy defense activities	890	......	890	6,972	......	6,972	6,950	......	6,950
Energy programs:									
General science and research activities	71	......	71	851	......	851	759	......	759
Energy supply, R and D activities	244	......	244	1,906	......	1,906	1,768	......	1,768
Uranium supply and enrichment activities	13	......	13	62	......	62	237	......	237
Fossil energy research and development	37	......	37	254	......	254	233	......	233
Energy conservation	62	......	62	368	......	368	317	......	317
Strategic petroleum reserve	14	......	14	124	......	124	175	......	175
Clean coal technology	......	......	......	......	......	......	......	......	......
Nuclear waste disposal fund	23	......	23	194	......	194	152	......	152
Other	78	(* *)	78	565	1	564	513	1	512
Total—Energy programs	542	(* *)	542	4,325	1	4,324	4,154	1	4,152
Power Marketing Administration	137	177	−40	1,043	1,166	−123	1,029	995	35
Departmental administration	48	......	48	282	......	282	251	......	251
Proprietary receipts from the public	......	211	−211	......	1,059	−1,059	......	871	−871
Intrabudgetary transactions	−41	......	−41	−272	......	−272	−225	......	−225
Offsetting governmental receipts	......	(* *)	(* *)	......	9	−9	......	52	−52
Total—Department of Energy	**1,576**	**389**	**1,188**	**12,348**	**2,234**	**10,114**	**12,159**	**1,919**	**10,240**

Table 5. Outlays of the U.S. Government, April 1995 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Health and Human Services:									
Public Health Service:									
Food and Drug Administration	87	(* *)	87	484	3	482	442	2	440
Health Resources and Services Administration	240	......	240	1,472	......	1,472	1,305	......	1,305
Indian Health Services	132	......	132	1,259	......	1,259	995	......	995
Centers for Disease Control and Prevention	165	......	165	1,037	......	1,037	858	......	858
National Institutes of Health	849	......	849	5,949	......	5,949	5,899	......	5,899
Substance Abuse and Mental Health Services Administration	110	......	110	1,393	......	1,393	1,342	......	1,342
Agency for Health Care Policy and Research	3	......	3	70	......	70	54	......	54
Assistant secretary for health	58	......	58	314	......	314	195	......	195
Total—Public Health Service	1,646	(* *)	1,646	11,979	3	11,976	11,090	2	11,087
Health Care Financing Administration:									
Grants to States for Medicaid	7,239	......	7,239	51,084	......	51,084	47,101	......	47,101
Payments to health care trust funds	5,439	......	5,439	27,792	......	27,792	24,442	......	24,442
Federal hospital insurance trust fund:									
Benefit payments	8,530	......	8,530	63,088	......	63,088	57,704	......	57,704
Administrative expenses	150	......	150	763	......	763	736	......	736
Interest on normalized tax transfers	......	......	......	......	......	......	......	......	......
Total—FHI trust fund	8,680	......	8,680	63,851	......	63,851	58,440	......	58,440
Federal supplementary medical insurance trust fund:									
Benefit payments	4,383	......	4,383	35,189	......	35,189	32,564	......	32,564
Administrative expenses	143	......	143	977	......	977	978	......	978
Total—FSMI trust fund	4,527	......	4,527	36,167	......	36,167	33,542	......	33,542
Other	−34	......	−34	−12	......	−12	−3	......	−3
Total—Health Care Financing Administration	25,851	......	25,851	178,882	......	178,882	163,522	......	163,522
Administration for children and families:									
Family support payments to States	1,459	......	1,459	10,143	......	10,143	9,814	......	9,814
Low income home energy assistance	89	......	89	1,079	......	1,079	1,702	......	1,702
Refugee and entrant assistance	[1]−7	......	−7	205	......	205	237	......	237
Payments to States for the job opportunities and basic skills training program	72	......	72	563	......	563	474	......	474
State legalization impact assistance grants	(* *)	......	(* *)	144	......	144	600	......	600
Payments to States for the child care and development block grant	83	......	83	535	......	535	465	......	465
Social services block grant	243	......	243	1,660	......	1,660	1,612	......	1,612
Children and families services programs	395	......	395	2,950	......	2,950	2,545	......	2,545
Payments to States for foster care and adoption assistance	301	......	301	1,861	......	1,861	1,802	......	1,802
Other	3	......	3	12	......	12	(* *)	......	(* *)
Total—Administration for children and families	2,639	......	2,639	19,153	......	19,153	19,251	......	19,251
Administration on aging	74	......	74	554	......	554	488	......	488
Departmental management	−17	......	−17	191	......	191	105	......	105
Proprietary receipts from the public	......	1,700	−1,700	......	11,529	−11,529	......	10,152	−10,152
Intrabudgetary transactions:									
Payments for health insurance for the aged:									
Federal hospital insurance trust fund	......	......	......	......	......	......	......	......	......
Federal supplementary medical insurance trust fund	−3,760	......	−3,760	−24,392	......	−24,392	−23,288	......	−23,288
Payments for tax and other credits:									
Federal hospital insurance trust fund	−1,679	......	−1,679	−3,400	......	−3,400	−1,154	......	−1,154
Other	......	......	......	......	......	......	......	......	......
Total—Department of Health and Human Services	**24,753**	**1,700**	**23,053**	**182,968**	**11,532**	**171,436**	**170,014**	**10,154**	**159,860**

Table 5. Outlays of the U.S. Government, April 1995 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Housing and Urban Development:									
Housing programs									
Public enterprise funds	25	21	4	105	75	30	86	75	12
Credit accounts									
Federal housing administration fund	-140	-227	87	3,793	3,561	232	4,156	4,238	-82
Housing for the elderly or handicapped fund	266	49	217	543	378	165	708	408	300
Other	47	......	47	332	......	332	259	(* *)	259
Rent supplement payments	28	......	28	95	......	95	33	......	33
Homeownership assistance	9	......	9	68	......	68	61	......	61
Rental housing assistance	56	......	56	380	......	380	380	......	380
Rental housing development grants	......	......	......	(* *)	......	(* *)	5	......	5
Low-rent public housing	48	......	48	461	......	461	431	......	431
Public housing grants	282	......	282	2,086	......	2,086	1,876	......	1,876
College housing grants	1	......	1	10	(* *)	10	10	......	10
Lower income housing assistance	859	......	859	5,790	......	5,790	6,104	......	6,104
Section 8 contract renewals	421	......	421	2,890	......	2,890	1,994	......	1,994
Other	11	......	11	97	......	97	35	......	35
Total—Housing programs	1,912	-157	2,070	16,652	4,013	12,639	16,138	4,721	11,417
Public and Indian Housing programs:									
Low-rent public housing—Loans and other expenses	3	(* *)	3	257	197	60	292	194	97
Payments for operation of low-income housing projects	219	......	219	1,544	......	1,544	1,436	......	1,436
Community Partnerships Against Crime	14	......	14	92	......	92	91	......	91
Other	4	......	4	12	......	12	......	......	......
Total—Public and Indian Housing programs	240	(* *)	240	1,905	197	1,708	1,819	194	1,625
Government National Mortgage Association:									
Management and liquidating functions fund	......	......	......	......	(* *)	(* *)	(* *)	1	-1
Guarantees of mortgage-backed securities	21	49	-29	216	470	-254	632	934	-302
Total—Government National Mortgage Association	21	49	-29	216	471	-254	632	935	-302
Community Planning and Development:									
Community Development Grants	314	......	314	2,431	......	2,431	1,973	......	1,973
Home investment partnerships program	74	......	74	656	......	656	364	......	364
Other	26	8	19	185	69	116	172	78	95
Total—Community Planning and Development	414	8	406	3,273	69	3,204	2,510	78	2,432
Management and Administration	51	......	51	302	......	302	309	......	309
Other	4	......	4	35	......	35	20	......	20
Proprietary receipts from the public	......	35	-35	......	267	-267	......	153	-153
Offsetting governmental receipts	......	......	......	......	5	-5	......	5	-5
Total—Department of Housing and Urban Development	**2,642**	**-66**	**2,707**	**22,383**	**5,023**	**17,360**	**21,429**	**6,086**	**15,343**
Department of the Interior:									
Land and minerals management:									
Bureau of Land Management:									
Management of lands and resources	52	......	52	435	......	435	390	......	390
Other	17	......	17	253	......	253	138	......	138
Minerals Management Service	48	......	48	410	......	410	459	......	459
Office of Surface Mining Reclamation and Enforcement	22	......	22	187	......	187	169	......	169
Total—Land and minerals management	139	......	139	1,285	......	1,285	1,157	......	1,157
Water and science:									
Bureau of Reclamation:									
Construction program	17	......	17	168	......	168	176	......	176
Operation and maintenance	17	......	17	148	......	148	151	......	151
Other	34	11	22	243	109	134	256	103	153
Central utah project	1	......	1	26	......	26	9	......	9
United States Geological Survey	59	......	59	324	......	324	357	......	357
Bureau of Mines	12	3	9	100	16	84	112	16	96
Total—Water and science	140	14	126	1,008	125	883	1,060	119	942
Fish and wildlife and parks:									
United States Fish and Wildlife Service	101	......	101	712	......	712	727	......	727
National Biological Survey	8	......	8	73	......	73	50	......	50
National Park Service	125	......	125	898	......	898	837	......	837
Total—Fish and wildlife and parks	234	......	234	1,683	......	1,683	1,614	......	1,614

Table 5. Outlays of the U.S. Government, April 1995 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Interior:—Continued									
Bureau of Indian Affairs:									
Operation of Indian programs	80	......	80	887	......	887	841	......	841
Indian tribal funds	69	......	69	170	......	170	171	......	171
Other	42	1	41	249	7	242	306	6	300
Total—Bureau of Indian Affairs	191	1	190	1,306	7	1,299	1,317	6	1,311
Territorial and international affairs	6	......	6	360	......	360	192	......	192
Departmental offices	6	......	6	57	......	57	80	......	80
Proprietary receipts from the public	......	151	−151	......	1,090	−1,090	......	1,186	−1,186
Intrabudgetary transactions	−50	......	−50	−162	......	−162	−200	......	−200
Offsetting governmental receipts	......	(* *)	(* *)	......	3	−3	......	(* *)	(* *)
Total—Department of the Interior	**666**	**166**	**499**	**5,536**	**1,225**	**4,311**	**5,220**	**1,310**	**3,910**
Department of Justice:									
Legal activities	197	......	197	1,495	......	1,495	1,449	......	1,449
Federal Bureau of Investigation	227	......	227	1,214	......	1,214	1,272	......	1,272
Drug Enforcement Administration	103	......	103	561	......	561	467	......	467
Immigration and Naturalization Service	148	......	148	973	......	973	835	......	835
Federal Prison System	232	11	221	1,603	74	1,529	1,384	68	1,317
Office of Justice Programs	61	......	61	351	......	351	478	......	478
Other	73	......	73	504	......	504	297	......	297
Intrabudgetary transactions	−6	......	−6	−33	......	−33	−19	......	−19
Offsetting governmental receipts	......	102	−102	......	460	−460	......	288	−288
Total—Department of Justice	**1,033**	**113**	**920**	**6,668**	**534**	**6,134**	**6,165**	**356**	**5,809**
Department of Labor:									
Employment and Training Administration:									
Training and employment services	340	......	340	2,443	......	2,443	2,220	......	2,220
Community Service Employment for Older Americans	30	......	30	222	......	222	221	......	221
Federal unemployment benefits and allowances	−27	......	−27	113	......	113	93	......	93
State unemployment insurance and employment service operations	−31	......	−31	6	......	6	164	......	164
Payments to the unemployment trust fund	......	......	......	......	......	......	......	......	......
Advances to the unemployment trust fund and other funds	46	......	46	619	......	619	2,528	......	2,528
Unemployment trust fund:									
Federal-State unemployment insurance:									
State unemployment benefits	1,828	......	1,828	13,077	......	13,077	18,197	......	18,197
State administrative expenses	273	......	273	1,900	......	1,900	1,808	......	1,808
Federal administrative expenses	11	......	11	138	......	138	125	......	125
Veterans employment and training	12	......	12	105	......	105	107	......	107
Repayment of advances from the general fund	......	......	......	......	......	......	......	......	......
Railroad unemployment insurance	5	......	5	40	......	40	45	......	45
Other	1	......	1	11	......	11	12	......	12
Total—Unemployment trust fund	2,131	......	2,131	15,271	......	15,271	20,294	......	20,294
Other	7	......	7	52	......	52	53	......	53
Total—Employment and Training Administration	2,496	......	2,496	18,727	......	18,727	25,573	......	25,573
Pension Benefit Guaranty Corporation	70	19	52	860	1,028	−168	773	986	−213
Employment Standards Administration:									
Salaries and expenses	20	......	20	141	......	141	136	......	136
Special benefits	192	......	192	−152	......	−152	−118	......	−118
Black lung disability trust fund	49	......	49	335	......	335	351	......	351
Other	10	......	10	80	......	80	74	......	74
Occupational Safety and Health Administration	24	......	24	173	......	173	169	......	169
Bureau of Labor Statistics	30	......	30	165	......	165	154	......	154
Other	29	......	29	263	......	263	266	......	266
Proprietary receipts from the public	......	1	−1	......	5	−5	......	2	−2
Intrabudgetary transactions	−2	......	−2	−912	......	−912	−2,897	......	−2,897
Total—Department of Labor	**2,918**	**20**	**2,899**	**19,680**	**1,033**	**18,647**	**24,481**	**988**	**23,493**

Table 5. Outlays of the U.S. Government, April 1995 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of State:									
Administration of Foreign Affairs:									
Diplomatic and consular programs	146	......	146	906	......	906	1,052	......	1,052
Acquisition and maintenance of buildings abroad	44	......	44	309	......	309	324	......	324
Payment to Foreign Service retirement and disability fund	......	......	......	129	......	129	125	......	125
Foreign Service retirement and disability fund	37	......	37	263	......	263	233	......	233
Other	24	......	24	291	......	291	148	......	148
Total—Administration of Foreign Affairs	251	......	251	1,897	......	1,897	1,882	......	1,882
International organizations and Conferences	40	......	40	1,269	......	1,269	1,157	......	1,157
Migration and refugee assistance	66	......	66	415	......	415	378	......	378
Other	15	......	15	64	......	64	102	......	102
Proprietary receipts from the public	......	......	......	......	......	......	......	......	......
Intrabudgetary transactions	(* *)	......	(* *)	−182	......	−182	−176	......	−176
Offsetting governmental receipts	......	......	......	......	......	......	......	......	......
Total—Department of State	**371**	**......**	**371**	**3,464**	**......**	**3,464**	**3,344**	**......**	**3,344**
Department of Transportation:									
Federal Highway Administration:									
Highway trust fund:									
Federal-aid highways	1,232	......	1,232	9,967	......	9,967	9,662	......	9,662
Other	9	......	9	80	......	80	81	......	81
Other programs	15	......	15	126	......	126	139	......	139
Total—Federal Highway Administration	1,256	......	1,256	10,173	......	10,173	9,883	......	9,883
National Highway Traffic Safety Administration	26	......	26	154	......	154	151	......	151
Federal Railroad Administration:									
Grants to National Railroad Passenger Corporation	161	......	161	708	......	708	425	......	425
Other	17	1	17	118	6	111	214	7	207
Total—Federal Railroad Administration	178	1	177	825	6	819	640	7	633
Federal Transit Administration:									
Formula grants	−184	......	−184	319	......	319	87	......	87
Discretionary grants	153	......	153	1,146	......	1,146	910	......	910
Other	329	......	329	1,159	......	1,159	1,224	......	1,224
Total—Federal Transit Administration	298	......	298	2,624	......	2,624	2,221	......	2,221
Federal Aviation Administration:									
Operations	122	......	122	1,246	......	1,246	1,518	......	1,518
Airport and airway trust fund:									
Grants-in-aid for airports	84	......	84	1,069	......	1,069	925	......	925
Facilities and equipment	248	......	248	1,508	......	1,508	1,275	......	1,275
Research, engineering and development	19	......	19	126	......	126	122	......	122
Operations	204	......	204	1,525	......	1,525	1,243	......	1,243
Total—Airport and airway trust fund	555	......	555	4,228	......	4,228	3,565	......	3,565
Other	(* *)	1	−1	(* *)	1	−1	(* *)	1	−1
Total—Federal Aviation Administration	678	1	677	5,474	1	5,473	5,082	1	5,081
Coast Guard:									
Operating expenses	122	......	122	1,419	......	1,419	1,435	......	1,435
Acquisition, construction, and improvements	21	......	21	147	......	147	182	......	182
Retired pay	42	......	42	310	......	310	274	......	274
Other	16	(* *)	16	169	3	166	199	3	196
Total—Coast Guard	201	(* *)	201	2,046	3	2,043	2,090	3	2,087
Maritime Administration	43	101	−59	411	182	229	509	243	265
Other	6	1	5	211	5	206	234	3	230
Proprietary receipts from the public	......	(* *)	(* *)	......	3	−3	......	3	-3
Intrabudgetary transactions	(* *)	......	(* *)	(* *)	......	(* *)	10	......	10
Offsetting governmental receipts	......	11	−11	......	38	−38	......	40	-40
Total—Department of Transportation	**2,686**	**116**	**2,571**	**21,918**	**238**	**21,681**	**20,818**	**300**	**20,518**

Table 5. Outlays of the U.S. Government, April 1995 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of the Treasury:									
Departmental offices:									
Exchange stabilization fund	−438	2	−440	−1,700	12	−1,712	−563	7	−570
Other	28	......	28	126	......	126	68	......	68
Financial Management Service:									
Salaries and expenses	26	......	26	152	......	152	140	......	140
Payment to the Resolution Funding Corporation	587	......	587	1,751	......	1,751	1,751	......	1,751
Claims, judgements, and relief acts	39	......	39	428	......	428	242	......	242
Net interest paid to loan guarantee financing accounts	......	......	......	766	......	766	2	......	2
Other	(* *)	......	(* *)	60	......	60	82	......	82
Total—Financial Management Service	653	......	653	3,158	......	3,158	2,218	......	2,218
Federal Financing Bank	−110	......	−110	−102	......	−102	−103	......	−103
Bureau of Alcohol, Tobacco and Firearms:									
Salaries and expenses	38	......	38	227	......	227	229	......	229
Internal revenue collections for Puerto Rico	9	......	9	118	......	118	116	......	116
United States Customs Service	145	......	145	1,043	......	1,043	1,111	......	1,111
Bureau of Engraving and Printing	−26	......	−26	40	......	40	5	......	5
United States Mint	−29	......	−29	−91	......	−91	−35	......	−35
Bureau of the Public Debt	32	......	32	177	......	177	168	......	168
Internal Revenue Service:									
Processing, assistance, and management	174	......	174	1,040	......	1,040	1,060	......	1,060
Tax law enforcement	364	......	364	2,410	......	2,410	2,225	......	2,225
Information systems	129	......	129	859	......	859	659	......	659
Payment where earned income credit exceeds liability for tax	3,343	......	3,343	11,221	......	11,221	9,870	......	9,870
Health insurance supplement to earned income credit	......	......	......	......	......	......	668	......	668
Refunding internal revenue collections, interest	176	......	176	1,768	......	1,768	1,506	......	1,506
Other	(* *)	......	(* *)	2	......	2	1	......	1
Total—Internal Revenue Service	4,186	......	4,186	17,300	......	17,300	15,988	......	15,988
United States Secret Service	42	......	42	313	......	313	293	......	293
Comptroller of the Currency	28	1	27	245	197	47	223	209	14
Office of Thrift Supervison	12	2	10	97	80	17	104	85	18
Interest on the public debt:									
Public issues (accrual basis)	19,906	......	19,906	133,924	......	133,924	118,943	......	118,943
Special issues (cash basis)	977	......	977	48,944	......	48,944	44,224	......	44,224
Total—Interest on the public debt	20,883	......	20,883	182,868	......	182,868	163,167	......	163,167
Other	4	......	4	29	......	29	34	......	34
Proprietary receipts from the public	......	−126	126	......	2,258	−2,258	......	1,845	−1,845
Receipts from off-budget federal entities	......	......	......	......	......	......	......	......	......
Intrabudgetary transactions	−900	......	−900	−5,529	......	−5,529	−6,435	......	−6,435
Offsetting governmental receipts	......	64	−64	......	579	−579	......	425	−425
Total—Department of the Treasury	**24,558**	**−56**	**24,615**	**198,319**	**3,127**	**195,192**	**176,589**	**2,571**	**174,018**

Table 5. Outlays of the U.S. Government, April 1995 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Department of Veterans Affairs:									
Veterans Health Administration:									
Medical care	1,239	......	1,239	9,121	......	9,121	8,716	......	8,716
Other	55	22	33	401	160	242	419	156	263
Veterans Benefits Administration:									
Public enterprise funds:									
Guaranty and indemnity fund	200	48	152	565	285	280	883	412	471
Loan guaranty revolving fund	59	38	21	318	240	78	372	280	92
Other	14	4	10	108	66	42	256	152	104
Compensation and pensions	93	......	93	8,946	......	8,946	11,298	......	11,298
Readjustment benefits	86	......	86	750	......	750	738	......	738
Post-Vietnam era veterans education account	2	......	2	39	......	39	56	......	56
Insurance funds:									
National service life	116	......	116	728	......	728	724	......	724
United States government life	1	......	1	10	......	10	11	......	11
Veterans special life	12	3	9	86	92	−6	80	92	−11
Other	(* *)	......	(* *)	16	......	16	−6	......	−6
Total—Veterans Benefits Administration	584	93	491	11,566	682	10,884	14,413	934	13,478
Construction	63	......	63	380	(* *)	380	393	(* *)	393
Departmental administration	80	......	80	654	......	654	578	......	578
Proprietary receipts from the public:									
National service life	......	22	−22	......	160	−160	......	208	−208
United States government life	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)	(* *)
Other	......	57	−57	......	415	−415	......	869	−869
Intrabudgetary transactions	(* *)	......	(* *)	−15	......	−15	−27	......	−27
Total—Department of Veterans Affairs	**2,022**	**193**	**1,828**	**22,107**	**1,416**	**20,691**	**24,492**	**2,168**	**22,324**
Environmental Protection Agency:									
Program and research operations	66	......	66	516	......	516	498	......	498
Abatement, control, and compliance	149	......	149	865	......	865	726	......	726
Water infrastructure financing	170	......	170	1,338	......	1,338	1,106	......	1,106
Hazardous substance superfund	101	......	101	778	......	778	814	......	814
Other	37	(* *)	37	507	(* *)	507	490	3	487
Proprietary receipts from the public	......	29	−29	......	180	−180	......	113	−113
Intrabudgetary transactions	......	......	......	−250	......	−250	−250	......	−250
Offsetting governmental receipts	......	1	−1	......	5	−5	......	5	−5
Total—Environmental Protection Agency	**524**	**31**	**493**	**3,755**	**185**	**3,569**	**3,384**	**121**	**3,263**
General Services Administration:									
Real property activities	−788	......	−788	−292	......	−292	−564	......	−564
Personal property activities	34	......	34	29	......	29	−43	......	−43
Other	−13	......	−13	204	......	204	111	......	111
Proprietary receipts from the public	......	1	−1	......	−1	1	......	3	−3
Total—General Services Administration	**−766**	**1**	**−767**	**−58**	**−1**	**−58**	**−496**	**3**	**−499**
National Aeronautics and Space Administration:									
Human space flight	280	......	280	1,345	......	1,345	......	......	......
Science, aeronautics and technology	[1]−92	......	−92	861	......	861	......	......	......
Mission support	211	......	211	1,099	......	1,099	......	......	......
Research and development	463	......	463	2,705	......	2,705	3,801	......	3,801
Space flight, control and data communications	128	......	128	1,199	......	1,199	2,814	......	2,814
Construction of facilities	35	......	35	192	......	192	235	......	235
Research and program management	3	......	3	91	......	91	930	......	930
Other	1	......	1	9	......	9	9	......	9
Total—National Aeronautics and Space Administration	**1,028**	**......**	**1,028**	**7,499**	**......**	**7,499**	**7,789**	**......**	**7,789**
Office of Personnel Management:									
Government payment for annuitants, employees health and life insurance benefits	334	......	334	2,320	......	2,320	2,254	......	2,254
Payment to civil service retirement and disability fund	......	......	......	......	......	......	......	......	......
Civil service retirement and disability fund	3,274	......	3,274	22,220	......	22,220	20,924	......	20,924
Employees life insurance fund	132	191	−58	938	1,452	−514	795	1,386	−590
Employees and retired employees health benefits fund	1,258	1,250	8	8,996	9,277	−282	8,777	9,180	−403
Other	−6	......	−6	29	......	29	96	......	96
Intrabudgetary transactions:									
Civil service retirement and disability fund:									
General fund contributions	......	......	......	......	......	......	......	......	......
Other	−3	......	−3	−19	......	−19	−20	......	−20
Total—Office of Personnel Management	**4,989**	**1,441**	**3,548**	**34,483**	**10,729**	**23,754**	**32,827**	**10,566**	**22,261**

Table 5. Outlays of the U.S. Government, April 1995 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Small Business Administration:									
Public enterprise funds:									
Business loan fund	20	39	−19	206	209	−3	342	242	101
Disaster loan fund	33	16	17	324	143	181	107	176	−69
Other	2	1	(* *)	13	9	4	15	7	7
Other	55	(* *)	55	343	(* *)	343	306	(* *)	306
Total—Small Business Administration	**110**	**57**	**53**	**886**	**360**	**525**	**771**	**426**	**345**
Social Security Administration:									
Payments to Social Security trust funds	1,581	......	1,581	3,840	......	3,840	4,138	......	4,138
Special benefits for disabled coal miners	59	......	59	424	......	424	457	......	457
Supplemental security income program	141	......	141	13,148	......	13,148	15,911	......	15,911
Office of the Inspector General	......	......	......	......	......	......	......	......	......
Federal old-age and survivors insurance trust fund (off-budget):									
Benefit payments	24,239	......	24,239	167,028	......	167,028	160,075	......	160,075
Administrative expenses	255	......	255	980	......	980	994	......	994
Payment to railroad retirement account	......	......	......	......	......	......	......	......	......
Other	......	......	......	......	......	......	......	......	......
Total—FOASI trust fund	24,495	......	24,495	168,008	......	168,008	161,069	......	161,069
Federal disability insurance trust fund (off-budget):									
Benefit payments	3,370	......	3,370	23,020	......	23,020	20,988	......	20,988
Administrative expenses	89	......	89	645	......	645	567	......	567
Payment to railroad retirement account	......	......	......	......	......	......	......	......	......
Other	......	......	......	......	......	......	......	......	......
Total—FDI trust fund	3,460	......	3,460	23,665	......	23,665	21,554	......	21,554
Proprietary receipts from the public:									
On-budget	......	73	−73	......	384	−384	......	335	−335
Off-budget	......	2	−2	......	6	−6	......	8	−8
Intrabudgetary transactions:									
On-budget	......	......	......	......	......	......	......	......	......
Off-budget[2]	−1,581	......	−1,581	−3,839	......	−3,839	−4,133	......	−4,133
Total—Social Security Administration	**28,155**	**75**	**28,080**	**205,246**	**390**	**204,856**	**198,996**	**343**	**198,653**
Other independent agencies:									
Board for International Broadcasting	30	......	30	124	......	124	115	......	115
Corporation for National and Community Service	32	......	32	243	......	243	105	......	105
Corporation for Public Broadcasting	......	......	......	286	......	286	275	......	275
District of Columbia:									
Federal payment	......	......	......	714	......	714	698	......	698
Other	4	......	4	5	12	−7	3	12	−9
Equal Employment Opportunity Commission	19	(* *)	19	143	(* *)	142	139	(* *)	139
Export-Import Bank of the United States	31	27	3	883	583	300	642	1,337	−694
Federal Communications Commission	14	(* *)	14	92	30	62	84	23	62
Federal Deposit Insurance Corporation:									
Bank insurance fund	136	441	−305	1,500	6,344	−4,844	1,612	7,598	−5,986
Savings association insurance fund	2	17	−15	26	545	−520	13	531	−518
FSLIC resolution fund	19	33	−14	1,188	661	527	1,209	2,255	−1,046
Affordable housing and bank enterprise	(* *)	......	(* *)	3	......	3	−1	......	−1
Total—Federal Deposit Insurance Corporation	157	492	−335	2,717	7,551	−4,834	2,834	10,384	−7,551
Federal Emergency Management Agency:									
Public enterprise funds	18	38	−20	275	197	78	257	212	45
Disaster relief	153	......	153	1,445	......	1,445	2,167	......	2,167
Emergency management planning and assistance	23	......	23	155	......	155	139	......	139
Other	23	(* *)	23	182	6	176	162	......	162
Federal Trade Commission	10	......	10	48	......	48	51	......	51
Interstate Commerce Commission	3	......	3	23	......	23	25	......	25
Legal Services Corporation	34	......	34	261	......	261	230	......	230
National Archives and Records Administration	11	(* *)	11	130	(* *)	130	130	(* *)	130
National Credit Union Administration:									
Credit union share insurance fund	(* *)	27	−27	−13	196	−209	23	218	−195
Central liquidity facility	......	......	......	5	5	(* *)	54	54	(* *)
Other	1	(* *)	(* *)	−8	3	−11	15	48	−32

Table 5. Outlays of the U.S. Government, April 1995 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Other independent agencies:—Continued									
National Endowment for the Arts	12	......	12	105	......	105	101	......	101
National Endowment for the Humanities	13	......	13	94	......	94	90	......	90
National Labor Relations Board	17	......	17	104	......	104	104	......	104
National Science Foundation	199	......	199	1,462	......	1,462	1,382	......	1,382
Nuclear Regulatory Commission	46	21	25	311	289	21	314	285	29
Panama Canal Commission	47	52	−4	323	358	−35	301	330	−29
Postal Service									
Public enterprise funds (off-budget)	3,644	4,350	−706	28,574	32,130	−3,556	27,434	29,451	−2,017
Payment to the Postal Service fund	23	......	23	107	......	107	107	......	107
Railroad Retirement Board:									
Federal windfall subsidy	21	......	21	149	......	149	159	......	159
Federal payments to the railroad retirement accounts	63	......	63	172	......	172	38	......	38
Rail industry pension fund:									
Benefit payments	239	......	239	1,634	......	1,634	1,645	......	1,645
Advances from FOASDI fund	−92	......	−92	−640	......	−640	−633	......	−633
OASDI certifications	92	......	92	640	......	640	632	......	632
Administrative expenses	6	......	6	42	......	42	43	......	43
Interest on refunds of taxes	(* *)	......	(* *)	16	......	16	16	......	16
Other	1	......	1	4	......	4	4	......	4
Intrabudgetary transactions:									
Payments from other funds to the railroad retirement trust funds	......	......	......	......	......	......	......	......	......
Other	−63	......	−63	−172	......	−172	−38	......	−38
Supplemental annuity pension fund:									
Benefit payments	7	......	7	53	......	53	56	......	56
Interest on refund of taxes	(* *)	......	(* *)	1	......	1	......	......	......
Railroad Social Security equivalent benefit account:									
Benefit payments	409	......	409	2,860	......	2,860	2,788	......	2,788
Interest on refund of taxes	(* *)	......	(* *)	(* *)	......	(* *)	......	......	......
Other	(* *)	......	(* *)	1	......	1	2	......	2
Total—Railroad Retirement Board	683	......	683	4,760	......	4,760	4,714	......	4,714
Resolution Trust Corporation	461	897	−436	3,289	9,825	−6,535	9,405	8,503	901
Securities and Exchange Commission	14	......	14	77	......	77	27	......	27
Smithsonian Institution	32	......	32	249	......	249	212	......	212
Tennessee Valley Authority	740	716	24	5,503	4,580	922	5,725	5,023	702
United States Information Agency	90	(* *)	90	659	(* *)	659	643	(* *)	643
Other	178	111	67	1,615	1,248	367	1,399	739	660
Total—Other independent agencies	**6,764**	**6,733**	**31**	**54,941**	**57,014**	**−2,074**	**60,106**	**56,619**	**3,487**
Undistributed offsetting receipts:									
Other interest	......	......	......	......	(* *)	(* *)	......	(* *)	(* *)
Employer share, employee retirement:									
Legislative Branch:									
United States Tax Court:									
Tax court judges survivors annuity fund	(* *)	......	(* *)	(* *)	......	(* *)	(* *)	......	(* *)
The Judiciary:									
Judicial survivors annuity fund	......	......	......	......	......	......	......	......	......
Department of Defense—Civil:									
Military retirement fund	−1,027	......	−1,027	−7,135	......	−7,135	−7,473	......	−7,473
Department of Health and Human Services:									
Federal hospital insurance trust fund:									
Federal employer contributions	−152	......	−152	−1,061	......	−1,061	−1,058	......	−1,058
Postal Service employer contributions	−48	......	−48	−324	......	−324	−295	......	−295
Payments for military service credits	......	......	......	......	......	......	......	......	......
Department of State:									
Foreign Service retirement and disability fund	−9	......	−9	−64	......	−64	−64	......	−64
Office of Personnel Management:									
Civil service retirement and disability fund	−781	......	−781	−5,623	......	−5,623	−5,769	......	−5,769
Social Security administration (off-budget):									
Federal old-age and survivors insurance trust fund:									
Federal employer contributions	−456	......	−456	−2,960	......	−2,960	−3,128	......	−3,128
Payments for military service credits	......	......	......	17	......	17	......	......	......
Federal disability insurance trust fund:									
Federal employer contributions	−81	......	−81	−529	......	−529	−337	......	−337
Payments for military service credits	......	......	......	−17	......	−17	......	......	......
Independent agencies:									
Court of veterans appeals retirement fund	......	......	......	......	......	......	......	......	......
Total—Employer share, employee retirement	−2,554	......	−2,554	−17,695	......	−17,695	−18,125	......	−18,125

Table 5. Outlays of the U.S. Government, April 1995 and Other Periods—Continued

[$ millions]

Classification	This Month			Current Fiscal Year to Date			Prior Fiscal Year to Date		
	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays	Gross Outlays	Applicable Receipts	Outlays
Undistributed offsetting receipts:—Continued									
Interest received by trust funds:									
The Judiciary:									
Judicial survivors annuity fund	......	......	......	−9	......	−9	−9	......	−9
Department of Defense—Civil:									
Corps of Engineers	−2	......	−2	−11	......	−11	−8	......	−8
Military retirement fund	−241	......	−241	−5,782	......	−5,782	−5,257	......	−5,257
Education benefits fund	(* *)	......	(* *)	−22	......	−22	−25	......	−25
Soldiers' and airmen's home permanent fund	(* *)	......	(* *)	−5	......	−5	−6	......	−6
Other	(* *)	......	(* *)	−1	......	−1	(* *)	......	(* *)
Department of Health and Human Services:									
Federal hospital insurance trust fund	−16	......	−16	−5,396	......	−5,396	−5,340	......	−5,340
Federal supplementary medical insurance trust fund	−13	......	−13	−967	......	−967	−1,071	......	−1,071
Department of Labor:									
Unemployment trust fund	−41	......	−41	−1,392	......	−1,392	−1,332	......	−1,332
Department of State:									
Foreign Service retirement and disability fund	(* *)	......	(* *)	−300	......	−300	−281	......	−281
Department of Transportation:									
Highway trust fund	−34	......	−34	−577	......	−577	−723	......	−723
Airport and airway trust fund	−13	......	−13	−401	......	−401	−424	......	−424
Oil spill liability trust fund	(* *)	......	(* *)	−4	......	−4	−4	......	−4
Department of Veterans Affairs:									
National service life insurance fund	−2	......	−2	−537	......	−537	−540	......	−540
United States government life Insurance Fund	(* *)	......	(* *)	−4	......	−4	−5	......	−5
Environmental Protection Agency	(* *)	......	(* *)	−1	......	−1	−1	......	−1
National Aeronautics and Space Administration	(* *)	......	(* *)	−1	......	−1	−1	......	−1
Environmental Protection Agency	......	......	......	......	......	......	......	......	......
Civil service retirement and disability fund	−60	......	−60	−13,946	......	−13,946	−13,019	......	−13,019
Social Security administration (off-budget):									
Federal old-age and survivors insurance trust fund	−75	......	−75	−15,360	......	−15,360	−14,109	......	−14,109
Federal disability insurance trust fund	−9	......	−9	−860	......	−860	−404	......	−404
Independent agencies:									
Railroad Retirement Board	−57	......	−57	−406	......	−406	−333	......	−333
Other	−3	......	−3	−12	......	−12	−8	......	−8
Other	−30	......	−30	−135	......	−135	−98	......	−98
Total—Interest received by trust funds	−596	......	−596	−46,130	......	−46,130	−42,996	......	−42,996
Rents and royalties on the outer continental shelf lands	......	−43	43	......	1,086	−1,086	......	1,564	−1,564
Sale of major assets	......	......	......	......	......	......	......	......	......
Spectrum auction proceeds	......	610	−610	......	610	−610	......	......	......
Total—Undistributed offsetting receipts	**−3,150**	**567**	**−3,718**	**−63,826**	**1,696**	**−65,521**	**−61,121**	**1,564**	**−62,685**
Total outlays	**130,896**	**15,223**	**115,673**	**992,833**	**118,774**	**874,059**	**967,652**	**117,222**	**850,430**
Total on-budget	**101,500**	**10,872**	**90,628**	**796,133**	**86,638**	**709,495**	**779,706**	**87,764**	**691,942**
Total off-budget	**29,396**	**4,351**	**25,045**	**196,700**	**32,136**	**164,564**	**187,947**	**29,458**	**158,488**
Total surplus (+) or deficit			**+49,720**			**−94,284**			**−132,688**
Total on-budget			**+35,542**			**−134,587**			**−167,182**
Total off-budget			**+14,178**			**+40,303**			**+34,494**

MEMORANDUM

Receipts offset against outlays [$ millions]

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	28,972	27,472
Receipts from off-budget federal entities	......	......
Intrabudgetary transactions	114,314	111,434
Governmental receipts	2,005	1,107
Total receipts offset against outlays	145,291	140,012

[1]Prior period adjustment.

[2]Includes FICA and SECA tax credits, non-contributory military service credits, special benefits for the aged, and credit for unnegotiated OASI benefit checks.

... No Transactions.

(* *) Less than $500,000

Note: Details may not add to totals due to rounding

Table 6. Means of Financing the Deficit or Disposition of Surplus by the U.S. Government, April 1995 and Other Periods

[$ millions]

Assets and Liabilities Directly Related to Budget Off-budget Activity	Net Transactions (−) denotes net reduction of either liability or asset accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Liability accounts:						
Borrowing from the public:						
Public debt securities, issued under general Financing authorities:						
Obligations of the United States, issued by:						
United States Treasury	−11,788	159,577	157,215	4,677,750	4,849,116	4,837,327
Federal Financing Bank	......	......	......	15,000	15,000	15,000
Total, public debt securities	−11,788	159,577	157,215	4,692,750	4,864,116	4,852,327
Plus premium on public debt securities	−8	−56	10	1,333	1,284	1,277
Less discount on public debt securities	−513	2,248	−11,454	78,631	81,392	80,879
Total public debt securities net of Premium and discount	−11,283	157,274	168,678	4,615,453	4,784,010	4,772,727
Agency securities, issued under special financing authorities (see Schedule B. for other Agency borrowing, see Schedule C)	20	−1,715	1,153	28,194	26,459	26,479
Total federal securities	−11,263	155,559	169,832	4,643,647	4,810,469	4,799,206
Deduct:						
Federal securities held as investments of government accounts (see Schedule D)	16,562	58,132	39,630	1,213,104	1,254,674	1,271,236
Less discount on federal securities held as investments of government accounts	187	558	−12,061	1,684	2,055	2,242
Net federal securities held as investments of government accounts	16,375	57,573	51,691	1,211,421	1,252,619	1,268,994
Total borrowing from the public	−27,638	97,986	118,141	3,432,226	3,557,850	3,530,212
Accrued interest payable to the public	10,786	11,706	7,724	43,287	44,207	54,994
Allocations of special drawing rights	61	518	15	7,189	7,646	7,707
Deposit funds	−189	−530	−517	7,316	6,974	6,786
Miscellaneous liability accounts (includes checks Outstanding etc.)	−2,813	5,336	9,126	4,938	13,087	10,274
Total liability accounts	**−19,792**	**115,015**	**134,488**	**3,494,957**	**3,629,764**	**3,609,972**
Asset accounts (deduct)						
Cash and monetary assets:						
U.S. Treasury operating cash:[1]						
Federal Reserve account	3,699	1,393	−9,324	6,848	4,543	8,241
Tax and loan note accounts	16,274	734	5,549	29,094	13,554	29,828
Balance	19,973	2,127	−3,775	35,942	18,097	38,069
Special drawing rights:						
Total holdings	92	1,772	238	9,971	11,651	11,743
SDR certificates issued to Federal Reserve banks	......	......	......	−8,018	−8,018	−8,018
Balance	92	1,772	238	1,953	3,633	3,725
Reserve position on the U.S. quota in the IMF:						
U.S. subscription to International Monetary Fund:						
Direct quota payments	......	......	......	31,762	31,762	31,762
Maintenance of value adjustments	332	2,803	79	7,163	9,633	9,965
Letter of credit issued to IMF	678	1,233	−223	−25,923	−25,368	−24,690
Dollar deposits with the IMF	5	−2	−5	−96	−103	−98
Receivable/Payable (−) for interim maintenance of value adjustments	−222	−1,894	−57	−837	−2,509	−2,730
Balance	794	2,140	−206	12,069	13,415	14,209
Loans to International Monetary Fund	......	......	......	(* *)	(* *)	(* *)
Other cash and monetary assets	4,947	8,242	3,668	21,416	24,710	29,658
Total cash and monetary assets	25,806	14,282	−76	71,379	59,855	85,661
Net activity, guaranteed loan financing	−149	−988	−2,097	−9,806	−10,645	−10,794
Net activity, direct loan financing	330	3,656	2,334	12,726	16,051	16,382
Miscellaneous asset accounts	3,967	4,164	2,032	−1,386	−1,189	2,779
Total asset accounts	**29,955**	**21,113**	**2,194**	**72,914**	**64,073**	**94,027**
Excess of liabilities (+) or assets (−)	**−49,747**	**+93,902**	**+132,295**	**+3,422,043**	**+3,565,692**	**+3,515,945**
Transactions not applied to current year's surplus or deficit (see Schedule a for Details)	27	382	394	......	355	382
Total budget and off-budget federal entities (financing of deficit (+) or disposition of surplus (−))	**−49,720**	**+94,284**	**+132,688**	**+3,422,043**	**+3,566,047**	**+3,516,327**

[1]Major sources of information used to determine Treasury's operating cash income include Federal Reserve Banks, the Treasury Regional Finance Centers, the Internal Revenue Service Centers, the Bureau of the Public Debt and various electronic systems. Deposits are reflected as received and withdrawals are reflected as processed.

... No Transactions.
(* *) Less than $500,000
Note: Details may not add to totals due to rounding

Table 6. Schedule A—Analysis of Change in Excess of Liabilities of the U.S. Government, April 1995 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year to Date	
		This Year	Prior Year
Excess of liabilities beginning of period:			
Based on composition of unified budget in preceding period	3,565,692	3,422,146	3,218,965
Adjustments during current fiscal year for changes in composition of unified budget:			
Revisions by federal agencies to the prior budget results	......	−103	526
Excess of liabilities beginning of period (current basis)	3,565,692	3,422,043	3,219,491
Budget surplus (−) or deficit:			
Based on composition of unified budget in prior fiscal yr	−49,720	94,284	132,688
Changes in composition of unified budget	......	......	......
Total surplus (−) or deficit (Table 2)	−49,720	94,284	132,688
Total-on-budget (Table 2)	−35,542	134,587	167,182
Total-off-budget (Table 2)	−14,178	−40,303	−34,494
Transactions not applied to current year's surplus or deficit:			
Seigniorage	−27	−382	−393
Profit on sale of gold	(* *)	(* *)	(* *)
Total-transactions not applied to current year's Surplus or deficit	−27	−382	−394
Excess of liabilities close of period	**3,515,945**	**3,515,945**	**3,351,785**

Table 6. Schedule B—Securities Issued by Federal Agencies Under Special Financing Authorities, April 1995 and Other Periods

[$ millions]

Classification	Net Transactions (−) denotes net reduction of liability accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Agency securities, issued under special financing authorities:						
Obligations of the United States, issued by:						
Export-Import Bank of the United States	......	......	......	(* *)	(* *)	(* *)
Federal Deposit Insurance Corporation:						
FSLIC resolution fund	......	−32	−145	189	158	158
Obligations guaranteed by the United States, issued by:						
Department of Defense:						
Family housing mortgages	......	......	(* *)	6	6	6
Department of Housing and Urban Development:						
Federal Housing Administration	5	−42	−90	112	65	70
Department of the Interior:						
Bureau of Land Management	......	......	......	13	13	13
Department of Transportation:						
Federal Transit Administration	......	......	−547	......	......	......
Coast Guard:						
Family housing mortgages	......	......	......	(* *)	(* *)	(* *)
Obligations not guaranteed by the United States, issued by:						
Legislative Branch:						
Architect of the Capitol	1	9	9	192	200	201
Independent agencies:						
Farm Credit System Financial Assistance Corporation	......	......	......	1,261	1,261	1,261
National Archives and Records Administration	......	−2	......	298	296	296
Tennessee Valley Authority	13	−1,649	1,926	26,121	24,459	24,472
Total, agency securities	**20**	**−1,715**	**1,153**	**28,194**	**26,459**	**26,479**

... No Transactions.
(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, April 1995 and Other Periods

[$ millions]

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Borrowing from the Treasury:						
Funds Appropriated to the President:						
International Security Assistance:						
Foreign military loan program	......	337	405	413	750	750
Agency for International Development:						
International Debt Reduction	......	......	......	315	315	315
Housing and other credit guaranty programs	......	......	......	125	125	125
Private sector revolving fund	......	......	......	1	1	1
Overseas Private Investment Corporation	......	22	8	16	38	38
Department of Agriculture:						
Farm Service Agency:						
Federal crop insurance corporation fund	......	......	−113	......	......	......
Commodity Credit Corporation	668	−7,529	−9,839	16,909	8,712	9,380
Agricultural credit insurance fund	......	−1,748	−1,285	4,028	2,280	2,280
Natural Resources Conservation Service	......	......	......	4	4	4
Rural Utilities Service:						
Rural electrification and telephone revolving fund	2	723	237	8,193	8,914	8,916
Rural Telephone Bank	......	85	−157	586	671	671
Rural development insurance fund	......	715	561	2,091	2,806	2,806
Rural communication development fund	......	......	......	25	25	25
Rural housing and Community Development Service:						
Rural housing insurance fund	......	1,192	2,134	4,497	5,689	5,689
Self-help housing land development fund	......	1	1	(* *)	1	1
Rural Business and Cooperative Development Service:						
Rural development loan fund	......	40	29	21	61	61
Rural economic development loan fund	......	8	10	19	27	27
Foreign Agricultural Service	......	97	385	583	680	680
Department of Education:						
Federal direct student loan program	......	4,868	......	433	5,302	5,302
Federal family education loan program	......	......	......	1,605	1,605	1,605
College housing and academic facilities fund	......	18	14	162	181	181
College housing loans	......	......	(* *)	411	411	411
Department of Energy:						
Isotope production and distribution fund	......	−14	......	14	......	......
Bonneville power administration fund	......	−5	158	2,617	2,612	2,612
Department of Housing and Urban Development:						
Housing programs:						
Federal Housing Administration	......	−21	......	783	762	762
Housing for the ederly and handicapped	......	−770	−475	8,484	7,714	7,714
Public and Indian housing:						
Low-rent public housing	......	−135	25	135	......	......
Department of the Interior:						
Bureau of Reclamation Loans	......	......	6	11	11	11
Bureau of Mines, Helium Fund	......	......	......	252	252	252
Bureau of Indian Affairs:						
Revolving funds for loans	......	8	9	26	34	34
Department of Justice:						
Federal prison industries, incorporated	......	......	......	20	20	20
Department of Transportation:						
Federal Highway Administration:						
High priority quarters loan fund	−20	21	......	......	40	21
Federal Railroad Administration:						
Railroad rehabilitation and improvement financing funds	......	(* *)	......	1	1	1
Amtrak corridor improvement loans	......	(* *)	......	2	3	3
Other	......	......	......	(* *)	(* *)	(* *)
Federal Aviation Administration:						
Aircraft purchase loan guarantee program	......	(* *)	(* *)	(* *)	(* *)	(* *)
Minority business resource center fund	......	14	......	13	27	27
Department of the Treasury:						
Federal Financing Bank revolving fund	−2,892	−13,983	−10,943	94,357	83,266	80,374
Department of Veterans Affairs:						
Guaranty and indemnity fund	......	586	612	181	767	767
Loan guaranty revolving fund	......	903	1,158	1,107	2,011	2,011
Direct loan revolving fund	......	(* *)	(* *)	1	1	1
Native american veteran housing fund	......	12	7	1	13	13
Vocational rehabilitation revolving fund	......	(* *)	1	2	2	2

Table 6. Schedule C (Memorandum)—Federal Agency Borrowing Financed Through the Issue of Public Debt Securities, April 1995 and Other Periods—Continued

[$ millions]

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Borrowing from the Treasury:—Continued						
Environmental Protection Agency:						
Abatement, control, and compliance loan program	......	11	10	26	37	37
Small Business Administration:						
Business loan and revolving fund	......	......	114	293	293	293
Disaster loan fund	......	......	2,350	6,996	6,996	6,996
Independent agencies:						
Export-Import Bank of the United States	......	30	811	2,632	2,662	2,662
Federal Emergency Management Agency:						
National insurance development fund	......	......	100	3	3	3
Disaster assistance loan fund	......	169	25	84	253	253
Pennsylvania Avenue Development Corporation:						
Land aquisition and development fund	......	......	9	85	85	85
Railroad Retirement Board:						
Rail industry pension fund	......	......	......	2,128	2,128	2,128
Social Security equivalent benefit account	266	1,784	1,762	2,781	4,299	4,565
Smithsonian Institution:						
John F. Kennedy Center parking facilities	......	......	......	20	20	20
Tennessee Valley Authority	......	......	......	150	150	150
Total agency borrowing from the Treasury financed through public debt securities issued	**−1,976**	**−12,560**	**−11,872**	**163,642**	**153,059**	**151,082**
Borrowing from the Federal Financing Bank:						
Funds Appropriated to the President:						
Foreign military financing program	−6	−156	−146	3,785	3,635	3,629
Department of Agriculture:						
Farm Service Agency:						
Agriculture credit insurance fund	−990	−1,600	−515	6,063	5,453	4,463
Rural Utilities Service:						
Rural electrification and telephone revolving fund	7	−17	−294	21,916	21,892	21,898
Rural development insurance fund	......	......	......	3,675	3,675	3,675
Rural housing and Community Development Service:						
Rural housing insurance fund	......	−760	−265	24,391	23,631	23,631
Department of Defense:						
Department of the Navy	......	......	......	1,624	1,624	1,624
Defense agencies	......	−47	−49	−145	−192	−192
Department of Education:						
Federal family education loan program	......	......	−4,790	......	......	......
Department of Health and Human Services:						
Medical facilities guarantee and loan fund	−5	−23	−5	63	46	40
Department of Housing and Urban Development:						
Low rent housing loans and other expenses	......	−58	−54	1,747	1,689	1,689
Community Development Grants	......	−14	−16	110	96	96
Department of Interior:						
Territorial and international affairs	......	−1	−1	22	21	21
Department of Transportation:						
Federal Railroad Administration	......	−3	−1	15	11	11
Federal Transit Administration	......	−665	488	665	......	......
Department of the Treasury:						
Financial Management Service	......	......	−30	......	......	......
General Services Administration:						
Federal buildings fund	9	111	212	1,780	1,882	1,891
Small Business Administration:						
Business loan fund	−18	−81	−52	581	519	500
Independent agencies:						
Export-Import Bank of the United States	......	−777	−948	3,926	3,150	3,150
Pennsylvania Avenue Development Corporation	10	68	58	250	308	317
Postal Service	......	−1,100	......	8,973	7,873	7,873
Resolution Trust Corporation	−1,898	−8,661	−4,285	26,519	19,756	17,858
Tennessee Valley Authority	......	−200	−250	3,400	3,200	3,200
Total borrowing from the Federal Financing Bank	**−2,893**	**−13,984**	**−10,943**	**109,360**	**98,268**	**95,375**

Note: This table includes lending by the Federal Financing Bank accomplished by the purchase of agency financial assets, by the acquisition of agency debt securities, and by direct loans on behalf of an agency. The Federal Financing Bank borrows from Treasury and issues its own securities and in turn may loan these funds to agencies in lieu of agencies borrowing directly through Treasury or issuing their own securities.

... No Transactions.
(* *) Less than $500,000
Note: Details may not add to totals due to rounding

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, April 1995 and Other Periods

[$ millions]

Classification	Net Purchases or Sales (−)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Federal funds:						
Department of Agriculture	(* *)	1	2	......	1	1
Department of Commerce	1	4	3	13	16	17
Department of Defense—Military:						
Defense cooperation account	(* *)	−4	−4	5	(* *)	1
Department of Energy	98	419	279	4,527	4,848	4,946
Department of Housing and Urban Development:						
Housing programs:						
Federal housing administration fund	641	70	−413	5,742	5,171	5,812
Government National Mortgage Association:						
Management and liquidating functions fund:						
Public debt securities	......	......	−9	......	......	......
Agency securities	......	......	−4	16	16	16
Guarantees of mortgage-backed securities:						
Public debt securities	35	285	290	3,713	3,963	3,998
Agency securities	......	......	(* *)	1	1	1
Other	2	−9	−6	193	181	184
Department of the Interior	44	581	440	2,722	3,259	3,303
Department of Labor	−51	169	−11,853	5,330	5,550	5,499
Department of Transportation	11	48	56	974	1,011	1,022
Department of the Treasury	−1,799	−4,387	−27	7,452	4,864	3,066
Department of Veterans Affairs:						
Canteen service revolving fund	......	6	1	37	43	43
Veterans reopened insurance fund	−8	−1	−1	524	531	523
Servicemen's group life insurance fund	......	−38	−109	41	4	4
Independent agencies:						
Export-Import Bank of the United States	67	89	383	57	79	147
Federal Deposit Insurance Corporation:						
Bank insurance fund	305	4,903	6,072	13,972	18,570	18,875
Savings association insurance fund	15	524	519	2,493	3,002	3,017
FSLIC resolution fund	10	−563	1,510	1,649	1,077	1,086
Federal Emergency Management Agency:						
National flood insurance fund	......	−120	−71	200	81	81
National Credit Union Administration	23	215	227	3,052	3,244	3,267
Postal Service	698	2,437	2,077	1,271	3,010	3,708
Tennessee Valley Authority	......	−2,701	1,276	3,954	1,253	1,253
Other	6	204	86	1,017	1,214	1,221
Other	−78	296	102	2,626	3,000	2,922
Total public debt securities	21	2,429	832	61,564	63,972	63,993
Total agency securities	......	......	−4	17	17	17
Total Federal funds	**21**	**2,429**	**828**	**61,581**	**63,990**	**64,010**
Trust funds:						
Legislative Branch:						
Library of Congress	(* *)	8	5	4	12	12
United States Tax Court	......	(* *)	(* *)	5	5	5
Other	(* *)	5	(* *)	27	32	31
The Judiciary:						
Judicial retirement funds	−3	33	23	245	281	278
Department of Agriculture	(* *)	16	190	273	289	289
Department of Commerce	......	(* *)	(* *)	(* *)	(* *)	(* *)
Department of Defense—Military:						
Voluntary separation incentive fund	10	10	−24	763	763	772
Other	−66	−65	6	157	157	91
Department of Defense—Civil:						
Military retirement fund	−1,214	9,070	9,280	105,367	115,651	114,437
Other	−16	36	(* *)	1,307	1,359	1,343

Table 6. Schedule D—Investments of Federal Government Accounts in Federal Securities, April 1995 and Other Periods—Continued

[$ millions]

Classification	Net Purchases or Sales (−)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This month
		This Year	Prior Year	This Year	This Month	
Trust Funds—Continued						
Department of Health and Human Services:						
Federal hospital insurance trust fund	4,015	5,050	1,099	128,716	129,750	133,765
Federal supplementary medical insurance trust fund	1,061	−614	274	21,489	19,814	20,875
Other	10	97	96	836	923	933
Department of the Interior	86	110	17	234	258	344
Department of Justice	9	56	67	......	47	56
Department of Labor:						
Unemployment trust fund	413	−1,686	−5,487	39,788	37,689	38,102
Other	−9	−2	−7	59	67	57
Department of State:						
Foreign Service retirement and disability fund	−65	300	243	7,179	7,544	7,479
Other	−6	−15	12	50	40	35
Department of Transportation:						
Highway trust fund	571	1,920	−1,290	17,694	19,043	19,614
Airport and airway trust fund	−251	−1,002	−506	12,206	11,455	11,205
Other	55	199	−116	1,683	1,827	1,881
Department of the Treasury	−26	−45	1	247	228	202
Department of Veterans Affairs:						
General post fund, national homes	......	−1	(* *)	38	37	37
National service life insurance	−86	−20	25	11,852	11,919	11,832
United States government life Insurance Fund	−1	−6	−6	115	111	110
Veterans special life insurance fund	−9	7	11	1,509	1,525	1,516
Environmental Protection Agency	171	695	434	6,250	6,774	6,945
National Aeronautics and Space Administration	......	(* *)	(* *)	16	16	16
Office of Personnel Management:						
Civil service retirement and disability fund	−2,013	−28	581	338,889	340,874	338,861
Employees life insurance fund	−82	374	596	14,929	15,385	15,303
Employees and retired employees health benefits fund	6	304	474	7,573	7,871	7,878
Social Security Administration:						
Federal old-age and survivors insurance trust fund	10,914	16,843	34,563	413,425	419,354	430,268
Federal disability insurance trust fund	2,837	23,357	−1,750	6,100	26,620	29,457
Independent agencies:						
Harry S. Truman memorial scholarship trust fund	(* *)	1	1	53	54	54
Japan-United States Friendship Commission	(* *)	(* *)	(* *)	17	17	17
Railroad Retirement Board	232	571	−112	12,203	12,542	12,774
Other	−1	126	99	226	354	353
Total public debt securities	16,541	55,702	38,801	1,151,523	1,190,685	1,207,226
Total trust funds	**16,541**	**55,702**	**38,801**	**1,151,523**	**1,190,685**	**1,207,226**
Grand total	**16,562**	**58,132**	**39,630**	**1,213,104**	**1,254,674**	**1,271,236**

... No Transactions
(* *) Less than $500,000.

Note: Investments are in public debt securities unless otherwise noted.
Note: Details may not add to totals due to rounding.

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1995

[$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
Receipts:														
Individual income taxes	43,659	37,414	53,736	79,162	33,863	26,846	76,441						351,121	322,042
Corporation income taxes	3,055	1,497	31,915	3,258	2,060	14,863	23,482						80,132	74,275
Social insurance taxes and contributions														
Employment taxes and contributions	31,263	33,786	35,708	38,990	35,667	38,646	50,423						264,484	246,351
Unemployment insurance	1,073	3,249	230	1,069	2,630	320	3,061						11,632	10,662
Other retirement contributions	351	352	420	383	357	413	354						2,629	2,704
Excise taxes	4,272	5,518	4,587	4,555	3,485	5,143	4,602						32,162	29,695
Estate and gift taxes	1,202	1,220	1,092	1,005	916	1,218	1,906						8,559	9,261
Customs duties	1,848	1,827	1,747	1,539	1,435	1,470	1,349						11,214	11,149
Miscellaneous receipts	2,300	2,811	1,375	1,839	2,131	3,612	3,774						17,842	11,603
Total—Receipts this year	**89,024**	**87,673**	**130,810**	**131,801**	**82,544**	**92,532**	**165,392**						**779,775**	......
(On-budget)	**65,384**	**62,083**	**103,860**	**101,036**	**54,405**	**61,970**	**126,170**						**574,908**	......
(Off-budget)	**23,639**	**25,590**	**26,950**	**30,765**	**28,139**	**30,562**	**39,222**						**204,867**	......
Total—Receipts prior year	*78,662*	*83,102*	*125,403*	*122,961*	*73,186*	*93,107*	*141,321*						......	*717,742*
(On budget)	*55,858*	*58,695*	*99,709*	*94,390*	*47,191*	*64,611*	*104,306*						......	*524,760*
(Off budget)	*22,804*	*24,407*	*25,694*	*28,571*	*25,995*	*28,497*	*37,015*						......	*192,982*
Outlays														
Legislative Branch	354	217	333	222	183	166	178						1,651	1,563
The Judiciary	184	169	303	214	188	348	202						1,608	1,491
Executive Office of the President	18	17	26	21	15	16	18						130	125
Funds Appropriated to the President:														
International Security Assistance	3,255	310	271	203	101	213	221						4,575	5,174
International Development Assistance	726	367	443	471	427	327	575						3,337	2,557
Other	−381	452	18	94	133	−372	−749						−805	335
Department of Agriculture:														
Commodity Credit Corporation and Foreign Agricultural Service	1,760	2,983	1,869	1,115	745	966	244						9,681	10,693
Other	5,839	3,850	3,637	4,191	3,521	4,547	3,960						29,545	27,896
Department of Commerce	305	300	304	308	262	291	227						1,997	1,805
Department of Defense:														
Military:														
Military personnel	3,713	5,701	8,203	3,280	5,914	8,404	3,138						38,352	43,454
Operation and maintenance	6,118	7,837	7,312	6,720	7,566	7,915	6,749						50,218	50,482
Procurement	4,254	4,754	4,727	4,984	4,715	4,744	4,399						32,579	36,505
Research, development, test, and evaluation	2,501	2,896	3,211	2,752	2,675	3,389	2,417						19,843	19,723
Military construction	425	537	436	575	505	719	514						3,711	2,501
Family housing	247	242	305	277	275	324	267						1,936	1,842
Revolving and management funds	147	−311	942	−757	−1,373	78	−251						−1,524	2,032
Other	275	−222	42	−284	21	−212	−405						−785	139
Total Military	17,680	21,435	25,178	17,548	20,298	25,361	16,828						144,329	156,679
Civil	2,638	2,656	2,553	2,592	2,542	2,674	2,592						18,249	17,566
Department of Education	1,949	2,322	3,888	2,764	2,593	2,691	1,974						18,181	13,073
Department of Energy	1,683	1,330	1,743	1,328	1,255	1,588	1,188						10,114	10,240
Department of Health and Human Services														
Public Health Service	1,603	1,588	1,761	1,824	1,829	1,726	1,646						11,976	11,087
Health Care Financing Administration:														
Grants to States for Medicaid	6,622	7,545	7,321	7,215	6,694	8,448	7,239						51,084	47,101
Federal hospital ins. trust fund	7,834	8,942	9,757	8,630	8,838	11,171	8,680						63,851	58,440
Federal supp. med. ins. trust fund	4,799	5,290	5,837	5,014	4,712	5,987	4,527						36,167	33,542
Other	3,055	3,092	3,015	4,950	3,796	4,467	5,405						27,780	24,438
Administration for children and families	2,728	2,519	2,812	3,151	2,524	2,781	2,639						19,153	19,251
Other	−4,508	−4,490	−4,473	−6,540	−5,462	−6,021	−7,083						−38,576	−34,001
Department of Housing and Urban Development	2,903	2,426	2,394	2,009	2,227	2,694	2,707						17,360	15,343
Department of the Interior	883	582	557	567	553	671	499						4,311	3,910
Department of Justice	908	818	749	1,094	730	915	920						6,134	5,809
Department of Labor:														
Unemployment trust fund	1,650	1,854	2,001	2,543	2,330	2,762	2,131						15,271	20,294
Other	702	−170	469	653	621	331	768						3,375	3,200
Department of State	488	841	664	201	488	411	371						3,464	3,344
Department of Transportation:														
Highway trust fund	1,794	1,762	1,416	1,182	1,348	1,304	1,241						10,047	9,743

Table 7. Receipts and Outlays of the U.S. Government by Month, Fiscal Year 1995—Continued

[$ millions]

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F.Y.
Outlays—Continued														
Other	1,650	1,737	1,640	1,906	1,466	1,904	1,330						11,633	10,775
Department of the Treasury:														
Interest on the public debt	19,732	24,912	57,320	20,069	19,259	20,693	20,883						182,868	163,167
Other	34	−308	1,336	145	3,010	4,375	3,732						12,324	10,851
Department of Veterans Affairs:														
Compensation and pensions	105	1,457	2,824	81	1,492	2,894	93						8,946	11,298
National service life	64	70	83	71	79	106	94						569	516
United States government life	1	1	2	1	1	2	1						10	11
Other	1,528	1,784	1,344	1,827	1,429	1,614	1,640						11,166	10,499
Environmental Protection Agency	438	474	538	520	429	678	493						3,569	3,263
General Services Administration	−651	639	462	−717	431	544	−767						−58	−499
National Aeronautics and Space Administration	845	1,143	1,203	926	1,072	1,284	1,028						7,499	7,789
Office of Personnel Management	3,410	3,118	3,460	3,324	3,337	3,556	3,548						23,754	22,261
Small Business Administration	65	145	64	58	64	77	53						525	345
Social Security Administration:														
Federal old-age and survivors ins. trust fund (off-budget)	23,413	23,368	23,810	24,392	24,220	24,310	24,495						168,008	161,069
Federal disability ins. trust fund (off-budget)	3,289	3,244	3,348	3,417	3,415	3,492	3,460						23,665	21,554
Other	287	2,157	4,079	78	2,201	4,255	126						13,183	16,029
Independent agencies:														
Fed. Deposit Ins. Corp.:														
Bank insurance fund	−127	−208	−496	−1,193	−1,977	−536	−305						−4,844	−5,986
Savings association insurance fund	−2	−13	(* *)	−91	−361	−37	−15						−520	−518
FSLIC resolution fund	−87	430	33	−149	331	−16	−14						527	−1,046
Affordable housing and bank enterprise	(* *)	......	1	1	......	1	(* *)						3	−1
Postal Service:														
Public enterprise funds (off-budget)	−467	−326	101	−396	−494	−1,268	−706						−3,556	−2,017
Payment to the Postal Service fund	61	......	......	23	......	......	23						107	107
Resolution Trust Corporation	−471	−1,502	−2,001	−1,078	−699	−348	−436						−6,535	901
Tennessee Valley Authority	265	239	119	142	92	42	24						922	702
Other independent agencies	2,720	1,647	1,710	1,260	1,572	1,452	1,461						11,822	11,345
Undistributed offsetting receipts:														
Employer share, employee retirement	−2,442	−2,416	−2,564	−2,557	−2,491	−2,671	−2,554						−17,695	−18,125
Interest received by trust funds	−611	−5,727	−38,216	−95	−634	−251	−596						−46,130	−42,996
Rents and royalties on outer continental shelf lands	−154	−160	−106	−353	−197	−158	43						−1,086	−1,564
Other	(* *)	(* *)	(* *)	......	......	......	−610						−610	(* *)
Totals this year:														
Total outlays	**120,365**	**124,915**	**134,941**	**115,171**	**120,536**	**142,458**	**115,673**						**874,059**	......
(On-budget)	**95,307**	**99,464**	**123,643**	**89,889**	**94,058**	**116,507**	**90,628**						**709,495**	......
(Off-budget)	**25,059**	**25,452**	**11,297**	**25,282**	**26,478**	**25,951**	**25,045**						**164,564**	......
Total-surplus (+) or deficit (−)	**−31,342**	**−37,242**	**−4,130**	**+16,629**	**−37,992**	**−49,927**	**+49,720**						**−94,284**	......
(On-budget)	**−29,922**	**−37,381**	**−19,783**	**+11,147**	**−39,653**	**−54,537**	**+35,542**						**−134,587**	......
(Off-budget)	**−1,420**	**+138**	**+15,653**	**+5,483**	**+1,661**	**+4,610**	**+14,178**						**+40,303**	......
Total borrowing from the public	**32,457**	**40,528**	**−13,316**	**13,337**	**38,972**	**13,645**	**−27,638**						**97,986**	**118,141**
Total-outlays prior year	*124,085*	*121,483*	*133,108*	*107,713*	*114,752*	*125,422*	*123,867*						......	*850,430*
(On-budget)	*100,562*	*96,719*	*121,425*	*83,521*	*88,835*	*100,259*	*100,620*						......	*691,942*
(Off-budget)	*23,523*	*24,764*	*11,683*	*24,192*	*25,917*	*25,164*	*23,247*						......	*158,488*
Total-surplus (+) or deficit (−) prior year	*−45,422*	*−38,381*	*−7,705*	*+15,248*	*−41,566*	*−32,315*	*+17,454*						......	*−132,688*
(On-budget)	*−44,704*	*−38,024*	*−21,717*	*+10,869*	*−41,644*	*−35,648*	*+3,686*						......	*−167,182*
(Off-budget)	*−719*	*−357*	*+14,012*	*+4,379*	*+77*	*+3,333*	*+13,768*						......	*+34,494*

... No transactions.
(* *) Less than $500,000.
Note: Details may not add to totals due to rounding.

Table 8. Trust Fund Impact on Budget Results and Investment Holdings as of April 30, 1995

[$ millions]

Classification	This Month			Fiscal Year to Date			Securities held as Investments Current Fiscal Year		
							Beginning of		Close of This Month
	Receipts	Outlays	Excess	Receipts	Outlays	Excess	This Year	This Month	
Trust receipts, outlays, and investments held:									
Airport	432	555	−124	3,399	4,228	−829	12,206	11,455	11,205
Black lung disability	54	49	5	362	335	27	......	......	......
Federal disability insurance	6,128	3,460	2,668	46,506	23,665	22,841	6,100	26,620	29,457
Federal employees life and health	......	−51	51	......	−796	796	22,503	23,256	23,181
Federal employees retirement	1,204	3,312	−2,107	22,786	22,491	295	346,317	348,704	346,623
Federal hospital insurance	12,847	8,680	4,167	67,883	63,851	4,032	128,716	129,750	133,765
Federal old-age and survivors insurance	35,299	24,495	10,804	181,914	168,008	13,906	413,425	419,354	430,268
Federal supplementary medical insurance	5,389	4,527	863	36,297	36,167	130	21,489	19,814	20,875
Highways	2,040	1,742	298	13,800	12,215	1,585	17,694	19,043	19,614
Military advances	1,424	800	624	7,381	7,487	−106	......	......	......
Railroad retirement	448	662	−214	3,061	4,611	−1,551	12,203	12,542	12,774
Military retirement	1,268	2,338	−1,070	24,387	16,001	8,386	105,367	115,651	114,437
Unemployment	3,102	2,131	971	13,930	15,271	−1,342	39,788	37,689	38,102
Veterans life insurance	24	127	−103	702	733	−30	13,477	13,554	13,458
All other trust	508	436	72	3,492	2,594	898	12,240	13,253	13,468
Total trust fund receipts and outlays and investments held from Table 6-D	**70,167**	**53,262**	**16,905**	**425,901**	**376,862**	**49,039**	**1,151,523**	**1,190,685**	**1,207,226**
Less: Interfund transactions	10,282	10,282	......	108,822	108,822	......			
Trust fund receipts and outlays on the basis of Tables 4 & 5	59,885	42,980	16,905	317,079	268,040	49,039			
Total Federal fund receipts and outlays	**108,758**	**75,943**	**32,815**	**482,632**	**625,955**	**−143,323**			
Less: Interfund transactions	28	28	......	214	214	......			
Federal fund receipts and outlays on the basis of Table 4 & 5	108,730	75,915	32,815	482,418	625,741	−143,323			
Less: offsetting proprietary receipts	3,222	3,222	......	19,722	19,722	......			
Net budget receipts & outlays	**165,392**	**115,673**	**49,720**	**779,775**	**874,059**	**−94,284**			

.... No transactions.

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds such as Federal payments and contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipts side of such transactions is offset against bugdet outlays. In this table, Interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds respectively.

Note: Details may not add to totals due to rounding.

Table 9. Summary of Receipts by Source, and Outlays by Function of the U.S. Government, April 1995 and Other Periods

[$ millions]

Classification	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year
RECEIPTS			
Individual income taxes	76,441	351,121	322,042
Corporation income taxes	23,482	80,132	74,275
Social insurance taxes and contributions:			
Employment taxes and contributions	50,423	264,484	246,351
Unemployment insurance	3,061	11,632	10,662
Other retirement contributions	354	2,629	2,704
Excise taxes	4,602	32,162	29,695
Estate and gift taxes	1,906	8,559	9,261
Customs	1,349	11,214	11,149
Miscellaneous	3,774	17,842	11,603
Total	**165,392**	**779,775**	**717,742**
NET OUTLAYS			
National defense	17,753	151,831	164,227
International affairs	95	10,475	11,545
General science, space, and technology	1,298	9,812	9,929
Energy	196	2,772	2,770
Natural resources and environment	1,587	13,968	13,001
Agriculture	623	10,902	12,772
Commerce and housing credit	−1,092	−12,876	−7,552
Transportation	2,560	21,567	20,251
Community and Regional Development	896	5,963	5,321
Education, training, employment and social services	3,647	30,566	24,730
Health	9,281	65,666	61,288
Medicare	11,510	88,515	81,867
Income security	18,963	131,336	134,052
Social Security	27,953	191,668	182,621
Veterans benefits and services	1,850	20,803	22,495
Administration of justice	1,359	9,308	8,864
General government	299	7,704	5,755
Interest	20,017	133,469	116,184
Undistributed offsetting receipts	−3,121	−19,391	−19,689
Total	**115,673**	**874,059**	**850,430**

Note: Details may not add to totals due to rounding.

Explanatory Notes

1. Flow of Data Into Monthly Treasury Statement

The Monthly Treasury Statement (MTS) is assembled from data in the central accounting system. The major sources of data include monthly accounting reports by Federal entities and disbursing officers, and daily reports from the Federal Reserve banks. These reports detail accounting transactions affecting receipts and outlays of the Federal Government and off-budget Federal entities, and their related effect on the assets and liabilities of the U.S. Government. Information is presented in the *MTS* on a modified cash basis.

2. Notes on Receipts

Receipts included in the report are classified into the following major categories: (1) budget receipts and (2) offsetting collections (also called applicable receipts). Budget receipts are collections from the public that result from the exercise of the Government's sovereign or governmental powers, excluding receipts offset against outlays. These collections, also called governmental receipts, consist mainly of tax receipts (including social insurance taxes), receipts from court fines, certain licenses, and deposits of earnings by the Federal Reserve System. Refunds of receipts are treated as deductions from gross receipts.

Offsetting collections are from other Government accounts or the public that are of a business-type or market-oriented nature. They are classified into two major categories: (1) offsetting collections credited to appropriations or fund accounts, and (2) offsetting receipts (i.e., amounts deposited in receipt accounts). Collections credited to appropriation or fund accounts normally can be used without appropriation action by Congress. These occur in two instances: (1) when authorized by law, amounts collected for materials or services are treated as reimbursements to appropriations and (2) in the three types of revolving funds (public enterprise, intragovernmental, and trust); collections are netted against spending, and outlays are reported as the net amount.

Offsetting receipts in receipt accounts cannot be used without being appropriated. They are subdivided into two categories: (1) proprietary receipts—these collections are from the public and they are offset against outlays by agency and by function, and (2) intragovernmental funds—these are payments into receipt accounts from Governmental appropriation or funds accounts. They finance operations within and between Government agencies and are credited with collections from other Government accounts. The transactions may be intrabudgetary when the payment and receipt both occur within the budget or from receipts from off-budget Federal entities in those cases where payment is made by a Federal entity whose budget authority and outlays are excluded from the budget totals.

Intrabudgetary transactions are subdivided into three categories: (1) interfund transactions, where the payments are from one fund group (either Federal funds or trust funds) to a receipt account in the other fund group; (2) Federal intrafund transactions, where the payments and receipts both occur within the Federal fund group; and (3) trust intrafund transactions, where the payments and receipts both occur within the trust fund group.

Offsetting receipts are generally deducted from budget authority and outlays by function, by subfunction, or by agency. There are four types of receipts, however, that are deducted from budget totals as undistributed offsetting receipts. They are: (1) agencies' payments (including payments by off-budget Federal entities) as employers into employees retirement funds, (2) interest received by trust funds, (3) rents and royalties on the Outer Continental Shelf lands, and (4) other interest (i.e., interest collected on Outer Continental Shelf money in deposit funds when such money is transferred into the budget).

3. Notes on Outlays

Outlays are generally accounted for on the basis of checks issued, electronic funds transferred, or cash payments made. Certain outlays do not require issuance of cash or checks. An example is charges made against appropriations for that part of employees' salaries withheld for taxes or savings bond allotments — these are counted as payments to the employee and credits for whatever purpose the money was withheld. Outlays are stated net of offsetting collections (including receipts of revolving and management funds) and of refunds. Interest on the public debt (public issues) is recognized on the accrual basis. Federal credit programs subject to the Federal Credit Reform Act of 1990 use the cash basis of accounting and are divided into two components. The portion of the credit activities that involve a cost to the Government (mainly subsidies) is included within the budget program accounts. The remaining portion of the credit activities are in non-budget financing accounts. Outlays of off-budget Federal entities are excluded by law from budget totals. However, they are shown separately and combined with the on-budget outlays to display total Federal outlays.

4. Processing

The data on payments and collections are reported by account symbol into the central accounting system. In turn, the data are extracted from this system for use in the preparation of the *MTS*.

There are two major checks which are conducted to assure the consistency of the data reported:

1. Verification of payment data. The monthly payment activity reported by Federal entities on their Statements of Transactions is compared to the payment activity of Federal entities as reported by disbursing officers.
2. Verification of collection data. Reported collections appearing on Statements of Transactions are compared to deposits as reported by Federal Reserve banks.

5. Other Sources of Information About Federal Government Financial Activities

- *A Glossary of Terms Used in the Federal Budget Process, January 1993* (Available from the U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, Md. 20877). This glossary provides a basic reference document of standardized definitions of terms used by the Federal Government in the budgetmaking process.

- *Daily Treasury Statement* (Available from GPO, Washington, D.C. 20402, on a subscription basis only). *The Daily Treasury Statement* is published each working day of the Federal Government and provides data on the cash and debt operations of the Treasury.

- *Monthly Statement of the Public Debt of the United States* (Available from GPO, Washington, D.C. 20402 on a subscription basis only). This publication provides detailed information concerning the public debt.

- *Treasury Bulletin* (Available from GPO, Washington, D.C. 20402, by subscription or single copy). Quarterly. Contains a mix of narrative, tables, and charts on Treasury issues, Federal financial operations, international statistics, and special reports.

- *Budget of the United States Government, Fiscal Year 19 _* (Available from GPO, Washington, D.C. 20402). This publication is a single volume which provides budget information and contains:

  -Appendix, The Budget of the United States Government, FY 19 _
  -The United States Budget in Brief, FY 19 _
  -Special Analyses
  -Historical Tables
  -Management of the United States Government
  -Major Policy Initiatives

- *United States Government Annual Report and Appendix* (Available from Financial Management Service, U.S. Department of the Treasury, Washington, D.C. 20227). This annual report represents budgetary results at the summary level. The appendix presents the individual receipt and appropriation accounts at the detail level.

Scheduled Release

The release date for the May 1995 Statement will be 2:00 pm EST June 21, 1995.

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 (202) 512-1800. The subscription price is $35.00 per year (domestic), $43.75 per year (foreign).
No single copies are sold.

The Monthly Treasury Statement is now available on the Department of Commerce's Economic Bulletin Board.
For information call (202)482-1986.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
May 19, 1995

Contact: Michelle Smith
(202) 622-2960

ADDITIONAL SUPPORT RELEASED TO MEXICO

Treasury Secretary Robert Rubin said the United States will provide $2 billion to Mexico in the form of medium-term swaps through the Exchange Stabilization Fund today. With this disbursement, outstanding U.S. support for Mexico under the February 21 framework agreements will total $10 billion.

"Mexico has improved significantly over the past three months," Secretary Rubin said. "They have more than halved their short term dollar-linked debt, which contributed to the initial problem, and they have implemented tough economic policies. While it is still too soon to declare victory, we are optimistic that with our support and continued perseverance by Mexico's people, full market confidence and economic health should return."

President Clinton authorized the use of the Exchange Stabilization Fund in order to protect American jobs, exports, security and borders threatened by Mexico's financial crisis. The decision to disburse the present $2 billion was made based on Mexico's continued compliance with the terms of the framework agreements and the success Mexico has achieved in enacting reforms necessary to bolster its economy.

- Mexico has reduced its short-term dollar linked obligations (tesobonos) from $30 billion to near $12 billion over the past 10 weeks.

- Monetary policies have remained tight, while Mexico has enacted significant new budget-cutting and revenue-raising measures.

- Regulatory reform and steps to facilitate privatization of key sectors, including petrochemicals, power generation, communications and transport, are proceeding.

- Mexico has improved transparency which facilitates the monitoring of Mexico's progress by Treasury and private sector analysts.

This week, the President provided the appropriate congressional committees with the certification required by the Mexican Debt Disclosure Act of 1995.

RR-311

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
May 19, 1995

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(202) 622-2960

MEDIA ADVISORY

Copies of a study analyzing the relationship between U.S. research and development expenses and foreign income are now available from the Treasury Department

Based on the economic analysis, the Internal Revenue Service has proposed regulations that would modify current rules for allocating research and experimentation expenditures to foreign source income.

Copies of the study, The Relationship Between U.S. Research and Development and Foreign Income, and IRS regulations may be obtained by calling the Treasury Public Affairs Office at (202) 622-2960 or by faxing a request to (202) 622-1999.

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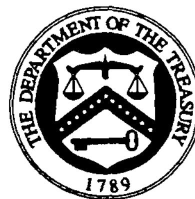
RR-312

The Relationship Between U.S. Research and Development and Foreign Income



Department of the Treasury
May 1995

THE RELATIONSHIP BETWEEN U.S. RESEARCH AND DEVELOPMENT AND FOREIGN INCOME

Introduction and Summary

In Revenue Procedure 92-56, the Treasury Department announced that it was undertaking a review of section 1.861-8(e)(3) (hereafter referred to as the 1977 regulations) to determine whether it results in "a proper apportionment or allocation" of deductions for U.S. research and development expenditures to foreign income. The review was undertaken in response to the statement by a number of taxpayers that the 1977 regulations do not accurately reflect the "factual relationship between the deduction for research and development (R&D) expenditures and items of gross income." Taxpayers were invited to provide any information that may be relevant for purposes of this review.

This report constitutes one component of Treasury's review of the 1977 regulations. It summarizes two different methodologies developed by Treasury to analyze the effect of domestic R&D on income earned by multinational corporations. These methodologies use data from tax return files and from aggregate data on foreign income published by the U.S. Commerce Department. The report also reviews evidence provided by outside investigators on this same issue. All of this evidence is used to evaluate the reasonableness of the 1977 regulations.

The report concludes that the available evidence makes it difficult to reject the 1977 regulations as an accurate reflection of the factual relationship between domestic R&D and foreign income. However, while the 1977 regulations may be correct on average, the report finds a wide range of uncertainty as to the exact parameters of this factual relationship. Therefore, the 1977 regulations may be unfair to a significant number of taxpayers whose domestic R&D has little application abroad. The report reiterates the burden that would be imposed on taxpayers and the Internal Revenue Service to rely purely on facts and circumstances on a case by case basis and concludes that reducing the allocation of domestic R&D to foreign income by about 25 percent compared to the 1977 regulations can be expected to increase the fairness of the regulations and still remain within the range of allocations that cannot be rejected in view of the uncertainty of the evidence.

Issue

The reason for reviewing the evidence on the relationship between U.S. R&D and foreign income is to find an appropriate allocation of R&D deductions between foreign and domestic income. The requirement to make an allocation arises out of the necessity for calculating net foreign income for the purposes of the foreign tax credit limitation. If a taxpayer is in an excess foreign tax credit position, increased allocations to foreign income, by reducing foreign-source income, will reduce allowable credits and increase net U.S. income tax liabilities. An accurate measurement of net foreign-source income is required because otherwise the U.S. tax on foreign and domestic income may not be appropriate. For example, if net foreign-source income is overstated, U.S. taxpayers can claim tax credits in excess of the amount of U.S. tax applicable to foreign income. These credits in effect reduce the U.S. tax on domestic income.

Any allocations of R&D expenses could be based solely on each taxpayer's facts and circumstances. But it would be very difficult for the IRS to make a factual determination of how much any single company's R&D contributes to its foreign income. Relying purely on facts and circumstances procedures would impose a great burden on both taxpayers and the IRS. It is, therefore, helpful to develop general rules which are consistent with aggregate statistical evidence on the effects of R&D on foreign income while still giving taxpayers with special circumstances the opportunity to present additional evidence in support of different allocations.

Background

Before reviewing the factual relationship between U.S. R&D and foreign income, it is helpful to review how implementing the 1977 regulations would affect total R&D allocations to foreign income. For purposes of comparison, the temporary allocation rules in the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993) are also reviewed.[1]

The 1977 regulations state that a taxpayer's deductions for R&D under section 174 "shall ordinarily be considered deductions which are definitely related to all income reasonably connected with the relevant broad product category (or categories) of the taxpayer and, therefore, allocable to all items of gross income as a class (including income from sales, royalties, and dividends) related to such product category (or categories)." The taxpayer's R&D is, therefore, first divided among the relevant 2 digit SIC categories specified in the regulation.

Of the R&D in the product category, the 1977 regulations first apportion 30 percent exclusively to domestic income. The regulations divide the remainder between domestic and foreign income in proportion to domestic and foreign sales. The taxpayer may also, however, use the optional gross income method which allocates R&D expenses in proportion to the taxpayer's foreign and domestic gross income, without the benefit of any exclusive apportionment. The amount allocated to foreign income under the gross income method cannot be less than 50 percent of the amount allocated to foreign income in the sales-based allocation.

A U.S. taxpayer's foreign gross income typically consists mainly of royalties and dividends paid from the net income of Controlled Foreign Corporations (CFCs). Domestic gross income, in contrast, is largely sales revenue less direct cost of goods sold and is, therefore, before the overhead deductions such as rents, interest expense and most of depreciation.[2] Foreign gross income, therefore, is more closely analogous to domestic net income than to

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[1]The OBRA 1993 one-year extension, which is described in detail below, is included here as the latest example of a series of statutory alterations to the 1977 regulations.

[2]Cost of goods sold are the costs that have to be included for inventory purposes.

domestic gross income. As a result, the ratio of foreign gross income to worldwide gross income is generally much smaller than the ratio of foreign sales to worldwide sales. U.S. companies can frequently reduce the allocation of R&D costs to foreign-source income by using the gross income method instead of the sales method. (If the allocation to foreign income under the gross income method is less than 50 percent of the allocation under the sales method, the allocation to foreign-source income is simply set at 50 percent of the allocation under the sales method.)

Consider, for example, a U.S. company with an equal amount of foreign and domestic sales. Under the sales method, it allocates 30 percent of its R&D costs exclusively to domestic income and then divides the remaining 70 percent in half, resulting in a 35 percent allocation to foreign income. Assuming that it can use the gross income method to reduce its allocation to foreign income to 50 percent of the sales-based allocation, it will allocate 17.5 percent of its R&D to its foreign income, and 82.5 percent to its domestic income. The almost five-fold disparity, even though foreign and domestic sales are equal, was intended to reflect the greater value of R&D in the place of performance, the lag in the transfer of technology abroad and the possibility that it will be useful overseas to a more limited group of products within the product category compared to its application in the United States.

Under the 1977 regulations, the taxpayer can present particular facts and circumstances to achieve an allocation to foreign income that is even lower than in the above example. For example, research and development, "undertaken solely to meet legal requirements imposed by a political entity with respect to improvement or marketing of specific production processes, and results cannot reasonably be expected to generate amounts of gross income outside a single geographical source" can be allocated exclusively to the jurisdiction imposing the requirements. Testing mandated by the Food and Drug Administration is given as one example of expenses that can be allocated purely to domestic income.

The 1977 regulations also state that the taxpayer may establish that a higher exclusive apportionment percentage is warranted "because the research and development is reasonably expected to have very limited or long delayed application outside the geographical source where it was performed." Examples 9-13 in Section 1.861-8(g) explain how the taxpayer can justify a higher allocation to domestic income. For example, the taxpayer can use foreign and domestic sales at the seven digit SIC level to demonstrate a narrower range of application abroad.

Under the temporary OBRA 1993 rules, 50 percent of domestic R&D is allocated exclusively to domestic income, with the remainder allocated according to either relative gross income or sales. In this case, the gross income allocation receives the benefit of the 50 percent exclusive apportionment. The gross income allocation to foreign income cannot be lower than 30 percent of the sales allocation compared to 50 percent under the 1977 regulation. The exclusive apportionment rate and the gross income limitation allow a much greater allocation of R&D costs to domestic income than the 1977 regulation.

The company in the hypothetical example noted above, with equal foreign and domestic sales, would be able to allocate 7.5 percent of U.S. R&D to foreign income and 92.5 percent to domestic, a twelve-fold disparity, assuming it can take full advantage of the gross income option. The company would first allocate 50 percent of R&D exclusively to domestic income. Of the remaining 50 percent, it would allocate half to foreign sales, reducing the foreign share to 25 percent, and then using the gross income method, could reduce the foreign share to 30 percent of that or 7.5 percent.[3]

Treasury Analysis

Two different methodologies, each using a two step approach, are employed to test whether, in the aggregate, the 1977 regulations provide an appropriate allocation of R&D deductions to foreign source income. In each case, the first step is to calculate the pool of foreign income that can be attributed to domestic R&D. This step requires an assessment of the various types of foreign income that could reflect the contribution of domestic R&D. The second step takes this estimate of the foreign income from intangibles and applies two alternative approaches to estimate the appropriate amount of R&D to designate as a deduction from foreign source income. The first approach estimates the domestic income attributable to domestic R&D and then uses this estimate to calculate the share of the total return to R&D that is attributable to foreign intangible income. The second approach estimates how much of a typical company's current deduction for R&D, in an ongoing R&D program, can be attributed to the observed current flow of foreign intangible income and then assumes that the remaining R&D produces domestic source income. As discussed below, there are pros and cons to each of these approaches. In each case, the difficulty of making precise judgments about some of the parameters used leads to the estimation of a range of allocations.

Evidence from Royalties and CFC Income

The essential first step in Treasury's analysis is the determination of the pool of foreign income that can be attributed to domestic R&D. One directly observable component of the contribution of U.S. R&D to foreign income is the amount of royalties and license fees received by U.S.-based multinational corporations (MNCs) from abroad. These are payments received for the rights to use intangibles developed by the parent MNC. Royalties have risen rapidly in recent years. Commerce Department data report that in 1990 U.S. companies received $17.1 billion in royalties and license fees from abroad.[4] Furthermore, more than 80 percent of the royalties are identified in the Commerce data as payments for "industrial processes," which

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[3]By a similar calculation, the "64 percent solution," which applied in some years before 1993, resulted in an allocation of U.S. R&D to domestic income 17 times the allocation to foreign income when domestic and foreign sales are equal. (.36*.5*.3=.054 of domestic R&D is allocated to foreign and the remaining .946 to domestic.)

[4]This is consistent with tax data from Forms 1120 and 1118. Nineteen ninety is chosen as the base year because it is the most recent year for which we have data on R&D allocations reported on the Form 1118.

presumably correspond to the royalties resulting from U.S. research and development. Accordingly, in 1990 there appear to have been about $14.5 billion in royalty payments for the use of intangibles generated from domestic R&D.

However, royalties may not fully reflect the contribution of U.S. R&D to foreign income. A recent paper has estimated the effect of domestic R&D on royalties and the net profits earned by controlled foreign corporations (CFC's). The study used Treasury's 1990 data files for Form 1120, the basic corporate return, Form 1118, on which a foreign tax credit is calculated, and Form 5471, which provides information on a CFC's assets, earnings and transactions with related parties.[5] Based on a sample of more than 2,000 of the largest CFC's, the paper estimated the effect of the R&D intensity of U.S. corporations on i) net earnings and profits (E&P) and ii) royalty payment of CFC's. The parent's R&D intensity was measured by the ratio of its qualified research for purposes of the research credit, which must be performed in the United States, to the parent's domestic sales. Royalties paid (to U.S. affiliates) and E&P were divided by the CFC's assets to put CFC's of different sizes on a comparable basis.[6]

The study estimates separate, parallel equations. The first equation relates the CFC's E&P/asset ratio to the parent's R&D and advertising intensity. The second equation relates the CFC's royalties/asset ratio to the same explanatory variables. The statistical analysis reveals that greater R&D intensity of the parent leads both to significantly higher royalties paid and to significantly higher net E&P of the CFC. Specifically, the R&D coefficient in the E&P equation was at least as large as the R&D coefficient in the royalties equation. Tax variables such as dividend and royalty withholding rates were added as other explanatory variables in some variants of the two basic equations, but, while frequently statistically significant in themselves in explaining royalties and E&P, they did not change the basic estimated effect of parent R&D on either the CFC's royalty payments or its E&P.

The study also examined whether the increased foreign E&P that was attributed to the parent's R&D was really the result of the affiliate's own R&D (as might be the case if R&D intensive parents also have R&D intensive affiliates). R&D performed by CFCs is not reported on the Form 5471, so this hypothesis cannot be tested directly. Aggregate data indicate that foreign R&D accounts for only about 10 percent of worldwide U.S.-based MNC R&D. Furthermore, attributing the higher income to foreign R&D is not consistent with the amount of royalties that the more profitable CFCs receive, which should be an indication of their own

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[5]See "Divided Royalties and Other Payments: Taxes and the Various Components of Income Earned Abroad," October 1994 draft, by Harry Grubert. A shorter version, "Royalties, Dividends and R&D" was published in the Proceedings of the Annual Conference of the National Tax Association 1994.

[6]The results are not sensitive to the choice of the scaling factors for parents and CFC's. Assets are used for CFC's, in part, because they are better reported on the Forms 5471 than sales. It also seems natural to express E&P in relation to assets because it is closer to a rate of return measure.

R&D contribution. When royalties received by the CFC is added as a variable in the E&P equation, the estimated effect of domestic R&D is not changed.

About $12.3 billion of the $14.5 billion in industrial royalties received by U.S.-based MNC's is from affiliates. The statistical estimates just described suggest that total related party manufacturing intangible income was $24.6 billion in 1990 when the additional amount of E&P affiliates earn because of their parents' R&D is considered. The addition of the $2.2 billion in royalties received from unrelated parties results in an estimate of a $26.8 billion total foreign return to U.S. R&D in 1990.[7]

Estimating the Domestic Return to U.S. R&D

Having estimated the amount of foreign income that reflects the contribution of domestic R&D, the next step is to use this estimate to determine what portion of the domestic R&D should be designated as a deduction from foreign source income. As explained above, two methodologies were employed to make this determination. The first approach taken was to put the foreign income attributable to domestic R&D in perspective by estimating the amount of domestic income attributable to domestic R&D. This exercise is a bit different than the one that was just described to evaluate foreign income because there are no comparable domestic royalty data. Almost all companies undertake the U.S. exploitation of their new technology themselves, rather than licensing the technology to domestic third parties. Computing the return-to-R&D component of domestic corporate income is subject to substantial error, so a range of estimates is obtained from an analysis of the rate of return on assets (before deducting R&D) in high-technology and low-technology industries. The 1989 Commerce Department Benchmark Survey of Direct Investment was used because it is a convenient source for the domestic income of U.S. multinational corporations. A domestic operating rate of return on total assets was first computed for each major industry. Domestic operating income was constructed by adding income taxes, interest paid and R&D expenditures to net income. Equity in the income of

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[7]In addition, CFC payments for their parents' exports of components may also embody a substantial part of the foreign return to U.S. R&D. Under the U.S. source rules, 50 percent of export sales income can be classified as foreign source. A CFC may compensate its parent for valuable intangibles through higher prices paid for components. The $26.8 billion estimate of foreign income attributable to domestic R&D that is used in the calculation below may thus be too low because it includes only royalties and the additional E&P attributable to R&D the CFC earns. It does not include foreign source sales income earnings by the parent that may be attributable to R&D. (See "A Response to International Royalty Flows" by Robert N. Mattson, presented at the National Tax Association Annual Meeting, November 13, 1994.) But the intangible content of sales source income is very difficult to evaluate. Therefore, in the interest of making a conservative estimate of the contribution of domestic R&D to foreign income, no adjustment is made for this factor.

affiliates and industrial royalties from abroad were subtracted. Investment in affiliates was deducted from total assets for the purpose of computing the domestic operating rate of return.[8]

The analysis of the domestic return to R&D was based principally on manufacturing, which accounted for 86.3 percent of the R&D expenditures of U.S. multinational corporations. However, an imputation also was necessary for nonmanufacturing industries, principally integrated petroleum (not included in manufacturing in the Commerce data) and communications companies, which accounted for the remainder. This imputation scaled up each of the estimates for manufacturing in order to account for the share of total R&D accounted for by nonmanufacturing industries.

The lower bound for the range of domestic returns to R&D for manufacturing was computed by imputing to R&D all of the returns in manufacturing in excess of the rate of return in the least R&D intensive industry. An upper bound was computed because of the possibility that even low technology industries obtain some return to R&D. The upper bound was estimated by attributing fully half of the total domestic operating income (as defined above) in manufacturing to R&D. When these estimates are adjusted for nonmanufacturing R&D and projected from 1989 to 1990, the resulting range of domestic returns to R&D is between $78 billion and $117 billion.[9]

The $26.8 billion estimated foreign return to U.S. R&D when combined with domestic returns of between $78 billion and $117 billion implies that between 18.6 percent and 25.6 percent of the total return to U.S. R&D is derived abroad. The 1990 level of domestic R&D performed for U.S. multinational corporations amounted to $63.5 billion. This would further imply that if the allocation were based on the foreign share of the total return to R&D, between $11.8 and $16.3 billion of U.S. R&D should have been allocated to foreign source income (i.e., 63.5 times .186 and .256 respectively).

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[8]Interest receipts from foreign affiliates are very small in manufacturing. Loans to affiliates (as well as other loans) are included in total assets. The estimated domestic rates of return are, therefore, not affected by the treatment of interest from affiliates.

[9]Other researchers have estimated the rate of return to U.S. R&D. See for example, the 1980 paper by Zvi Griliches, "Return to Research and Development Expenditures in the Private Sector," in New Developments in Productivity Measurement, J.W. Kendrick and B. Vaccara (eds.), NBER, Studies in Income and Wealth Vol. 44. But these estimates are not directly applicable to the exercise in this study for two reasons. First, some of this return to R&D reflects foreign earnings because the estimates are based on the parent company's worldwide consolidated financial reports. Furthermore, using these estimates to compute the domestic component of R&D income in 1990 requires precise information on the time path of the return, which must be matched up with earlier levels of R&D spending. These issues of return and timing are part of the motivation for the second methodology described below.

In 1990, when the "64 percent solution" was in effect, total R&D allocations to foreign income amounted to $4.4 billion. Based on 1990 data, the temporary OBRA 1993 rule is projected to result in an allocation of $6.1 billion of R&D to foreign sources. In contrast the estimated allocation under the 1977 regulations is about $12.0 billion, which is near the bottom of the $11.8 to $16.3 billion range of allocations indicated by this methodology.[10]

An Alternative Methodology

The second method that was employed for interpreting the estimated total foreign R&D return data (royalties plus the excess CFC return attributable to domestic R&D) avoids the necessity for calculating the domestic return to R&D. It attempts to answer the following question: If a given current level of gross returns to R&D is observed (the total foreign return in this case), what level of current R&D would be implied by this income? The return this year would result from many past vintages of R&D spending. In a company with an ongoing R&D effort and stable rates of return and lags in implementation over time, the gross return to R&D in any year can be expected to have a stable relationship to the current level of R&D if R&D spending grows at a steady rate. The income will be expected to exceed the level of R&D expenditures in the long-run, because there has to be a return on the initial investment in addition to the recovery (amortization) of the principal.

Determining the long run relationship between current R&D expenditures and the current observed return to (presumably past) R&D has one conceptual advantage over the estimates described earlier which were based on the ratio of current foreign return to R&D to the domestic return. There may be a longer lag in the application of R&D to foreign income than to domestic income. Simply looking at current domestic and foreign returns may not fully reflect the importance of the lag.

The exact ratio of income to R&D depends on the required rate of return, the time lag between the performance of the R&D and its yielding income, the period that the R&D continues to be productive (i.e., the time pattern of the income flow), and the rate of growth of R&D. For any given required rate of return, introduction lag and the time the R&D remains productive, the required gross return (when the technology is productive) per dollar of initial R&D can be computed. (The present value of the gross returns must equal the initial R&D expense.) After the initial start-up lag, and as R&D continues to grow, the gross return to R&D will grow as new technologies come on stream and old ones become obsolete. At any one time in this pattern of steady growth, the aggregate return will result from a combination R&D spending in different prior years. The steady state ratio of gross returns to R&D will be stable and can be computed from the total returns and R&D in any year. (If a zero rate of growth of

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[10]Because the gross income option under the 1977 regulations is different from the 64 percent solution (and the current formula), projecting from the 1990 allocations to the 1977 regulations required assumptions about the relationship between the gross income ratio and the sales income ratio.

R&D is assumed, the current year's R&D associated with the income flow in the steady state is the same as the R&D that would be deducted under an amortization rule in which the R&D deduction is proportional to the current year's gross return from the innovation.) A range in the ratio of R&D to income is estimated using a range of assumed rates of return and time lags between when R&D occurs and when it produces income.

The advantage of this methodology is that making an estimate of "appropriate" allocations of R&D to foreign income does not require an estimate of the domestic return to R&D. It asks what amount of current R&D is implied by a given flow of returns. Of course, any given level of R&D will support and be financed by both foreign and domestic operations. But we compute what level of ongoing R&D could be supported purely from observed foreign income. A similar calculation for domestic return (with possibly different lags and useful life) would then account for the entire deduction for current R&D.

The alternative assumptions regarding the time lags, rates of return, and the period of usefulness of a technology, generate a range of long run ratios of domestic R&D to foreign income of from .3 to .5. This implies that in 1990, between $8.0 billion and $13.4 billion of R&D expenses were properly attributable to the foreign intangible income of $26.8 billion. As noted above, under the 1977 regulations, an estimated $12.0 billion of R&D would have been allocated foreign-source income in 1990, an amount within but at the high end, of the range implied by this approach .

Baily and Lawrence Study

In March 1992, Martin N. Baily of the University of Maryland and Robert Z. Lawrence of Harvard completed a study entitled "Appropriate Allocation Rules for the 861-8 Regulation," on behalf of the Council on Research and Technology. As in the second approach used in this report, Baily and Lawrence looked at a company with an ongoing R&D effort. The company has both current foreign and domestic sales, but the expected foreign sales make a relatively small contribution to the present value of the return from the R&D because of the delay in its application abroad. In other words, the current observed foreign sales represent R&D developed much earlier on average than the R&D applied in the United States. Baily and Lawrence used data in an earlier paper by Mansfield and Romeo on the lags in transferring technology abroad to estimate the relative contribution of U.S. R&D to domestic and foreign income per dollar of sales.[11] They compute the exclusive apportionment percentage in a sales allocation that would be consistent with the lower present value of R&D abroad due to its delayed transfer. They conclude that a 64 percent exclusive apportionment percentage would be correct if the required return is 22.4 percent, "a figure not at all out of line with the required rate of return to the highly risky business of R&D."

[11]Edwin Mansfield and Anthony Romeo, "Technology Transfer to Overseas Subsidiaries by U.S.-Based Firms," Quarterly Journal of Economics, December 1980. Mansfield and Romeo studied transfers between 1960 and 1978.

Relying on the Mansfield and Romeo data, the Baily-Lawrence study assumes that there is a six year lag between the time a technology is introduced in the United States and its introduction abroad. As noted above, the six year lag assumption is based on transfers studied by Mansfield and Romeo between 1960 and 1978. Because of the growing integration of the world economy, the average time lag between research and its implementation abroad may have decreased for U.S. multinational corporations. A shorter lag would imply a smaller exclusive apportionment percentage in the Baily-Lawrence calculations.

The Baily and Lawrence conclusion assumes that after the 64 percent exclusive apportionment to domestic income, the allocation of the remaining R&D is based only on sales. However, as explained above, under the gross income option, the taxpayer can reduce the sales-based allocation by a full 50 percent. Given the gross income option, the 1977 regulations are equivalent to a 65 percent exclusive apportionment in a pure sales allocation (hence the 17.5 percent foreign source allocation when foreign and domestic sales are equal, as in the hypothetical example above). In other words, for companies that can fully use the optional gross income method, the 1977 regulations are as generous as the "appropriate" exclusive allocation rules suggested by Professors Baily and Lawrence. The data on allocations in 1990, when the 64 percent exclusive apportionment rate and the 30 percent gross income limitation were in effect, indicate that the gross income option was a substantial benefit to taxpayers. While companies were not all able to use the option to reduce their allocation to foreign income by a full 70 percent, compared to the sales allocation, they appear on average to have achieved about a 40 percent reduction. When the observed benefits of the gross income option are applied to the Baily and Lawrence calculation, the resulting allocation to foreign income is about 25 percent less than the allocation to foreign income under the 1977 regulations, a result similar to the proposal in this report.

Because it incorporates time lags in the application of R&D and the required return on investment, the alternative methodology used in this sudy is in many ways similar to the Baily-Lawrence methodology. Rather than assuming a given delay in transfer abroad compared to application at home, as in the Baily-Lawrence study, it simulates the implications of a range of lags between the performance of the R&D and its introduction abroad. If average returns are high and the delay in application abroad is long, then the flow of intangible income is high relative to the level of current R&D. For equal current flows of domestic and foreign returns, the longer lag would result in less current R&D being imputed to the foreign income. Nevertheless, each dollar of R&D imputed to foreign and domestic income would have returns with equal present value.

Conclusion

Table 1 summarizes the estimates that have been discussed in this paper. The top part of the table gives the total allocations to foreign income under various alternative allocation schemes. The 1990 tax files are the source for the $4.4 billion under the "64 percent solution"

because that was the provision in effect in 1990. The estimates for the other provisions are based on projections from this 1990 evidence.[12]

The available evidence makes it difficult to reject the 1977 regulations as an accurate reflection of the factual relationship between domestic R&D and foreign income. Allocations to foreign income under the 1977 regulations fall within the range produced by each of the two alternative methodologies. Nevertheless, the range of uncertainty is large. Specifically, the combination of the two methodologies suggest a range of $8.0 billion to $16.3 billion. The lower part of this range of potentially correct allocations is substantially below the $12.0 in total allocations that would be made under the 1977 regulations. In addition, while the 1977 regulations may be correct on average, they may be unfair to a significant number of taxpayers whose domestic R&D has little application abroad. Reducing allocations to foreign income by about 25 percent compared to the 1977 regulations, which is equivalent to relying on the lower part of the range of estimated allocations, would reduce the potential that the regulations are unfair to many taxpayers while being within the range of allocations that cannot be rejected in view of the uncertainty of the evidence.

A 25 percent reduction in allocations compared to the 1977 regulations, and the 1977 regulations version of the gross income option (with a permanent election), would imply an exclusive apportionment percentage of about 50 percent.[13] This corresponds to the $9.0 billion in allocations reported in the table for the proposed 1995 regulations.

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[12]When viewing these estimates it is important to keep in mind that they are estimates of the aggregate amount of U.S. R&D that would be allocated to foreign income under each of the different provisions. The allocations have no bearing on the amount of R&D the taxpayer is allowed to deduct. The effect on tax liabilities of these allocations on each U.S.-based MNC depends on the foreign tax credit position of the company. If the taxpayer is in an excess foreign tax credit position, increased allocations to foreign income, by reducing foreign-source income, will reduce allowable credits and increase net U.S. income tax liabilities. However, even after the allocation of some U.S. R&D to foreign income, some companies will still have enough net foreigh source income that there will be no reduction in their allowable credits and thus no change in their net U.S. income tax liabilities.

[13]If all taxpayers could fully exploit the gross income option by reducing their sales-based allocation by 50 percent (or always use sales), the 50 percent exclusive apportionment percentage would reduce allocations by 2/7 or 29 percent. However, the average reduction is less because some taxpayers are constrained by their gross income ratio. For example, taxpayers whose ratio of foreign gross to worldwide gross income ratio is 40 percent of their sales ratio would get no benefit from the increase in the exclusive apportionment rate. Under the 1977 regulations, they cannot reduce the 70 percent allocated on the basis of sales by a full half because their gross keeps the allocation at 40 percent of a pure (no exclusive apportionment) sales allocation. They cannot go all the way to 35 percent because their gross income ration keep them at 40 percent. Under a 50 percent exclusive apportionment, they can do no better. They cannot go all the way to 25 percent because they are still kept at 40 percent, yet it doesn't pay them to switch to the sales method because that would only get them to 50 percent.

TABLE 1

Total R&D Allocations to Foreign Income under Alternative Schemes

(in $ billions at 1990 levels)

Provision	Estimates of R&D Allocation
OBRA 1993	6.1
64 percent solution with OBRA gross income option	4.4
1977 regulations	12.0
Proposed 1995 regulations	9.0
Implications of Analyses Based on Inferred Benefits	
E&P and Royalty-based estimates of factual relationships:	
(a) ratio of foreign to domestic return on R&D	11.8 to 16.3
(b) hypothetical relationship between R&D and returns to R&D	8.0 to 13.4

PROPOSAL TO AMEND R&E ALLOCATION RULES

Washington — The Treasury released a study today analyzing the relationship between U.S. research and experimentation (R&E) and foreign income. Simultaneously with the release of this study, the Internal Revenue Service has issued proposed regulations that would modify the current regulations governing the allocation of R&E expenditures (Treas. Reg. §1.861-8(e)(3)) based on Treasury's economic analysis.

The 1977 regulations have been subject to ten temporary moratoria since their adoption. The last such moratorium, adopted by the Omnibus Revenue Reconciliation Act of 1993, generally expired on December 31, 1994. The new regulations are proposed to be effective, at taxpayers' election, as of January 1, 1995.

The Treasury study released today summarizes two different methodologies developed by Treasury to evaluate the factual relationship between U.S.-based R&E and income from foreign sources. The study concludes that although the overall allocation produced by the 1977 regulations is in the middle of the range of acceptable allocations, these regulations may be unfair to a significant number of taxpayers whose domestic R&E has little application abroad. Therefore, the study proposes that the allocation of domestic R&E to foreign source income be reduced by about 25 percent as compared to the 1977 regulations.

Three major amendments to the 1977 regulations are being proposed today to effect this reduced overall allocation of R&E

(more)

expenses to foreign source income. (1) The exclusive apportionment to U.S. source income will be increased from the current 30 percent to 50 percent. (2) Taxpayers will be allowed to allocate R&E expenses based on three-digit SIC code classifications, instead of the two-digit classifications required by the current regulations. (3) The use of the gross income method of allocation will be made subject to a binding election. These amendments are proposed to be effective sixty days after a notice of final rulemaking is published in the Federal Register. However, taxpayers may elect to utilize the new regulations beginning in the first year following the expiration of section 864(f) as amended by OBRA '93. For calendar year taxpayers, this will be the 1995 calendar year.

DATE: May 19, 1995

INTL-0023-95 (Notice of proposed rulemaking and notice of public hearing)

was forwarded to the Office of the Federal Register on May 18, 1995.

The filing time was 9:25 a.m. on May 19, 1995.

The publication date is set for May 24, 1995.

FROM: CC:CORP:T:R

[4830-01-u]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part I

[INTL-0023-95]

RIN 1545-AT49

Allocation and Apportionment of Research and Experimental Expenditures

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking and notice of public hearing.

SUMMARY: This document provides guidance concerning the allocation and apportionment of research and experimental expenditures for purposes of determining taxable income from sources within and without the United States. This document affects taxpayers that have income from United States and foreign sources and that have made expenditures for research and experimentation that the taxpayer deducts under section 174 of the Internal Revenue Code of 1986. This document also provides notice of a public hearing on these proposed regulations.

DATES: Written comments must be received by August 22, 1995. Outlines of topics to be discussed at the public

hearing scheduled for September 8, 1995, at 10 a.m. must be received by August 18, 1995.

ADDRESSES: Send submissions to: CC:DOM:CORP:T:R (INTL-0023-95), room 5228, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044. In the alternative, submissions may be hand delivered between the hours of 8 a.m. and 5 p.m. to: CC:DOM:CORP:T:R (INTL-0023-95), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW, Washington, DC 20224. The public hearing will be held in the Auditorium, Internal Revenue Building, 1111 Constitution Avenue NW, Washington, DC.

FOR FURTHER INFORMATION CONTACT: Concerning the regulations, Carl Cooper at (202) 622-3840; concerning submissions, Michael Slaughter, (202) 622-8543 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

This notice of proposed rulemaking does not contain collections of information and, therefore, it has not been submitted to the Office of Management and Budget for review under the Paperwork Reduction Act (44 U.S.C. 3504(h)).

Background and Explanation of Provisions

Section 1.861-8(e)(3) of the Income Tax Regulations provides rules regarding the allocation and apportionment of research and experimental expenditures for purposes of determining taxable income from sources within and without the United States.

This notice of proposed rulemaking proposes three changes to the existing regulations at §1.861-8(e)(3).

First, allocation of research and experimental expenditures to three digit SIC code product categories of gross income would be permitted. Existing regulations require taxpayers to allocate research and experimental expenditures to two digit SIC code product categories. Use of three digit SIC code product categories would enable taxpayers to allocate research and experimental expenditures to narrower classes of gross income than the classes of gross income permitted by the existing regulations.

Second, the percentage of research and experimental expenditures that may be exclusively apportioned to United States source income under the sales method of apportionment under §1.861-8(e)(3)(ii) would be increased from 30 percent to 50 percent. Thus, where an apportionment based upon geographic sources of income of a deduction for research and experimental expenses is necessary and the sales method of apportionment is elected, an amount equal to 50 percent of the deduction for research and experimental expenditures shall be apportioned exclusively to the statutory or residual grouping of gross income, as the case may be, arising from the geographic source where the research and experimental activities which account for more than 50 percent of the amount of the deduction were performed.

Third, use of the optional gross income methods of apportionment would constitute a binding election to use such

methods in subsequent years. The election would not be revocable without the prior consent of the Commissioner.

These changes would apply to taxable years beginning after December 31, 1995. However, the taxpayer would have the option to apply the new rules, in their entirety, to taxable years beginning after December 31, 1994.

Examples (3) through (8) of §1.861-8(g) are conformed to these changes. Examples (9) through (16) and Example (23) are removed and reserved

The three changes are proposed in part on the basis of an economic study performed by the Treasury Department pursuant to Rev. Proc. 92-56, 1992-2 C.B. 409, which is being simultaneously published by Treasury. The Treasury study evaluates the factual relationships between taxpayer performed research and experimental expenses and income from foreign sources. The study reviewed evidence of foreign returns from research and experimental expenditures in the form of both royalties and the retained earnings and profits of controlled foreign corporations. Estimates of foreign returns attributable to research and experimental expenditures were translated into appropriate allocations and apportionments using two alternative methodologies. One methodology was based on estimated comparable domestic returns for research and experimental expenditures. The other methodology simulated the relationship expected between the current returns from research and experimental expenditures and the level of current research and experimental expenditures for

taxpayers with ongoing research programs. The methodologies generated a range of allocations and apportionments to foreign income that were not inconsistent with the available evidence. The allocations and apportionments to foreign income which would result from adoption of these proposed regulations are within that range and are about 25 percent lower than the allocations and apportionments to foreign income which result under the current regulations.

In addition, the proposed regulations provide explicit rules for allocating and apportioning research and experimental expenses incurred by a partnership and for computing a partner's sales for purposes of apportioning research and experimental expenses under the sales method.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) and the Regulatory Flexibility Act (5 U.S.C. chapter 6) do not apply to these regulations, and therefore, a Regulatory Flexibility Analysis is not required. Pursuant to section 7805(f) of the Internal Revenue Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any written comments (a signed original and eight (8) copies) that are submitted timely to the IRS. All comments will be available for public inspection and copying.

A public hearing has been scheduled for September 8, 1995, at 10 a.m. in the Auditorium, Internal Revenue Building, 1111 Constitution Avenue NW, Washington, DC. Because of access restrictions, visitors will not be admitted beyond the building lobby more than 15 minutes before the hearing starts.

The rules of 26 CFR 601.601(a)(3) apply to the hearing.

Persons that wish to present oral comments at the hearing must submit written comments by August 22, 1995, and submit an outline of the topics to be discussed and the time to be devoted to each topic (signed original and eight (8) copies) by August 18, 1995.

A period of 10 minutes will be allotted to each person for making comments.

An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

Drafting Information

The principal author of these regulations is Carl Cooper, Office of the Associate Chief Counsel (International). However, other personnel from IRS and Treasury participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1--INCOME TAXES

Paragraph 1. The authority citation continues to read as follows:

Authority: 26 U.S.C. 7805 * * *

Par. 2. Section 1.861-8 is amended by:

1. Revising paragraph (e)(3).

2. Revising paragraph (g), Examples (3) through (8).

3. Removing and reserving paragraph (g), Examples (9) through (16) and (23).

The revisions read as follows:

§1.861-8 Computation of taxable income from sources within the United States and from other sources and activities.

* * * * *

(e) * * *

(3) Research and experimental expenditures--(i) Allocation--(A) In general. The methods of allocation and

apportionment of research and experimental expenditures set forth in this paragraph (e)(3) recognize that research and experimentation is an inherently speculative activity, that findings may contribute unexpected benefits, and that the gross income derived from successful research and experimentation must bear the cost of unsuccessful research and experimentation. Expenditures for research and experimentation which a taxpayer deducts under section 174 ordinarily shall be considered deductions which are definitely related to all income reasonably connected with the relevant broad product category (or categories) of the taxpayer and therefore allocable to all items of gross income as a class (including income from sales, royalties, and dividends) related to such product category (or categories). For purposes of this allocation, the product category (or categories) which a taxpayer may be considered to have shall be determined in accordance with the provisions of paragraph (e)(3)(i)(B) of this section.

(B) Determination of product categories. Ordinarily, a taxpayer's research and experimental expenditures may be divided between the relevant product categories. Where research and experimentation is conducted with respect to more than one product category, the taxpayer may aggregate the categories for purposes of allocation and apportionment; however, the taxpayer may not subdivide the categories. Where research and experimentation is not clearly identified with any product category (or categories), it will be considered conducted with

respect to all the taxpayer's product categories. A taxpayer shall determine the relevant product categories by reference to the three digit classification of the Standard Industrial Classification Manual (SIC code). A copy may be purchased from the Superintendent of Documents, United States Government Printing Office, Washington, DC 20402. The individual products included within each category are enumerated in Executive Office of the President, Office of Management and Budget, Standard Industrial Classification Manual, 1987 (or later edition, as available). Once a taxpayer selects a product category for the first taxable year for which this paragraph (e)(3) is effective with respect to the taxpayer, it must continue to use that product category in following years, unless the taxpayer establishes to the satisfaction of the Commissioner that, due to changes in the relevant facts, a change in the product category is appropriate. For this purpose, a change in the taxpayer's selection of a product category shall include a change from a three digit SIC code category to a two digit SIC code category, a change from a two digit SIC code category to a three digit SIC code category, or any other aggregation, disaggregation or change of a previously selected SIC code category. The two digit SIC code category "Wholesale trade" is not applicable with respect to sales by the taxpayer of goods and services from any other of the taxpayer's product categories and is not applicable with respect to a domestic international sales corporation (DISC) or foreign sales corporation (FSC) for which the taxpayer is a related

supplier of goods and services from any of the taxpayer's product categories. The two digit SIC code category "Retail trade" is not applicable with respect to sales by the taxpayer of goods and services from any other of the taxpayer's product categories, except Wholesale trade, and is not applicable with respect to a DISC or FSC for which the taxpayer is a related supplier of goods and services from any other of the taxpayer's product categories, except Wholesale trade.

(C) Affiliated Group. (1) Except as provided in paragraph (e)(3)(i)(C)(2) of this section, the allocation and apportionment required by this paragraph (e)(3) shall be determined as if all members of the affiliated group (as defined in §1.861-14T(d)) were a single corporation. See §1.861-14T.

(2) For purposes of the allocation and apportionment required by this paragraph (e)(3), sales and gross income from products produced in whole or in part in a possession by an electing corporation (within the meaning of section 936(h)(5)(E)), and dividends from an electing corporation, shall not be taken into account, except that this paragraph (e)(3)(i)(C)(2) shall not apply to sales of (and gross income and dividends attributable to sales of) products with respect to which an election under section 936(h)(5)(F) is not in effect.

(3) The research and experimental expenditures taken into account for purposes of this paragraph (e)(3) shall be reduced by the amount of such expenditures included in computing the cost-sharing amount (determined under section 936(h)(5)(C)(i)(I)).

(D) Exception. Where research and experimentation is undertaken solely to meet legal requirements imposed by a political entity with respect to improvement or marketing of specific products or processes, and the results cannot reasonably be expected to generate amounts of gross income (beyond de minimis amounts) outside a single geographic source, the deduction for such research and experimentation shall be considered definitely related and therefore allocable only to the grouping (or groupings) of gross income within that geographic source as a class (and apportioned, if necessary, between such groupings as set forth in paragraph (e)(3)(ii)(B) and (iii) of this section). For example, where a taxpayer performs tests on a product in response to a requirement imposed by the U.S. Food and Drug Administration, and the test results cannot reasonably be expected to generate amounts of gross income (beyond de minimis amounts) outside the United States, the costs of testing shall be allocated solely to gross income from sources within the United States.

(ii) Apportionment of research and experimentation--sales method--(A) Exclusive apportionment. Where an apportionment based upon geographic sources of income of a deduction for research and experimentation is necessary (after applying the exception in paragraph (e)(3)(i)(D) of this section), an amount equal to fifty percent (50%) of such deduction for research and experimentation shall be apportioned exclusively to the statutory grouping of gross income or the residual grouping of gross

income, as the case may be, arising from the geographic source where the research and experimental activities which account for more than fifty percent (50%) of the amount of such deduction were performed. If the fifty percent test of the preceding sentence is not met, then no part of the deduction shall be apportioned under this paragraph (e)(3)(ii)(A). This exclusive apportionment reflects the view that research and experimentation is often most valuable in the country where it is performed, for two reasons. First, research and experimentation often benefits a broad product category, consisting of many individual products, all of which may be sold in the nearest market but only some of which may be sold in foreign markets. Second, research and experimentation often is utilized in the nearest market before it is used in other markets, and in such cases, has a lower value per unit of sales when used in foreign markets. The taxpayer may establish to the satisfaction of the Commissioner that, in its case, one or both of the conditions mentioned in the preceding sentences warrant a significantly greater percent than 50 percent (50%) because the research and experimentation is reasonably expected to have very limited or long delayed application outside the geographic source where it was performed. For purposes of establishing that only some products within the product category (or categories) are sold in foreign markets, the taxpayer shall compare the commercial production of individual products in domestic and foreign markets made by itself, by uncontrolled parties (as defined under paragraph (e)(3)(ii)(C) of this

section) of products involving intangible property which was licensed or sold by the taxpayer, and by those controlled corporations (as defined under paragraph (e)(3)(ii)(D) of this section) which can reasonably be expected to benefit directly or indirectly from any of the taxpayer's research expense connected with the product category (or categories). The individual products compared for this purpose shall be limited, for nonmanufactured categories, solely to those enumerated in Executive Office of the President, Office of Management and Budget Standard Industrial Classification Manual, 1987 (or later edition, as available), and, for manufactured categories, solely to those enumerated at a 7-digit level in the U.S. Bureau of the Census, Census of Manufacturers: 1992, Numerical List of Manufactured Products, 1993, (or later edition, as available). Copies of both of these documents may be purchased from the Superintendent of Documents, United States Government Printing Office, Washington, DC 20402. For purposes of establishing the delayed application of research findings abroad, the taxpayer shall compare the commercial introduction of its own particular products and processes (not limited by those listed in the Standard Industrial Classification Manual or the Numerical List of Manufactured Products) in the United States and foreign markets, made by itself, by uncontrolled parties (as defined under paragraph (e)(3)(ii)(C) of this section) of products involving intangible property which was licensed or sold by the taxpayer, and by those controlled corporations (as defined under

paragraph (e)(3)(ii)(D) of this section) which can reasonably be expected to benefit, directly or indirectly, from the taxpayer's research expense. For purposes of evaluating the delay in the application of research findings in foreign markets, the taxpayer shall use a safe haven discount rate of 10 percent per year of delay unless he is able to establish to the satisfaction of the Commissioner, by reference to the cost of money and the number of years during which economic benefit can be directly attributable to the results of the taxpayer's research, that another discount rate is more appropriate.

(B) Remaining apportionment. The amount equal to the remaining portion of such deduction for research and experimentation, not apportioned under paragraph (e)(3)(ii)(A) of this section, shall be apportioned between the statutory grouping (or among the statutory groupings) within the class of gross income and the residual grouping within such class in the same proportions that the amount of sales from the product category (or categories) which resulted in such gross income within the statutory grouping (or statutory groupings) and in the residual grouping bear, respectively, to the total amount of sales from the product category (or categories). For purposes of this paragraph (e)(3), amounts received from the lease of equipment during a taxable year shall be regarded as sales receipts for such taxable year. Amounts apportioned under this paragraph (e)(3) may exceed the amount of gross income related to the product category within the statutory grouping. In such case,

the excess shall be applied against other gross income within the statutory grouping. See paragraph (d)(1) of this section for instances where the apportionment leads to an excess of deductions over gross income within the statutory grouping.

(C) <u>Sales of uncontrolled parties</u>. For purposes of the apportionment under paragraph (e)(3)(ii)(B) of this section, the sales from the product category (or categories) by each party uncontrolled by the taxpayer, of particular products involving intangible property which was licensed or sold by the taxpayer to such uncontrolled party shall be taken fully into account both for determining the taxpayer's apportionment and for determining the apportionment of any other member of a controlled group of corporations to which the taxpayer belongs if the uncontrolled party can reasonably be expected to benefit directly or indirectly (through any member of the controlled group of corporations to which the taxpayer belongs) from the research expense connected with the product category (or categories) of such other member. In the case of licensed products, if the amount of sales of such products is unknown (for example, where the licensed product is a component of a large machine), a reasonable estimate should be made. In the case of sales of intangible property, and in cases where a reasonable estimate of sales of licensed products cannot be made, the sales taken into account shall be an amount which is ten times the amount received or accrued for the intangible during the taxpayer's taxable year. For purposes of this paragraph (e)(3)(ii)(C), the term

uncontrolled party means a party which is not a person with a relationship to the taxpayer (specified in section 267(b)), or is not a member of a controlled group of corporations to which the taxpayer belongs (within the meaning of section 993(a)(3) or section 927(d)(4)). An uncontrolled party can reasonably be expected to benefit from the research expense of a member of a controlled group of corporations to which the taxpayer belongs if such member can reasonably be expected to license, sell, or transfer intangible property to that uncontrolled party or transfer secret processes to that uncontrolled party, directly or indirectly through a member of the controlled group of corporations to which the taxpayer belongs.

(D) Sales of controlled parties. For purposes of the apportionment under paragraph (e)(3)(ii)(B) of this section, the sales from the product category (or categories) of the taxpayer shall be taken fully into account and the sales from the product category (or categories) of a corporation controlled by the taxpayer shall be taken into account to the extent provided in this paragraph (e)(3)(ii)(D) for determining the taxpayer's apportionment, if such corporation can reasonably be expected to benefit directly or indirectly (through another member of the controlled group of corporations to which the taxpayer belongs) from the taxpayer's research expense connected with the product category (or categories). However, sales from the product category (or categories) between or among such controlled corporations or the taxpayer shall not be taken into account more

than once; in such a situation, the amount sold by the selling corporation to the buying corporation shall be subtracted from the sales of the buying corporation. For purposes of this paragraph (e)(3)(ii)(D), the term _a corporation controlled by the taxpayer_ means any corporation other than an _uncontrolled party_ as defined in paragraph (e)(3)(ii)(C) of this section. A corporation controlled by the taxpayer can reasonably be expected to benefit from the taxpayer's research expense if the taxpayer can be expected to license, sell, or transfer intangible property to that corporation or transfer secret processes to that corporation, either directly or indirectly through a member of the controlled group of corporations to which the taxpayer belongs. Past experience with research and experimentation shall be considered in determining reasonable expectations. However, if the corporation controlled by the taxpayer has entered into a bona fide cost-sharing arrangement, in accordance with the provisions of §1.482-7, with the taxpayer for the purpose of developing intangible property, then that corporation shall not reasonably be expected to benefit from the taxpayer's share of the research expense. The sales from the product category (or categories) of a corporation controlled by the taxpayer taken into account shall be equal to the amount of sales that bear the same proportion to total sales of the controlled corporation as the taxpayer's direct or indirect ownership, as defined in section 1563, of the total combined voting power of all classes of stock entitled to vote of such corporation bears to the total

outstanding combined voting power of all such classes of stock of such corporation.

(iii) Apportionment of research and experimentation--gross income methods. In lieu of apportioning the deduction for research and experimental expense under paragraph (e)(3)(ii) of this section, a taxpayer may make a binding election pursuant to paragraph (e)(3)(iii)(C) of this section to apportion such deduction, as prescribed in paragraph (e)(3)(iii)(A) or (B) of this section, between the statutory grouping (or among the statutory groupings) of gross income and the residual grouping of gross income. These optional methods must be applied to the taxpayer's entire deduction for research and experimental expense remaining after applying the exception in paragraph (e)(3)(i)(D) of this section, and may not be applied on a product category basis. Thus, after the allocation of the taxpayer's entire deduction for research and experimental expense under paragraph (e)(3)(i) of this section (by attribution to SIC code categories), the taxpayer must then apportion as necessary the entire deduction as allocated by separate amounts to various product categories, using only the sales method under paragraph (e)(3)(ii) of this section or only the optional gross income methods under this paragraph (e)(3)(iii). The taxpayer may not use the sales method for a portion of the deduction and optional gross income methods for the remainder of the deduction separately allocated.

(A) Option one. The taxpayer may apportion its research and experimental expenditures ratably on the basis of gross income between the statutory grouping (or among the statutory groupings) of gross income and the residual grouping of gross income in the same proportions that the amount of gross income in the statutory grouping (or groupings) and the amount of gross income in the residual grouping bear, respectively, to the total amount of gross income, if both of the following two conditions are met.

(1) The amount of research and experimental expense ratably apportioned to the statutory grouping (or groupings in the aggregate) is not less than fifty percent (50%) of the amount which would have been so apportioned if the taxpayer had used the method described in paragraph (e)(3)(ii) of this section; and

(2) The amount of research and experimental expense ratably apportioned to the residual grouping is not less than fifty percent (50%) of the amount which would have been so apportioned if the taxpayer had used the method described in paragraph (e)(3)(ii) of this section.

(B) Option two. If, when the amount of research and experimental expense is apportioned ratably on the basis of gross income, either of the conditions described in paragraph (e)(3)(iii)(A)(1) or (2) of this section is not met, the taxpayer may either--

(1) Where the condition of paragraph (e)(3)(iii)(A)(1) of this section is not met, apportion fifty percent (50%) of the amount of research and experimental expense which would have been

apportioned to the statutory grouping (or groupings in the aggregate) under paragraph (e)(3)(ii) of this section to such statutory grouping (or to such statutory groupings in the aggregate and then among such groupings on the basis of gross income within each grouping), and apportion the balance of the amount of research and experimental expenses to the residual grouping; or

(2) Where the condition of paragraph (e)(3)(iii)(A)(2) of this section is not met, apportion fifty percent (50%) of the amount of research and experimental expense which would have been apportioned to the residual grouping under paragraph (e)(3)(ii) of this section to such residual grouping, and apportion the balance of the amount of research and experimental expenses to the statutory grouping (or to the statutory groupings in the aggregate and then among such groupings ratably on the basis of gross income within each grouping).

(C) Binding election to use optional gross income methods. A taxpayer may use either the sales method under paragraph (e)(3)(ii) of this section or the optional gross income methods under this paragraph (e)(3)(iii) for its return filed for its first taxable year to which this paragraph (e)(3) applies. The taxpayer's use of the optional gross income methods for its return filed for its first taxable year to which this paragraph (e)(3) applies or for any subsequent taxable year shall constitute a binding election to use the optional gross income methods for all taxable years thereafter. The taxpayer's

election to use the optional gross income methods may not be revoked without the prior consent of the Commissioner.

(iv) Special rules for partnerships. For purposes of applying this paragraph (e)(3), if research and experimental expenditures are incurred by a partnership in which the taxpayer is a partner, the taxpayer's research and experimental expenditures shall include the taxpayer's distributive share of the partnership's research and experimental expenditures. In applying the exception for expenditures undertaken to meet legal requirements under paragraph (e)(3)(i)(D) of this section and the exclusive apportionment for the sales method under paragraph (e)(3)(ii)(A) of this section, a partner's distributive share of research and experimental expenditures incurred by a partnership shall be treated as incurred by the partner for the same purpose and in the same location as incurred by the partnership. In applying the remaining apportionment for the sales method under paragraph (e)(3)(ii)(B) of this section, a taxpayer's sales from a product category shall include the taxpayer's share of any sales from the product category of any partnership in which the taxpayer is a partner. For purposes of the preceding sentence, a taxpayer's share of sales shall be proportionate to the taxpayer's distributive share of the partnership's gross income in the product category, but the sales of the partnership taken into account by the taxpayer shall in no event be less than ten times the amount received or accrued for any intangible from the partnership during the taxpayer's taxable year.

(v) Examples. Examples (3) through (8) of paragraph (g) of this section illustrate the allocation and apportionment of research and experimental deductions.

(vi) Effective date. This paragraph (e)(3) applies to taxable years beginning after December 31, 1995. However, the taxpayer may at its option, apply this paragraph (e)(3) in its entirety to taxable years beginning after December 31, 1994.

* * * * *

(g) * * *

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Example 3--Research and Experimentation--(i) Facts. X, a domestic corporation, is a manufacturer and distributor of small gasoline engines for lawn mowers. Gasoline engines are a product within the category, Engines and Turbines (SIC Industry Group 351). Y, a wholly owned foreign subsidiary of X, also manufactures and sells these engines abroad. During 1996, X incurred expenditures of $60,000 on research and experimentation, which it deducts as a current expense, to invent and patent a new and improved gasoline engine. All of the research and experimentation was performed in the United States. In 1996, the domestic sales by X of the new engine total $500,000 and foreign sales by Y total $300,000. X provides technology for the manufacture of engines to Y via a license that requires the payment of an arm's length royalty. In 1996, X's income is $150,000, of which $140,000 is from domestic sales and $10,000 is royalties from Y.

(ii) Allocation. The research and experimental expenditures were incurred in connection with small gasoline engines and they are definitely related to the items of gross income to which the research gives rise, namely gross income from the sale of small gasoline engines in the United States and royalties received from subsidiary Y, a foreign manufacturer of gasoline engines. Accordingly, the expenses are allocable to this class of gross income.

(iii) Apportionment. (A) For purposes of applying the foreign tax credit limitation, the statutory grouping is general limitation gross income from sources without the United States and the residual grouping is general limitation gross income from sources within the United States. Since the related class of

gross income derived from the use of engine technology consists of both gross income from sources without the United States (royalties from Y) and gross income from sources within the United States (gross income from engine sales), X's deduction of $60,000 for its research and experimental expenditure must be apportioned between the statutory and residual grouping before the foreign tax credit limitation may be determined. Because more than 50 percent of X's research and experimental activity was performed in the United States, 50 percent of that deduction can be apportioned exclusively to the residual grouping of gross income, gross income from sources within the United States. The remaining 50 percent of the deduction can then be apportioned between the residual and statutory groupings on the basis of sales by X and Y. Alternatively, X's deduction for research and experimentation can be apportioned under the optional gross income method. The apportionment for 1996 is as follows:

(1) Tentative Apportionment on the Basis of Sales.

(i) Research and experimental expense to be apportioned between residual and statutory groupings of gross income: $60,000

(ii) Less: Exclusive apportionment of research and experimental expense to the residual grouping of gross income ($60,000 x 50 percent): $30,000

(iii) Research and experimental expense to be apportioned between residual and statutory groupings of gross income on the basis of sales: $30,000

(iv) Apportionment of research and experimental expense to the residual grouping of gross income ($30,000 x $500,000/($500,000 + $300,000)): $18,750

(v) Apportionment of research and experimental expense to the statutory grouping of gross income ($30,000 x $300,000/($500,000 + $300,000)): $11,250

(vi) Total apportioned deduction for research and experimentation: $60,000

(vii) Amount apportioned to the residual grouping ($30,000 + $18,750): $48,750

(viii) Amount apportioned to the statutory grouping: $11,250

(2) Tentative Apportionment on the Basis of Gross Income.

(i) Research and experimental expense apportioned to sources within the United States (residual grouping) ($60,000 x $140,000/($140,000 + $10,000)): $56,000

(ii) Research and experimental expense apportioned to sources within country Y (statutory grouping) ($60,000 x $10,000/($140,000 + $10,000)): $4,000

(iii) Amount apportioned to the residual grouping: $56,000

(iv) Amount apportioned to the statutory grouping: $4,000

(B) The total research and experimental expense apportioned to the statutory grouping ($4,000) under the gross income method is approximately 36 percent of the amount apportioned to the statutory grouping under the sales method. Thus, X may use option two of the gross income method (paragraph (e)(3)(iii)(B) of this section) and apportion to the statutory grouping fifty percent (50%) of the $11,250 apportioned to that grouping under the sales method. Thus, X apportions $5,625 of research and experimental expense to the statutory grouping. X's use of the optional gross income method will constitute a binding election to use the optional gross income method for all taxable years thereafter.

Example 4—Research and Experimentation--(i) Facts. Assume the same facts as in Example 3 except that X also spends $30,000 in 1996 for research on steam turbines, all of which is performed in the United States, and X has steam turbine sales in the United States of $400,000. X's foreign subsidiary Y neither manufactures nor sells steam turbines. The steam turbine research is in addition to the $60,000 in research which X does on gasoline engines for lawnmowers. X thus has a deduction of $90,000 for its research activity. X's gross income is $200,000, of which $140,000 is from sales of gasoline engines, $50,000 is from sales of steam turbines, and $10,000 is royalties from Y.

(ii) Allocation. X's research expenses generate income from sales of small gasoline engines and steam turbines. Both of these products are in the same three digit SIC code category, Engines and Turbines (SIC Industry Group 351). Therefore, the deduction is definitely related to this product category and allocable to all items of income attributable to it. These items of X's income are gross income from the sale of small gasoline engines and steam turbines in the United States and royalties from foreign subsidiary Y, a foreign manufacturer and seller of small gasoline engines.

(iii) Apportionment. (A) For purposes of applying the foreign tax credit limitation, the statutory grouping is general limitation gross income from sources outside the United States

and the residual grouping is general limitation gross income from sources within the United States. X's deduction of $90,000 must be apportioned between the statutory and residual groupings. Because more than 50 percent of X's research and experimental activity was performed in the United States, 50 percent of that deduction can be apportioned exclusively to the residual grouping, general limitation gross income from sources within the United States. The remaining 50 percent of the deduction can then be apportioned between the residual and statutory groupings on the basis of total sales by X and Y. Alternatively, X's deduction for research and experimentation can be apportioned under the optional gross income methods. The apportionment for 1996 is as follows:

(1) Tentative Apportionment on the Basis of Sales.

(i) Research and experimental expense to be apportioned between residual and statutory groupings of gross income: $90,000

(ii) Less: Exclusive apportionment of the research and experimental expense to the residual grouping of gross income ($90,000 x 50 percent): $45,000

(iv) Research and experimental expense to be apportioned between the residual and statutory groupings of gross income on the basis of sales: $45,000

(iv) Apportionment of research and experimental expense to the residual grouping of gross income ($45,000 x ($500,000 + 400,000)/($500,000 + $400,000 + $300,000)): $33,750

(v) Apportionment of research and experimental expense to the statutory grouping of gross income ($45,000 x $300,000/($500,000 + $400,000 + $300,000)): $11,250

(vi) Total apportioned deduction for research and experimentation: $90,000

(vii) Amount apportioned to the residual grouping ($45,000 + $33,750): $78,750

(viii) Amount apportioned to the statutory grouping:, $11,250

(2) Tentative Apportionment on the Basis of Gross Income.

(i) Research and experimental expense apportioned to sources within the United States (residual grouping) ($90,000 x $190,000/($140,000 + $50,000 + 10,000)): $85,500

(ii) Research and experimental expense apportioned to sources within country Y (statutory grouping) ($90,000 x $10,000/($140,000 + $50,000 + $10,000)): $4,500

(iii) Amount apportioned to the residual grouping: $85,500

(iv) Amount apportioned to the statutory grouping: $4,500

(B) The total research and experimental expense apportioned to the statutory grouping ($4,500) under the gross income method is 40 percent of the amount apportioned to the statutory grouping under the sales method. Thus, X, may use option two of the gross income method (paragraph (e)(3)(iii)(B) of this section) and apportion to the statutory grouping fifty percent (50%) of the $11,250 apportioned to that grouping under the sales method. Thus, X apportions $5,625 of research and experimental expense to the statutory grouping. X's use of the optional gross income method will constitute a binding election to use the optional gross income method for all taxable years thereafter.

Example 5—Research and Experimentation--(i) Facts. Assume the same facts as in Example 3 except that in 1997 X continues its sales of the new engines, with sales of $600,000 in the United States and $400,000 by subsidiary Y. X also acquires a 60 percent ownership interest in foreign corporation Z and a 100 percent ownership interest in foreign corporation C. X transfers its engine technology to Z for a royalty equal to 5 percent of sales, and X enters into an arm's length cost-sharing arrangement with C to share the funding of all of X's research activity. In 1997, corporation Z has sales in country Z equal to $1,000,000. X incurs expense of $80,000 on research and experimentation in 1997, and in addition, X performs $15,000 of research on gasoline engines which was funded by the cost-sharing arrangement with C. All of Z's sales are from the product category, Engines and Turbines (SIC Industry Group 351). X performs all of its research in the United States and $20,000 of its expenditure of $80,000 is made solely to meet pollution standards mandated by law. X establishes, to the satisfaction of the Commissioner, that the expenditure in response to pollution standards is not expected to generate gross income (beyond de minimis amounts) outside the United States.

(ii) Allocation. The $20,000 of research expense which X incurred in connection with pollution standards is definitely related and thus allocable to the residual grouping, general limitation gross income from sources within the United States. The remaining $60,000 in research and experimental expenditure incurred by X is definitely related to all gasoline engines and is therefore allocable to the class of gross income to which the engines give rise, gross income from sales in the United States, royalties from country Y, and royalties from country Z. No part

of the $60,000 research expense is allocable to dividends from country C, because corporation C has already paid, through its cost-sharing arrangement, for research activity performed by X which may benefit C.

(iii) Apportionment. For purposes of applying the foreign tax credit limitation, the statutory grouping is general limitation gross income from sources without the United States, and the residual grouping is general limitation gross income from sources within the United States. X's deduction of $60,000 for its research and experimental expenditure must be apportioned between these groupings. Because more than 50 percent of the research and experimentation was performed in the United States, 50 percent of the $60,000 deduction can be apportioned exclusively to the residual grouping. The remaining 50 percent of the deduction can then be apportioned between the residual and the statutory grouping on the basis of sales by X, Y, and Z. (If X utilized the optional gross income methods in 1996, then its use of such methods constituted a binding election to use the optional gross income methods for all taxable years thereafter. The optional gross income methods are not illustrated in this Example 5 (see instead Examples 3 and 4)). Since X has only a 60 percent ownership interest in corporation Z, only 60 percent of Z's sales (60% of $1,000,000, or $600,000) are included for purposes of apportionment. The allocation and apportionment for 1997 is as follows:

(A) X's total research expense: $80,000

(B) Less: Legally mandated research directly allocated to the residual grouping of gross income: $20,000

(C) Tentative apportionment on the basis of sales.

(1) Research and experimental expense to be apportioned between residual and statutory groupings of gross income. $60,000

(2) Less: Exclusive apportionment of research and experimental expense to the residual grouping of gross income ($60,000 x 50 percent): $30,000

(3) Research and experimental expense to be apportioned between the residual and the statutory grouping on the basis of sales: $30,000

(4) Apportionment of research and experimental expense to general limitation gross income from sources within the United States (residual grouping) ($30,000 x $600,000 / ($600,000 + $400,000 + $600,000)): $11,250

(5) Apportionment of research and experimental expense to general limitation gross income from countries Y and Z (statutory grouping) ($30,000 x $400,000 + $600,000/($600,000 + $400,000 +$600,000)): $18,750

(6) Total apportioned deduction for research and experimentation ($30,000 + $30,000): 60,000

(7) Amount apportioned to the residual grouping ($30,000 + $11,250): $41,250

(8) Amount apportioned to the statutory grouping of sources within countries Y and Z: $18,750

Example 6--Research and Experimentation--(i) Facts. X, a domestic corporation, manufacturers and sells forklift trucks and other types of materials handling equipment in the United States. The manufacture and sale of forklift trucks and other materials handling equipment belongs to the product category, Construction, Mining, and Materials Handling Machinery and Equipment (SIC Industry Group 353). X also sells its forklift trucks to a wholesaling subsidiary located in foreign country Y (but title passes in the United States), and X manufactures forklift trucks in foreign country Z. The wholesaling of forklift trucks to country Y also belongs to X's product category Transportation equipment and, therefore, may not belong to the product category, Wholesale trade (SIC Major Group 50 and 51). In 1997, X sold $7,000,000 of forklift trucks to purchasers in the United States, $3,000,000 of forklift trucks to the wholesaling subsidiary in Y, and transferred forklift truck components with an FOB export value of $2,000,000 to its branch in Z. The branch's sales of finished forklift trucks were $5,000,000. In response to legally mandated emission control requirements, X's United States research department has been engaged in a research project to improve the performance and quality of engine exhaust systems used on its products in the United States. It incurs expenses of $100,000 for this purpose in 1997. In the past, X has customarily adapted the product improvements developed originally for the domestic market to its forklift trucks manufactured abroad. During the taxable year 1997, development of an improved engine exhaust system is completed and X begins installing the new system during the latter part of the taxable year in products manufactured and sold in the United States. X continues to manufacture and sell forklift trucks in foreign countries without the improved engine exhaust systems.

(ii) Allocation. X's deduction for its research expense is definitely related to the income to which it gives rise, namely income from the manufacture and sale of forklift trucks within the United States and in country Z. Although the research is undertaken in response to a legal mandate, it can reasonably be

expected to generate gross income from the manufacture and sale of trucks by the branch in Z. Therefore, the deduction is not allocable solely to income from X's domestic sales of forklift trucks. It is allocable to income from such sales and income from the sales of X's branch in Z.

(iii) Apportionment. For the method of apportionment on the basis of either sales or gross income, see example 3. However, in determining the amount of research apportioned to income from foreign and domestic sources, the net sales of the branch in Z are $3,000,000 ($5,000,000 less $2,000,000) and the sales within the United States are $12,000,000 ($7,000,000 plus $3,000,000 plus $2,000,000).

Example 7—Research and Experimentation--(i) Facts. X, a domestic corporation, is a drug company which manufactures a wide variety of pharmaceutical products for sale in the United States. Pharmaceutical products belong to the product category, Drugs (SIC Industry Group 283). X exports its pharmaceutical products through a foreign sales corporation (FSC). X's wholly owned foreign subsidiary Y also manufactures pharmaceutical products. In 1997, X has domestic sales of $10,000,000, the FSC has sales of $3,000,000, and Y has sales of $5,000,000. In that same year, 1997, X incurs expense of $200,000 on research to test a product in response to requirements imposed by the United States Food and Drug Administration (FDA). X is able to show that, even though country Y imposes certain testing requirements on pharmaceutical products, the research performed in the United States is not accepted by country Y for purposes of its own licensing requirements, and the research has minimal use abroad. X is further able to show that its FSC sells goods to countries which do not accept or do not require research performed in the United States for purposes of their own licensing standards.

(ii) Allocation. Since X's research expense of $200,000 is undertaken to meet the requirements of the United States Food and Drug Administration, and since it is reasonable to expect that the expenditure will not generate gross income (beyond de minimis amounts) outside the United States, the deduction is definitely related and thus allocable to the residual grouping.

(iii) Apportionment. No apportionment is necessary since the entire expense is allocated to the residual grouping, general limitation gross income from sales within the United States.

Example 8—Research and Experimentation--(i) Facts. X, a domestic corporation, is engaged in continuous research and experimentation to improve the quality of the products that it manufactures and sells, which are floodlights, flashlights, fuse boxes, and solderless connectors. X incurs and deducts $100,000 of expenditure for research and experimentation in 1997 which was

performed exclusively in the United States. As a result of this research activity, X acquires patents which it uses in its own manufacturing activity. X licenses its floodlight patent to Y and Z, uncontrolled foreign corporations, for use in their own territories, countries Y and Z, respectively. Corporation Y pays X an arm's length royalty of $3,000 plus $0.20 for each floodlight sold. Sales of floodlights by Y for the taxable year are $135,000 (at $4.50 per unit) or 30,000 units, and the royalty is $9,000 ($3,000 + $0.20 x 30,000). Y has sales of other products of $500,000. Z pays X an arm's length royalty of $3,000 plus $0.30 for each unit sold. Z manufactures 30,000 floodlights in the taxable year, and the royalty is $12,000 ($3,000+$0.30 x 30,000). The dollar value of Z's floodlight sales is not known and cannot be reasonably estimated because, in this case, the floodlights are not sold separately by Z but are instead used as a component in Z's manufacture of lighting equipment for theaters. The sales of all Z's products, including the lighting equipment for theaters, are $1,000,000. Y and Z each sell the floodlights exclusively within their respective countries. X's sales of floodlights for the taxable year are $500,000 and its sales of its other products, flashlights, fuse boxes, and solderless connectors, are $400,000. X has gross income of $500,000, consisting of gross income from domestic sources of $479,000, and royalty income of $9,000 and $12,000 from foreign corporations Y and Z respectively.

(ii) Allocation. X's research and experimental expenses are definitely related to all of the products that it produces, which are floodlights, flashlights, fuse boxes, and solderless connectors. All of these products are in the same three digit SIC Code category, Electric Lighting and Wiring Equipment (SIC Industry Group 364). Thus, X's research and experimental expenses are allocable to all items of income attributable to this product category, domestic sales income and royalty income from the foreign countries in which corporations Y and Z operate.

(iii) Apportionment. (A) The statutory grouping of gross income is general limitation income from sources without the United States. The residual grouping is general limitation gross income from sources within the United States. X's deduction of $100,000 for its research expenditures must be apportioned between the groupings. For apportionment on the basis of sales in accordance with paragraph (e)(3)(ii) of this section, X is entitled to an exclusive apportionment of 50 percent of its research and experimental expense to the residual grouping, general limitation gross income from sources within the United States, since more than 50 percent of the research activity was performed in the United States. The remaining 50 percent of the deduction can then be apportioned between the residual and statutory groupings on the basis of sales. Since Y and Z are unrelated licensees of X, only their sales of the licensed

product, floodlights, are included for purposes of apportionment. Floodlight sales of Z are unknown, but are estimated at ten times royalties from Z, or $120,000. All of X's sales from the entire product category are included for purposes of apportionment on the basis of sales. Alternatively, X may apportion its deduction on the basis of gross income, in accordance with paragraph (e)(3)(iii) of this section. The apportionment is as follows:

(1) Tentative Apportionment on the basis of sales.

(i) Research and experimental expense to be apportioned between statutory and residual groupings of gross income: $100,000

(ii) Less: Exclusive apportionment of research and experimental expense to the residual groupings of gross income ($100,000 x 50 percent): $50,000

(iii) Research and experimental expense to be apportioned between the statutory and residual groupings of gross income on the basis of sales: $50,000

(iv) Apportionment of research and experimental expense to the residual groupings of gross income ($50,000 x $900,000/($900,000 + $135,000 + $120,000)): $38,961

(v) Apportionment of research and experimental expense to the statutory grouping, royalty income from countries Y and Z ($50,000 x $135,000 + $120,000/($900,000 + $135,000 + $120,000)): $11,039

(vi) Total apportioned deduction for research and experimentation: $100,000

(vii) Amount apportioned to the residual grouping ($50,000 + $38,961): $88,961

(viii) Apportioned to the statutory grouping of sources within countries Y and Z: $11,039

(2) Tentative apportionment on gross income basis.

(i) Apportionment of research and experimental expense to the residual grouping of gross income ($100,000 x $479,000/$500,000): $95,800

(ii) Apportionment of research and experimental expense to the statutory grouping of gross income ($100,000 x $9,000 + $12,000/$500,000): $4,200

(iii) Amount apportioned to the residual grouping: $95,800

(*iv*) Amount apportioned to the statutory grouping of general limitation income from sources without the United States: $4,200

(B) Since X's apportionment on the basis of gross income to the statutory grouping, $4,200, is less than 50 percent of its apportionment on the basis of sales to the statutory grouping, $11,039 it may use Option two of paragraph (e)(3)(iii)(B) of this section and apportion $5,520 (50 percent of $11,039) to the statutory grouping.

Examples (9) through (16)--[Reserved]

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Example (23)--[Reserved]

* * * * *

Commissioner of Internal Revenue
Margaret Milner Richardson

DALE D. GOODE
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PROPOSAL TO AMEND R&E ALLOCATION RULES

Washington — The Treasury released a study today analyzing the relationship between U.S. research and experimentation (R&E) and foreign income. Simultaneously with the release of this study, the Internal Revenue Service has issued proposed regulations that would modify the current regulations governing the allocation of R&E expenditures (Treas. Reg. §1.861-8(e)(3)) based on Treasury's economic analysis.

The 1977 regulations have been subject to ten temporary moratoria since their adoption. The last such moratorium, adopted by the Omnibus Revenue Reconciliation Act of 1993, generally expired on December 31, 1994. The new regulations are proposed to be effective, at taxpayers' election, as of January 1, 1995.

The Treasury study released today summarizes two different methodologies developed by Treasury to evaluate the factual relationship between U.S.-based R&E and income from foreign sources. The study concludes that although the overall allocation produced by the 1977 regulations is in the middle of the range of acceptable allocations, these regulations may be unfair to a significant number of taxpayers whose domestic R&E has little application abroad. Therefore, the study proposes that the allocation of domestic R&E to foreign source income be reduced by about 25 percent as compared to the 1977 regulations.

Three major amendments to the 1977 regulations are being proposed today to effect this reduced overall allocation of R&E

(more)

expenses to foreign source income. (1) The exclusive apportionment to U.S. source income will be increased from the current 30 percent to 50 percent. (2) Taxpayers will be allowed to allocate R&E expenses based on three-digit SIC code classifications, instead of the two-digit classifications required by the current regulations. (3) The use of the gross income method of allocation will be made subject to a binding election. These amendments are proposed to be effective sixty days after a notice of final rulemaking is published in the Federal Register. However, taxpayers may elect to utilize the new regulations beginning in the first year following the expiration of section 864(f) as amended by OBRA '93. For calendar year taxpayers, this will be the 1995 calendar year.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
May 23, 1995

STATEMENT OF TREASURY DEPUTY SECRETARY FRANK NEWMAN ON PROMOTING ECONOMIC GROWTH, EMPLOYMENT, AND SOCIAL PROGRESS OECD MINISTERIAL MEETING PARIS

Chairman Solbes, Secretary-General Paye, fellow delegates: It is a pleasure to be joining Secretary Brown and Secretary Reich at the OECD ministerial meeting at this time. Despite concerns about recent financial market developments, the global economy looks reasonably strong, offering the real prospect of continued broad-based improvement in living standards.

Solid and more balanced growth in the OECD this year is generating important employment gains, but is not threatening the best inflation performance many countries have seen in 30 years. Better performance in the industrial countries has been mutually reinforcing with improved growth prospects in the developing world and the transition economies.

In the United States, growth is now slowing to a more moderate pace. The recent fall in long-term interest rates is evidence that inflation expectations remain muted. A great deal has been written of the difficulty of achieving a "soft landing", but all the signs point in that direction.

Our fiscal position is the strongest it has been in a decade. Because of the major reductions in the budget deficit that were accomplished in the past two years, our government sector budget deficit, in relation to GDP, is now the lowest among G-7 countries.

We are committed to continued reduction of our budget deficits, and it is clear that many members of Congress share that commitment. Negotiations over the next few months will be difficult. But we are convinced that -- at the end -- we will achieve the goal set forth by the President -- keeping the budget deficit as a share of the economy on a firmly declining path over the balance of the decade, while maintaining growth in GDP and productivity.

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The increased integration of capital markets and technological advances create new opportunities and the promise of more rapid growth of investment and economic activity. At the same time, there is no denying that in today's highly integrated markets, financial disturbances can be rapidly transmitted across markets.

In this regard, developments in exchange markets have been a matter of concern, and warn against slipping into complacency. Last month, the G-7 agreed that recent movements have gone beyond the levels justified by underlying economic conditions in the major countries, and agreed that orderly reversal of those movements is desirable.

As we have stated on many occasions, the Administration believes that a stronger dollar is in America's national interest. To this end, the United States is fully committed to the sound monetary and fiscal policies necessary to achieve sustained growth with low inflation.

The global financial marketplace is growing rapidly, with ever more complex instruments that pose new challenges to our ability to ensure that the markets remain robust in the face of potential shocks. Supervisors and regulators need to strengthen their cooperative efforts to ensure that financial authorities' oversight capabilities keep pace with the rapid expansion in these markets.

I also want to emphasize this Administration's strong commitment to financial modernization. Last year we secured enactment of interstate banking legislation. This year the focus is on further modernization of our financial system by removing barriers among banking, securities and insurance activities. These regulatory reforms are designed to allow our financial system to realize its full potential to innovate and be still more competitive in providing financial services at home and abroad.

Lastly, a better functioning global economic system also requires liberalization and protection of international investment. We should seek a world-class Multilateral Agreement on Investment (MAI) that includes: non-discriminatory national treatment; freedom of funds transfer; international law standards; and binding dispute settlement. And we believe the OECD should play a lead role in ensuring a sound Agreement is achieved.

Secretary Brown, Secretary Reich and I appreciate the opportunity to discuss these issues with you and look forward to a thoughtful exchange of ideas during our meetings.

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FOR RELEASE AT 11 A.M.
May 20, 1995

RUBIN ANNOUNCES WHITE HOUSE SECURITY REVIEW COMPLETION

Treasury Secretary Robert Rubin on Saturday announced completion of the White House Security Review.

The public recommendations of the review, which began eight months ago, include:

* Conversion into a pedestrian mall of Pennsylvania Avenue between Madison Place and 17th Street, State Place and the segment of South Executive Avenue that connects with State Place.

* Convening representatives of the Treasury Department and Transportation Department, including the Federal Aviation Administration, to discuss changes in the air traffic rules to enhance White House security without unduly hindering air traffic in the Washington D.C. area.

* Having the three government agencies -- U.S. Secret Service, U.S. Park Police and Metropolitan Police Department -- who share jurisdiction for safety at the White House grounds enter into a Memorandum of Understanding that would better coordinate their protective efforts and resources.

* Creation of a forensic task force, including federal and local law enforcement agencies and fire, rescue and ordnance squads to enhance coordination in responding to crises at the White House, collecting evidence and coordinating access to the White House grounds.

* Ensuring a prompt response to incidents by upgrading communications among law enforcement agencies and the various White House security posts, with a comprehensive plan for placing operational command and control in the Secret Service.

* Coordinating the Secret Service's implementation of the recommendations and other security measures through Treasury's Office of the Under Secretary (Enforcement).

The investigation was set in motion at the direction of then-Secretary Lloyd Bentsen on September 12, 1994, following the crash of a light plane on the grounds of the White House. Upon taking office in January 1995, Secretary Rubin fully supported that directive. Treasury Under Secretary for Enforcement Ronald K. Noble was Chairman.

The review examined:

* Facts surrounding the September 12, 1994 plane crash on the South Lawn and the October 29, 1994 shooting by Francisco Martin Duran at the White House complex.

* Potential dangers posed to the White House complex and protectees by air or ground assaults.

* Adequacy of the procedures and policies used by the Secret Service to address these dangers.

* Effectiveness of established mechanisms for communicating to the Secret Service vital intelligence information concerning possible air and ground assaults received by relevant federal, state and local authorities.

* Feasibility of techniques and measures, including state of the art technologies, to enhance the capability of the Secret Service to safeguard the White House complex and protectees from air and ground assaults.

* The need to keep the White House open and accessible to the American public without jeopardizing valid security concerns.

The investigation interviewed more than 250 individuals, reviewed more than 1,000 documents, consulted technical and public access experts and consulted with experts from eight countries, including nations that have faced continuous terrorist threats. It met with representatives of the Washington Metropolitan Area Transit Authority, D.C. Department of Public Works, National Capital Planning Commission, Presidential Park Commission, U.S. Chamber of Commerce and the Association of D.C. Civic Associations. It produced a classified report of more than 500 pages, with an appendix of more than 260 pages.

(more)

To make sure the investigation was comprehensive and objective, the review included an advisory committee of individuals known for their professional achievement and integrity. The members are Robert Carswell, former Deputy Secretary of the Treasury and member of an internal Treasury review of the Secret Service's protective operations after the Kennedy assassination; William T. Coleman, Jr., former Secretary of Transportation and counsel to the Warren Commission; Charles W. Duncan, Jr., former Energy Secretary and Deputy Secretary of Defense; David C. Jones, former Chairman of the Joint Chiefs of Staff; Judith Rodin, President of the University of Pennsylvania; and William H. Webster, former federal circuit court judge, Director of the Federal Bureau of Investigation and Director of the Central Intelligence Agency.

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ADV 11 A.M. EST
Text as prepared for delivery
May 20, 1995

REMARKS OF TREASURY SECRETARY ROBERT E. RUBIN
WHITE HOUSE SECURITY REVIEW

Under my authorities as Secretary of the Treasury, I have directed the Secret Service to take additional steps to protect the President, the institution of the presidency and the White House complex. As of this morning, unauthorized motor vehicle traffic may not travel on Pennsylvania Avenue in front of the White House, or use two short streets on the southwest corner of the complex, and the Pennsylvania Avenue area will become a pedestrian mall, open to the public. This action was taken reluctantly because the White House Security Review was unable to identify any alternative that would ensure the protection of the President and others in the White House complex from explosives carried by vehicles in the immediate area of the complex. I will go into greater detail in a moment, but there are a few points I want to make first.

I was kept abreast of the White House Security Review as it progressed and received a detailed briefing on April 3rd. I went into that briefing skeptical about the need to make the changes that are now under way. After hearing from experts on the technical aspects these matters, I left convinced that it was imperative that we improve the security afforded the President and the White House. About two weeks after the briefing on White House security, the Oklahoma City bombing occurred. That terrible tragedy and the means used to create the enormous devastation, only served to reinforce and confirm the absolute necessity of these actions to protect the President, those who will succeed him, and the White House.

To put events into perspective, if you'll recall my predecessor, Secretary Bentsen, set this security review in motion Sept. 12 following the crash of a light plane on the grounds of the White House. The October 29th shooting incident on the sidewalk outside the building involving a man with a semi-automatic rifle was included in the review. Since then there have been several other minor incidents around the complex, and the report was given greater scope.

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The White House was built in another era, when security concerns were not as great.

We are an open society, a nation of freedoms found in very few parts of the world, and access to the White House symbolizes all of that. But the Oklahoma City bombing and the World Trade Center tragedy remind us that we must live with the reality that the threat of terrorism has grown and is very real. Our own Capitol Building was damaged by a bomb 12 years ago.

We have chosen an approach that fully preserves the opportunity for Americans to visit the White House, fully preserves access on foot, and still permits drive-by viewing of the front of the White House, but from further away, on the other side of Lafayette Square, while at the same time meeting the security needs of the President, the presidency, the White House and the 5,000 visitors each day who come to see the White House.

I and the team of experts presented the report of the White House Security Review to the President and informed him of the steps being taken. Last night he provided his final concurrence. He was satisfied the actions in no way interfered with the ability of visitors to tour the White House -- the Peoples' House as it's sometimes called. He was also satisfied that we preserved the access by foot and drive-by viewing that I have already discussed.

The White House Security Review is classified. It contains 11 major recommendations on improving security for the White House complex and related issues. We are making public six of those recommendations, and I will discuss them in detail in a moment. We are also making available materials from the report, edited and abbreviated to avoid compromising classified information.

The documents we are making public include an edited recommendations section and charts, a letter from the Advisory Committee established to oversee the review unanimously endorsing the report and its 11 major recommendations, a letter from the Treasury's independent Inspector General, a section on the exhaustive methodology used to conduct the review, a section on the facts of the two incidents that brought about the security review, and materials on the evolution of presidential security.

This process began eight months ago. The reviewers were directed to look at the facts of the September plane crash and October shooting incident. They were also directed to examine the dangers posed to the complex and those entitled to Secret Service protection, by air or ground assault; the adequacy of the procedures and policies currently used by the Secret Service to address those dangers; the effectiveness of communicating threat information; the feasibility of techniques and measures, including state-of-the-art measures, to enhance the capacity of the Secret Service to safeguard the complex and protectees from assaults; and, very importantly, the need to keep the White House open and accessible to the public without jeopardizing valid security concerns.

The White House Security Review was conducted in a three-tiered process. First, there was a thorough investigation of the relevant events that led to the review, conducted by the Secret Service under Director Eljay Bowron. Second, Treasury created a review team and put in charge first, David Douglass, a former Justice Department attorney who came from the private sector, and later, Elisabeth Bresee, a former Assistant U.S. Attorney in Washington. The review team worked with the Secret Service to review those findings and in drafting in the review's report.

Finally, there is the White House Security Advisory Committee I mentioned, composed of six very distinguished Americans with backgrounds that directly relate to the work being done in this review. They are Robert Carswell, a former Deputy Secretary of the Treasury; William Coleman, a former Transportation Secretary; Charles Duncan, a former Secretary of Energy and Deputy Secretary of Defense; former Joint Chiefs of Staff Chairman retired Air Force Gen. David Jones; Dr. Judith Rodin, a psychologist and president of the University of Pennsylvania; and former CIA and FBI Director William Webster. These six individuals have performed an enormously valuable service, and I want to thank them personally for their contribution.

The advisory committee was chaired by Treasury Undersecretary for Enforcement Ron Noble, and Ron has done an exemplary job on a very difficult and demanding issue. I want to thank Ron and his staff, Director Bowron and the Secret Service, David Douglass, Ms. Bresee and the review team, their consultants and the members of the Advisory Committee, for the professionalism and excellence with which this review was conducted.

It has been an exhaustive and thorough review of every aspect of security issues at the complex. To evaluate its findings, we need to ask: was it comprehensive and objective, and, second, were the recommendations proportional to the risk? My answer to both is, yes. But I also wanted a second opinion on the thoroughness of the work. The six outside experts we asked to oversee this review unanimously reached the same conclusion, as did the independent Treasury Inspector General who reviewed the study.

To give you some example of the lengths to which the reviewers and advisors went, the review team consulted with experts from no fewer than eight countries, including nations which regularly have faced continuous and much more serious terrorist threats. The review team interviewed three former presidents, and overall interviewed or received briefings from over 250 individuals from at least 10 government agencies. In addition, the reviewers met with groups and experts concerned with public access, traffic and transportation, urban design, and reviewed a good deal of correspondence from interested individuals.

As a result of the White House Security Review, the following actions, among others, are being taken or recommendations made:

First, we have recommended that the Departments of Treasury and Transportation consider changes in the civil air traffic rules to enhance the security of the White House complex without hindering air traffic in the Washington area.

Two, the review recommends that the law enforcement agencies that share jurisdiction over the area enter into a memorandum of understanding about coordinating their work. It recommends an annual review of how incidents were handled, and that the lead investigating agency be determined by the violation involved, not the physical location of the suspect.

Three, the review recommends the dedication of forensic experts from the various federal and local agencies to respond to White House emergencies, with the forensics group being responsible for collecting evidence, preserving the crime scene and coordinating access to the White House grounds at those times.

Fourth, the review recommends upgraded communications among law enforcement agencies and the various White House security posts, as well as a protocol that establishes that immediate operational command and control will be assumed by the Secret Service.

Fifth, the Treasury Department, through the Under Secretary for Enforcement, will ensure that the Secret Service implements the recommendations and will aid in removing obstacles to the rapid implementation of security measures. In addition, the Treasury and Defense Departments will ensure that sensitive security-related projects have oversight at a high level.

And sixth, traffic was rerouted this morning around the White House complex, and Pennsylvania Avenue in front of the White House will be converted to a pedestrian mall. In addition to permanently closing off Pennsylvania Avenue from Madison Place to 17th Street, the order I signed last night prohibits unauthorized vehicular traffic on State Place and that part of South Executive Avenue which connects into State place. In addition, the Metropolitan Police Department and Secret Service have at least temporarily restricted Madison Place and the adjoining portion of Pennsylvania Avenue to 15th street to buses traveling south and east.

To ease commuter concerns, we expect that a portion of eastbound E Street west of the White House Complex will become a two-way street for those who travel to the Roosevelt Bridge, the Whitehurst Freeway or Rock Creek Park.

I want to say a few words in closing.

We have in one unique and readily accessible complex a national museum, a home for the President and the president's family, the offices of the President, the Vice President, their staffs, Cabinet officers and other senior government officials. Visitors can park a block away, obtain a ticket, and tour the building and grounds, something virtually unheard of anywhere else in the world.

The White House belongs to the American people. It has been, still is, and under this program will remain one of the most accessible homes and offices of a national leader in the world.

To the citizens of the Washington metropolitan area who will be inconvenienced by the need to adjust to new traffic patterns, we share your concerns. We have spoken to Mayor Barry, Delegate Eleanor Holmes Norton, Chairman David Clarke and Congressman Tom Davis to assure them that we will begin working immediately with local authorities to address long-term solutions to all of the transportation issues which today's action creates.

To sum up, these steps continue to provide Americans full pedestrian and touring access to the White House, and drive-by viewing at a greater distance and, at the same time, provide an imperative addition to the security of the White House complex, the president and the institution of the presidency.

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FOR RELEASE AT 11 A.M.
MAY 20, 1995

STATEMENT OF RONALD K. NOBLE
UNDER SECRETARY OF THE TREASURY (ENFORCEMENT)

White House Security Review Press Conference

Thank you Secretary Rubin. The White House Security Review has completed the most comprehensive analysis of White House security ever conducted: we interviewed over 250 individuals; analyzed over 1,000 documents; and consulted over 20 experts. We also benefitted greatly from the wisdom and dedication of our Advisors, who volunteered their efforts and experience to assist the Review. I would like to acknowledge their contribution and thank them for their guiding hands. Thank you Secretary Coleman, General Jones, and Judge Webster. I would also like to thank the outstanding staff of the White House Security Review Team. It has been a pleasure working with you, and you have done a wonderful job. And finally, I would like to thank Secretary Rubin. He and his predecessor, Secretary Bentsen, made available the resources necessary to conduct a full and impartial review, including the talents of the Department's Inspector General and her staff and the General Counsel's office. I also greatly appreciate Secretary Rubin's careful consideration of, and support for, the recommendations the Review has made.

One of the things the Review did was to consult representatives of the executive protective agencies of Great Britain, France, Italy, Japan, Germany, Israel, the Republic of Korea, and the Vatican. Foremost, what we learned in our comparative assessment is that the White House is the most publicly accessible executive residence in the world. I assure you it will remain so. I also want to add that the foreign protective agencies told us that they model their security operations after those of the Secret Service, whom they consider the best in the business. Today I add my praise for the fine work of the Secret Service, and I would like to take this opportunity especially to thank the men and women of the Uniformed Division, whose job it is to safeguard the White House Complex.

Let me turn now to the Corder and Duran incidents and summarize the Review's

RR-316

basic findings. As you know, much of the Review's work relates to broader issues regarding the protection of the President and the White House and I cannot discuss it publicly. What I can do, and what I am about to do for the first time, is to share with you details of these two incidents. This is a small sample of the voluminous information the Review unearthed.

Corder Incident

Let's start first with the Corder incident. On Sunday, September 11, 1994, after spending an evening consuming alcohol and smoking crack cocaine, Frank Eugene Corder stole a single-engine Cessna 150L airplane at Aldino Airport in Churchville, Maryland. Corder was not a licensed pilot but had taken several lessons in that same Cessna.

Corder flew south around Baltimore and into the Washington area in the early hours of September 12th. At 1:44 am, the National Airport tower received radar transmissions showing Corder six and a half miles north of the White House, flying at an altitude of 2,700 feet. The airplane descended approximately 1,000 feet over the next three minutes. Corder then turned south and entered the prohibited airspace surrounding the White House, designated as P-56. The plane flew towards the Mall descending rapidly, and then dove directly at the White House at a steep angle of descent. It crashed on the South Lawn at approximately 1:49 am. The airplane skidded across the ground, struck a magnolia tree, and came to rest against the southwest corner of the ground floor of the White House. There was minimal damage to the mansion. The First Family was staying in Blair House at the time of the crash, and was never at risk.

Corder died from multiple, massive blunt-force injuries. Based on the physical evidence, the National Transportation Safety Board concluded that the crash was intentional. For example, the airplane's velocity on impact clearly exceeded a safe landing speed; the airplane's wing flaps were up; and its throttle position was full forward. These are not characteristics of an aircraft that is trying to land safely.

The District of Columbia Medical Examiner ruled Corder's death a suicide, and the Review did not find evidence inconsistent with this conclusion. Corder suffered from an array of financial, marital, legal, and substance abuse problems. It appears that Corder was attempting to fulfill an ambition he had expressed to friends to kill himself in a "big way" by flying into the White House or the dome of the Capitol Building. These remarks were never reported to authorities. Prior to this incident, Corder was not on record with the Secret Service as a potential threat to the President or any other protectee.

Within minutes of the crash, Secret Service personnel were dispatched to the scene; a perimeter was established; and the Explosive Ordnance Disposal team and the Secret Service Technical Security Division were called to look for any threatening devices. The Secret Service contacted the control tower at National Airport and was soon apprised of the

aircraft's owner. Within one hour of the crash, seven federal and D.C. agencies were on the south grounds of the White House.

The Review determined that individuals and agencies that responded to the crash interacted efficiently and cooperatively. Although the Review made a number of recommendations to improve security in the future, it was by and large impressed that the Secret Service's response was prompt, organized, and efficient.

The Review's primary concern arising from the Corder incident has to do, not with the response post-crash, but with an earlier phase of the plan for protecting the White House from air attack. Specifically, the system for alerting the Secret Service of the approach of suspicious aircraft did not function properly in the early morning hours of September 12th. As a result, the Secret Service was unaware of Corder's flight until he was quite near the White House.

The problem was not technical. Radars tracked the plane continuously from a point well before it entered the airspace over Washington, D.C. The Secret Service, at the time, was relying on FAA radar operators for early warning of approaching aircraft, an arrangement that dated back to 1974. In the intervening years, however, a misunderstanding developed between the two agencies as to the precise nature of the support the FAA was furnishing the Secret Service. As one graphic example of the breakdown in communication, the telephone line linking FAA radar operators to the responsible Secret Service officers was broken at the time of Corder's flight.

Today, I can assure you the telephone lines have been fixed and the misunderstandings corrected. Moreover, as a result of the Review, other measures have been taken that should substantially enhance the security of the White House from air attack.

Duran Incident

The second incident under review occurred on October 29, 1994, when Francisco Martin Duran pulled an SKS semiautomatic rifle from under his trenchcoat. Standing on Pennsylvania Avenue, Duran fired multiple rounds at the White House through the fence, pulled the weapon back and ran down the sidewalk towards 15th Street, continuing to fire through the fence as he ran. When Duran paused to reload his rifle, Harry Michael Rakosky, a tourist, tackled him. Two other citizens ran over and assisted in subduing Duran, and Secret Service Uniformed Division officers arrived to arrest him moments later. Most of this incident was captured on videotape by a passer-by.

What the videotape may not have revealed is that several Secret Service officers were prepared to shoot Duran, just before Mr. Rakosky tackled him. As soon as Duran began firing, a Secret Service Emergency Response Team officer ran across the North Lawn of the

White House toward Duran, using only trees as cover. As the videotape shows, the officer was running toward Duran as Duran fired shots in the officer's direction. When Duran stopped to reload his rifle, the officer neared the fence and pointed his weapon at Duran. But seeing Rakosky about to tackle Duran, the officer withheld fire and jumped over the fence to apprehend Duran. The officer heard one of the citizens say, "Thanks for not shooting me." Duran then responded "I wish you had shot me." A magazine with thirty rounds of live ammunition was found in Duran's coat pocket.

Another Secret Service officer patrolling the north grounds at the time of the shooting also drew his weapon and ran towards the fence. Before he was able to fire, however, Duran was tackled. This second officer then vaulted over the fence to assist in arresting Duran. These two officers, and a number of their Secret Service colleagues, reacted immediately and with unstinting heroism.

At the time of the shooting, the President was in a room in the opposite side of the Residence. Secret Service agents within the White House responded immediately to him, when shots were fired. The President was never in any danger.

Approximately 30 minutes after Duran's arrest, the Secret Service located his pickup truck based on a note found on his person. Officers recovered a shotgun, several boxes of ammunition, nerve gas antidote, and several handwritten notes, including one that said "kill the Prez."

Investigators determined that Duran was in the D.C. metropolitan area for approximately two weeks prior to the shooting. Before leaving his home in Colorado, Duran told several people that he intended to kill the President, but these individuals did not notify any law enforcement agency. I'd like to emphasize here that individuals can play a critical role in assisting the Secret Service by reporting statements or actions they witness that suggest a threat to the President or to the White House. Duran was not on record with the Secret Service's Intelligence Division, and no evidence was found that Duran approached the President prior to the day of the shooting. There is also no evidence that Duran had co-conspirators.

Duran was convicted in U.S. District Court of attempted assassination and nine other federal charges on April 5, 1995. His sentencing is scheduled for June 29, 1995.

Although the Review concluded that the Secret Service by and large responded well to the shooting, it made a number of recommendations with respect to the training, staffing, and equipping of Secret Service agents and officers at the White House. You may, for example, have noticed an increased Secret Service Uniformed Division presence on the sidewalk of Pennsylvania Avenue. Before the Duran shooting incident, the Secret Service largely left patrolling of this area to the Department of the Interior's Park Police. The Park Police, the

Secret Service, and the Metropolitan Police Department share jurisdiction in the public areas immediately north of the White House, and, as Secretary Rubin noted, the Review's recommendations include measures to enhance communication and coordination among these three organizations.

Pennsylvania Avenue Pedestrian Mall

At least one columnist has observed that converting Pennsylvania Avenue to a pedestrian mall will not prevent the Durans of the world from shooting at the White House in the future. But the Review not only examined the Corder and Duran incidents, it also tackled other kinds of potential air or ground attacks. After all, the general who plans only to refight the last war does not lead a successful army. The Review considered intelligence on a range of threats to the White House, and it was this portion of our work that gave rise to some of our more far-reaching recommendations.

Specifically, it is in this context that the Review recommended converting the segment of Pennsylvania Avenue that runs from Madison Place to 17th Street into a pedestrian mall. The main security concern that prompted this recommendation is that posed by explosive-laden vehicles. But I would like to emphasize that the Review reached its recommendation before the tragedy in Oklahoma City dramatized these risks.

The Review was not only concerned with protecting the presidency. It was also concerned with protecting the public's access to the White House, and the ability of visitors to view it up close. For that reason, we consulted an array of architects, historians, and urban planners, who uniformly endorsed the idea of converting this stretch of Pennsylvania Avenue into a pedestrian mall. They told us that it would increase public enjoyment of this national landmark by creating a friendlier environment in which to view the White House. I certainly think it looks friendlier without those chains that have been linking the bollards in front of the White House until this morning. Traffic experts, too, assured us that with proper implementation the neighboring streets could accommodate the diverted traffic.

The White House is, without question, a house like no other. For almost 200 years it has symbolized the American presidency, and our nation's system of elected government. The White House belongs to the American people, and it is a national treasure.

Perhaps the most "American" aspect of the White House is its accessibility, as evidenced by the hundreds of thousands of visitors -- from school groups, to Girl Scout troops, to families visiting from far away -- who walk through each year. Since President Jefferson's day, the White House has been an emphatically public residence -- the "People's House," which we may either enter or look upon without obstruction. In contrast, the great palaces of Europe were set within high walls and fences designed with protection in mind. The White House grounds were laid out at a time when security was not a great concern in

(MORE)

the United States. The openness of the White House to visitors is therefore distinctive. Where else in the world can a citizen secure a ticket to enter and tour the actual residence of the head of state and government?

The new pedestrian mall will foster that distinctively American accessibility to those in high office. Yesterday, when vehicles traveled up and down Pennsylvania Avenue, some tourists could be seen sprinting across the six lane avenue, darting between cars, to get to the White House sidewalk. In fact, over the past year and a half, at least 27 people were injured by vehicles traveling along this block of Pennsylvania Avenue. With today's change, Lafayette Park and the White House sidewalk are linked, and pedestrians can walk around freely.

At the same time, the pedestrian mall will reduce significantly the security risk that an explosive-laden vehicle will bring tragedy to the White House, its residents, employees, neighbors, and visitors. I am convinced, and our distinguished Advisory Committee is unanimously convinced, that this historic change to Pennsylvania Avenue and the other recommendations contained in our classified report will ensure that the White House continues to have an appropriate level of protection as we enter the 21st Century.

Now it is my pleasure to introduce the Director of the Secret Service, Eljay Bowron. Thank you.

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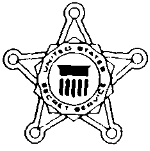

DEPARTMENT OF THE TREASURY
UNITED STATES SECRET SERVICE
WASHINGTON, D.C. 20223

DIRECTOR

STATEMENT OF DIRECTOR ELJAY B. BOWRON
UNITED STATES SECRET SERVICE
MAY 20, 1995

The White House Security Review has conducted an exhaustive study of our White House security programs with the full cooperation of the men and women of the Secret Service. The review has addressed each security issue from the perspective of assisting the Secret Service in our efforts to continually enhance the performance of our protective mission. It is important to state that the Secret Service constantly reviews all of its security practices, and no one is more interested than we are in efforts to provide the safest environment for the First Family and the others for whom we provide protection. The areas examined during the review included the most sensitive and critical aspects of our protective mission, which made full public participation inadvisable. We will continue to pursue these objectives and make necessary enhancements based on the review's recommendations and our own security assessments. As I have said in many of the briefings I have given on this matter, I was convinced that Pennsylvania Avenue was going to be converted in my lifetime. It was only a matter of whether it would be before or after an explosion. We appreciate the efforts of Secretary Bentsen, who initiated this review, and the leadership of Secretary Rubin who supports law enforcement and brought this review to fruition.

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Background Information on the WHITE HOUSE SECURITY REVIEW

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Background Information

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SECURITY REVIEW

May 1995

ERRATA

Please note a typographical error on page 1, line 1 and on page 30, line 5. The correct name for the plane cited is Cessna 150L.

DEPARTMENT OF THE TREASURY

Robert E. Rubin
Secretary of the Treasury

WHITE HOUSE SECURITY REVIEW

Ronald K. Noble
Under Secretary of the Treasury (Enforcement)

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The Honorable William T. Coleman, Jr.
The Honorable Charles W. Duncan, Jr.
General David C. Jones, USAF (Ret.)
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Note on the Background Information Provided

The following background information provides a brief description of the underlying facts of the September 12, 1994 plane crash and the October 29, 1994 shooting incident. In addition, it describes the methodology employed by the White House Security Review to investigate these and other incidents and to examine the security of the White House Complex from air and ground incursions. Letters from the Advisory Committee and the Office of the Inspector General attesting to the thoroughness and impartiality of the Review immediately follow this Note. Major recommendations from the Classified Report are included where it was possible to do so without compromising the security of the President and the White House Complex. Lastly, a history of the evolution of Presidential security is included to give perspective to the incidents and issues investigated by the Review.

The background information contained herein was extracted from the Classified Report of the White House Security Review. The Classified Report is classified in its entirety at the Top Secret level. It contains the complete and detailed analysis of the findings and recommendations of the Review. The Classified Report is over 500 pages long, with an Appendix of over 260 pages containing reports from the consultants and experts, as well as other documents. The Classified Report includes a detailed discussion, analysis and critique of the Secret Service's response to each of the incidents reviewed; a broad and detailed discussion of air security and ground security at the White House; and a discussion and analysis of the Secret Service's Intelligence Operation. In addition, at the conclusion of each chapter of the Classified Report, the Review made numerous specific recommendations pertaining to the Corder incident, the Duran incident, air security, ground security, and intelligence.

The extreme sensitivity of some of the material contained in the Classified Report necessitates a strict limit on the number of copies. Only two copies of the Classified Report exist. Finally, some information that the Review gathered was deemed so sensitive that it is not contained in the Classified Report and will be reported to the Secretary, the President, and the Congress in oral briefings only.

In addition to these precautions taken regarding the information included in the Classified Report, steps have also been taken to ensure the continued security of the Classified Report and the information contained in it, after the completion of the Review. The Department of the Treasury and the Congressional Oversight Committees have agreed that the Report will be reviewed only in the Specially Compartmented Intelligence Facility (SCIF) of the United States Congress. The Department of the Treasury and Congress have taken these steps to ensure the continued security of the sensitive information learned during the Review.

May 10, 1995

The Honorable Robert E. Rubin
Secretary of the Treasury
1500 Pennsylvania Avenue
Washington, D.C. 20220

Dear Mr. Secretary:

The Advisory Committee to the White House Security Review, having completed its assignment, submits the following assessment of that investigation.

On October 30, 1994, Secretary of the Treasury Lloyd Bentsen invited the undersigned to serve as members of an Advisory Committee to the White House Security Review (the "Review"). The Review had been initiated to investigate certain recent security-related incidents at the White House Complex (the "Incidents"). The Advisory Committee, chaired by Under Secretary of the Treasury (Enforcement) Ronald K. Noble, then was established to monitor and lend experience, judgment and critical insight to the Review's efforts.

As provided in the Review's Mission Charter, we were directed to meet as often as necessary to conclude that any erroneous procedures were discussed and changes proposed, and that the Review's findings and recommendations were supported by the facts presented. The Advisory Committee, in a sense, would conduct its evaluation on behalf of the group most interested in balancing the security and accessibility of the White House Complex -- the American people. In addition to this great responsibility, we recognized the added significance of evaluating the operations of the United States Secret Service, which is regarded as the world's authority on Head of State protection. We therefore accepted Secretary Bentsen's invitation and viewed his commission as an unequivocal mandate to ensure that the Review would be conducted in a principled, exhaustive and unbiased manner.

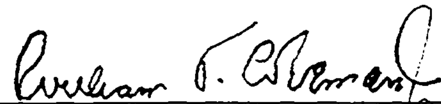
Our conclusions regarding the thoroughness and impartiality of Review are based on (i) the briefings provided during Advisory Committee meetings, (ii) the questions raised during discussions between the Advisory Committee and Under Secretary Noble's staff, (iii) the Review's investigative plan, which we reviewed, approved and monitored the implementation of, and (iv) the Review's Classified Report.

Under Secretary Noble convened Advisory Committee meetings during the course of the Review that consisted of briefings on various related issues. We had the benefit of on-site briefings at the White House Complex and the Air Traffic Control Tower at Washington National Airport to acquaint us with the operational aspects of those environments. Also, Under Secretary Noble conducted additional individual briefings to keep us informed of recent developments and to obtain advice on particular matters relating to the Review.

We are satisfied that the Review has been conducted in a thorough and unbiased fashion. Furthermore, we find no fault in the contents of the Review's Classified Report. We believe that the principles and concerns we have articulated throughout the Review have been addressed in full measure and are reflected in the Classified Report. Accordingly, the Advisory Committee concurs in the Review's recommendations. We are certain that the immediate implementation of the Review's recommendations will enhance even more the security of the President and the First Family within the White House Complex.

We respectfully commend this assessment of the White House Security Review to your favorable consideration.

Hon. Robert Carswell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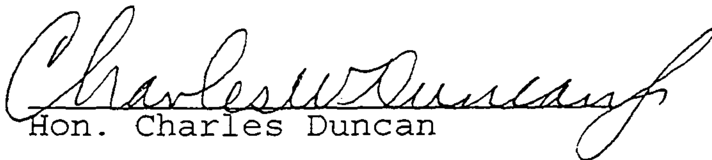
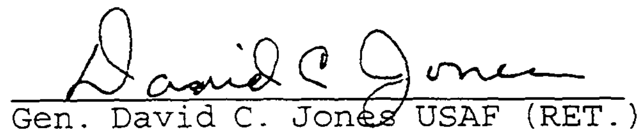
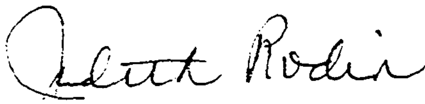
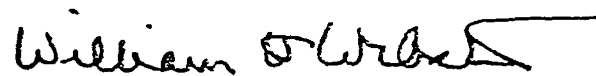

Hon. Charles Duncan


Gen. David C. Jones USAF (RET.)


Dr. Judith Rodin


Judge William H. Webster

OFFICE OF
SPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, DC 20220

May 1, 1995

MEMORANDUM FOR SECRETARY RUBIN

FROM: Valerie Lau *Valerie Lau*
Inspector General

SUBJECT: Department of Treasury's White House Security Review

Introduction

On September 12, 1994, the Department announced a two-phased inquiry into the aircraft crash that day at the White House. The Secretary asked Mr. Ronald K. Noble, Under Secretary for Enforcement, and Mr. Eljay Bowron, Director of the United States Secret Service (Secret Service), to conduct a multi-agency law enforcement investigation of the aircraft crash and to lead a thorough review of the procedures used to protect the President and First Family in such incidents. As part of this review, the Department was to examine and evaluate:

- The facts of the September 12, 1994 aircraft crash on the White House's South Lawn;
- The dangers posed to the White House complex and the protectees therein, by air and ground assaults;
- The adequacy of Secret Service's current procedures and policies for addressing these dangers;
- The effectiveness of established mechanisms for communicating to Secret Service vital intelligence information concerning possible air and ground assaults received by all relevant federal, state and local authorities concerning these risks;
- The feasibility of state-of-the-art technologies to enhance Secret Service's capability to safeguard the White House complex and protectees therein from air and ground assaults; and,
- The need to keep the White House as open and accessible to the public as possible consistent with valid security needs.

The Department further announced the Secretary's selection of an independent advisory committee to monitor and provide guidance to the review team and to ensure a comprehensive and impartial review. The advisory committee members were selected because of their national prominence, integrity and law enforcement or other relevant expertise. The advisory committee was responsible for reviewing the review team's findings and providing an independent assessment of the information contained in the final report.

Role of the Office of Inspector General

The Under Secretary for Enforcement requested the Office of Inspector General (OIG) to monitor the review and its findings and report to the Secretary on the thoroughness and objectivity of the review's final report. Also, the OIG was to comment on whether relevant information obtained during the investigation was properly consolidated and included in the final report.

The OIG's oversight role expanded to include subsequent events added to the scope of the review. For example, the OIG monitored the review team's examination of the October 29, 1994 shooting which occurred at the White House.

OIG Opinion

In our opinion, the Department's review was both objective and comprehensive. The review team vigorously and thoroughly examined all significant information surrounding the September 12, 1994 aircraft crash, the October 29, 1994 shooting incident, and other pertinent aspects of White House security. In addition, the review team's report addresses all the issues that either were included in the team's investigative plan or otherwise came to the review team's attention. To the best of our knowledge, the review team's findings are consistent with the facts developed and accurately reflect the circumstances surrounding the aircraft crash and the shooting.

Scope and Methodology

We arrived at our conclusions by determining whether the review team

- identified all appropriate issues for investigation and appropriately considered each issue in the team's planning process;

- reviewed pertinent documentation and information obtained by other law enforcement organizations involved in the incidents;

- identified and interviewed all appropriate individuals that could provide insight on the issues being examined;

- properly followed and satisfactorily resolved all appropriate leads from interviews with Secret Service agents and management personnel and other relevant persons;

- consulted external experts to obtain an independent assessment of the Secret Service's planning, training, and execution of its mission as it relates to the White House;

- properly considered input and advice provided by the advisory committee; and,

- reflected in the resultant report the body of information examined, and arrived at well-founded conclusions.

From the project's outset, we provided our views and comments on an ongoing basis to the project leadership as we thought would be appropriate. The team satisfactorily addressed our issues and associated questions during the review.

Our opinion is based on our review of

- all reports which Secret Service and its external consultants provided to the review team;

- memoranda of interview from selected interviews with Secret Service, Federal Aviation Administration, Central Intelligence Agency, Federal Bureau of Investigation, National Park Service and other personnel either knowledgeable or associated with aspects of White House security;

- other pertinent documentation related to Secret Service's investigation of the September 12, 1994 aircraft crash, the October 29, 1994 shooting incident at the White House, and subsequent events.

We participated in selected interviews where we observed the review team's work, and we accompanied the team on walkthroughs of the White House and the FAA's flight control tower at National Airport. We also attended numerous team status meetings in which project leaders discussed the team's efforts and the follow-up necessary to satisfactorily pursue and resolve issues.

We attended advisory committee briefings to observe the quality of the information provided for the advisory committee's use in assessing Treasury's White House security review. We believe that the information provided was accurate, based on information obtained at that time by team investigators, and was relevant to the main issues under examination. Additionally, we attended selected briefings with experts employed to assist in evaluating Secret Service's tactical operations and training. The experts' recommendations have adequately been considered and the results of their reports have been incorporated in the final report.

Conclusion

In our opinion, the review team's report provides an accurate account of the events examined. Furthermore, we believe that any conclusions made by the review team have a basis in fact and are consistent with the nature of the findings developed.

During the course of our oversight role, the project leaders cooperated fully and provided us unrestricted access to the information and documentation compiled by the review team during its investigation. We would like to compliment the team for a job well done.

BACKGROUND INFORMATION ON THE WHITE HOUSE SECURITY REVIEW

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SECTION ONE: METHODOLOGY AND PROCESS OF THE REVIEW

INTRODUCTION

On September 12, 1994, at 1:49 a.m., a Cessna P150 airplane crashed onto the South Lawn of the White House, killing the pilot, Frank Eugene Corder, but injuring no one else. The plane came to a halt against the south wall of the Executive Mansion, causing minimal damage. President Clinton and his family were not in residence at the time; hence, they were never in any danger.

This incursion into the White House Complex commanded the immediate attention of then-Secretary of the Treasury Lloyd Bentsen, who directed Under Secretary of the Treasury for Enforcement Ronald K. Noble and United States Secret Service Director Eljay B. Bowron to conduct a "thorough and comprehensive" investigation into the circumstances leading to the plane crash, the response of the United States Secret Service (Secret Service), and the adequacy of the procedures used to protect the President and First Family within the White House Complex.[1] In response to the Secretary's

[1]For purposes of the White House Security Review, the "White House (continued...)

directive, Under Secretary Noble formed the White House Security Review (the Review). This directive to conduct an exhaustive inquiry has been adopted fully by the present Secretary of the Treasury, Robert E. Rubin.

Shortly after the Review was established, a second disturbing incident occurred. On a mild, October afternoon, a lone individual, Francisco Martin Duran, positioned himself in front of the White House grounds and fired twenty-nine rounds from a semiautomatic assault rifle into the North Facade of the White House, endangering the lives of Secret Service Uniformed Division officers, White House visitors, and members of the press. Immediately, three nearby citizens subdued Duran, and Secret Service Uniformed Division officers took him into custody. Despite the presence of tourists, White House staff, Secret Service personnel, and others in the line of fire and on the sidewalk near Duran, no one was injured. President Clinton was in a room facing the south side of the Executive Mansion at the time of the incident and was never in any danger. The barrage of bullets struck the North Facade of the White House eleven times, including one bullet that penetrated a window in the Press Briefing Room in the West Wing.

(...continued)
Complex" includes the Executive Residence, the West Wing, the East Wing, and the Old Executive Office Building.

In light of these two incidents, then-Secretary Bentsen directed the Review to examine the following:

i) The facts surrounding the September 12, 1994 plane crash on the South Lawn and the October 29, 1994 shooting by Francisco Martin Duran at the White House Complex;

ii) The dangers posed to the White House Complex and protectees therein, by air or ground assaults;

iii) The adequacy of the procedures and policies currently used by the Secret Service to address these dangers;

iv) The effectiveness of established mechanisms for communicating to the Secret Service vital intelligence information concerning possible air and ground assaults received by all relevant federal, state and local authorities *(e.g.*, the Central Intelligence Agency (CIA), the Federal Bureau of Investigation (FBI), and state and local police);

v) The feasibility of techniques and measures, including state-of-the-art technologies, to enhance the capability of the Secret Service to safeguard the White House Complex and protectees therein from air and ground assaults; and,

vi) The need to keep the White House open and accessible to the American public without jeopardizing valid security concerns.

In late December 1994, four additional incidents were reported by the media as possible security breaches at the White House. The most significant of these incidents occurred the morning of December 17, 1994, when four shots were fired from a 9mm handgun at the Executive Residence from an unknown point south of the Ellipse. Two shots landed short of the Executive

Residence, one landed on the State Floor balcony, and the fourth penetrated a window in the State Floor Dining Room. The other three incidents were examined because they occurred during the pendency of the Review and were reported by the media as raising further questions about White House security. These incidents did not, however, pose any serious threat to the security of the President. In fact, they are representative of events commonly faced by the Secret Service and the United States Park Police (Park Police).

The first of these incidents occurred on December 21, 1994, when Secret Service Uniformed Division officers opened the Southwest Gate to the White House Complex to permit an authorized vehicle to enter. When the gate was opened, an individual ran through it and started up West Executive Avenue. The individual was apprehended immediately by Uniformed Division officers. This individual had been identified previously by the Secret Service for his peculiar and extreme interest in the White House.

The second of these incidents occurred early in the morning of December 23, 1994, when a Secret Service Uniformed Division officer patrolling the South Executive Avenue sidewalk just south of the White House Complex grounds noticed a suspicious-looking individual. A Park Police

officer, who was alerted by the Secret Service, conducted a protective search of the individual and recovered a 9mm handgun.

The third incident also occurred on December 23, 1994, when a man parked his car on E Street between the South Lawn of the White House grounds and the Ellipse and exited the vehicle, leaving the motor running. The man then sprinted across the Ellipse toward the Washington Monument. Both Uniformed Division and Park Police officers approached him and said that he could not leave his car parked in that location. The man told the officers that the car contained a bomb. The Uniformed Division officers immediately called for an Explosive Ordnance Disposal (EOD) technician to examine the vehicle. A search of the vehicle revealed that it did not in fact contain any explosive devices.

One final incident occurred during the Review that received national news coverage because it was a fatal shooting that occurred in front of the White House. On December 20, 1994, an individual wielding a knife threatened a Park Police officer on the north side of Pennsylvania Avenue across from the White House. The individual, Marcelino Corniel, then ran across the street to the sidewalk directly in front of the White House. Park Police and Secret Service Uniformed Division officers surrounded the

individual and demanded that he drop his knife. Subsequently, he was fatally shot by a Park Police officer. This incident did not concern the security of the White House Complex, but concerned primarily the conduct of an officer outside the jurisdiction of the Department of the Treasury. This incident is currently the subject of a homicide investigation (as is any fatal shooting by a law enforcement officer in the District of Columbia), and was not incorporated into the Review. The incident demonstrated, however, the possible problems inherent in having multiple law enforcement agencies share jurisdiction over the streets and parks contiguous to the White House.

THE STRUCTURE OF THE REVIEW

The events that led to the formation of the Review generated intense public interest in the personal security of the President and First Family, and in the physical security of the White House Complex. As President Clinton recognized in his weekly Saturday radio address following the Corder incident, the Executive Residence is regarded by the public as the "People's House." Nevertheless, it is vitally important to preserve the confidentiality of the protective methodology employed by the Secret Service. To respond to the public demand for a thorough accounting, while also satisfying the Review's obligation to safeguard national security information, the Secretary of the

Treasury reached beyond the Department of the Treasury for assistance in conducting this inquiry. Six individuals universally esteemed for their professional achievement and integrity were invited to serve on an Advisory Committee to the Review. The Committee's role, as defined in the Mission Charter, was to "assure that the Review [was] comprehensive and objective, that its findings [were] supported by the facts, and its recommendations [were] sound."

The following individuals volunteered countless hours of their time, shared their insights, and contributed their expertise to ensure that the Review was conducted in a rigorous, thorough, and impartial manner:

ROBERT CARSWELL. Secretary Carswell served as Deputy Secretary of the Treasury from 1977 to 1981. Prior to that he served as an officer in the Office of Naval Intelligence (1952 - 1955) and as Special Assistant to the Secretary of the Treasury (1962 - 1965). In 1980, he served as the United States negotiator of the financial provisions contained in the United States - Iran hostage accord. In 1964, Mr. Carswell worked on an internal review of the Secret Service's presidential protective operations in the wake of the Kennedy

assassination. He is currently a senior partner at the law firm of Shearman & Sterling.

WILLIAM T. COLEMAN, JR. Secretary Coleman served as Secretary of the Department of Transportation from 1975 to 1977. Secretary Coleman was a principal author of the NAACP Legal Defense Fund's Supreme Court brief in *Brown v. Board of Education*. He has compiled a distinguished record of public service, having served as senior consultant and counsel to the President's Commission on the Assassination of President Kennedy; Co-Chairman of the Secretary of State's Advisory Committee on South Africa; Consultant to the United States Arms Control and Disarmament Agency; Member of the National Commission on Productivity and Member of the President's Committee on Government Employment Policy. He is a senior partner at the law firm of O'Melveny & Myers.

CHARLES W. DUNCAN, JR. Secretary Duncan served as Deputy Secretary of Defense under President Carter and, in 1979, he became the second Secretary of the Department of Energy. Secretary Duncan also has enjoyed a distinguished career in the private sector. He held various management positions at Duncan Foods in Houston, Texas, and later

served as chairman of Coca-Cola Europe. In 1971, he became president of the Coca-Cola Corporation, a position he held until 1974.

DAVID C. JONES. General Jones served as Chairman of the Joint Chiefs of Staff from 1978 to 1982. Previously, he served four years as Chief of Staff of the United States Air Force. During the Korean War, General Jones was assigned to a bombardment squadron and accumulated more than 300 flying hours on missions over North Korea. In 1969, he served in Vietnam as Deputy Commander for Operations and as Vice-Commander of the Seventh Air Force. He also served as the Commander-in-Chief of the United States Air Forces in Europe and, concurrently, as Commander of the Fourth Allied Tactical Air Force. In that position, he played a principal role in establishing the integrated air headquarters in the North Atlantic Treaty Organization (NATO) Central Region, Allied Air Forces, Central Europe.

JUDITH RODIN. Dr. Rodin is President of the University of Pennsylvania. Until her appointment to that position, she held the Philip R. Allen Professorship of Psychology at Yale University. She joined the faculty at Yale in 1972, and later served as Provost and Dean of the Graduate School of Arts and Sciences. She has published 203

articles in academic journals and has authored and co-authored ten books. Dr. Rodin also serves as a member of President Clinton's Committee of Advisors on Science and Technology.

WILLIAM H. WEBSTER. Judge Webster was appointed to the United States District Court for the Eastern District of Missouri in 1970 and elevated to the United States Court of Appeals for the Eighth Circuit in 1973. He was appointed Director of the FBI in 1978, and held that position until 1987, at which time he was appointed Director of the CIA, a position he held until 1991. Judge Webster also served as Special Advisor to the Los Angeles Police Commission, which was formed following the civil unrest relating to the Rodney King incident. He is currently a senior partner at the law firm of Milbank, Tweed, Hadley & McCloy.

The Advisors met five times as a group to discuss the work and findings of the Review.[2] Advisors also met individually with Under Secretary Noble and members of the Review to review documents, examine facilities, receive

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[2]The Advisory Committee was specially exempted by Congress from the provisions of the Federal Advisory Committee Act. Treasury, Postal Service and General Government Appropriations Act of 1995, Pub. L. No. 103-329, § 540.

individual briefings and analyze data. Upon completion of the investigation, the Advisors discussed the Classified Report, the final recommendations of the Review, and the Classified Report's Executive Summary.

The Review was divided into two parts. The Under Secretary formed a Review Team for Main Treasury, and the Director of the Secret Service formed an investigative team within the Secret Service. The Main Treasury Review was conducted by attorneys, most of whom were from outside the Department of the Treasury. The Executive Director for the Review was David L. Douglass, a former federal prosecutor, who is presently an attorney at the law firm of Wiley, Rein & Fielding. R. Keith Walton, Senior Advisor to the Under Secretary of the Treasury (Enforcement), and Barbara Mack Harding, an attorney at Kirkland & Ellis and a former federal prosecutor, served as Deputy Directors. Elisabeth A. Bresee, a former Assistant United States Attorney for the District of Columbia, served as the Director. Four individuals served as Assistant Directors: Lewis A. Grossman, an attorney at Covington & Burling; James E. Johnson, Deputy Chief of the Criminal Division for the United States Attorney for the Southern District of New York; Neil McKittrick, an attorney at Hill & Barlow; and Alison Tucher, who had just completed a clerkship with Justice Souter of the Supreme Court of the United States.

Furthermore, the Review could not have been completed without substantial assistance from the following members of the team: Ina W.E. Boston, Intelligence Specialist; Lorraine Rooks Cary, Writer-Editor; Shana Dixon, Management Program Technician; Gail V. Harris-Berry, Office Manager; Adrian Olson, Management Information Specialist; Loretta P. Veres, Assistant Office Manager; and Erik H. Werth, Special Assistant.

In addition, the Treasury Inspector General, Valerie Lau, attended Advisory Committee meetings and monitored the work of the Review to ensure that the Secretary's directive was implemented properly. Inspectors from her office met regularly with members of the Review, attended briefings, reviewed documents gathered during the course of the Review, and reviewed the Classified Report throughout the drafting process. A copy of the Inspector General's letter to the Secretary of the Treasury reporting the findings and evaluation of her office precedes this summary. Edward S. Knight, General Counsel of the Department of the Treasury, provided advice and assistance to the Review and the Advisory Committee. Robert M. McNamara, Jr., Assistant General Counsel of the Treasury (Enforcement), served as Counsel to the Review.

The Review retained consultants to evaluate various technical aspects of its analysis. These consultants provided oral briefings to the Review and submitted written reports, which are included in the Appendix to the Classified Report. The Review's consultants include:

MERRILL A. MCPEAK. General McPeak recently retired as Chief of Staff of the United States Air Force, a position he had held since 1990. As Chief, he served as the senior uniformed Air Force officer responsible for a combined active duty, Guard, Reserve, and civilian force of over 850,000 people serving at approximately 1,300 locations in the United States and overseas. As a member of the Joint Chiefs of Staff, he functioned as a military advisor to the Secretary of Defense, the National Security Counsel, and the President. General McPeak provided expert advice to the Review concerning command and control issues and technical options. General McPeak also acted as the Review's liaison to the Department of Defense working groups formed to assist the Review.

EUGENE F. GRENEKER. Currently Mr. Greneker is the Physical Security Technical Area Manager of the Sensors and Electromagnetic Applications Laboratory at the Georgia Institute of Technology. Mr.

Greneker has served as the Project Director of eleven major projects conducted through the Georgia Tech Research Institute, each incorporating radar as the focal point. These radar-related investigations have been conducted for the United States Army, the United States Air Force, Sandia National Laboratories, the United States Customs Service, the National Highway Safety Administration, the United States Coast Guard, the United States Department of Agriculture, the Georgia Department of Transportation, and the State of Georgia Governor's Office. Mr. Greneker provided advice on radar-related issues.

ROBERT P. BRLETICH. Lieutenant Colonel Brletich is the Chief, Physical Security Branch, Office of the Deputy Chief of Staff for Operations and Plans for the United States Army. He has twenty-three years of extensive experience in physical security, law enforcement, administration, and policy formulation. Lieutenant Colonel Brletich provided advice on matters relating to physical security at the White House Complex.

To manage the Secret Service's internal investigation, Director Bowron assigned nine seasoned Secret Service Inspectors,[3] under the direction of Assistant Director of the United States Secret Service Office of Inspection James G. Huse, Jr., a twenty-four year veteran of the Secret Service, who also served in two combat tours in Vietnam as an Army officer, to conduct the initial investigation. These Inspectors drew upon their familiarity with Secret Service policies, practices, and history to gather relevant facts and to memorialize the Service's oral history with regard to its air defense and ground defense practices. They also acted as the Secret Service's liaison to the Review Team.

The Secret Service also retained seven outside consultants to assist in evaluating the Service's responses to the underlying incidents, and to study options for improving the security of the White House. The Secret Service's consultants also provided oral briefings to the Review and submitted written reports, which are included in the Appendix of the Classified Report. The Secret Service's consultants include:

[3]In total, twenty-seven Secret Service personnel were assigned to the investigative team, including the Inspectors.

MARTIN ANNIS. Dr. Annis is President of AnnisTech, a research and development company specializing in the development of inspection systems to deter terrorists and narcotics smugglers. Dr. Annis has performed research in the use of x-radiation from nuclear weapons to intercept Soviet Intercontinental Ballistic Missiles (ICBM), and is recognized worldwide for his expertise in x-ray technology. Dr. Annis is also a private pilot who is familiar with air traffic problems in the Washington, D.C. area.

PETER T. BERRY. Major General Berry is the Commander, United States Army Criminal Investigative Command, Falls Church, Virginia. Major General Berry has commanded numerous Army criminal investigations detachments in Europe, Korea, and the United States. He also serves as a member of the Executive Committee of the International Association of Chiefs of Police.

WILLIAM C. BOYKIN. Colonel Boykin is a former Commanding Officer for the United States Army, Delta Force. He is an expert on counterterrorism and special operations.

JOE E. DOLLAR. Dr. Dollar is the Chief Scientist of the National Air Intelligence Center, Wright Patterson Air Force Base, Ohio. Dr. Dollar has developed telemetry ground stations for use by NASA, and has coordinated technical intelligence for the United States Army Missile Command Intelligence Directorate. He has served on numerous threat advisory groups, and has published several studies related to missile and air defense systems.

W. DOUGLAS GOW. Former Associate Deputy Director of the FBI, Mr. Gow is a nationally recognized expert on terrorism and intelligence affairs. Currently Mr. Gow is a consultant to the CIA on counterintelligence policy.

DAN SWARTWOOD. As Senior Program Manager, Mantech Strategic Associates, Ltd., Mr. Swartwood manages contracts involving compliance with international treaty requirements for both government and commercial clients. He is an authority on Operations Security (OPSEC), and the safeguarding of proprietary information.

CENTRAL INTELLIGENCE AGENCY CONSULTANT. Former Special Assistant to the Director of the CIA for Central Intelligence for

Counterterrorism from 1988 to 1992. This consultant is currently a senior CIA official who reviews operational security issues and is an expert in field operations.

METHODOLOGY

The Investigation

Because the Review constituted the most complete inquiry ever conducted into the protective methodology of the Secret Service by non-Treasury personnel, the documents reflecting this information were uniformly handled according to security protocols established by the Secret Service. In addition, background checks were conducted on all non-Secret Service Review personnel. All participants, including Advisory Committee members, Review members, officials from other federal agencies and congressional staff members, signed non-disclosure agreements before they were given access to any information. The non-disclosure agreements did not, however, prevent any Review member from sharing relevant information with appropriate Congressional Oversight Committees.

During the Secret Service's internal review, former Secret Service personnel were interviewed on a variety of topics. At the direction of the Under Secretary, the Secret Service reserved interviews of non-Secret Service witnesses for the Main Treasury Review, to reduce any appearance of partiality.[4] The Secret Service located and collected documents relevant to the Review from the files and archives of the Secret Service. At the conclusion of its internal investigation, the Secret Service presented a report of its findings, conclusions, and recommendations to the Review for further analysis.

The documents and interview reports compiled by the Secret Service served as the starting point for the Review's evaluation. After evaluating the Secret Service report, the Review interviewed Secret Service personnel, obtained additional documents, and interviewed individuals from other agencies. When the Review required a definitive statement of official Secret Service policy, it submitted written questions to the Secret Service.

The Review also consulted extensively with numerous other governmental agencies. At the request of the Review, the Department of

[4]In the aftermath of the September 12 crash, and before the Review began, Secret Service and FBI agents interviewed the air traffic controllers on duty the night of the plane crash. These individuals were interviewed again by the Review in the course of its investigation.

Defense convened working groups of technical experts in air and ground intrusion detection and response to evaluate the surveillance systems presently deployed at the White House Complex. The Review also consulted the Department of Transportation and the Federal Aviation Administration (FAA) on air traffic control and radar detection issues. The Review consulted the CIA and the FBI concerning terrorist activity and how those agencies share intelligence information with the Secret Service. The Department of the Treasury's Bureau of Alcohol, Tobacco and Firearms (ATF) provided detailed analyses to the Review on the availability and effectiveness of various types of weapons and explosives, as well as information regarding the weapons seized pursuant to the October 29, 1994 shooting. The State Department provided information concerning its protection of United States embassies overseas. The Review consulted the United States Capitol Police regarding the challenges they face, and the policies and methods they use to meet those challenges to provide security at the Capitol building. The Park Police provided information regarding specific incidents and their role in patrolling areas contiguous to the White House Complex.

In addition, the Review examined Secret Service facilities and systems, examined the scenes of the underlying incidents, and observed air traffic control tower operations at Washington National Airport. Members of the

Review and its consultants observed tests and demonstrations of systems proposed or being evaluated for use by the Secret Service.

The Review consulted official representatives of the protective security agencies for the heads of state of Great Britain, France, Italy, Japan, Germany, Israel, and Korea, as well as the security agency for the Vatican City. These consultations provided an opportunity to discuss and compare the challenges and constraints faced by the Secret Service's foreign counterparts as they endeavor to achieve an appropriate level of security in their respective societies. The Review learned that, without exception, there is significantly greater public access to the White House than to the residences of the chief executives abroad. For instance, the White House is the only executive residence where public tours are permitted while the Chief Executive is in residence.[5] Moreover, the foreign protective agency representatives uniformly praised the Secret Service as being one of the most elite protective agencies in the world. In fact, several of the foreign protective agencies interviewed stated that they model their protective operations after those of the Secret Service.

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[5]Buckingham Palace is the only other executive residence where public tours are permitted, and then only when the Queen is not in residence.

The Review also interviewed former Presidents Ford, Carter, and Bush to obtain their perspectives as long-time protectees of the Secret Service.[6] These interviews illuminated the unique relationship between the Secret Service and Presidents and former Presidents. The Review also sought the former Presidents' views as residents of the Executive Residence concerning the appropriate balance between security and public access to the White House Complex. The Presidential interviews highlighted, among other issues, the many special choices and compromises that must be made to balance the Secret Service's protective responsibilities against a President's desire to remain accessible to the public.

All totaled, the Review interviewed and received briefings from over 250 individuals from various agencies and organizations including, but not limited to, the Secret Service, the FBI, the CIA, the FAA, ATF, the Metropolitan Police Department (MPD), the Park Police, the Capitol Police, the Department of State, and the Department of Defense. In addition, the Review examined over 1,000 documents from the agencies listed above.

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[6]In light of recent public announcements regarding the health of former President Reagan, the Review did not request to interview him.

The Review also met with representatives from groups concerned with public access, including Congresswoman Eleanor Holmes Norton; Fred Thomas, Chief of the MPD; members of the Bloomingdale Civic Association; Laurence Reuter, General Manager of the Washington Metropolitan Area Transit Authority; Dr. Daniel Boorstin, former Librarian of Congress; Dr. William Seale, the former White House Historian; George White, the Architect of the Capitol; Harvey Gantt, Chairman and Reginald Griffith, Executive Director of the National Capital Planning Commission; engineering representatives of Washington Metropolitan Area Transit Authority and the District of Columbia Public Works Department; and members of the Executive Committee for the Comprehensive Design Plan for the White House. Furthermore, the Review examined over 200 letters from private citizens concerned with security and public access to the White House.

In addition, the Review consulted with noted architects and urban planners regarding a pedestrian mall concept and public accessibility to the White House. These architects and urban planners included Harold Adams; Max Bond; Mark Bunnell; Maxine Griffith; Nicholas Quennell; William H. Whyte; and John Warnecke, designer of the Lafayette Square project for former First Lady Jacqueline Kennedy Onassis and early proponent and designer of a pedestrian mall in front of the White House. Furthermore, the

Review met with noted transportation planner and traffic engineer, Georges Jacquemart.

THE STRUCTURE OF THE REPORT

The Review studied information that varied in sensitivity, including publicly available information, law enforcement sensitive but unclassified information, and classified information. The classified information covers the spectrum from confidential through Top Secret, and in very limited instances, codeword-classified information.

The Classified Report

The Classified Report is classified in its entirety at the Top Secret level. It contains the complete and detailed analysis of the findings and recommendations of the Review. The Classified Report itself is over 500 pages long. The Appendix to the Report, which includes the reports of all of the consultants and experts, as well as other documents, is over 260 pages. The Classified Report includes a detailed discussion, analysis, and critique of the Secret Service's response to each of the incidents reviewed; a broad and detailed discussion of air security and ground security at the White House; and a discussion and analysis of the Secret Service's Intelligence Operation. In

addition, at the conclusion of each chapter of the Classified Report, the Review made numerous specific recommendations pertaining to the Corder incident, the Duran incident, air security, ground security, and intelligence. Furthermore, the Review made eleven major recommendations at the conclusion of the Classified Report. The majority of the Review's recommendations are not being disclosed to the public for security reasons.

The extreme sensitivity of some of the material contained in the Classified Report necessitates a strict limit on the number of copies in existence. Only two copies of the Classified Report exist. Finally, some information that the Review gathered was deemed so sensitive that it is not contained in the Classified Report and will be reported to the Secretary, the President, and the Congress in oral briefings only.

In addition to these precautions taken regarding the information included in the Classified Report, steps have also been taken to ensure the continued security of the Classified Report and the information contained therein, after the completion of the Review. The Department of the Treasury and the Congressional Oversight Committees have agreed that the Report will be reviewed only in the Specially Compartmented Intelligence Facility (SCIF) of the United States Congress. The Department of the Treasury and Congress

have taken these steps to ensure the continued security of the sensitive information learned during the Review.

The Review acknowledges that it cannot publicly answer many of the questions raised by the September 12, 1994 plane crash, the October 29, 1994 shooting incident, and security at the White House Complex. The interests of national security, the security of the President and the First Family, future Presidents, and the White House Complex demand that this information be strictly safeguarded. While the Review cannot reveal publicly the details of many of its findings, the Department of the Treasury has made every effort to assure the thoroughness and objectivity of the Review. The guidance of the Advisory Committee and the oversight provided by the Inspector General's Office ensure the Review's impartiality. In addition, the Review retained outside experts and consultants for their expertise in technology and operational protocol, as well as for their objectivity. Lastly, the Review has consulted and briefed the appropriate Congressional Oversight Committees throughout this investigation.

LIMITATIONS

There were several significant limitations to this Review. First, the Review was concerned almost exclusively with the performance of the Secret Service rather than the performance of non-Treasury agencies. Although the responses and official policies of other agencies are noted where relevant, the Review generally did not evaluate the adequacy of those responses and policies. The Review was formed by the Secretary of the Department of the Treasury to examine the Secret Service, one of Treasury's bureaus. There was nothing to be gained by pointing fingers at others when the Secret Service bears the ultimate responsibility for protecting the President.

Second, some of the incidents covered by the Review were the subject of criminal investigations. Accordingly, the Review was conducted so as not to interfere with either the investigations and pending prosecutions or the rights of the accused. Thus, no interviews concerning the October 29 shooting incident were conducted without prior notification of the United States Attorney for the District of Columbia, and interviews were limited to Secret Service and other law enforcement personnel. Similarly, the Review relied on existing statements of Secret Service personnel in its limited review of the

shooting of Marcelino Corniel -- the knife-wielding person who was shot in front of the White House on December 20, 1994.

Third, the Review focused on the practices, policies, and procedures of the Secret Service as an institution. The performance of individuals was not the focus of this effort. When a question of integrity arose, it was referred to the Secret Service Office of Inspection and to the United States Attorney's Office for the District of Columbia.

Fourth, as set out in its Mission Charter, the Review focused on the protective mission of the Secret Service at the White House Complex and did not address Secret Service protective activities at other locations. In addition, the Review did not investigate certain aspects of White House security. The specific aspects not examined by the Review are set forth in detail in the Classified Report.

Finally, the Review was never envisioned as an open-ended study of White House security. It was established to provide a limited assessment of specific incidents and the level of protection presently afforded at the White House. Although events occurring subsequent to the formation of the Review expanded its scope and duration, it nonetheless remained a finite project.

Interim measures were adopted where necessary; permanent solutions were implemented where possible. Where solutions could not be identified or immediately implemented, the Review established a process to address and resolve the outstanding issues. Nonetheless, because the Under Secretary for Enforcement has direct line authority over the Director of the Secret Service, the Under Secretary can ensure that the lessons of this Review become integrated into the practices and procedures of the Secret Service.

SECTION TWO: SUMMARY STATEMENT OF FACTS

THE SEPTEMBER 12, 1994 PLANE CRASH

On Sunday, September 11, 1994, after spending an evening with his brother consuming alcohol and smoking crack cocaine, Frank Eugene Corder asked his brother to drop him off in the vicinity of Aldino Airport in Churchville, Maryland. Corder walked to the airport and found the keys to a Cessna P150 airplane that had been returned to the airport earlier that day after having been rented by another individual. Although Corder was not a licensed pilot, he had taken several lessons in the aircraft and had flown it several times during the summer of 1993.

According to the airplane's hobbsmeter, which records the engine's total running time, Corder started the plane's engine at 11:55 p.m. FAA radar at the Baltimore/Washington International Airport first detected the airplane in the vicinity of York, Pennsylvania, at 1:06 a.m. Precisely what transpired in the interim is unknown.

Corder's flight path from York can be discerned from FAA radar records. He flew south for a short distance and then west.[7] At 1:44 a.m., the National Airport tower began receiving transmissions that showed that Corder was approximately 6.5 miles north of the White House, flying at an altitude of 2700 feet. The aircraft descended approximately 1000 feet over the next three minutes. At 1:47 a.m., the airplane turned directly south. It passed over Washington Circle and entered the prohibited airspace that surrounds the White House at approximately 1:48 a.m. The protected airspace, designated as P-56, is a no-fly zone that generally encompasses the White House and the Mall from the Lincoln Memorial to the Capitol. The plane flew toward the Mall descending rapidly.

Corder then passed over the Ellipse and dove directly toward the White House at a steep angle of descent. His plane crashed onto the White House lawn just south of the Executive Mansion at approximately 1:49 a.m. The aircraft skidded across the ground, struck a magnolia tree just west of the South Portico steps, and hit the southwest corner of the first floor of the Mansion. The President and First Family were not in the Mansion at the time of the

[7]The exact flight path of Corder, while known and verified, is not being detailed for security reasons.

crash. They were residing at Blair House while the White House was undergoing renovations. There was minimal damage to the Mansion.

Corder died from multiple, massive blunt-force injuries. Based on the physical evidence, the National Transportation Safety Board (NTSB) concluded that the crash was intentional rather than a failed attempt at a controlled landing. The airplane's velocity on impact clearly exceeded a safe landing speed. Moreover, the airplane's wing flaps were up and its throttle position was "full forward," neither of which is characteristic of an aircraft in a landing posture. At the time of the crash, Corder was thirty-eight years old. He abused alcohol and cocaine, and faced a wide array of financial, marital, and legal problems. Both cocaine and alcohol were found in Corder's blood after the crash. The D.C. Medical Examiner ruled Corder's death a suicide. The Review did not discover information inconsistent with this conclusion.

Although Corder had previously expressed dissatisfaction with the policies of the Clinton administration and expressed antipathy to President Clinton, there is no evidence that the purpose of the flight was to harm the President, or any other Secret Service protectee. Prior to this incident, Corder had not come to the attention of the Secret Service as a potential threat to its protectees. It appears that by crashing onto the White House lawn, Corder

was attempting to fulfill an ambition he had expressed to friends to kill himself "in a big way" by flying an airplane into the White House, or into the dome of the Capitol.

Within minutes of the crash, additional Secret Service personnel were dispatched to the scene, a perimeter was established, the Technical Security Division (TSD) and the military's Explosive Ordnance Disposal (EOD) team were called to investigate for explosives, and the Presidential Protective Division (PPD) was notified. In addition, the D.C. Fire Department and paramedics were summoned, and the control tower at National Airport was contacted regarding the crash. Corder's name was also found and reported for investigation.

Within one hour of the crash, individuals representing seven agencies were at the site. In addition to Secret Service and EOD personnel, the FBI, the MPD, ATF, and the NTSB responded to the scene.

Individuals responding to the scene reported that the various agencies interacted efficiently and cooperatively. The work of rendering the scene safe, ensuring that the airplane did not contain explosives, securing the evidence, and initiating the criminal investigation proceeded in an organized fashion.

THE OCTOBER 29, 1994 SHOOTING

On Saturday October 29, 1994, at approximately 2:55 p.m., Francisco Martin Duran stood on the south sidewalk of Pennsylvania Avenue in front of the White House. Suddenly, he pulled a Chinese-made SKS semiautomatic rifle from underneath the tan trench coat he was wearing, pointed the barrel of the rifle through the bars of the White House fence, and fired multiple rounds toward the White House. He then pulled the weapon back from the fence and ran down the sidewalk from west to east, toward 15th Street, continuing to fire through the fence as he ran. When Duran paused to empty his magazine and reload, Harry Michael Rakosky, a tourist, tackled him. Two other citizens, Kenneth Alan Davis and Robert Edward Haines, ran over and assisted Rakosky in subduing Duran until Secret Service Uniformed Division officers arrived seconds later. Much of this incident -- most notably the heroic actions of the citizens -- was videotaped by Jerome Kenneth Agan, a tourist who was filming the White House when Duran began shooting. The videotape depicts Duran from the point he ran down Pennsylvania Avenue firing his weapon, to when he was taken into Secret Service custody.

Uniformed Division officers on the north grounds of the White House responded to the shots instantaneously. Several officers had drawn their

weapons and sighted on Duran, but held their fire when he was tackled by Mr. Rakosky. Although the quick-thinking heroism of the citizens understandably eclipsed the actions of the Secret Service, the officers on duty nonetheless responded courageously and effectively under fire.

Specifically, an Emergency Response Team (ERT) officer was patrolling the north grounds when Duran opened fire. Using only the trees as cover, that officer ran across the north lawn of the White House toward Duran, drawing his weapon as he ran. The videotape of the incident shows the officer running toward Duran as Duran is shooting in the officer's direction. When the gunfire stopped, the officer saw Duran reach toward his left coat pocket. As the officer neared the fence, he pointed his weapon at Duran. Before he could shoot, he saw a citizen lunge toward Duran. The officer held his fire, holstered his weapon, and climbed over the fence. He and a sergeant, who ran down Pennsylvania Avenue from the Northwest Gate, were the first two officers to reach Duran. The officer held Duran to the ground while ordering the citizens to move away from the area. He heard one of the citizens say, "Thanks for not shooting me." Duran then responded, "I wish you had shot me." The officer recovered a magazine from Duran's coat pocket loaded with thirty rounds of live ammunition.

A second ERT officer also was patrolling the north grounds, east of the North Portico, when he heard gun shots and saw a crowd of people running. He drew his weapon and ran toward the fence. Before the officer was able to fire, Duran was tackled. The officer then climbed over the fence and assisted the first officer.

When the shooting began, an ERT sergeant who was designated as the ERT team leader, ran east across the North Lawn behind the first officer, also using the trees for cover. After the citizens tackled Duran, the sergeant ran out the Northeast Gate and down the sidewalk to assist in placing Duran under arrest. The ERT sergeant then notified the PPD Command Center that the subject had been apprehended.

At the time of the shooting, President Clinton was watching television in a room on the south side of the Residence. PPD agents responded immediately to the President upon shots being fired. The President was the only protectee in the White House at that time, and was in no danger from this incident.

Duran was placed under arrest and transported to a Secret Service holding area at the Northwest Gate. Upon searching him, the Secret Service

recovered a one-page, handwritten note identifying himself and his wife and directing the Secret Service to his vehicle, stating that it was parked near the White House. A lookout was broadcast, and approximately thirty minutes after his arrest, Duran's pick-up truck, bearing Colorado tag 23822JX, was located by a Uniformed Division K-9 officer. The truck was checked for explosives and eventually searched. Officers recovered a Mossberg 410 gauge shotgun, many boxes of ammunition, several gun-related items, and nerve gas antidote. The truck also contained several documents, including an atlas bearing a series of handwritten notes, one of which said "Kill the Pres!"

Duran fired at least twenty-nine shots at the White House.[8] Miraculously, although there were many people on the north grounds at the time, no one was injured in the attack. Eleven of the rounds struck the White House facade. One bullet penetrated a window in the Press Briefing Room in the West Wing.

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[8]Twenty-nine rounds were ultimately recovered. However, the magazine Duran used holds a total of thirty rounds, and it was empty when recovered.

Overall, the Secret Service responded efficiently and effectively to the shooting. ERT officers responded to the shooter, courageously moving toward Duran with only trees for cover. As the first shots were fired, PPD agents immediately responded to the President who was not in danger from the gunfire. ERT officers apprehended Duran within seconds of the last shot being fired, and Uniformed Division officers quickly determined that there were no injuries and secured the crime scene.

Duran was arrested and ultimately convicted on a ten-count, superseding indictment charging him with Attempted Murder of the President of the United States,[9] four counts of Forcible Assault on an Officer of the United States, Possession of a Firearm by a Convicted Felon, Injury and Depredation Against Property of the United States (namely the White House), Carrying and Use of a Firearm During a Crime of Violence, and Interstate Transportation of a Firearm. Duran asserted an insanity defense at trial. Duran's trial began on March 16, 1995, before United States District Court

[9]Duran's conviction on the attempted assassination charge was based, in part, on evidence regarding an individual, Dennis Basso, who resembles President Clinton, and who was walking across the north grounds with a tour group. Immediately before Duran started shooting, witnesses pointed out Basso and declared that he was the President. The bullets fired hit near the area where Basso was standing.

Judge Charles R. Richey and on April 4, 1995, he was found guilty on all counts. Duran is scheduled to be sentenced on June 29, 1995.[10]

Prior to this incident, Duran was not on record with the Secret Service's Intelligence Division. On October 1, 1994, Duran's wife, Ingrid Duran, filed a missing person report with the El Paso County Sheriff's Office, in Colorado, stating that he had been missing since September 30, 1994. On October 17, she contacted the FBI in Colorado Springs. Ingrid Duran informed the FBI that Duran had been missing for two weeks. She also reported that Duran had called her on October 15, 1994, stating that he was preparing to do something drastic. During that conversation, Duran stated that he would be killed in the "assault" that he was planning. He refused to tell her where he was headed, although she believed that he was in Texas or elsewhere in the central time zone of the United States. The FBI agent's report of that interview contains no reference to any Secret Service protectee or politics in any way. Thus, there is no basis to conclude that the Secret Service should have been notified prior to the shooting that Duran posed a threat to the President.

[10] The Review did not incorporate testimony presented at Duran's trial in its Classified Report.

At the time of the shooting, Duran was twenty-six years old and last resided in Widefield, Colorado. He has a prior criminal record and received a Dishonorable Discharge from the United States Army in 1993. Before leaving Colorado, Duran told several people that he intended to kill President Clinton, although he did not provide a time frame. None of these individuals informed any local or federal law enforcement agency, including the Secret Service, of Duran's statements.

Investigators determined that Duran was in the D.C. Metropolitan area for twelve days before October 29. No evidence has been discovered that suggests that Duran was near the President, or that he attempted to get near the President, prior to the October 29 shooting incident. There is also no evidence that Duran had co-conspirators.

SECTION THREE: RECOMMENDATIONS (UNCLASSIFIED)

The United States Secret Service is recognized as, and is, the most effective protective security organization in the world. Many of its protective methodologies are viewed as innovative, and through its extreme professionalism, the Secret Service has established the standard against which all other protective security organizations measure themselves. In light of the findings made during this investigation, however, the Review, in consultation with the Advisory Committee, has identified certain areas where the Secret Service should implement changes in its operations to further enhance the security of the President, the First Family, and the White House Complex.

In its Classified Report, the Review made eleven major recommendations. Six of these are set forth below.[11] The remaining five recommendations pertain to issues such as improving the monitoring of the restricted air space around the White House Complex, increasing training opportunities for Secret Service personnel, and installing security enhancements to the White House Complex. These recommendations are not included here for security reasons. In addition, the Review made numerous

[11] A number of these have been edited for security reasons.

specific recommendations pertaining to the Corder incident, the Duran incident, air and ground security issues at the White House Complex, and the Secret Service's Intelligence Operation at the conclusion of each chapter in the Classified Report. These specific recommendations are also omitted. The following six major recommendations have been deemed appropriate for disclosure to the public.

POTENTIAL CHANGES TO CIVIL AIR TRAFFIC RULES

The Review recommends that representatives from the Department of the Treasury (including the Secret Service) and the Department of Transportation (including the FAA) convene to consider a variety of changes to the civil air traffic rules that would enhance the security of the White House Complex without unduly hindering air traffic in the Washington, D.C. area.

LAW ENFORCEMENT JURISDICTION

Three unrelated law enforcement agencies share jurisdiction over the perimeter immediately adjacent to the White House Complex: the Secret Service, the United States Park Police and the MPD of the District of Columbia. These agencies should enter into a Memorandum of Understanding

(MOU) concerning the coordination of their respective resources to ensure adequate security around the White House Complex, supplemented by annual review by all three entities regarding the efficacy and handling of incidents and procedures. The Review recommends that the MOU provide for the designation of a lead agency dependent on the violation, not the physical location of the suspect.

CREATION OF A FORENSIC TASK FORCE FOR THE WHITE HOUSE COMPLEX

During crises at the White House Complex, the Secret Service, other federal and local law enforcement agencies, and fire, rescue and ordnance squads are among the many components that respond either pursuant to statute or by agreement. A dedicated forensic group composed of personnel from the various federal and local components that participate during emergencies at the White House Complex should be established. This forensic group would be responsible for collecting evidence, preserving the incident scene, and for coordinating access to the White House grounds at those times.

COMMAND AND CONTROL DURING MAJOR INCIDENTS AT THE WHITE HOUSE

Major incidents at the White House command the attention and interest of multiple law enforcement organizations, the media, and spectators. Essential prompt response would be improved by (i) upgraded communications among the law enforcement agencies and the various White House security posts and (ii) a comprehensive protocol which establishes that immediate operational command and control must be assumed by the Secret Service.

ONGOING COORDINATION WITH THE DEPARTMENT OF THE TREASURY

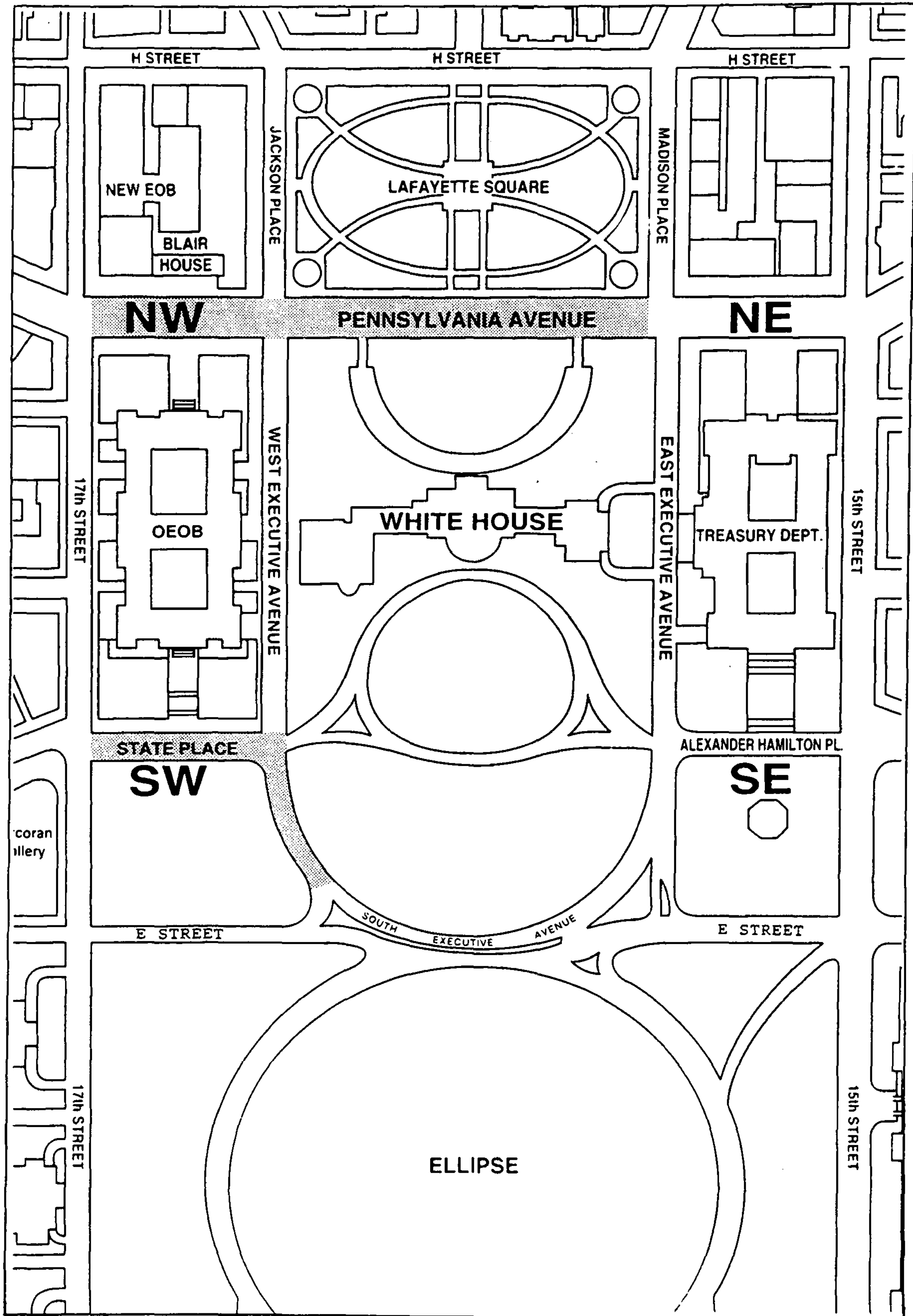
The Department of the Treasury, through the Office of the Under Secretary (Enforcement), will ensure the Secret Service's implementation of the Recommendations. The Department of the Treasury will assist the Secret Service in removing obstacles to the speedy implementation of security measures. Finally, the Department of the Treasury and the Department of the Defense will ensure that ongoing, sensitive security-related projects have structured, policy-level oversight.

REROUTING VEHICULAR TRAFFIC AROUND THE WHITE HOUSE COMPLEX AND CONVERTING PENNSYLVANIA AVENUE TO A PEDESTRIAN MALL

Any plan to reroute traffic from the segment of Pennsylvania Avenue in front of the White House essentially affects local vehicular travel and commuter interests. After careful consideration of the information that has been provided, the Review is not able to identify any alternative to prohibiting vehicular traffic on Pennsylvania Avenue that would ensure the protection of the President and others in the White House Complex from explosive devices carried by vehicles near the perimeter. For the same reasons, the Review recommends prohibiting vehicular traffic on both State Place and the segment of South Executive Avenue that connects into State Place. The Review would prefer to recommend limiting traffic traveling on the segment of Pennsylvania Avenue in front of the White House to small and medium size passenger vehicles. However, because the Review has been informed that it is impossible to implement a traffic system that would exclude only trucks, buses, and large vehicles, the Review must recommend excluding all vehicular traffic from the area between Madison Place and 17th Street and converting this segment to a pedestrian mall. There is significant evidence that this plan should significantly

enhance the accessibility of the White House to visitors, but the Review recognizes that this step requires consultation among all interested parties. (See diagram of proposed pedestrian access areas on the following page.)

PROPOSED PEDESTRIAN ACCESS AREAS



NOTE CONCERNING THE RECOMMENDATION TO CONVERT PENNSYLVANIA AVENUE TO A PEDESTRIAN MALL

The White House Security Review recommends prohibiting vehicular traffic from travelling along the segment of Pennsylvania Avenue that runs from Madison Place to 17th Street. The Review proposes to convert that area to a pedestrian mall or park. Based on consultations with experts on security, public access, and the history of the White House, it is the opinion of the Review that this proposal will provide the general public with maximum pedestrian access to our nation's most important historic structure while averting a verified security concern.

The White House is, without question, a house unlike any other. For almost two hundred years it has symbolized the ultimate prize in this country's system of elected government, the American presidency. The structure evokes the combination of prestige and constitutional authority that we vest in its principal occupant to influence domestic affairs and global politics. Whoever resides in the White House, by definition, assumes primacy among world leaders.

At the same time, the White House is a symbol of our very nation and the American people. First among federal buildings, it is a national treasure that reflects our unique heritage. Perhaps the most "American" aspect of the White House is its accessibility, as evidenced by the millions of Americans and foreign visitors who visit there each year. Since President Jefferson's day, the White House has been an emphatically public residence – the "House of the People," which they may either enter or look upon without obstruction. In contrast, the great palaces of Europe were set within planned parks, high walls and fences designed with protection in mind. But the White House grounds were developed at a time when security was not a great concern in the United States. The openness of the White House to pedestrian visitors is therefore distinctive. Where else in the world can a citizen secure a ticket to enter and tour the actual residence of the head of state and government?

The Review's proposal to prohibit vehicular traffic from travelling along the segment of Pennsylvania Avenue that runs between Madison Place and 17th Street will significantly enhance the public's access to their White House. This concept will ensure that pedestrians may enter and enjoy the White House and its grounds, and feel that distinctively American closeness to those in high office. At the same time, the proposal will reduce significantly

the security risk posed to the White House, its residents, employees, and visitors by vehicles carrying explosives.

For similar reasons, the Review also proposes to prohibit vehicles from travelling on either State Place or the segment of South Executive Avenue that runs into State Place.

The following experts consulted by the Review supported the conversion of Pennsylvania Avenue to a pedestrian mall:

- Dr. Daniel Boorstin, former Librarian of Congress
- Dr. William Seale, former White House Historian
- George White, the Architect of the Capitol
- Harold Adams, Max Bond, Mark Bunnell, Maxine Griffith, Nicholas Quennell, and William H. Whyte, noted architects and urban planners
- John Warnecke, designer of the Lafayette Square project for former First Lady Jacqueline Kennedy Onassis and early proponent and designer of a pedestrian mall in front of the White House
- Georges Jacquemart, noted transportation planner and traffic engineer

SECTION FOUR: THE EVOLUTION OF PRESIDENTIAL SECURITY

CREATION OF THE WHITE HOUSE COMPLEX

The "White House Complex" is composed of four principal structures: the Executive Mansion, where the First Family resides; the Old Executive Office Building, the location of the executive offices of the President and the Vice-President; the West Wing, the location of the official office of the President; and the East Wing, the official reception entrance to the State Rooms of the Executive Mansion.

When George Washington was elected the first President of the United States in 1789, there was neither a permanent capital city nor a permanent official residence for the Chief Executive. The seat of government first rested in Philadelphia and later, New York City. Congress then enacted the Residence Act of 1790, granting President Washington the authority to locate the permanent "federal capital" wherever he pleased. President Washington delegated to Secretary of State Thomas Jefferson the responsibility for carrying out the project. Both men were Virginians who had long favored establishing the nation's capital in the South. They set their sights on a 10-square-mile

district overlooking the Potomac River for the federal enclave. The central feature of the federal city would be the executive residence of the president.

When the cornerstone of the Executive Mansion was laid in 1792, it was done against the backdrop of extensive political wrangling. Although Washington and Jefferson shared a view of where the capital should be located, they had very different opinions of central executive authority and the appropriate character of the nascent Presidency. The plan for the District of Columbia originally proposed by Pierre L'Enfant, and approved in principle by President Washington, called for a "Presidential palace" five times the size of the structure we now know as the White House. L'Enfant's plan, suitable for "ages to come," embodied the Federalist Party's exalted, monarchial notion of the Presidency. Federalist Party leaders argued that Americans wanted their President to establish a high tone, essentially as an elected king set apart from the people. Washington himself thought that, as President, it was his responsibility "to conform to the public desire and expectation with respect to the style proper for the Chief Magistrate to live in." (Seale, Vol. I, p. 5). This logic required that the Chief Magistrate live in a palace.

The Republican opposition, led by Jefferson, despised the royalist pretense that they believed L'Enfant's proposed "Presidential palace"

embodied. Reacting to what they perceived to be the potential for abusive executive authority, the Republicans systematically discredited L'Enfant's plan as one of grandeur unbefitting a democracy. Jefferson even argued, albeit unsuccessfully, that the "President's house," as it was increasingly called, should be constructed of brick rather than stone. He urged that the new capital should evoke simplicity rather than the aristocratic airs commonplace in the kingdoms of Europe.

To resolve the impasse, Jefferson proposed to President Washington that the executive residence be built according to the best plan submitted in a national competition. Washington agreed, and eventually settled on a design created by the architect James Hoban. The structure referred to here as the Executive Mansion or the "White House," was completed in eight years. In 1800, John Adams became the first President to occupy it.

A second structure, formerly known as the State, War & Navy Building, was added to the White House Complex in 1873-74. The State, War & Navy Department occupied the office space concurrently until it moved to its present locations immediately following World War II. Since that time, the State, War & Navy Building, now known as the Old Executive Office

Building, has contained the Executive Office of the President, the Executive Office of the Vice-President, and the White House Office.

The construction of the West and East Wings were not nearly so marked by controversy as the building of the Executive Mansion itself. Until the West Wing was constructed in 1902, the president and his aides historically shared offices in designated areas of the Executive Mansion. As the authority and prestige of the Presidency grew, so did the space occupied by the Executive Office of the President, which encroached upon the First Family's living quarters. In 1901, Theodore Roosevelt became President upon the assassination of William McKinley, and the largest First Family ever moved into the Executive Mansion with him. Immediately dissatisfied with the cramped living quarters, President Roosevelt determined that the Executive Mansion required drastic remodeling. Renovations ensued, and the West Wing, then known as the "Temporary Executive Office," was constructed to house the Executive Office of the President. As the name suggests, the architects never intended the structure to become permanent. Moreover, it was intended originally to accommodate only the President's personal staff. It was not until 1909 that the President's official workplace was moved to the West Wing.

The East Wing is the most recently built administrative structure within the White House Complex. The building was constructed as part of the World War II mobilization effort. President Franklin Roosevelt believed that his staff would increase dramatically because of the administrative demands of the war. To meet the need for additional office space, he considered erecting several temporary buildings on the south grounds. Upon further reflection, Roosevelt opted instead to construct a permanent structure similar to the West Wing, but on the east side of the Executive Residence. The East Wing was occupied in 1942, although construction was not fully completed until 1945. During World War II, Roosevelt directed military operations from the East Wing and provided permanent office space there to the recently enlarged White House Police. Later, a reception area was added to the East Wing. Today, the East Wing serves as the reception entrance for tours and social events at the Executive Mansion.

THE TRADITION OF PUBLIC ACCESS TO THE EXECUTIVE MANSION

To some degree, the Executive Mansion has always been both the residence and office of the President and a national treasure -- the "People's House." Even before President John Adams, its first resident, was able to occupy the unfinished Mansion, the public wandered in and out with

impunity; eventually, the marshal of Washington ordered it closed to all who did not possess written passes. Since that time, presidents have grappled with the question of the extent to which the public should be given access to the Executive Mansion. A rough pattern developed, beginning in the first quarter of the nineteenth century, of gradually increasing restrictions on public access to the White House Complex, due largely to concerns for the personal security of the President and his family.

Just as the Jeffersonian Republicans considered L'Enfant's notion of a "Presidential palace" anti-democratic, so too did they reject any effort to deny public access to the Executive Mansion. Indeed, it was President Jefferson himself who began the liberal practice of throwing open the doors of the Mansion each day so that visitors might freely browse the State Rooms. The early rule was simply that the Mansion was closed to the public only during early morning hours and when the President was either asleep or out of town. President Jefferson even went so far as to display in the State Rooms plants, animals, and other specimens obtained by Lewis and Clark during their expedition through the Louisiana Purchase territory. Jefferson's intent was clear: he opened the Executive Mansion to callers in order to lessen the grandeur of the vaunted Federalist "palace." Commenting on the practice, the novelist James Fenimore Cooper wrote that:

> I have known a cartman to leave his horse in the street and go to a reception room to shake hands with the President. He offended the good taste of all present, because it was not thought decent that a laborer should come in dirty dress on such an occasion; but while he made a trifling mistake in this particular he proved how well he understood the difference between government and society. He knew that a levee was a sort of homage paid to political equality in the person of the first magistrate, but he would not have presumed to enter the house of the same person as a private individual without being invited. (Seale, Vol. I, p. 159).

Through the first quarter of the twentieth century, Jefferson's successors and their wives continued to greet visitors briefly in the East Room each day at lunchtime. The outpouring of enthusiastic, popular sentiment at the inaugurations of Andrew Jackson in 1828 and William Henry Harrison in 1840 remains noteworthy both for the raucous behavior of the many visitors to the District of Columbia for those events and for the unfettered White House access that was granted to those crowds. While the original political motivation for the practice has perhaps dissipated, the State Rooms of the Executive Mansion have remained open to public view since Jefferson's time, except during the Spanish American War and the two World Wars. Presently, more than 1.5 million visitors tour the Mansion each year.

Throughout most of the history of the White House, the public was given even freer access to the grounds than to the Mansion itself. By most accounts, the grounds were originally as open as a public market. In the early

years of the nineteenth century, the White House grounds were considered a prime attraction for sightseers. Until the construction of the Washington Monument and the mound on which it rests, there was a fairly unobstructed view of the Potomac River from the ridge where the Executive Mansion sat. Many sought the enjoyment of this vantage point and the beauty of the Executive Mansion's renowned landscaping. Access to the grounds was regulated only by a succession of walls and fences that had been constructed through the years, beginning in Jefferson's time. These structures forced visitors to use the adjacent public thoroughfares when walking the entire length of the grounds. Eventually, guards were retained (later replaced by the Uniformed Division of the Secret Service and its forerunners) to regulate the flow of visitors to the grounds. As William Seale has written, in the Antebellum era:

> [t]he iron gates to the White House grounds opened at eight in the morning and closed at sundown. Almost anyone was likely to wander [the well-manicured gardens], along the paths. Naturally eager to see the President and his household, visitors stared up at the second-floor windows, and sometimes they ventured where they should not. Without the garden on the east, secluded in its trees, the President would have had no private access to the out-of-doors. A sentry box ... stood at the gate separating the garden from the rest of the south grounds. The public was prohibited from entering there, [and] the household went to and from the garden unseen. (Seale, Vol. I, pp. 324-325).

It was not until World War II that free public access to the White House grounds during daylight hours was finally ended. The war brought

changes so dramatic that security measures would never again be as relaxed. Since that time, visitors have been required to report to gates around the perimeter of the White House Complex instead of simply being allowed to walk to the front door of the Executive Mansion. Only those with official appointments have been permitted inside, and only after careful scrutiny. As a Presidential insider of the World War II era wistfully remarked concerning the new arrangements, "No more Congressional constituents, no more government clerks hurrying through the grounds ... no more Sunday tourists feeding the squirrels, taking snapshots and hanging around the portico hoping someone interesting would come out." (Goodwin, p. 298).

Notwithstanding the trend toward restricting public access to the grounds, the Executive Mansion is among the world's only chief executive residences to operate as an open museum. At the same time that it serves as the home and office of the President, its State Rooms are opened each day to visitors from throughout the country and the world.

THE EVOLUTION OF SECURITY FEATURES AT THE WHITE HOUSE COMPLEX

Those responsible for providing security at the Executive Mansion have always had to strike a balance between functional needs and the preservation of

the White House's image as an enduring symbol of democracy. Most Presidents have embraced President Jefferson's first principle that the Executive Mansion should be open and easily accessible. Such an atmosphere is difficult to achieve with guards and locked gates. Nevertheless, President Jefferson himself ordered the construction of a high stone wall to replace the temporary rail fence around the perimeter of the White House grounds. At least some of this wall was erected, including a section on the north border of the grounds that completely blocked the view of the Mansion from the city commons, known as Lafayette Park. President Monroe, who wanted Americans to look freely upon the "President's house," replaced the stone wall with a curving iron fence. Monroe's democratic impulses did not, however, prevent him from installing gates equipped with heavy locks. Eventually, the 8-foot-high section of stone wall that stood along the south border of the grounds was also replaced with an iron fence, and fences were constructed on the east and west sides as well.

Along with a number of guardhouses, the iron fence surrounding the grounds remained the White House's only visible structural concession to security needs for most of its history. Nevertheless, more recent Presidents have also been forced to address the often competing concerns of architectural integrity, public access, and physical security. In the days immediately

following the attack on Pearl Harbor, for example, the Secret Service presented President Roosevelt with a lengthy set of recommendations to enhance security at the White House Complex. The Secret Service proposed covering the skylights with sand and tin, camouflaging the structure, painting the colonnade windows black, and setting up machine-gun emplacements on the roof. The President rejected most of the suggestions "with not a little annoyance" but agreed to a number of less obtrusive ones.[12] (Goodwin, p. 299).

A visitor to the White House Complex today cannot help but notice several visible measures that have been installed since World War II to enhance the physical security of the White House. For example, following the terrorist assault on the Marine barracks and the American Embassy in Beruit, Lebanon, reinforced bollards were installed at the Complex's perimeter. In addition, perimeter fencing and gates were reinforced. Other guardhouses have been erected at various points on the grounds, and both East and West Executive Avenues have been closed to vehicular and, at times, pedestrian traffic. Secret

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[12]In light of President Roosevelt's position, then-Secret Service Chief Frank J. Wilson arranged for a regular Army unit to install and operate anti-aircraft guns on top of the Main Treasury Building "so as to be in a position to intercept enemy airplanes attempting to bomb or strafe the White House." (Wilson, p. 145). These troops, who had been detailed from Fort Myers, also were responsible for establishing a security perimeter in the area immediately outside the White House fence.

Service Uniformed Division officers are near at hand, as are Park Police officers and other security personnel. As has always been the case, these precautions have been taken to ensure that the President enjoys the highest level of security that is consistent with democratic principles.

PROTECTION OF THE WHITE HOUSE COMPLEX AND THE PRESIDENT IN THE NINETEENTH CENTURY

Just as a "Presidential palace" with restricted public access was considered anti-democratic, at one time the idea of stationing guards in and around the White House Complex was considered wholly inappropriate to the nation's character. During the nineteenth century, only wartime Presidents would dare risk doing so, and then only if the District of Columbia itself were threatened. A children's primer that was popular during the Civil War illustrated the then-widely accepted distinction between the security that is provided for a monarch and the security given to a President:

> *How are emperors and kings protected?*
> By great troops of guards; so that it is difficult to approach them.
>
> *How is the president guarded?*
> He needs no guards at all; he may be visited by any persons like a private citizen. (Mitchell, p. 14).

For a century after President John Adams first moved into the Executive Mansion, the protection of the mansion and its residents remained a relatively minor concern, except during wartime. Various combinations of policemen, guards, and soldiers furnished security for the President's home. There was no sign, however, of the extensive and organized security arrangements that would develop in the twentieth century.

Perhaps the earliest indication of concern for the security of the Executive Mansion was contained in Thomas Jefferson's plans for the grounds. These plans, drawn in 1803 or 1804, included a series of gate lodges for guards. It is unclear whether they actually were built.

The circumstances of the War of 1812 forced President James Madison to mobilize the first serious effort to protect the Executive Mansion. On hearing that 4,000 British regulars were marching toward Washington, President Madison stationed troops on the White House grounds. A company of 100 volunteers camped on the North Lawn of the Mansion and positioned a cannon at the North Gate. These volunteer soldiers retreated before the British entered Washington, however. The British thus faced no resistance as they set fire to the Executive Mansion and reduced it to a smoldering shell.

Although James Monroe did not confront invading armies during his Presidency, he was apparently concerned about assassins and other troublemakers, for he employed guards at the Executive Mansion. These guards were civilians in civilian dress, recruited for Monroe by the marshal of the District of Columbia. During special days when the public was invited to the White House, the number of guards increased. In addition, a doorkeeper was always on duty in the entrance hall. The doorkeeper kept firearms close at hand in a room off the hall. He had the authority to admit or refuse nearly anyone who appeared.

Although the doorkeeper was a permanent fixture, the guards were not. Monroe's successor, John Quincy Adams, did not hire guards, and Andrew Jackson did not favor the practice, either. Nevertheless, after a man named Richard Lawrence tried to shoot Jackson at the Capitol in 1835 (the attempt failed because both of Lawrence's pistols misfired), a wooden "watch box" for a sentry was built on the south grounds, at the gate to the President's garden. During Martin Van Buren's administration, the federal government paid the salaries of both a day guard, who often occupied the watch box, and a night watchman. When he hosted public receptions at the Executive Mansion, Van Buren stationed policemen at all the gates to keep out visitors from the lower classes.

During John Tyler's politically tumultuous Presidency, an enraged mob burned Tyler in effigy outside the White House gates, and an intoxicated painter threw rocks at him while he walked on the south grounds. Tyler, concerned for his safety, acted to establish a permanent company of guards for the Executive Mansion. In 1842, he presented Congress with a bill establishing a "police force for the protection of public and private property in the city of Washington." Senator John Crittenden of Kentucky objected to the fact that the bill gave the President the power to appoint these police. According to the record of the Senate debates:

> . . . it seemed to [Crittenden] that, by subjecting this matter to the control of the President of the United States, it might be metamorphosed into a political guard for the Executive . . . . [Crittenden] thought that it would not be entirely safe to organize such a corps. It was a little sort of standing guard, which might eventually become a formidable army. The seeds sown by this bill would soon germinate, and their full development might overshadow the liberties of the people. (Congressional Globe, 27th Cong., 2d sess., 854 (1842)).

To address these concerns, the Senate amended Tyler's security bill to vest the appointment power in the Mayor of Washington instead of the President. The amended bill passed, and Tyler signed it into law. The act created a new entity called the "auxiliary guard." It consisted of a captain and fifteen other men. Its official function was "the protection of public and private property against incendiaries, and . . . the enforcement of the police regulations of the city of Washington." The auxiliary guard was made subject

to rules and regulations prescribed by a board consisting of the Mayor of Washington, D.C., the Corporation Counsel of Washington, D.C., and the United States Attorney for the District of Columbia, "with the approbation of the President of the United States." (5 Stat. 511 (August 23, 1842)).

Four men from this newly created force -- the captain and three guards -- were assigned to the Executive Mansion. In *The President's House*, William Seale describes their role at the Mansion.

> From the start the "Doormen," as they were called to avoid the militaristic tone of "guard" or "sentry" or "patrol" became integral to the functioning of the President's House, taking on extra duties that helped make the mansion run more smoothly. They carried confidential messages and met official and household guests at the stage line or train; they received all callers in the entrance hall and often announced them to the President or his wife. With the responsibilities -- which were varied and not really spelled out -- went certain privileges of investigation and arrest not shared by other law enforcement officers. At the receptions they and temporary deputies mingled with the crowds, never hesitating to remove a man or woman who seemed suspicious. Their toughness and apparent aggressiveness often sparked complaint, but never reprimand. (Seale, Vol. I, p. 24).

Franklin Pierce, the President from 1853 to 1857, raised security to a new level when he became the first chief executive to retain a full-time bodyguard. Whereas the doormen remained on the White House grounds, the bodyguard (also a federal employee) accompanied Pierce wherever he went. Each time the President left the Executive Mansion, the bodyguard was by his

side. When the President was in the Mansion, the bodyguard remained within calling distance. Pierce thus introduced the two-level security arrangement that characterizes Presidential protection today. An outer perimeter of police-type guards secured the Executive Mansion itself, while an inner perimeter – the bodyguard – protected the person of the President.

By 1860, the bitter atmosphere arising from the discord between the northern and southern states had greatly increased the danger of political violence. As soon as Abraham Lincoln was chosen to be the Republican candidate for President that year, he began to receive numerous death threats. During the campaign, he was constantly surrounded by a phalanx of bodyguards. In at least one instance, one of these bodyguards was Alan Pinkerton, the founder of the celebrated detective agency.

Lincoln's security detail grew after he assumed the Presidency. He chafed under this protection and worried that it made him appear unmanly, but he ultimately conceded its necessity. Numerous Metropolitan Police were detailed to the Executive Mansion to serve as guards. Because Lincoln did not want the Executive Mansion to take on the characteristics of an armed camp, the guards inside the Mansion (the doormen) dressed in civilian clothes and

concealed their firearms. Uniformed, armed sentries were posted at the gates to the grounds and at the doors to the Executive Mansion itself.

During the Civil War, the military helped protect the Mansion. When the conflict started, soldiers actually camped inside the Executive Mansion until Washington was adequately fortified. Even after the city was deemed secure, military units were often assigned to serve as guards there.

Troops also frequently accompanied Lincoln during his travels. Indeed, throughout the Civil War, no member of Lincoln's family left the White House grounds unescorted. Thus, they were the first White House occupants to receive extensive personal protection. During the Civil War, an armed, plainclothes member of the Metropolitan Police regularly accompanied Mrs. Lincoln on her outings. Moreover, the White House doormen never lost sight of the Lincolns' son Tad, who was considered a target for kidnappers. By 1864, four Metropolitan policemen were assigned to serve as President Lincoln's personal bodyguards. One of these men, responsible for protecting Lincoln at Ford Theater on the evening of April 14, 1865, was having a drink at a nearby saloon when John Wilkes Booth fatally wounded the President with a shot to the head.

Despite the Lincoln assassination, Presidential security was diminished in the years after the war. The four-man detail drawn from the Metropolitan Police was reduced to three men and restricted to providing protection at the Executive Mansion. These guards, still referred to as doormen, received no special training. Unlike Lincoln, the post-war Presidents were often left entirely unprotected outside the Mansion. In 1881, Charles Guiteau exploited this vulnerability by fatally shooting James Garfield as he walked, unguarded, through the Baltimore and Potomac Railway Station in Washington.

Even the second assassination of a President within sixteen years did not lead to an immediate escalation in security. When Garfield's successors stepped outside the gates of the then-lightly guarded Executive Mansion, they usually had no protection at all. Occasionally, private detectives were retained to serve as Presidential bodyguards, but Congress enacted legislation that made such appropriations illegal. (27 Stat. 591 (1893)).

By the mid-1890s, the rising number of threats directed at President Grover Cleveland finally prompted a significant strengthening of Presidential security. Cleveland's wife persuaded him to increase the number of policemen serving at the Mansion from three (the size of the detail since the end of the Civil War) to twenty-seven. Although they were organized in 1865, it was not

until 1894 that a small number of Secret Service agents (then known as "operatives") were assigned to the White House, forming an "inner perimeter" of bodyguards to supplement the enhanced "outer perimeter" of protection provided by the police. With the addition of the Secret Service, White House security assumed the shape that it has maintained to the present day.

THE EVOLUTION OF THE PERSONAL PROTECTIVE FUNCTION

For the first forty years of its existence, the principal responsibility of the United States Secret Service (Secret Service) was to combat counterfeiting. It was organized in 1865 as an investigative bureau of the Department of the Treasury after Treasury officials determined that fully one-third of paper money in circulation was counterfeit. The Secret Service proved to be quite effective in its anti-counterfeiting mission. Due to the success of its investigations, the percentage of counterfeit currency diminished significantly. By 1867, counterfeiting was largely brought under control.

Because of the Secret Service's proven proficiency, and the fact that it was the only general, law-enforcement agency in the federal government, its duties were broadened substantially. In 1867, it began conducting investigations into other violations of federal law, including Ku Klux Klan

activities, smuggling, mail robberies, land frauds, bank frauds, and illegal distilling. Through the end of the nineteenth century, Congress periodically expanded and narrowed the Secret Service's sphere of responsibility. It never, however, authorized the Secret Service to provide protective services to the President.

Consequently, when the Secret Service detailed operatives to the White House for the first time in the spring of 1894, it was exceeding its mandate. Its assumption of protective functions grew directly out of its authorized activities, however. A band of Colorado gamblers that the Secret Service had been investigating made threats against President Cleveland. In order to protect the President, the Secret Service transferred the two men who had been conducting the Colorado phase of the investigation to the White House. It instructed them to "watch for suspicious persons who might be Western gamblers, Anarchists, or cranks." (Kaiser, "Origins of Secret Service Protection," p. 103).

The Secret Service's protective activities continued in the summer of 1894, when Mrs. Cleveland, after learning of an apparent plot to kidnap the Cleveland children from the family's summer home in Buzzard's Bay, Massachusetts, persuaded the Secret Service to detail three operatives there. At

first, President Cleveland, who did not arrive in Massachusetts until later in the season, was unaware of this arrangement. He apparently approved of it when he learned of it, however, for the detail guarded the family again the next summer. The Cleveland Administration concealed this unauthorized use of the Secret Service for presidential protection.

During the first administration of President William McKinley (1897-1901), the Secret Service's protective activities became more regular and more public. In early 1898, Secret Service Chief William Hazen was demoted, largely because of charges that he misused the Secret Service's appropriation by authorizing the protective detail for the Cleveland family. Later that year, however, the start of the Spanish-American War led to the first legal use of the Secret Service for Presidential protection. A detail of four agents, operating under a special emergency war fund, was assigned to the Executive Mansion to guard McKinley around the clock. They were stationed on the first and second floors of the Mansion and on the White House grounds.[13]

[13]During the Spanish-American War, the Secret Service also served as the primary intelligence agency for the War Department. It gathered intelligence and conducted counterespionage activities both domestically and abroad.

After the war, Secret Service operatives continued to serve at the White House at least part of the time. In addition, operatives regularly accompanied McKinley during his travels. With the expiration of the emergency war fund, these activities once again exceeded the Secret Service's statutory authority. However, Secret Service Chief John Wilkie felt obligated to provide the protection anyway. President McKinley received a large number of threats, which seemed particularly credible in light of a series of political assassinations that took place in Europe during this period.

In 1901, President McKinley was shot and fatally wounded by anarchist Leon Czolgosz while standing in a receiving line at the Pan American Exposition in Buffalo, New York. Three Secret Service operatives were guarding him at the time, along with eighteen exposition policemen, eleven members of the Coast Guard, and four Buffalo city detectives. One of the Secret Service operatives was out of position when Czolgosz approached President McKinley, because the president of the exposition had requested the spot directly next to McKinley, where the operative normally stood.

In response to the McKinley assassination, Presidential protection intensified. Theodore Roosevelt, McKinley's successor, was more heavily guarded than any previous peacetime President. The Secret Service assumed

full-time responsibility for Roosevelt's safety. There were always at least two operatives in street clothes stationed at the White House, and Mrs. Edith Carow Roosevelt, the President's spouse, often requested additional protection without the President's knowledge. Operatives accompanied President Roosevelt whenever he traveled. The Secret Service also increased its efforts to gather intelligence regarding potential threats.

Although these activities were generally acknowledged and accepted, they continued to exceed the Secret Service's statutory mandate. After the McKinley assassination, Congress considered and rejected numerous bills concerning the protection of the President. One source of disagreement in Congress was whether the primary responsibility for Presidential security should fall to the Secret Service or to the military.

In 1902, the Senate approved a bill that, in addition to making assassination and attempted assassination capital crimes, directed the Secretary of War "to select and detail from the Regular Army a sufficient number of officers and men to guard and protect the person of the President of the United States without any unnecessary display." (35 Cong. Rec. 2275 (1902)). The bill also directed the Secretary of War "to make special rules and regulations as to

dress, arms, and equipment . . . of said guard." In other words, the bill authorized the creation of a plainclothes, secret service within the army.

Many senators opposed making Presidential security a military function. They argued that encircling the President with troops would undermine the spirit of democracy. One senator stated:

> I would object on general principles that it is antagonistic to our traditions, to our habits of thought, and to our customs that the President should surround himself with a body of janizaries or a sort of Praetorian guard, and never go anywhere unless he is accompanied by men in uniform and men with sabers as is done by the monarchs of the continent of Europe . . . ." (Cong. Rec., 1st sess., 1902, 35, pt. 3: 3049 (Remarks by Sen. Mallory)).

Senators who supported the military option countered that soldiers would make effective guards, unlike the Secret Service operatives who had failed to protect McKinley in Buffalo.

When the House Committee on the Judiciary amended the bill, it struck the section making the army responsible for Presidential protection. The Committee warned that under the Senate's version of the bill:

> the Secretary of War may detail every man and officer in the Regular Army, under the pretense of protecting the President, dress them to suit his fancy, and send them abroad among the people to act under secret orders. When such laws begin to operate in this Republic the liberties of the people will take wings and fly away. (House Committee on the Judiciary, Protection of the President and the Suppression of Crime Against Government, 57th Cong., 1st sess., H. Rep. 1422, 13 (1902)).

The Committee further stated that the President should instead be protected by a "secret-service force . . . act[ing] under orders from the Secretary of the Treasury." The Senate and House could not resolve their differences over this issue, however, and the conference version of the bill thus did not even address which entity should protect the President. Ultimately, this bill died, along with seventeen other Presidential protection measures introduced after the McKinley assassination. Finally, in 1906, Congress quietly included language in the Sundry Civil Expenses Act authorizing the Secretary of the Treasury to use funds for "the protection of the person of the President of the United States."[14]

Law thus caught up to reality, as the Secret Service finally received express funding to perform the Presidential security function it had in fact assumed twelve years earlier. The Secret Service has continued to protect the "person of the President" ever since.

In the period immediately following its official designation as the agency responsible for protecting the President, the Secret Service usually

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[14]See 43 Stat. 708. Although today the military provides extensive logistical support to the Secret Service, the military role was begun to ensure the continuity of the Presidency. The Secret Service never relinquishes its role of protecting its protectees.

assigned two agents to serve as Presidential bodyguards. When the President took extended vacations, the detail increased to eight to allow around-the-clock protection.

Although the Secret Service has never in recent history identified precisely the number of personnel or the amount of resources committed to its protective mission, both figures have clearly increased dramatically over the course of the century. One reason for these increases is that a large number of people have been added to the list of Secret Service protectees. The following chart indicates these additions. The current list of Secret Service protectees is enumerated in 18 U.S.C. 3056.

(See Chart 1 on the following page.)

CHART 1.
EVOLUTION OF SECRET SERVICE PERSONAL PROTECTIVE FUNCTION

Protectees	Year Officially Authorized	Comments
President-elect	1913	Actually began 1908 for President-elect Taft.
President's immediate family	1917	Actually began for President Cleveland's family 1894. Full-time protection for President Taft's children (1909-1913)
Vice-President (at his request)	1951	
Vice-President (not requiring his request)	1962	
Vice-President-Elect	1962	
Former President (at his request for a reasonable period after leaving office - estimated 6 months)	1962	
Officer next in line to succeed the President if no Vice-President	1962	
Widow and minor children of former President for 2 years after President leaves office or dies in office	1963	Response to assassination of President Kennedy
Former President and wife during his lifetime	1965	
Widow and minor children of former President for 4 years after he leaves office or dies in office	1965	
Major Presidential and Vice-Presidential candidates	1968	Response to assassination of Robert Kennedy
Widow of former President until death or remarriage. Minor children of former President until 16 years old	1968	
Visiting heads of foreign states or governments. At President's direction, other distinguished foreign visitors to the United States and official representative of the United States performing special missions abroad	1971	During World War II, protection provided for foreign dignitaries including Norwegian Crown Princess Martha, British Prime Minister Winston Churchill, Madame Chiang Kai-shek of China, and Queen Wilhemina of the Netherlands
Immediate family of Vice-President	1974	
Spouses of Major Presidential and Vice-Presidential candidates	1976	
Spouses of visiting heads of foreign states or foreign governments	1986	Mandated by a National Security Directive

Another reason why the Secret Service has elevated the amount of resources and personnel dedicated to its personal protective mission is the fact that its protectees have been subjected to life-threatening assaults with increasing frequency. Since the Secret Service was officially authorized to provide protective services in 1906, only one person has been killed under its watch – President John F. Kennedy, who was fatally wounded by Lee Harvey Oswald while riding in a motorcade through Dallas, Texas, on November 22, 1963.

Since the inception of the Secret Service, however, there also have been six other potentially deadly assaults on Secret Service protectees.

The first occurred on February 15, 1933, in Miami, Florida. Giuseppe Zangara fired five shots at President-elect Franklin D. Roosevelt, who was making an impromptu speech while sitting in an open car that had stopped momentarily. Although none of the shots hit President Roosevelt, Zangara mortally wounded Anton Cermak, the Mayor of Chicago, and hit four other people, including a Secret Service agent.

The second, and only assault that involved an organized conspiracy, took place on November 1, 1950, when two Puerto Rican nationalists, Oscar

Collazo and Griselio Torresola attempted to assassinate President Truman by shooting their way into Blair House, his temporary residence across Pennsylvania Avenue from the White House.[15] The assault was timed to coincide with a rebellion against American authority in Puerto Rico.

Collazo and Torresola approached Blair House from opposite directions and started firing on the Secret Service agents and White House Police officers guarding the building. In the course of the shootout, Torresola and White House Officer Leslie Coffelt were killed. Collazo and two other White House policemen were wounded. Neither assailant reached the entrance to the building. If one of them had, he would have faced an agent waiting in the front hall with a Thompson submachine gun.

On May 15, 1972, Arthur Bremer shot Presidential candidate George Wallace at an open-air rally at a shopping center in Laurel, Maryland. Wallace, the Governor of Alabama, stepped out from behind a bullet-proof podium to shake hands with members of the crowd. As he approached Bremer, the would-be assassin fired a barrage of bullets at Wallace. Wallace was hit

[15]Truman and his family temporarily resided at Blair House because the White House was being renovated.

repeatedly. Three other people were also struck, including a Secret Service agent. Wallace was paralyzed as a result of the attack.

On September 5, 1975, Lynette "Squeaky" Fromme, a follower of Charles Manson, attempted to shoot President Gerald Ford as he walked across the grounds of the California Capitol in Sacramento. As Ford passed a group of spectators, Fromme pointed a pistol at him. A Secret Service agent grabbed the weapon and pushed Fromme's arm down. As he wrestled her to the ground, she repeatedly exclaimed,"it did not go off!" It was later determined that there were no bullets in the firing chamber, although there were four in the gun's magazine.

Just seventeen days after the Fromme incident, Sara Jane Moore fired a bullet at President Ford in San Francisco. As President Ford exited a downtown hotel, Moore, standing in a crowd of onlookers across the street, pointed her pistol at him. Just before she fired, a civilian grabbed at the gun and deflected the shot. The bullet missed Ford but slightly injured a bystander. Moore was a known radical and a former FBI informant.

The most recent incident occurred on March 30, 1981, when John Hinckley fired six shots at President Ronald Reagan outside the Washington

Hilton Hotel in Washington, D.C. Hinckley was standing in a group of spectators several yards from the President. When Hinckley began shooting, Secret Service Secret Agent Tim McCarthy was shot as he shielded President Reagan with his body. Service Agent Jerry Parr pushed Reagan into a limousine, but not before the President was shot beneath his left arm by a bullet that ricocheted off the car. Other bullets struck Presidential Press Secretary James Brady; Agent Tim McCarthy; and Sergeant Thomas Delahanty, a Washington Metropolitan Police officer. President Reagan was seriously wounded, but recovered completely.

The Secret Service has often modified its protective methods and strategies in response to attacks on its protectees. For example, after the Blair House incident, the Secret Service began to keep the location of President Truman's morning walks secret, and to prohibit public access to the sidewalk outside Blair House when the President was there. In reaction to Fromme's attempt on President Ford, the Secret Service started to keep Ford at a more secure distance from anonymous crowds, a strategy that may have saved his life seventeen days later when Moore shot at him.

The Kennedy assassination triggered the most extensive changes during this century in the Secret Service's approach to Presidential protection. To

investigate the assassination, President Johnson established a commission known as the Warren Commission because it was chaired by Earl Warren, Chief Justice of the United States Supreme Court. In its 1964 report, the Warren Commission made numerous recommendations regarding Presidential security. Over the next decade, the Secret Service implemented these recommendations, which fell into three broad areas: (1) an increase in the number of Special Agents assigned to protect the President, and improved training for such agents; (2) an expansion of protective intelligence activities and of cooperation with other law enforcement agencies; and (3) the acquisition of sophisticated data processing, communications, and technical security equipment. The Secret Service created a number of new divisions, including the Intelligence Division, the Technical Security Division and the Liaison Division, to implement these changes.

In the modern Secret Service, the division directly responsible for the personal security of the President and the First Family is the Presidential Protective Division (PPD). This division continually maintains a close perimeter of agents around its protectees. It also conducts advance security surveys for Presidential trips and major events. Since 1992, PPD has included a special unit known as the Counter Assault Team (CAT). CAT was created in the late 1970s within select field offices to neutralize an attack on a protectee as

quickly as possible. Until it was incorporated into PPD, CAT was part of the Special Services Division.

PROTECTION OF THE WHITE HOUSE COMPLEX IN THE TWENTIETH CENTURY

As noted above, in the 1890s, the Secret Service began to protect the person of the President; assuming official responsibility for this task in 1906. Since that time, plainclothes Secret Service operatives or agents have served as Presidential bodyguards. They have formed an inner perimeter of security that has continuously surrounded the President both inside and outside the White House Complex.

For almost a quarter of a century after the Secret Service formally assumed its personal protective function, however, the Service played an extremely limited role in providing the outer perimeter of protection around the White House Complex and in safeguarding the buildings and grounds themselves. A body of policemen detailed from the Metropolitan Police Department performed these duties. Until World War I, the size of this force remained at twenty-seven men, the number established by President Grover Cleveland during his second term.

In 1917, the year that the United States entered World War I, the number of Metropolitan Police officers assigned to guard the White House increased to thirty-four. The detail was expanded to fifty-four during the war in response to the dangers generated by the conflict. Additional guard stations were established both inside the White House Complex and on the grounds.

The military helped to secure the White House during World War I, as it had during every previous American conflict other than the Spanish-American War. Armed soldiers in uniform stood at the gates of the White House Complex and patrolled the grounds.

After the armistice ending World War I, the Metropolitan Police detail once again assumed sole responsibility for buildings and grounds security. The size of the force remained at fifty-four, despite the return of peacetime conditions. As had always been the case, the police who guarded the White House were under the supervision of the Superintendent of the MPD. (62 Cong. Rec., 12131). The President had no direct authority over his own protectors. President Warren Harding decided to change this arrangement when he learned that the MPD refused to assign its most qualified personnel to the White House detail.

In 1922, at Harding's urging, Congress passed legislation that established a separate organization of thirty-three men called the White House Police Force. The statute created the force "for the protection of the Executive Mansion and grounds." The members of the force would have privileges, powers, and duties "similar to those of the members of the Metropolitan Police of the District of Columbia, and such additional privileges, powers, and duties as the President may prescribe." (Public Law No. 300-67th Congress (S-3659) (1922)).

The statute provided that White House policemen would be selected under the direction of the President from members of the Metropolitan Police and the United States Park Police.[16] The statute placed the new force "under the sole control of the President and under the direct supervision of such officer as he may designate." President Harding selected Lieutenant Colonel Clarence O. Sherrill to supervise the White House Police. Sherrill served as the President's Chief Military Aide and Director of Public Buildings and Grounds.

[16]Many of the Metropolitan Police officers who had previously been detailed to the White House were transferred to the new organization and thus continued in their old roles.

The White House Police Force was entirely independent of the Secret Service, and there was relatively little coordination between the two organizations. In 1930, the vulnerabilities inherent in this arrangement were exposed. That summer, a well-dressed man walked confidently through the front door of the White House, but without either an appointment or an invitation. The police officers guarding the entrance allowed him to pass, assuming that he was a Secret Service agent. The intruder managed to enter the dining room and interrupt President Herbert Hoover's dinner before an agent stopped him. The man turned out to be a curious sightseer.

To improve coordination among the security forces and prevent the recurrence of such a breach, President Hoover acted immediately to place the White House Police under the control and supervision of the Chief of the Secret Service. On July 1, 1930, Congress passed legislation to this effect. For the first time, the Secret Service was now responsible for every aspect of White House security.

The statute merging the White House Police into the Secret Service also increased the size of the police force to forty-eight. This expansion was necessary in light of the escalating number of threats against the President triggered by the Great Depression. Congress further expanded the force to

sixty men in 1935, in response to a tripling of executive office space in the West Wing.

The start of World War II led to significant changes in White House security arrangements. In 1940, before the United States became a combattant, the unsettled conditions around the globe induced Congress to expand the White House Police Force to 80 men. In 1942, after the United States entered the war, Congress authorized funds to increase the size of the White House detail to 140, but on a temporary basis. Because many Metropolitan Police and Park Police were being conscripted into the armed forces, Congress also eliminated the requirement that all White House policemen be drawn from these two entities.

With the advent of war, the military once again assumed a major role in protecting the White House Complex. Sentry boxes were constructed at regular intervals both inside and outside the fence and were staffed by a special detachment of Military Police. Furthermore, sentries armed with machine guns maintained a permanent presence on the roof of the Executive Mansion. Only when it became clear that the Allies would prevail did President Roosevelt order that the military guards be assigned elsewhere.

In 1947, as returning servicemen swelled the ranks of the Metropolitan Police and the Park Police, Congress restored the requirement that White House Policemen be recruited from these two entities. The temporary wartime enlargement of the White House Police Force ended, as Congress ceased appropriating funds for additional officers. Simultaneously, however, Congress increased the numerical limit on the permanent force from 80 members to 110.[17]

In 1950, Congress increased the limit on the strength of the force to 133 officers, in order to accommodate a switch to a shorter work week. In 1952, in the wake of the attempt on President Harry Truman's life at Blair House, Congress expanded the maximum size of the force again, to 170 officers.

In 1962, Congress rewrote the organic statute of the White House Police Force. The new law, codified at 76 Stat. 95, reposed in the White House Police the duty of protecting not only the Executive Mansion, but also "any building in which White House offices are located." As a result of this provision, the force assumed responsibility for protecting the entire Executive

[17]In the post-War period, Congress has not always appropriated sufficient funds to support the full authorized number of police. Consequently, the actual working strength of the force has often been smaller than its authorized strength.

Office Building (now known as the Old Executive Office Building).[18] In light of this expanded responsibility, as well as a general increase in activity at the White House, the 1962 statute raised the limit on the size of the force to 250 officers. The 1962 appropriation supported 213 personnel. By 1967, Congress was funding the force at full strength.

In 1970, Congress once again amended the organic statute of the White House Police Force, and changed the detail's name to the Executive Protective Service (EPS), to reflect the force's expanding responsibilities. In light of a spate of assaults against foreign missions in the Washington area, Congress gave EPS the duty of protecting these missions. The statute dramatically enlarged the force, from 250 to 850 officers, to provide EPS with sufficient personnel to fulfill this new foreign missions function, as well as to handle the continuing increase in the number of tourists and visitors at the White House Complex. Finally, the new statute terminated the requirement that EPS officers be recruited from the Metropolitan Police and the Park Police.

[18]Since 1959, the language in the annual Congressional appropriations acts had authorized the White House Police to provide security in the Executive Office Building, but only in those portions of the building used by the White House. General Services Administration guards secured the remainder of the building. The 1962 statute gave the White House Police responsibility for the entire building for purposes of efficient management.

EPS's responsibilities increased once again in 1974, when Congress assigned it the responsibility of protecting the Vice President's residence. The following year, Congress gave EPS the further responsibility of guarding foreign diplomatic missions in American cities other than Washington, D.C., under certain circumstances. In passing this latter statute, Congress recognized that EPS would be unable to fulfill its expanded duties unless the force was further enlarged. It thus raised the numerical limit on the strength of the EPS to 1200 members. It has remained at this level to the present day.

In 1977, the EPS acquired its current name, the Secret Service Uniformed Division. The Uniformed Division was divided into three branches: the White House Branch, the Foreign Missions Branch, and the Administrative Program Support Branch. In 1986, the Department of the Treasury Police Force was merged into the Uniformed Division. The Uniformed Division White House Branch thus assumed the responsibility for protecting the Department of the Treasury, as well.

In the 1980s, the Secret Service created a specialized unit within the Uniformed Division called the Emergency Response Team (ERT) to provide an immediate response to emergencies at the White House Complex and at foreign missions. ERT was formally established in 1985 as a specific response

entity. Prior to 1985, a controlled response consisted of Uniformed Division officers in a response mode during their down time between assignments. ERT further evolved into a more defined unit in 1992 with a two-week formalized training program.

HISTORY OF GROUND AND AIR ASSAULTS ON THE WHITE HOUSE COMPLEX

With its combination of physical barriers, an outer perimeter of uniformed police, and an inner perimeter of bodyguards, the White House Complex has always been a relatively safe location for the President. Although, as discussed above, Presidents have been exposed to deadly or life-threatening assaults with frightening regularity, not one of these assaults has occurred within the White House Complex. Indeed, each assassination or potentially deadly assassination attempt has occurred when the Presidential protectee was away from the White House, in the proximity of a crowd.

Nonetheless, the incidents addressed by this Review are not the first intrusions or violent incidents that have occurred on the White House grounds. In fact, throughout its history, the White House Complex has been subjected to increasingly frequent and occasionally successful attempts to penetrate its borders by ground and by air.

Ground Incursions and Attempted Ground Incursions

Gate Crashers

Marshall Fields (December 1974). On Christmas Day in 1974, Marshall Fields, a man who claimed he was the Messiah, crashed his Chevrolet Impala through the Northwest Gate of the White House Complex and drove up to the North Portico. Fields had flares strapped to his body, and he announced to Secret Service personnel that the flares were explosives that he was prepared to detonate. After about four hours of negotiation, Fields surrendered.

In response to the Marshall Fields incident, and an incident the previous year in which another driver had crashed through a gate onto the White House grounds, the nineteenth-century, wrought-iron gates were replaced with reinforced gates in 1976.

On December 1, 1976, Steven B. Williams became the first would-be intruder to test the new, strengthened gates. He rammed the Northwest Gate with his pickup truck at approximately 25 miles per hour. The gate did not buckle and the front of Williams' truck was flattened. Since then, a number of other individuals have tried but failed to crash through gates onto the White House grounds. On at least one occasion, a driver attempted to enter the

Complex through a gate opened for another vehicle, but he too was unsuccessful.

Few, if any, drivers have ever attempted to crash through the White House fence, as opposed to a gate. Such an intrusion became impossible in 1983, when concrete Jersey barriers were installed around the perimeter of the White House Complex in response to the threat posed by the Beruit bombing. In 1990-92, the Jersey barriers were replaced by the present bollards.

Fence Jumpers

In recent history, it has been a common occurrence for intruders to scale the fence around the White House complex and enter the grounds. Most of these "fence jumpers" have been pranksters, peaceful protestors, and harmless, mentally ill individuals.

Chester Plummer (July 1976). Chester Plummer was a local taxi driver with a criminal history who had never come to the attention of the Secret Service as a potential threat to the President. On July 27, 1976, he scaled the White House fence carrying a 3-foot length of metal pipe. As he advanced toward the White House, he was confronted by an EPS officer. The officer drew his revolver and repeatedly ordered Plummer to halt, but Plummer raised

the pipe in a threatening manner and continued to advance. The officer shot Plummer in the chest. Plummer died of his wounds shortly afterward.

Anthony Henry (October 1978). Anthony Henry wished to persuade President Carter that it was blasphemous to place the words "In God We Trust" on U.S. currency. Wearing a white karate suit and carrying a Bible, he climbed over the White House fence onto the north grounds. When he was confronted by Secret Service agents and Uniformed Division officers approximately 15 yards inside the fence line, he pulled a knife from inside the Bible and slashed one officer's face and another's arm. Uniformed Division officers surrounded Henry, prodded him with long batons, and poked the knife out of his hand. They then forced him to the ground and arrested him.

Other Fence Jumpers. As the chart below indicates, a large number of individuals have entered the White House grounds by scaling the fence in recent years. It is important to note that fence jumpers rarely make it far once they are on the White House grounds, although there have been some notable exceptions. In December 1975, Gerald Gainous roamed the grounds for an hour and a half and approached President Ford's daughter while she unloaded camera equipment from her car. In 1991, Gustav Leijohhufved, a Swedish citizen, was not apprehended until he reached a guard post outside the West

Wing. Neither of these men were armed, however. The only armed fence jumpers have been Plummer and Henry, although an intruder threatened a Uniformed Division officer with a water pistol in 1977.

CHART 2
Recent Fence Jumpers at the White House Complex

Year	Number of Jumpers
1989	3
1990	2
1991	7
1992	4
1993	3
1994*	4

*as of 11/94

Other Trespassers

Other intruders have gained access to the White House Complex illegally either by entering with legitimate passholders or running through a gate opened for a vehicle. The following chart indicates the number of people arrested after gaining access to the grounds of the White House Complex or attempting to do so by one of these methods.

CHART 3

Recent Trespassers to the White House Complex

Year	Ran Through Open Gate	Entered With Passholders
1989	0	0
1990	1	1
1991	0	0
1992	0	0
1993	1	0
1994	0	3

On January 20, 1985, the day that President Ronald Reagan was sworn in for his second term, an intruder named Robert Latta entered the White House with the Marine Band and wandered around the Executive Mansion for 15 minutes before he was discovered and apprehended.

External Threats

John Tyler Administration (1841-1845). Perhaps the only instance in which an assailant standing outside the White House fence almost succeeded in harming a President who was inside the White House Complex occurred in the early 1840s, when an intoxicated painter threw stones at President John Tyler as he strolled on the South Grounds. Another dangerous episode transpired in 1841, after Tyler vetoed the bill establishing the Second Bank of the United States. An inflamed and intoxicated Whig mob, enraged by Tyler's action, marched to the White House. Standing outside the locked gates, they threw

stones, fired guns, and burned the President in effigy. This was the most violent demonstration ever to occur at the White House Complex.

The Bonus Army (June 1930). In 1930, in the midst of the Great Depression, 20,000 veterans descended on Washington, demanding that Congress release their service bonuses early. The Secret Service was concerned that this "Bonus Army" would resort to violence and detailed large numbers of extra personnel to guard the White House. Although the veterans focused most of their attention on the Capitol, on the night of June 20, a large group gathered near the White House. As this crowd watched, police attempted to arrest two demonstrators who were marching along the north fence on Pennsylvania Avenue. The demonstrators resisted, and the angry throng surged toward the officers. Ultimately, however, the riot feared by the Secret Service did not occur.

David Mahonski (April 1984). Since 1950, at least four people considered to be serious threats to the President have been apprehended in the vicinity of the White House carrying a weapon. One of these arrests involved a violent confrontation. In 1984, David Mahonski, who had made threats against President Reagan, was under surveillance by both the FBI and the Secret Service. On March 3 of that year, Uniformed Division officers noticed him

standing outside the fence bordering the south grounds of the White House. As they approached him, he pulled a sawed-off shotgun from under his coat. One of the officers immediately shot Mahonski in the arm with a revolver. The officers then arrested him.

Air Incursions and Attempted Air Incursions

Robert K. Preston (February 1974). On February 17, 1974, Robert Preston, a private in the Army, stole an Army helicopter from Fort Meade, Maryland, and flew it to the White House Complex. He passed over the Executive Mansion and then returned to the south grounds, where he hovered for about 6 minutes and touched down briefly approximately 150 feet from the West Wing. Members of the EPS did not know who was piloting the aircraft and were not aware that it had been stolen from Fort Meade. They made no attempt to shoot down the helicopter.

Preston left the area of the White House and flew the helicopter back toward Fort Meade. He was chased by two Maryland State Police helicopters, one of which he forced down through his erratic maneuvers. Preston then returned to the White House Complex. As he lowered himself to about 30 feet above the south grounds, EPS officers barraged the helicopter with shotgun

and submachine gunfire. Preston immediately set the riddled aircraft down. He was injured slightly.

Samuel Byck (February 1974). Samuel Byck, a failed businessman with a history of mental illness, was investigated by the Secret Service in 1972 on the basis of reports that he had threatened President Nixon. In 1974, he hatched a plan called "Operation Pandora's Box" to hijack a commercial airliner and crash it into the Executive Mansion. On February 22, less than a week after the Preston incident, Byck went to Baltimore/Washington International Airport carrying a pistol and a gasoline bomb. He forced his way onto a Delta flight destined for Atlanta by shooting a guard at the security checkpoint. He entered the cockpit and ordered the crew to take off. After the crew informed him that they could not depart without removing the wheel blocks, Byck shot the pilot twice and the co-pilot three times (the co-pilot died). Police outside the airplane shot into the cockpit and hit Byck twice. Byck fell to the floor, put the revolver to his head, and killed himself.

BIBLIOGRAPHIC NOTE

In addition to the Congressional records, newspaper articles, and statistics and records provided by the Secret Service, a number of books and scholarly articles were useful in preparing this information. Of special note is The President's House (White House Historical Association, Washington, D.C., 1986), William Seale's remarkable and comprehensive study of life at the White House. This book was the chief source of information regarding security arrangements in the nineteenth century prior to the Secret Service's assumption of the protective function. It was helpful in describing subsequent decades as well. In addition, The President's House astutely discusses the historical tension between security and democratic openness at the White House.

The Report of the U.S. President's Commission on the Assassination of President John F. Kennedy (U.S. Government Printing Office, Washington, D.C., 1964), commonly referred to as the Warren Commission Report, contains an excellent historical section regarding presidential security and attacks on chief executives through 1963, the year of the Kennedy assassination.

Frederick Kaiser provided useful information in two articles which appeared in separate issues of Presidential Studies Quarterly. In "Origins of Secret Service Protection of the President: Personal, Interagency, and Institutional Conflict," (Winter 1988), Kaiser offers a detailed analysis of the Secret Service's presidential protective activities from their origin in the 1890s through the early twentieth century. His "Presidential Assassinations and Assaults: Characteristics and Impact on Protective Measures," (Fall 1981), ably describes the threats historically faced by our presidents and the Secret Service's efforts to respond to them.

The Secret Service itself prepared two short histories of its law enforcement role, each of which includes a helpful description of the agency's presidential protective function: "Moments in History, 1865-1990" (U.S. Government Printing Office, Washington, D.C.) and "Excerpts from the History of the United States Secret Service 1865-1975" (U.S. Government Printing Office, Washington, D.C.).

Although memoirs by former Secret Service directors and special agents contain only limited specific information concerning the Secret Service's operations, they nonetheless provide vivid portrayals of the challenges faced by those entrusted with the protection of the president. The Review consulted the

following memoirs: Protecting the President: The Inside Story of a Secret Service Agent, by Dennis V.N. McCarthy and Philip W. Smith (William Morrow and Company, Inc., New York, 1985); Starling of the White House by Col. Edmund W. Starling as told to Thomas Sugrue, (Simon and Schuster, New York, 1946); Special Agent: A Quarter Century with the Treasury Department and the Secret Service by Frank J. Wilson and Beth Day. (Holt, Rinehart, and Winston, New York, 1965); and 20 Years in the Secret Service: My Life with Five Presidents by Rufus Youngblood (Simon and Schuster, New York, 1973).

Other books that were helpful include: The United States Secret Service by Walter Bowen and Harry Edward Neal (Chilton Company, Philadelphia, 1960); The Secret Service Story by Michael Dorman (Delacorte Press, New York, 1967); No Ordinary Time by Doris Kearns Goodwin (Simon & Schuster, New York, 1994); The Politics of Protection: The United States Secret Service in the Terrorist Age by Philip Melanson (Praeger Publishers, New York, 1984); The Story of the Secret Service by Harry Edward Neal (Grossett & Dunlap, New York, 1971); and A System of Modern Geography by S. Augustus Mitchell (E.H. Butler & Co., Philadelphia, 1864).

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 11 A.M.
May 20, 1995

RUBIN ANNOUNCES WHITE HOUSE SECURITY REVIEW COMPLETION

Treasury Secretary Robert Rubin on Saturday announced completion of the White House Security Review.

The public recommendations of the review, which began eight months ago, include:

* Conversion into a pedestrian mall of Pennsylvania Avenue between Madison Place and 17th Street, State Place and the segment of South Executive Avenue that connects with State Place.

* Convening representatives of the Treasury Department and Transportation Department, including the Federal Aviation Administration, to discuss changes in the air traffic rules to enhance White House security without unduly hindering air traffic in the Washington D.C. area.

* Having the three government agencies -- U.S. Secret Service, U.S. Park Police and Metropolitan Police Department -- who share jurisdiction for safety at the White House grounds enter into a Memorandum of Understanding that would better coordinate their protective efforts and resources.

* Creation of a forensic task force, including federal and local law enforcement agencies and fire, rescue and ordnance squads to enhance coordination in responding to crises at the White House, collecting evidence and coordinating access to the White House grounds.

* Ensuring a prompt response to incidents by upgrading communications among law enforcement agencies and the various White House security posts, with a comprehensive plan for placing operational command and control in the Secret Service.

* Coordinating the Secret Service's implementation of the recommendations and other security measures through Treasury's Office of the Under Secretary (Enforcement).

The investigation was set in motion at the direction of then-Secretary Lloyd Bentsen on September 12, 1994, following the crash of a light plane on the grounds of the White House. Upon taking office in January 1995, Secretary Rubin fully supported that directive. Treasury Under Secretary for Enforcement Ronald K. Noble was Chairman.

The review examined:

* Facts surrounding the September 12, 1994 plane crash on the South Lawn and the October 29, 1994 shooting by Francisco Martin Duran at the White House complex.

* Potential dangers posed to the White House complex and protectees by air or ground assaults.

* Adequacy of the procedures and policies used by the Secret Service to address these dangers.

* Effectiveness of established mechanisms for communicating to the Secret Service vital intelligence information concerning possible air and ground assaults received by relevant federal, state and local authorities.

* Feasibility of techniques and measures, including state of the art technologies, to enhance the capability of the Secret Service to safeguard the White House complex and protectees from air and ground assaults.

* The need to keep the White House open and accessible to the American public without jeopardizing valid security concerns.

The investigation interviewed more than 250 individuals, reviewed more than 1,000 documents, consulted technical and public access experts and consulted with experts from eight countries, including nations that have faced continuous terrorist threats. It met with representatives of the Washington Metropolitan Area Transit Authority, D.C. Department of Public Works, National Capital Planning Commission, Presidential Park Commission, U.S. Chamber of Commerce and the Association of D.C. Civic Associations. It produced a classified report of more than 500 pages, with an appendix of more than 260 pages.

(more)

To make sure the investigation was comprehensive and objective, the review included an advisory committee of individuals known for their professional achievement and integrity. The members are Robert Carswell, former Deputy Secretary of the Treasury and member of an internal Treasury review of the Secret Service's protective operations after the Kennedy assassination; William T. Coleman, Jr., former Secretary of Transportation and counsel to the Warren Commission; Charles W. Duncan, Jr., former Energy Secretary and Deputy Secretary of Defense; David C. Jones, former Chairman of the Joint Chiefs of Staff; Judith Rodin, President of the University of Pennsylvania; and William H. Webster, former federal circuit court judge, Director of the Federal Bureau of Investigation and Director of the Central Intelligence Agency.

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ADV 11 A.M. EST
Text as prepared for delivery
May 20, 1995

REMARKS OF TREASURY SECRETARY ROBERT E. RUBIN
WHITE HOUSE SECURITY REVIEW

Under my authorities as Secretary of the Treasury, I have directed the Secret Service to take additional steps to protect the President, the institution of the presidency and the White House complex. As of this morning, unauthorized motor vehicle traffic may not travel on Pennsylvania Avenue in front of the White House, or use two short streets on the southwest corner of the complex, and the Pennsylvania Avenue area will become a pedestrian mall, open to the public. This action was taken reluctantly because the White House Security Review was unable to identify any alternative that would ensure the protection of the President and others in the White House complex from explosives carried by vehicles in the immediate area of the complex. I will go into greater detail in a moment, but there are a few points I want to make first.

I was kept abreast of the White House Security Review as it progressed and received a detailed briefing on April 3rd. I went into that briefing skeptical about the need to make the changes that are now under way. After hearing from experts on the technical aspects these matters, I left convinced that it was imperative that we improve the security afforded the President and the White House. About two weeks after the briefing on White House security, the Oklahoma City bombing occurred. That terrible tragedy and the means used to create the enormous devastation, only served to reinforce and confirm the absolute necessity of these actions to protect the President, those who will succeed him, and the White House.

To put events into perspective, if you'll recall my predecessor, Secretary Bentsen, set this security review in motion Sept. 12 following the crash of a light plane on the grounds of the White House. The October 29th shooting incident on the sidewalk outside the building involving a man with a semi-automatic rifle was included in the review. Since then there have been several other minor incidents around the complex, and the report was given greater scope.

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The White House was built in another era, when security concerns were not as great.

We are an open society, a nation of freedoms found in very few parts of the world, and access to the White House symbolizes all of that. But the Oklahoma City bombing and the World Trade Center tragedy remind us that we must live with the reality that the threat of terrorism has grown and is very real. Our own Capitol Building was damaged by a bomb 12 years ago.

We have chosen an approach that fully preserves the opportunity for Americans to visit the White House, fully preserves access on foot, and still permits drive-by viewing of the front of the White House, but from further away, on the other side of Lafayette Square, while at the same time meeting the security needs of the President, the presidency, the White House and the 5,000 visitors each day who come to see the White House.

I and the team of experts presented the report of the White House Security Review to the President and informed him of the steps being taken. Last night he provided his final concurrence. He was satisfied the actions in no way interfered with the ability of visitors to tour the White House -- the Peoples' House as it's sometimes called. He was also satisfied that we preserved the access by foot and drive-by viewing that I have already discussed.

The White House Security Review is classified. It contains 11 major recommendations on improving security for the White House complex and related issues. We are making public six of those recommendations, and I will discuss them in detail in a moment. We are also making available materials from the report, edited and abbreviated to avoid compromising classified information.

The documents we are making public include an edited recommendations section and charts, a letter from the Advisory Committee established to oversee the review unanimously endorsing the report and its 11 major recommendations, a letter from the Treasury's independent Inspector General, a section on the exhaustive methodology used to conduct the review, a section on the facts of the two incidents that brought about the security review, and materials on the evolution of presidential security.

This process began eight months ago. The reviewers were directed to look at the facts of the September plane crash and October shooting incident. They were also directed to examine the dangers posed to the complex and those entitled to Secret Service protection, by air or ground assault; the adequacy of the procedures and policies currently used by the Secret Service to address those dangers; the effectiveness of communicating threat information; the feasibility of techniques and measures, including state-of-the-art measures, to enhance the capacity of the Secret Service to safeguard the complex and protectees from assaults; and, very importantly, the need to keep the White House open and accessible to the public without jeopardizing valid security concerns.

The White House Security Review was conducted in a three-tiered process. First, there was a thorough investigation of the relevant events that led to the review, conducted by the Secret Service under Director Eljay Bowron. Second, Treasury created a review team and put in charge first, David Douglass, a former Justice Department attorney who came from the private sector, and later, Elisabeth Bresee, a former Assistant U.S. Attorney in Washington. The review team worked with the Secret Service to review those findings and in drafting in the review's report.

Finally, there is the White House Security Advisory Committee I mentioned, composed of six very distinguished Americans with backgrounds that directly relate to the work being done in this review. They are Robert Carswell, a former Deputy Secretary of the Treasury; William Coleman, a former Transportation Secretary; Charles Duncan, a former Secretary of Energy and Deputy Secretary of Defense; former Joint Chiefs of Staff Chairman retired Air Force Gen. David Jones; Dr. Judith Rodin, a psychologist and president of the University of Pennsylvania; and former CIA and FBI Director William Webster. These six individuals have performed an enormously valuable service, and I want to thank them personally for their contribution.

The advisory committee was chaired by Treasury Undersecretary for Enforcement Ron Noble, and Ron has done an exemplary job on a very difficult and demanding issue. I want to thank Ron and his staff, Director Bowron and the Secret Service, David Douglass, Ms. Bresee and the review team, their consultants and the members of the Advisory Committee, for the professionalism and excellence with which this review was conducted.

It has been an exhaustive and thorough review of every aspect of security issues at the complex. To evaluate its findings, we need to ask: was it comprehensive and objective, and, second, were the recommendations proportional to the risk? My answer to both is, yes. But I also wanted a second opinion on the thoroughness of the work. The six outside experts we asked to oversee this review unanimously reached the same conclusion, as did the independent Treasury Inspector General who reviewed the study.

To give you some example of the lengths to which the reviewers and advisors went, the review team consulted with experts from no fewer than eight countries, including nations which regularly have faced continuous and much more serious terrorist threats. The review team interviewed three former presidents, and overall interviewed or received briefings from over 250 individuals from at least 10 government agencies. In addition, the reviewers met with groups and experts concerned with public access, traffic and transportation, urban design, and reviewed a good deal of correspondence from interested individuals.

As a result of the White House Security Review, the following actions, among others, are being taken or recommendations made:

First, we have recommended that the Departments of Treasury and Transportation consider changes in the civil air traffic rules to enhance the security of the White House complex without hindering air traffic in the Washington area.

Two, the review recommends that the law enforcement agencies that share jurisdiction over the area enter into a memorandum of understanding about coordinating their work. It recommends an annual review of how incidents were handled, and that the lead investigating agency be determined by the violation involved, not the physical location of the suspect.

Three, the review recommends the dedication of forensic experts from the various federal and local agencies to respond to White House emergencies, with the forensics group being responsible for collecting evidence, preserving the crime scene and coordinating access to the White House grounds at those times.

Fourth, the review recommends upgraded communications among law enforcement agencies and the various White House security posts, as well as a protocol that establishes that immediate operational command and control will be assumed by the Secret Service.

Fifth, the Treasury Department, through the Under Secretary for Enforcement, will ensure that the Secret Service implements the recommendations and will aid in removing obstacles to the rapid implementation of security measures. In addition, the Treasury and Defense Departments will ensure that sensitive security-related projects have oversight at a high level.

And sixth, traffic was rerouted this morning around the White House complex, and Pennsylvania Avenue in front of the White House will be converted to a pedestrian mall. In addition to permanently closing off Pennsylvania Avenue from Madison Place to 17th Street, the order I signed last night prohibits unauthorized vehicular traffic on State Place and that part of South Executive Avenue which connects into State place. In addition, the Metropolitan Police Department and Secret Service have at least temporarily restricted Madison Place and the adjoining portion of Pennsylvania Avenue to 15th street to buses traveling south and east.

To ease commuter concerns, we expect that a portion of eastbound E Street west of the White House Complex will become a two-way street for those who travel to the Roosevelt Bridge, the Whitehurst Freeway or Rock Creek Park.

I want to say a few words in closing.

We have in one unique and readily accessible complex a national museum, a home for the President and the president's family, the offices of the President, the Vice President, their staffs, Cabinet officers and other senior government officials. Visitors can park a block away, obtain a ticket, and tour the building and grounds, something virtually unheard of anywhere else in the world.

The White House belongs to the American people. It has been, still is, and under this program will remain one of the most accessible homes and offices of a national leader in the world.

To the citizens of the Washington metropolitan area who will be inconvenienced by the need to adjust to new traffic patterns, we share your concerns. We have spoken to Mayor Barry, Delegate Eleanor Holmes Norton, Chairman David Clarke and Congressman Tom Davis to assure them that we will begin working immediately with local authorities to address long-term solutions to all of the transportation issues which today's action creates.

To sum up, these steps continue to provide Americans full pedestrian and touring access to the White House, and drive-by viewing at a greater distance and, at the same time, provide an imperative addition to the security of the White House complex, the president and the institution of the presidency.

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FOR RELEASE AT 11 A.M.
MAY 20, 1995

STATEMENT OF RONALD K. NOBLE
UNDER SECRETARY OF THE TREASURY (ENFORCEMENT)

White House Security Review Press Conference

Thank you Secretary Rubin. The White House Security Review has completed the most comprehensive analysis of White House security ever conducted: we interviewed over 250 individuals; analyzed over 1,000 documents; and consulted over 20 experts. We also benefitted greatly from the wisdom and dedication of our Advisors, who volunteered their efforts and experience to assist the Review. I would like to acknowledge their contribution and thank them for their guiding hands. Thank you Secretary Coleman, General Jones, and Judge Webster. I would also like to thank the outstanding staff of the White House Security Review Team. It has been a pleasure working with you, and you have done a wonderful job. And finally, I would like to thank Secretary Rubin. He and his predecessor, Secretary Bentsen, made available the resources necessary to conduct a full and impartial review, including the talents of the Department's Inspector General and her staff and the General Counsel's office. I also greatly appreciate Secretary Rubin's careful consideration of, and support for, the recommendations the Review has made.

One of the things the Review did was to consult representatives of the executive protective agencies of Great Britain, France, Italy, Japan, Germany, Israel, the Republic of Korea, and the Vatican. Foremost, what we learned in our comparative assessment is that the White House is the most publicly accessible executive residence in the world. I assure you it will remain so. I also want to add that the foreign protective agencies told us that they model their security operations after those of the Secret Service, whom they consider the best in the business. Today I add my praise for the fine work of the Secret Service, and I would like to take this opportunity especially to thank the men and women of the Uniformed Division, whose job it is to safeguard the White House Complex.

Let me turn now to the Corder and Duran incidents and summarize the Review's

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basic findings. As you know, much of the Review's work relates to broader issues regarding the protection of the President and the White House and I cannot discuss it publicly. What I can do, and what I am about to do for the first time, is to share with you details of these two incidents. This is a small sample of the voluminous information the Review unearthed.

Corder Incident

Let's start first with the Corder incident. On Sunday, September 11, 1994, after spending an evening consuming alcohol and smoking crack cocaine, Frank Eugene Corder stole a single-engine Cessna 150L airplane at Aldino Airport in Churchville, Maryland. Corder was not a licensed pilot but had taken several lessons in that same Cessna.

Corder flew south around Baltimore and into the Washington area in the early hours of September 12th. At 1:44 am, the National Airport tower received radar transmissions showing Corder six and a half miles north of the White House, flying at an altitude of 2,700 feet. The airplane descended approximately 1,000 feet over the next three minutes. Corder then turned south and entered the prohibited airspace surrounding the White House, designated as P-56. The plane flew towards the Mall descending rapidly, and then dove directly at the White House at a steep angle of descent. It crashed on the South Lawn at approximately 1:49 am. The airplane skidded across the ground, struck a magnolia tree, and came to rest against the southwest corner of the ground floor of the White House. There was minimal damage to the mansion. The First Family was staying in Blair House at the time of the crash, and was never at risk.

Corder died from multiple, massive blunt-force injuries. Based on the physical evidence, the National Transportation Safety Board concluded that the crash was intentional. For example, the airplane's velocity on impact clearly exceeded a safe landing speed; the airplane's wing flaps were up; and its throttle position was full forward. These are not characteristics of an aircraft that is trying to land safely.

The District of Columbia Medical Examiner ruled Corder's death a suicide, and the Review did not find evidence inconsistent with this conclusion. Corder suffered from an array of financial, marital, legal, and substance abuse problems. It appears that Corder was attempting to fulfill an ambition he had expressed to friends to kill himself in a "big way" by flying into the White House or the dome of the Capitol Building. These remarks were never reported to authorities. Prior to this incident, Corder was not on record with the Secret Service as a potential threat to the President or any other protectee.

Within minutes of the crash, Secret Service personnel were dispatched to the scene; a perimeter was established; and the Explosive Ordnance Disposal team and the Secret Service Technical Security Division were called to look for any threatening devices. The Secret Service contacted the control tower at National Airport and was soon apprised of the

aircraft's owner. Within one hour of the crash, seven federal and D.C. agencies were on the south grounds of the White House.

The Review determined that individuals and agencies that responded to the crash interacted efficiently and cooperatively. Although the Review made a number of recommendations to improve security in the future, it was by and large impressed that the Secret Service's response was prompt, organized, and efficient.

The Review's primary concern arising from the Corder incident has to do, not with the response post-crash, but with an earlier phase of the plan for protecting the White House from air attack. Specifically, the system for alerting the Secret Service of the approach of suspicious aircraft did not function properly in the early morning hours of September 12th. As a result, the Secret Service was unaware of Corder's flight until he was quite near the White House.

The problem was not technical. Radars tracked the plane continuously from a point well before it entered the airspace over Washington, D.C. The Secret Service, at the time, was relying on FAA radar operators for early warning of approaching aircraft, an arrangement that dated back to 1974. In the intervening years, however, a misunderstanding developed between the two agencies as to the precise nature of the support the FAA was furnishing the Secret Service. As one graphic example of the breakdown in communication, the telephone line linking FAA radar operators to the responsible Secret Service officers was broken at the time of Corder's flight.

Today, I can assure you the telephone lines have been fixed and the misunderstandings corrected. Moreover, as a result of the Review, other measures have been taken that should substantially enhance the security of the White House from air attack.

Duran Incident

The second incident under review occurred on October 29, 1994, when Francisco Martin Duran pulled an SKS semiautomatic rifle from under his trenchcoat. Standing on Pennsylvania Avenue, Duran fired multiple rounds at the White House through the fence, pulled the weapon back and ran down the sidewalk towards 15th Street, continuing to fire through the fence as he ran. When Duran paused to reload his rifle, Harry Michael Rakosky, a tourist, tackled him. Two other citizens ran over and assisted in subduing Duran, and Secret Service Uniformed Division officers arrived to arrest him moments later. Most of this incident was captured on videotape by a passer-by.

What the videotape may not have revealed is that several Secret Service officers were prepared to shoot Duran, just before Mr. Rakosky tackled him. As soon as Duran began firing, a Secret Service Emergency Response Team officer ran across the North Lawn of the

White House toward Duran, using only trees as cover. As the videotape shows, the officer was running toward Duran as Duran fired shots in the officer's direction. When Duran stopped to reload his rifle, the officer neared the fence and pointed his weapon at Duran. But seeing Rakosky about to tackle Duran, the officer withheld fire and jumped over the fence to apprehend Duran. The officer heard one of the citizens say, "Thanks for not shooting me." Duran then responded "I wish you had shot me." A magazine with thirty rounds of live ammunition was found in Duran's coat pocket.

Another Secret Service officer patrolling the north grounds at the time of the shooting also drew his weapon and ran towards the fence. Before he was able to fire, however, Duran was tackled. This second officer then vaulted over the fence to assist in arresting Duran. These two officers, and a number of their Secret Service colleagues, reacted immediately and with unstinting heroism.

At the time of the shooting, the President was in a room in the opposite side of the Residence. Secret Service agents within the White House responded immediately to him, when shots were fired. The President was never in any danger.

Approximately 30 minutes after Duran's arrest, the Secret Service located his pickup truck based on a note found on his person. Officers recovered a shotgun, several boxes of ammunition, nerve gas antidote, and several handwritten notes, including one that said "kill the Prez."

Investigators determined that Duran was in the D.C. metropolitan area for approximately two weeks prior to the shooting. Before leaving his home in Colorado, Duran told several people that he intended to kill the President, but these individuals did not notify any law enforcement agency. I'd like to emphasize here that individuals can play a critical role in assisting the Secret Service by reporting statements or actions they witness that suggest a threat to the President or to the White House. Duran was not on record with the Secret Service's Intelligence Division, and no evidence was found that Duran approached the President prior to the day of the shooting. There is also no evidence that Duran had co-conspirators.

Duran was convicted in U.S. District Court of attempted assassination and nine other federal charges on April 5, 1995. His sentencing is scheduled for June 29, 1995.

Although the Review concluded that the Secret Service by and large responded well to the shooting, it made a number of recommendations with respect to the training, staffing, and equipping of Secret Service agents and officers at the White House. You may, for example, have noticed an increased Secret Service Uniformed Division presence on the sidewalk of Pennsylvania Avenue. Before the Duran shooting incident, the Secret Service largely left patrolling of this area to the Department of the Interior's Park Police. The Park Police, the

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Secret Service, and the Metropolitan Police Department share jurisdiction in the public areas immediately north of the White House, and, as Secretary Rubin noted, the Review's recommendations include measures to enhance communication and coordination among these three organizations.

Pennsylvania Avenue Pedestrian Mall

At least one columnist has observed that converting Pennsylvania Avenue to a pedestrian mall will not prevent the Durans of the world from shooting at the White House in the future. But the Review not only examined the Corder and Duran incidents, it also tackled other kinds of potential air or ground attacks. After all, the general who plans only to refight the last war does not lead a successful army. The Review considered intelligence on a range of threats to the White House, and it was this portion of our work that gave rise to some of our more far-reaching recommendations.

Specifically, it is in this context that the Review recommended converting the segment of Pennsylvania Avenue that runs from Madison Place to 17th Street into a pedestrian mall. The main security concern that prompted this recommendation is that posed by explosive-laden vehicles. But I would like to emphasize that the Review reached its recommendation before the tragedy in Oklahoma City dramatized these risks.

The Review was not only concerned with protecting the presidency. It was also concerned with protecting the public's access to the White House, and the ability of visitors to view it up close. For that reason, we consulted an array of architects, historians, and urban planners, who uniformly endorsed the idea of converting this stretch of Pennsylvania Avenue into a pedestrian mall. They told us that it would increase public enjoyment of this national landmark by creating a friendlier environment in which to view the White House. I certainly think it looks friendlier without those chains that have been linking the bollards in front of the White House until this morning. Traffic experts, too, assured us that with proper implementation the neighboring streets could accommodate the diverted traffic.

The White House is, without question, a house like no other. For almost 200 years it has symbolized the American presidency, and our nation's system of elected government. The White House belongs to the American people, and it is a national treasure.

Perhaps the most "American" aspect of the White House is its accessibility, as evidenced by the hundreds of thousands of visitors -- from school groups, to Girl Scout troops, to families visiting from far away -- who walk through each year. Since President Jefferson's day, the White House has been an emphatically public residence -- the "People's House," which we may either enter or look upon without obstruction. In contrast, the great palaces of Europe were set within high walls and fences designed with protection in mind. The White House grounds were laid out at a time when security was not a great concern in

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the United States. The openness of the White House to visitors is therefore distinctive. Where else in the world can a citizen secure a ticket to enter and tour the actual residence of the head of state and government?

The new pedestrian mall will foster that distinctively American accessibility to those in high office. Yesterday, when vehicles traveled up and down Pennsylvania Avenue, some tourists could be seen sprinting across the six lane avenue, darting between cars, to get to the White House sidewalk. In fact, over the past year and a half, at least 27 people were injured by vehicles traveling along this block of Pennsylvania Avenue. With today's change, Lafayette Park and the White House sidewalk are linked, and pedestrians can walk around freely.

At the same time, the pedestrian mall will reduce significantly the security risk that an explosive-laden vehicle will bring tragedy to the White House, its residents, employees, neighbors, and visitors. I am convinced, and our distinguished Advisory Committee is unanimously convinced, that this historic change to Pennsylvania Avenue and the other recommendations contained in our classified report will ensure that the White House continues to have an appropriate level of protection as we enter the 21st Century.

Now it is my pleasure to introduce the Director of the Secret Service, Eljay Bowron. Thank you.

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DEPARTMENT OF THE TREASURY
UNITED STATES SECRET SERVICE
WASHINGTON, D.C. 20223

DIRECTOR

STATEMENT OF DIRECTOR ELJAY B. BOWRON
UNITED STATES SECRET SERVICE
MAY 20, 1995

The White House Security Review has conducted an exhaustive study of our White House security programs with the full cooperation of the men and women of the Secret Service. The review has addressed each security issue from the perspective of assisting the Secret Service in our efforts to continually enhance the performance of our protective mission. It is important to state that the Secret Service constantly reviews all of its security practices, and no one is more interested than we are in efforts to provide the safest environment for the First Family and the others for whom we provide protection. The areas examined during the review included the most sensitive and critical aspects of our protective mission, which made full public participation inadvisable. We will continue to pursue these objectives and make necessary enhancements based on the review's recommendations and our own security assessments. As I have said in many of the briefings I have given on this matter, I was convinced that Pennsylvania Avenue was going to be converted in my lifetime. It was only a matter of whether it would be before or after an explosion. We appreciate the efforts of Secretary Bentsen, who initiated this review, and the leadership of Secretary Rubin who supports law enforcement and brought this review to fruition.

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WHITE HOUSE SECURITY REVIEW

FACTS ABOUT THE SECURITY REVIEW

- ★ 10 Technical Experts Consulted
- ★ 11 Public Access Experts Consulted
- ★ Over 1,000 Documents Reviewed
- ★ Over 250 Individuals Interviewed
- ★ 8 Nation International Comparative Study Conducted
- ★ Classified Report is over 750 pages
- ★ Key Members of Congress Briefed

White House Security Review Organizational Chart

Secretary of the Treasury

Office of Inspector General (Oversight)

Under Secretary for Enforcement

ADVISORY COMMITTEE

WHITE HOUSE SECURITY REVIEW TEAM

US Secret Service Investigative Teams

External Consultants

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WHITE HOUSE SECURITY REVIEW

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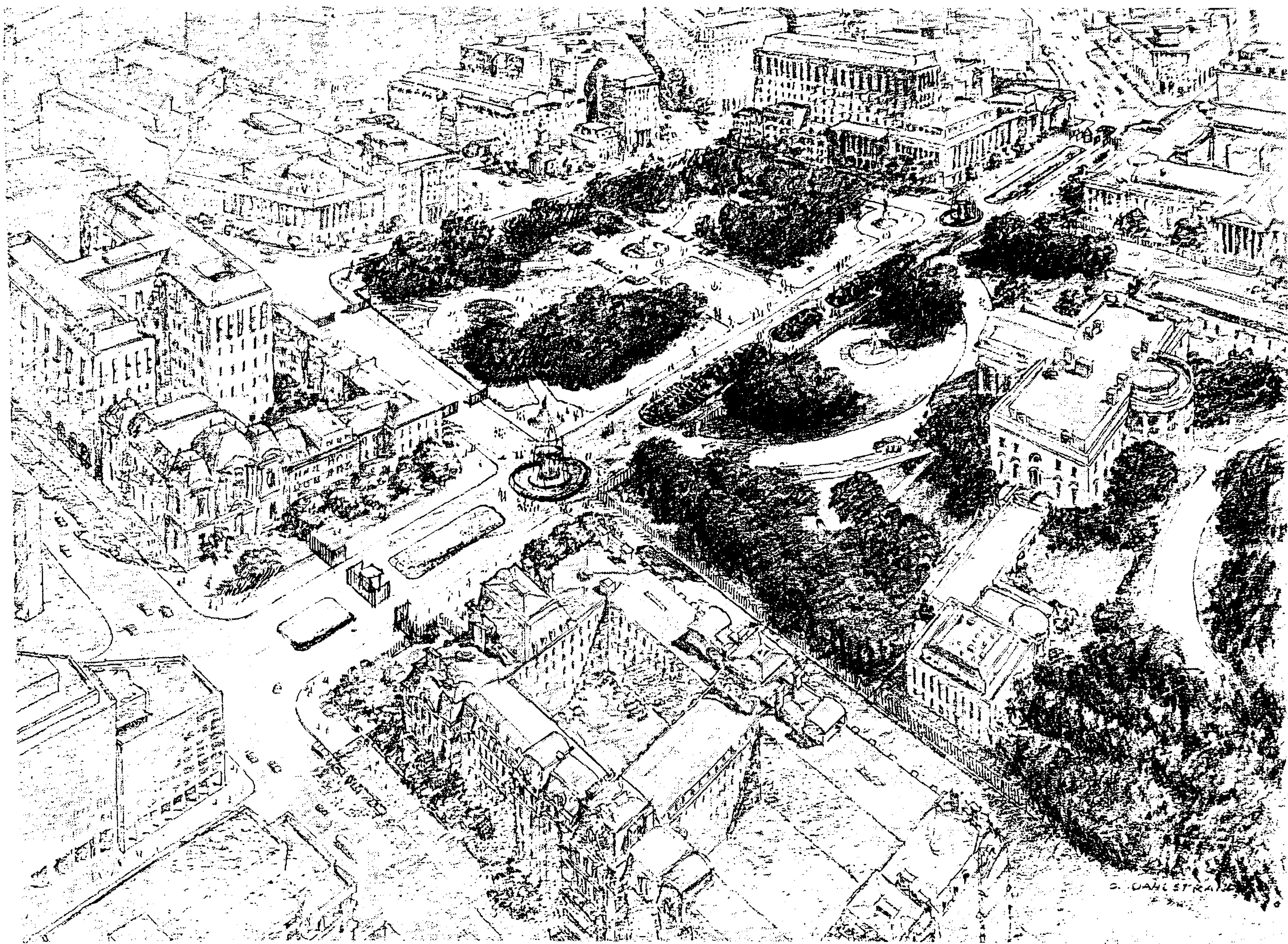
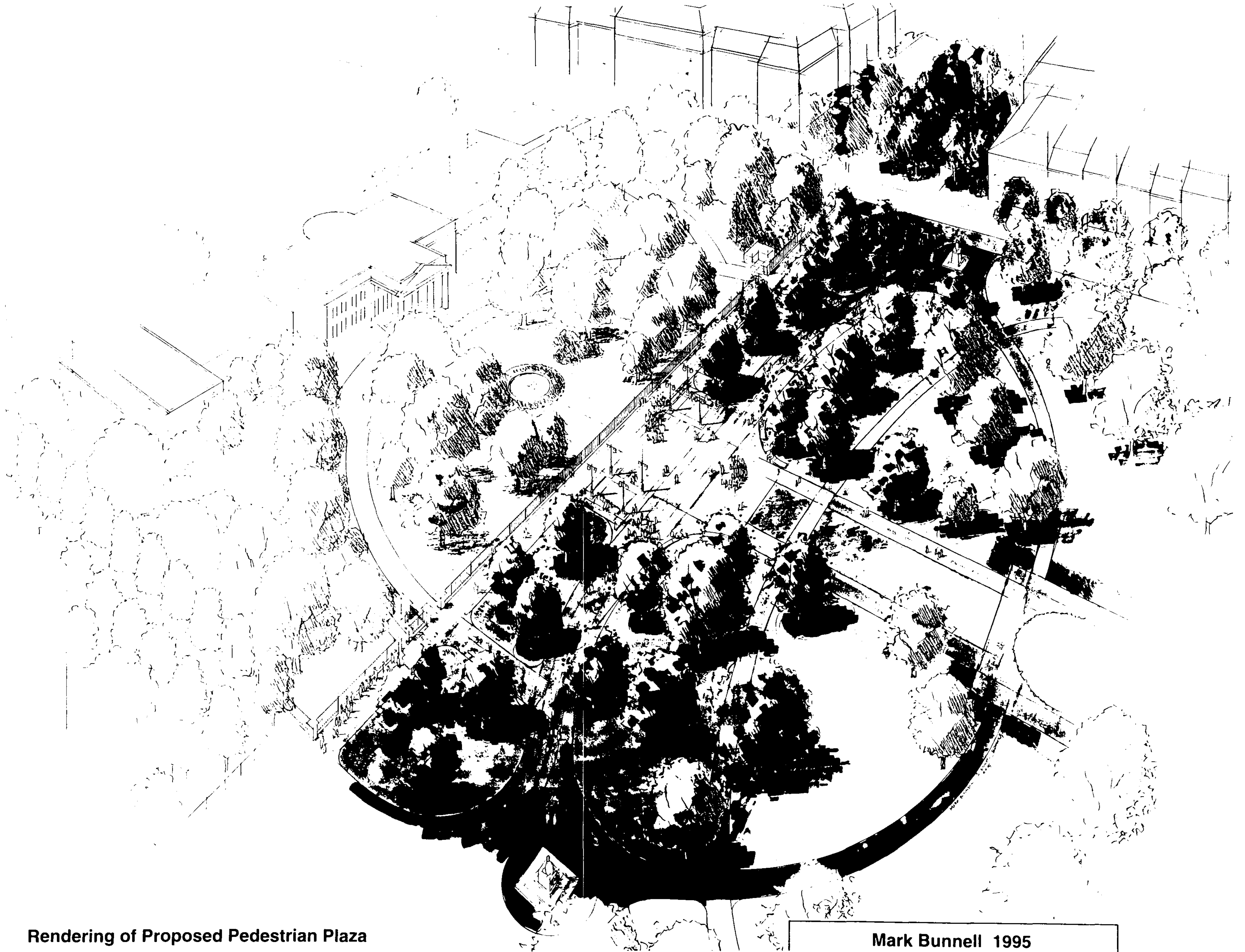
Met with Representatives of:

- ★ WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY (METRO)
- ★ D.C. DEPARTMENT OF PUBLIC WORKS
- ★ NATIONAL CAPITAL PLANNING COMMISSION
- ★ PRESIDENTIAL PARK COMMISSION
- ★ U.S. CHAMBER OF COMMERCE
- ★ ASSOCIATION OF D.C. CIVIC ASSOCIATIONS



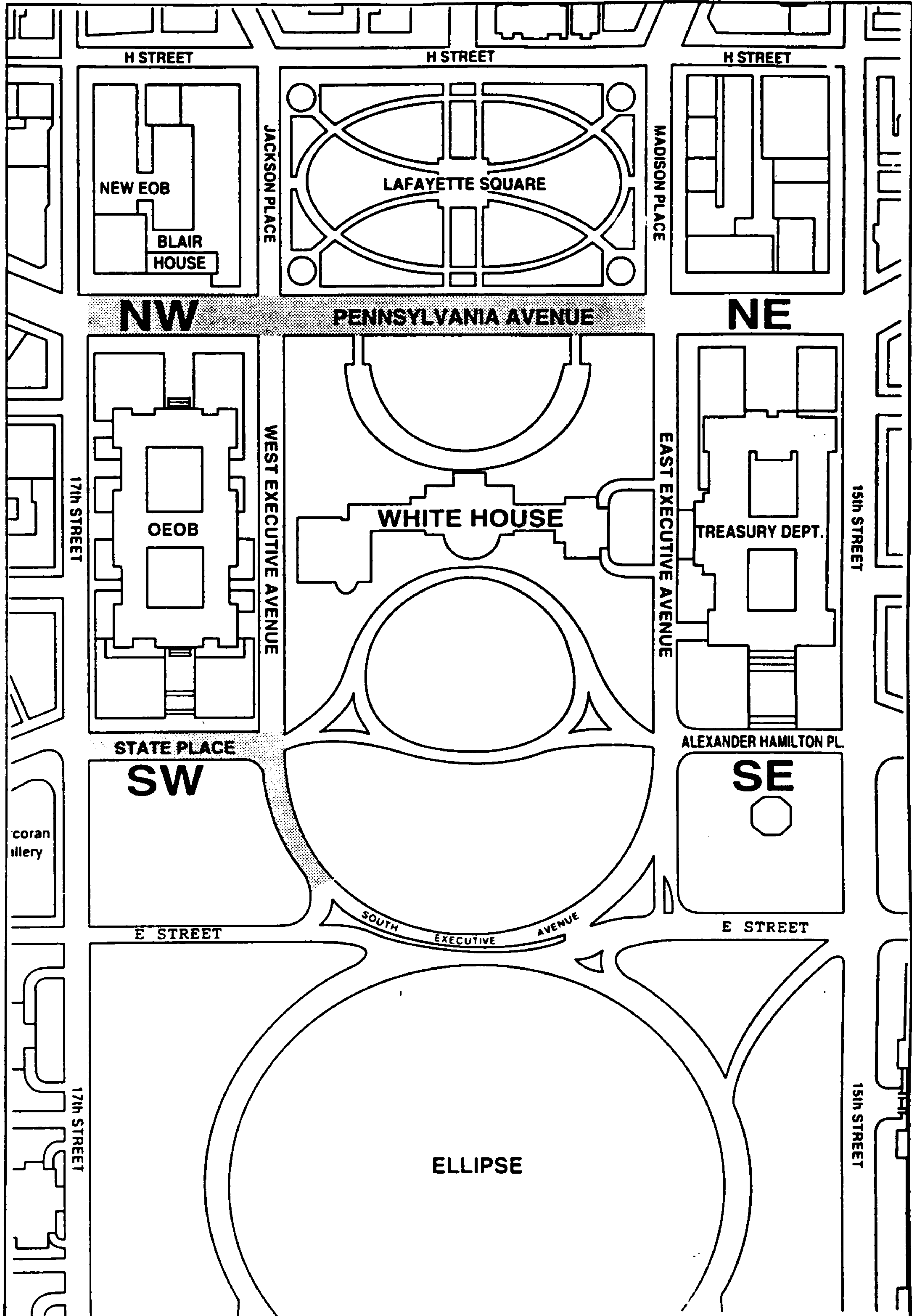
Modified Version of 1963 Proposal Prepared for President and Mrs. Kennedy | John Carl Warnecke FAIA 5/15/95



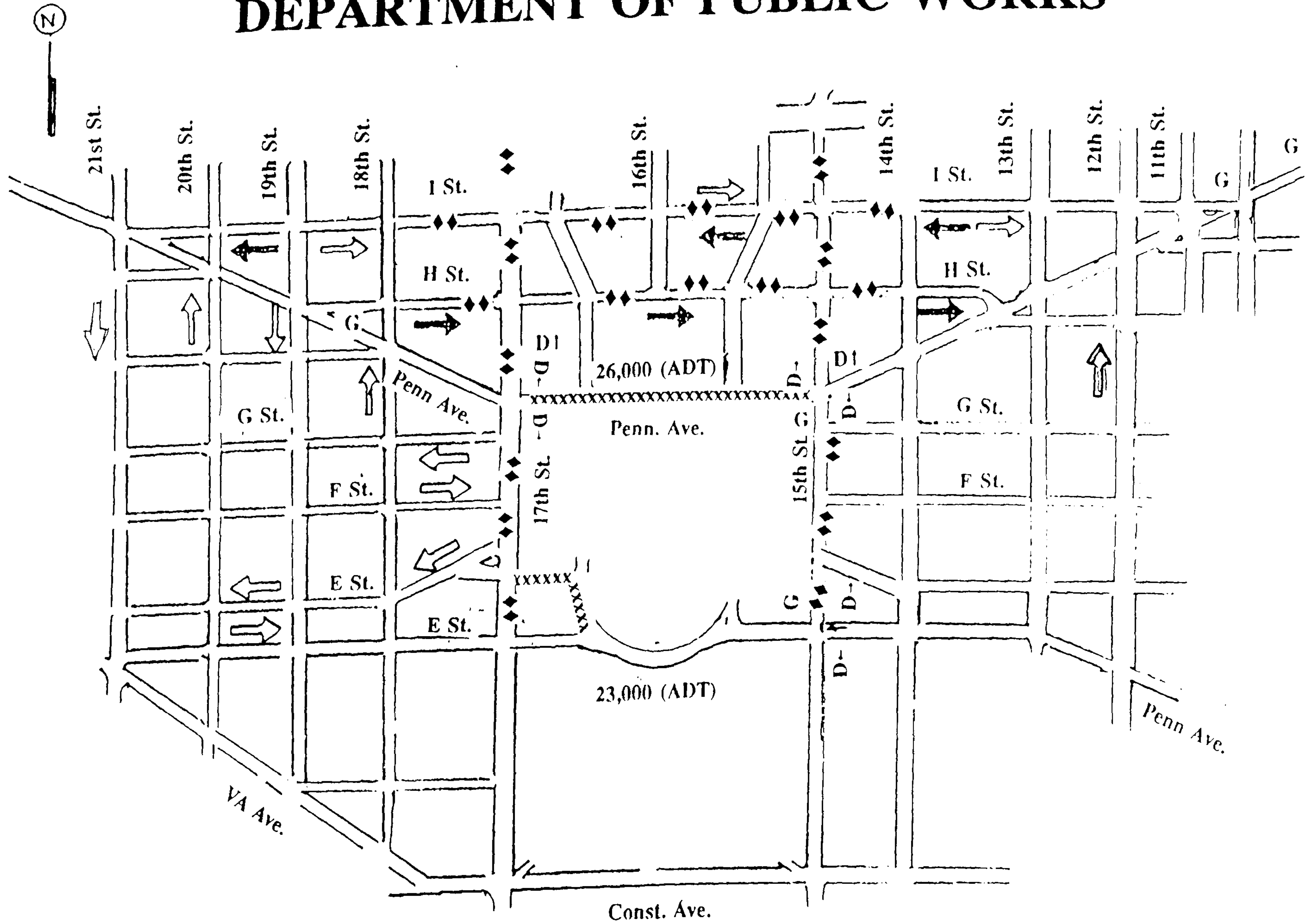
Rendering of Proposed Pedestrian Plaza

Mark Bunnell 1995

PEDESTRIAN ACCESS AREAS



DEPARTMENT OF PUBLIC WORKS



Existing ONE-WAY Sts.

Proposed ONE-WAY Sts.

EMERGENCY NO PARKING ♦♦♦♦♦♦♦♦♦♦

Streets Closed to Thru Traffic. xxxxxxxxxxx

Temp. DETOUR Signs with Arrows. D→

Crosstown Guide Signs. G

CROSSTOWN TRAFFIC (→)

(ADT) = VEHICLES PER DAY

TRAFFIC MANAGEMENT PLAN

PENNSYLVANIA AVENUE

THE PLAN IS TO MAKE I STREET ONE-WAY WESTBOUND BETWEEN NEW YORK AVENUE AND PENNSYLVANIA AVENUE, AND H STREET ONE-WAY EASTBOUND BETWEEN PENNSYLVANIA AVENUE AND NEW YORK AVENUE:

1. Install "Emergency No Parking Anytime " signs on the critical arterials in the areas of congestion from time and date of closure until necessary traffic control devices are implemented.

   EMERGENCY SIGNS:

   15th Street, N.W. - E Street to K Street - Both Sides.
   17th Street, N.W. - Constitution Ave. to K Street - Both Sides.
   H Street, N.W. - 14th Street to 18th Street - Both Sides.
   I Street, N.W. - 14th Street to 18th Street - Both Sides.

2. Install temporary detour signs. These signs will be replaced with new guide signs after the full Traffic Management Plan is implemented.

3. Install traffic signal hardware on I Street at the necessary intersections to effect the one-way westbound operation of I Street. The day of the operation change: Barricades with "Do Not Enter" signs will be placed in the intersections to help prevent motorists from proceeding east on I Street. Traffic signals will become operational to face westbound traffic, one-way signs changed and installed, and necessary pavement markings installed.

4. Install any necessary traffic signal hardware on H Street. Since H Street is two-way presently the task is not as difficult as I Street. The Day of the operational change, H Street one-way eastbound, the tasks are the same.

- Preparations have started on the traffic signal timing plans and hardware installations, pavement marking and signing plans.
- It will take approximately 10 hours to implement the one-way operations on each street after the traffic signal hardware is installed and deemed operational.
- We are discussing the traffic pattern change for 15th Street, N.W. between New York Avenue and K Street. We believe the street should be made one-way northbound.

LEGAL ISSUES FACT SHEET

- 18 U.S.C. 3056 provides the Secretary of the Treasury the authority to direct the Secret Service to do what is necessary and appropriate to protect the President, the First Family and other protectees.

- The Secretary has the authority to close streets to vehicular traffic in order to ensure the safety of the President pursuant to his broad authority under Section 3056.

- Whether closing the streets is necessary and appropriate to protect the President is a factual matter for the Secretary to determine.

- The White House Security Review "is not able to identify any alternative to prohibiting vehicular traffic on Pennsylvania Avenue that would ensure the protection of the President and others in the White House Complex from explosive devices carried by vehicles near the perimeter."

- This conclusion and the supporting evidence is sufficient factual justification for the exercise of the Secretary's authority to prohibit vehicular traffic on the following streets: Pennsylvania Avenue between Madison Place and 17th Street; State Place; and the segment of South Executive Avenue that connects into State Place.

- The Supreme Court has stated that "[t]he Nation undoubtedly has a valid, even overwhelming interest in protecting the safety of its Chief Executive...." Watts v. United States, 394 U.S. 705, 707 (April 22, 1969).

- The D.C. Circuit Court of Appeals has stated that "[a]t stake is not merely the safety of one man, but also the ability of the executive branch to function in an orderly fashion and the capacity of the United States to respond to threats and crises affecting the entire free world." White House Vigil for the ERA Committee v. Clark, 746 F.2d 1518, 1528 (D.C. Cir. 1983).

May 10, 1995

The Honorable Robert E. Rubin
Secretary of the Treasury
1500 Pennsylvania Avenue
Washington, D.C. 20220

Dear Mr. Secretary:

The Advisory Committee to the White House Security Review, having completed its assignment, submits the following assessment of that investigation.

On October 30, 1994, Secretary of the Treasury Lloyd Bentsen invited the undersigned to serve as members of an Advisory Committee to the White House Security Review (the "Review"). The Review had been initiated to investigate certain recent security-related incidents at the White House Complex (the "Incidents"). The Advisory Committee, chaired by Under Secretary of the Treasury (Enforcement) Ronald K. Noble, then was established to monitor and lend experience, judgment and critical insight to the Review's efforts.

As provided in the Review's Mission Charter, we were directed to meet as often as necessary to conclude that any erroneous procedures were discussed and changes proposed, and that the Review's findings and recommendations were supported by the facts presented. The Advisory Committee, in a sense, would conduct its evaluation on behalf of the group most interested in balancing the security and accessibility of the White House Complex -- the American people. In addition to this great responsibility, we recognized the added significance of evaluating the operations of the United States Secret Service, which is regarded as the world's authority on Head of State protection. We therefore accepted Secretary Bentsen's invitation and viewed his commission as an unequivocal mandate to ensure that the Review would be conducted in a principled, exhaustive and unbiased manner.

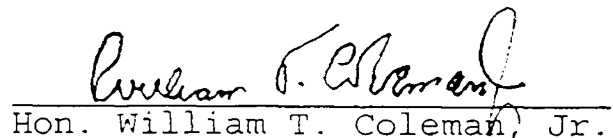
Our conclusions regarding the thoroughness and impartiality of Review are based on (i) the briefings provided during Advisory Committee meetings, (ii) the questions raised during discussions between the Advisory Committee and Under Secretary Noble's staff, (iii) the Review's investigative plan, which we reviewed, approved and monitored the implementation of, and (iv) the Review's Classified Report.

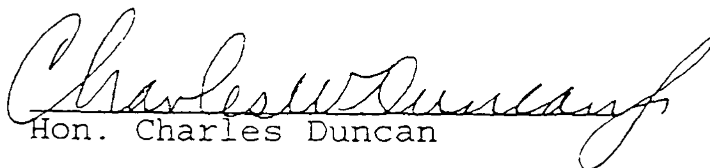
Under Secretary Noble convened Advisory Committee meetings during the course of the Review that consisted of briefings on various related issues. We had the benefit of on-site briefings at the White House Complex and the Air Traffic Control Tower at Washington National Airport to acquaint us with the operational aspects of those environments. Also, Under Secretary Noble conducted additional individual briefings to keep us informed of recent developments and to obtain advice on particular matters relating to the Review.

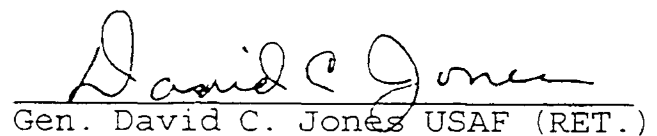
We are satisfied that the Review has been conducted in a thorough and unbiased fashion. Furthermore, we find no fault in the contents of the Review's Classified Report. We believe that the principles and concerns we have articulated throughout the Review have been addressed in full measure and are reflected in the Classified Report. Accordingly, the Advisory Committee concurs in the Review's recommendations. We are certain that the immediate implementation of the Review's recommendations will enhance even more the security of the President and the First Family within the White House Complex.

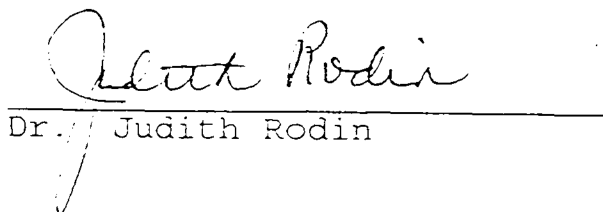
We respectfully commend this assessment of the White House Security Review to your favorable consideration.

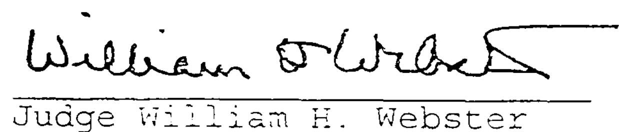
Hon. Robert Carswell


Hon. William T. Coleman, Jr.


Hon. Charles Duncan


Gen. David C. Jones USAF (RET.)


Dr. Judith Rodin


Judge William H. Webster

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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May 22, 1995

Monthly Release of U.S. Reserve Assets

The Treasury Department today released U.S. reserve assets data for the month of April 1995.

As indicated in this table, U.S. reserve assets amounted to $88,756 million at the end of April 1995, up from $86,761 million in March 1995.

U.S. Reserve Assets
(in millions of dollars)

End of Month	Total Reserve Assets	Gold Stock 1/	Special Drawing Rights 2/3/	Foreign Currencies 4/	Reserve Position in IMF 2/
1995					
March	86,761	11,053	11,651	50,639	13,418
April	88,756	11,055	11,743	51,752	14,206

1/ Valued at $42.2222 per fine troy ounce.

2/ Beginning July 1974, the IMF adopted a technique for valuing the SDR based on a weighted average of exchange rates for the currencies of selected member countries. The U.S. SDR holdings and reserve position in the IMF also are valued on this basis beginning July 1974.

3/ Includes allocations of SDRs by the IMF plus transactions in SDRs.

4/ Includes holdings of Treasury and Federal Reserve System; beginning November 1978, these are valued at current market exchange rates or, where appropriate, at such other rates as may be agreed upon by the parties to the transactions.

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FOR IMMEDIATE RELEASE
May 22, 1995

REMARKS TO MASSACHUSETTS ECONOMIC SUMMIT
Alicia H. Munnell
Assistant Secretary for Economic Policy
Department of the Treasury

Thank you very much. I am delighted to be here today. Although born in New York, I think of myself as a Bostonian and a New Englander. Like many other inhabitants of this city, I came here for college, got married and never went back.

The year I arrived at Wellesley College was 1960. That November, John Kennedy was elected President. He campaigned on the theme of "getting America moving again." That theme was largely, although not entirely, a matter of boosting economic growth. Kennedy believed--quite correctly for the 1960s--that "a rising [economic] tide would lift all boats."

Getting the economy moving was also the challenge that President Clinton faced when he took office in 1993. But today the challenge is much greater. In 1993, we faced not only an economy struggling to regain vigor, but also one that had suffered from slow economic growth for nearly a generation.

Slow economic growth would be troublesome enough, but the distribution of that growth has been very unequal. In the '50s, '60s, and most of the '70s, every segment of our economy--from the poor to the rich--saw their incomes roughly double. But the trend in the last 15 years has been very different.

In the past 15 years, the bottom 60 percent of families have seen their real incomes actually fall, not rise. The only families seeing their incomes rise are the upper 40 percent of Americans.

(More)

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This shift has many sources, but one is most striking--new technologies have reshaped the economic landscape. We have moved away from a goods-producing economy: in 1960 nearly 40 percent of the non-agricultural work force was employed in making goods, today that figure has dropped to about 20 percent. The numbers for Massachusetts mirror those for the nation.

As a result of new technologies, education has become the fundamental fault-line running through the work force. Demand for high-skilled workers is soaring, while demand for less-skilled is shrinking. Fifteen years ago, a male college graduate earned 39 percent more than a man with a high school degree. By 1993, that gap had increased to 80 percent.

While explainable, the pattern should be of concern. It strains our social fabric. Moreover, if a significant portion of families are not benefitting from economic growth, they will oppose the forward-looking economic policies--such as expanding trade--that are critical to our future. Therefore, it is in all our self interest to promote upward mobility for all segments of our society.

Thus, when assessing the status of the economy--both for the nation as a whole and for Massachusetts--it is important to look not only at our recovery from the 1990-91 recession, but also at the steps taken toward promoting long-run economic growth and toward ensuring that all Americans share in that growth.

The Short-run View

Let's look first at the short-run situation and our progress to date. It is useful to remember back to how the economy looked when the Clinton Administration took over. The economy was technically in recovery, but the recovery was modest and had produced almost no jobs.

The big problem was the federal budget deficit. The deficit was not only large but also increasing even as the economy was recovering. An increasing structural deficit created a sense of instability and of potential financial crisis. Prudent people were relatively unwilling to hire and invest in that type of environment.

The Administrations's first move was to bring the deficit under control. Working with the Congress, we passed $500 billion of deficit reduction. With good economics, that package has cut $600 billion. Although I was skeptical initially, I really do believe that passage of the economic plan did lower interest rates. But even more important than lower interest rates, the economic plan created a stable environment, hospitable to investment and employment growth.

It is interesting to compare the economic steps needed to get the economy moving in the early 1990s with those required in the early 1960s. The 1960s slowdown required

were a classic Keynesian solution; President Kennedy recommended a tax cut in order to increase the federal deficit and stimulate demand.

By the early 1990s, out-of-control deficits had created an unstable economic environment. The only way to get the economy moving was to restore stability, and the only way to restore stability was to bring the budget deficit under control.

The results of re-establishing fiscal discipline have been impressive. The nation has enjoyed nearly two and a half years of an investment-led recovery. GDP grew by 3 percent in 1993 and by more than 4 percent in 1994. Business investment in equipment increased 21 percent in 1993 and almost 16 percent in 1994. As a percent of GDP, investment in equipment is at an all-time high.

Most important, the economy has created more than 6.3 million jobs since January 1993; a decisive end to the jobless recovery. The unemployment rate has fallen from 7.1 percent to 5.8 percent.

All this growth has occurred with low inflation. The CPI, PPI, GDP deflators all ran below 3 percent last year.

The last recession was particularly hard for Massachusetts. I was here; I remember. The rate of job loss in this state and in New England generally was much greater than that for the nation as a whole. Although the state and the region have participated in the recovery, they have regained less than half of the jobs lost during the 1989-1992 period.

Looking forward over the next year, the national economy appears to have made the necessary downshift toward cruising speed. That is, economic growth has fallen in line with the rate possible for an economy operating at full capacity. A soft landing for the national economy should allow Massachusetts to continue to gain back jobs, albeit at a somewhat slower pace.

The Long-run View

Getting the economy moving and creating jobs is a good achievement, but it is not enough. Even with the strong economic growth, real wages have not responded. Thus, the bigger challenge is to ensure rising wages, so that all segments of society can enjoy rising standards of living over the long run. This requires raising productivity growth.

Productivity growth is not an academic abstraction. If productivity growth rises at 2.5 percent per year as it did up to 1970, people can expect their real wages and their living standards to double once every 28 years, or roughly once a generation. In contrast, productivity growth of 1 percent means that children can expect living standards only 30 percent higher than their parents.

In the long run, the only sustainable way for incomes to increase is for the amount produced per hour to increase. The only ways to increase output per hour are to invest and to encourage technological change.

This has been the centerpiece of President Clinton's economic agenda. From the beginning, we have recognized that investment in physical capital is not enough. Investment in human capital is crucial. It is crucial not only to increase total output, but also to make sure that everyone can participate in the new high tech economy.

That's why the President has focused so intently on education and job training during the last two years. We have already achieved increases in head start, direct student lending to widen access to college, and new incentives for schools to raise their standards. The School-to-Work Opportunities Act, which was signed into law a little less than a year ago, is already helping states and localities throughout the U.S. to carve pathways from the classroom to the working world.

These steps should help ensure that we have the skilled work force that we need for the future.

In the meantime, two additional provisions should provide some immediate help. The first is streamlining federal job training programs around one-stop career centers and introducing grants for community colleges or universities to gain skills in high-growth industries. A family tax deduction for the costs of education and training, up to $10,000 per year, should also help those who need mid-career retraining.

At the same time, we have also taken steps to ensure that those who work full time at the low end of the pay scale earn enough to keep their families out of poverty. The earned income tax credit provides over $20 billion in wage subsidies to 15 million working families and 5 million childless workers.

Much of our concern in the current budget debates is focused on these educational initiatives. We have been dedicated since day one to moving the federal budget toward balance. The reason is that it will increase national saving and investment and lead to greater output in the future.

If the government is borrowing less of our nation's saving, more is available for the private sector to invest in factories and equipment and other things that raise productivity and raise wages in the future. This also means that fewer federal resources go into debt service. That is why we have focused on bringing the deficit down.

But deficit reduction is a means to an end. It defeats its own purpose if it is accomplished by cutting public investments in education and skills and technology, and thereby reduces the nation's long-term economic prospects. That is why it is so important to protect these programs as we move toward balance in the federal budget.

These issues of education and training have always been ones of great importance for Massachusetts. This state has been in the vanguard of moving away from a goods-producing to a service- producing economy. It has been a very long time since Massachusetts could rely on assembly line jobs that provide lifetime employment with rising wages and benefits to people straight out of high school.

Knowledged-based economic activities have always been and continue to be central to Massachusetts. A skilled work force has always been one of this state's greatest assets. But the skills for the future will be harder to acquire than the skills of the past. More and more people are going to have to know how to identify and solve problems, manipulate and analyze symbols, and create and manage information. Our challenge is to make sure that as many Americans as possible have these skills.

The imperative of investing in education and skills is not new. I started with John Kennedy, so let me end with a quote from him on this subject.

> "Modernization and productivity depend upon more than investment in physical resources.... Equally essential is investment in human resources... So there is a direct connection between increased emphasis on education in this country and also upon increased productivity and technological change."

The need to invest in skills is more brutally obvious today than it was in the early 1960s. We must follow through on it.

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
May 22, 1995

PREPARED STATEMENT OF R. RICHARD NEWCOMB
DIRECTOR, OFFICE OF FOREIGN ASSETS CONTROL
UNITED STATES DEPARTMENT OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON THE WESTERN HEMISPHERE AND PEACE CORPS AFFAIRS COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

RR-320

U.S. ECONOMIC SANCTIONS ON CUBA

Prepared Statement of

R. Richard Newcomb
Director, Office of Foreign Assets Control
United States Department of the Treasury

before the

Subcommittee on the Western Hemisphere and Peace Corps Affairs

Committee on Foreign Relations
United States Senate
Washington, D.C.

May 22, 1995

Introduction

Mister Chairman, distinguished members of the Subcommittee, Good Afternoon. The Treasury Department's Office of Foreign Assets Control is the office responsible for the enforcement of the economic embargoes and sanctions programs currently in place with respect to various target countries, including Cuba. In my remarks this afternoon, I will be discussing the recent changes to our sanctions program against Cuba, particularly the new initiatives with respect to dollar remittances, travel, and gift parcels which were implemented at the direction of the President in August 1994.

I. FAC Generally

In performing its mission, FAC relies principally on the President's broad powers under the Trading With the Enemy Act ("TWEA") and the International Emergency Economic Powers Act ("IEEPA") to prohibit or regulate commercial or financial transactions involving specific foreign countries. The implementation of economic embargoes and sanctions by the President is an important element of U.S. foreign policy.

FAC has enforcement, regulatory and operational responsibilities. These include rulemaking, licensing, criminal enforcement, civil penalties, compliance, the blocking of foreign assets in the United States, and the authority to require recordkeeping and reporting.

In implementing and enforcing economic sanctions and embargo programs, FAC maintains a close working relationship with numerous other federal departments and agencies to ensure that the FAC mandate is properly implemented and effectively enforced. Among these agencies are the State Department (for foreign policy guidance in promulgating regulations and on sensitive cases), the Commerce Department (on issues regarding exports), the National Security Council staff (on significant policy questions and regulatory changes), the Customs Service (for assistance in the many enforcement matters involving exports, imports, transportation, and travel), and the bank regulatory agencies (to assure bank compliance with financial restrictions).

II. The Provisions of the Cuban Democracy Act

The Cuban embargo, as it existed before the Cuban Democracy Act ("CDA"), enacted in October 1992, prohibited all commercial, financial, and trade transactions by all persons subject to U.S. jurisdiction, which includes U.S. citizens and permanent residents, wherever they are located, all people and organizations physically located in the U.S., and all branches and subsidiaries of U.S. organizations throughout the world.

The Cuban Assets Control Regulations ("the Regulations"), which were promulgated to interpret and implement the Cuban sanctions program, contained certain limited licenses or exemptions for specified types of transactions in the following areas: limited family remittances, certain travel transactions, trade in informational materials, and trade by U.S. foreign subsidiaries. It is within this context that the CDA was enacted.

The CDA made significant changes to the Regulations with respect to the export to Cuba of food and medicine and medical supplies, with respect to telecommunications, and with respect to trade with Cuba by offshore subsidiaries of U.S. companies. Since the passage of the CDA, the U.S. Government has licensed over $65 million worth of humanitarian donations to Cuban non-governmental organizations from a wide variety of religious, social, and professional groups and individuals. We stand ready to work with all organizations interested in providing humanitarian assistance to the Cuban people in their time of need.

As you are aware, informational materials, including school texts, Bibles, books, records, tapes, etc., are not subject to the prohibitions contained in the Regulations, and therefore require no authorization to export. Furthermore, the CDA at §1705 (b) deregulates the exportation of donated food to Cuban individuals and non-governmental organizations. For this reason, qualifying donations of food may be exported without applying for

a license.

a. Medicines and Medical supplies

Section 1705 (d) (2) of the CDA concerns exports of medicine and medical equipment and provides that specific licenses must be issued by the U.S. Government for such exports. Authorization for exportation requires that certain conditions be satisfied. Section 1705 (c) of the CDA provides that such exports shall not be restricted except to the extent that:

- the intended export is restricted by §5 (m) of the Export Administration Act of 1979 or §203 (b) (2) of IEEPA;
- there is a reasonable likelihood that the intended export will be used for torture or human rights abuses;
- there is a reasonable likelihood that the intended export could be re-exported; and
- there is a reasonable likelihood that the intended export will be used in the production of any biotechnological product.

In addition to avoiding the four restrictions listed above, commercial shipments of medicine and medical supplies to Cuba, as well as donations to individuals and non-governmental entities, must also satisfy requirements for U.S. Government verification that the exported goods will only be used for the purpose for which they were exported and that they will be used for the benefit of the Cuban people.

In the spirit of the CDA provisions for support of the Cuban people, we have adopted a policy of licensing transactions incident to travel by persons requesting to accompany and deliver licensed donated goods to the intended recipients. We have issued licenses to over 150 persons travelling to Cuba for this purpose.

b. Telecommunications

An area of great interest has been telecommunications between the U.S. and Cuba. Prior to the enactment of the CDA, telecommunications service, including phone service, telexes, and telegraph service, was authorized on a highly regulated and restricted basis by licenses issued by FAC. These licenses insured that the vast majority of payments owed to Cuba would be placed in blocked accounts in the United States. Service and transfers of new telecommunications technology have also been limited consistent with the purposes of the embargo.

The CDA provision dealing with telecommunications directs the Government to address telecommunications issues outside the prior system of laws and regulations that make up the Cuban embargo. The CDA permits telecommunications services between Cuba and the United States, notwithstanding other restrictions on transactions with Cuba.

The CDA specifically provides that payments to Cuba will be made pursuant to a license. Payments may be licensed for full or partial current settlement with Cuba. Under section 1710 of the CDA, the Secretary of the Treasury must ensure that activities to support the Cuban people, newly permitted under the CDA, are carried out only for the purposes set forth in the Act, and not for the purpose of the accumulation by the Cuban Government of excessive amounts of U.S. currency or the accumulation of excessive profits by any person or entity.

As a first step in implementing the CDA telecommunications policy, we issued licenses to telecommunications companies authorizing transactions incident to their travel to Cuba for the purpose of negotiating an agreement to provide telecommunications services between the United States and Cuba. Six of these companies negotiated service agreements that were approved by the Federal Communications Commission, in consultation with the State Department, which had provided policy guidance for the scope of the new services to be allowed, including technical requirements. Treasury issued licenses in November 1994 authorizing the execution of the agreements and the transactions necessary to effect the payment of current settlement. A level of telecommunications now exists between the U.S. and Cuba that permits telephone calls with good voice quality, as well as other services, such as telefacsimile, that require the use of modern facilities.

c. Offshore Subsidiary Trade

Section 1706(a) of the CDA effectively discontinued the pre-CDA policy of licensing offshore transactions with Cuba by foreign subsidiaries of U.S. firms. The CDA provided that the new prohibition was not to affect contracts entered into before the date of enactment of the CDA. Most such situations were brought to our attention within weeks of the enactment of the CDA, and licenses to allow the completion of pre-CDA contracts were issued, where appropriate.

Prior to the CDA, the level of licensed trade by the offshore subsidiaries of U.S. firms had risen to a high of $718 million in 1991. Except for transactions occurring under the few pre-CDA contracts which continued to be in effect, the level of such trade in 1994 had fallen to zero.

III. The Initiatives of August 1994

In August 1994, the President called for the imposition of additional economic sanctions against the Castro regime. These new measures were designed to reduce the flow of U.S. dollars to the Cuban government by sharply reducing permitted remittances to Cuba, limiting the content of gift parcels sent to family members in Cuba, and prohibiting travel-related transactions related to family visits except under circumstances of extreme hardship. Persons seeking to travel to Cuba for purposes of conducting professional research may now do so only pursuant to specific licenses issued by FAC.

a. Remittances

The amended regulations now prohibit family remittances to Cuba except for a one-time payment of $1,000 to enable a close relative to emigrate from Cuba; other remittances to address emergencies or situations of demonstrated extreme need may be specifically licensed on a case-by-case basis. Remittances to permit travel to the United States by Cuban family members for visits are now prohibited except upon a demonstration of extreme humanitarian need. This change, and prohibiting U.S. family members from using the licensed Miami-Havana charter flights to visit relatives in Cuba, have been the most controversial of the new prohibitions.

B. Air Charter Travel

Licensed Miami-Havana charter carriers are now permitted to carry only specifically-licensed travellers, except for visaed immigrants, journalists, and government travellers on official business, who continue to be generally licensed. Specific licenses may now be issued for (1) certain family visits in extreme emergencies, (2) travel for clearly-defined educational or religious activities, (3) travel by professional researchers, (4) travel for activities of recognized human rights organizations investigating human rights violations, and (5) travel in connection with telecommunications activities or trade in informational materials.

The sharp reduction in the number of licensed travellers for the direct U.S.-to-Cuba flights has led to a reduction in their frequency. However, prohibiting travel to Cuba on these flights by unlicensed U.S. family members has likely resulted in many such persons unlawfully attempting to travel to Cuba via third countries, such as Mexico. We are developing enforcement strategies to address this mode of circumvention.

The specific licensing of family visits has vastly increased FAC's workload. As a result, processing times are much longer than we would like. This has led to a difficult situation and we understand the pain and frustration of Cuban-Americans who wish to visit a sick or dying relative on an urgent basis. Since August 18, 1994, FAC has processed more than 3,600 requests for family visits, reallocating additional licensing personnel to the Cuban program to assure minimum processing times.

c. Gift Parcels

Pursuant to the current Regulations, family gift parcels are now limited to food, medicine, medical and hospital supplies, clothing, and certain humanitarian items having a total value of not more than $200 per month, from one donor to one donee. The additional controls now placed on the content of such parcels is intended to align such shipments with the humanitarian intent of the exemption by eliminating non-humanitarian, commercial articles intended for introduction into the Cuban economy through resale.

IV. Enforcement of Sanctions

The Office of Foreign Assets Control remains committed to the full and effective enforcement of the Cuban sanctions. From the time of the President's August 1994 initiative through mid-May 1995, OFAC maintained a continuing presence in Miami to provide enforcement assistance to the Customs Service in the processing of outbound flights to Cuba. OFAC has now established a permanent office in Miami to provide an enhanced level of assistance to the law enforcement community in assuring that the prohibitions of the Cuban embargo are observed.

We recently met with the U.S. Attorney in Miami and will continue to provide his office with all possible assistance in the vigorous prosecution of embargo violators. In June, we will be meeting with the full law enforcement community in Miami to discuss strategies for addressing travel to Cuba through third countries and to explore ways in which our common embargo enforcement goals can be best achieved.

V. The Helms/Burton Bill

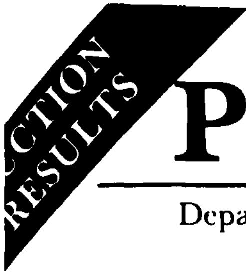
There are aspects of the bill that the Administration generally can support. As Under Secretary Tarnoff has stated, these include making the embargo more effective, accelerating planning for assistance to Cuba under a transitional or democratic government, and protecting American property interests in Cuba.

However, it is the Administration's view that, as currently

drafted, many of the provisions of the bill could hamper the United States' ability to promote a transition to democracy in Cuba. A number of the bill's provisions could also jeopardize broader national interests. The Administration is confident that the Administration and the Congress will be able to address these difficulties and be in a position to further our common goal of promoting real democratic change in Cuba.

Whatever Treasury's enforcement responsibilities under the final bill, we have every confidence in our ability to enforce the provisions delegated to us.

I appreciate your invitation to appear here today and would be pleased to attempt to answer any questions you might have.



PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 22, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $13,648 million of 13-week bills to be issued May 25, 1995 and to mature August 24, 1995 were accepted today (CUSIP: 912794T20).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.70%	5.88%	98.559
High	5.73%	5.91%	98.552
Average	5.72%	5.90%	98.554

Tenders at the high discount rate were allotted 24%.
The investment rate is the equivalent coupon-issue yield.

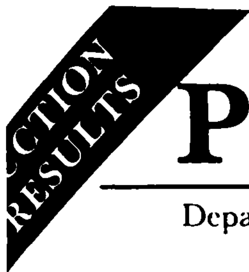
TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$50,466,129	$13,647,536
Type		
Competitive	$45,182,507	$8,363,914
Noncompetitive	1,489,846	1,489,846
Subtotal, Public	$46,672,353	$9,853,760
Federal Reserve	3,321,064	3,321,064
Foreign Official Institutions	472,712	472,712
TOTALS	$50,466,129	$13,647,536

An additional $309,488 thousand of bills will be issued to foreign official institutions for new cash.

5.71 -- 98.557

RR-321



PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 22, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $13,667 million of 26-week bills to be issued May 25, 1995 and to mature November 24, 1995 were accepted today (CUSIP: 912794V76).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.70%	5.97%	97.103
High	5.72%	5.99%	97.092
Average	5.72%	5.99%	97.092

Tenders at the high discount rate were allotted 59%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$49,397,650	$13,667,043
Type		
Competitive	$42,829,619	$7,099,012
Noncompetitive	1,326,053	1,326,053
Subtotal, Public	$44,155,672	$8,425,065
Federal Reserve	3,320,000	3,320,000
Foreign Official Institutions	1,921,978	1,921,978
TOTALS	$49,397,650	$13,667,043

An additional $1,258,222 thousand of bills will be issued to foreign official institutions for new cash.

5.71 - 97.097

RR-322

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
May 23, 1995

TESTIMONY OF GEORGE MUÑOZ
ASSISTANT SECRETARY FOR MANAGEMENT
& CHIEF FINANCIAL OFFICER
DEPARTMENT OF THE TREASURY
BEFORE THE
HOUSE COMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION AND TECHNOLOGY

RR-323

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TESTIMONY OF GEORGE MUÑOZ

ASSISTANT SECRETARY FOR MANAGEMENT
& CHIEF FINANCIAL OFFICER

DEPARTMENT OF THE TREASURY

BEFORE THE

HOUSE COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION AND TECHNOLOGY

MAY 23, 1995

Mr. Chairman and Members of the Subcommittee:

I am George Muñoz, Assistant Secretary for Management and Chief Financial Officer for the Department of the Treasury. I thank you for the opportunity to appear before you again. I have been asked to testify before you today as a representative of the Administration, who has broad experience in management reform. I will draw from several perspectives: as a former customer of the Department of Education when I served as President of the Chicago Board of Education during the mid-1980's; as a representative from a peer cabinet agency, the Department of the Treasury; and as Executive Vice Chair of the Government-wide Chief Financial Officers Council, which focuses on financial and management improvement throughout government.

As I testified earlier to this committee, I am both an attorney and a certified public accountant. I have extensive management experience in both the public and private sector, including profit and loss responsibility in business. As Treasury's CFO and as Vice Chair of the CFO Council, I have worked on management improvement efforts throughout the government financial management community. I am also familiar with many of the improvement efforts underway at Education.

Education and Link to Economic Growth

No one disputes the great importance of education to each of us as individuals, to our communities, to our nation. Education is the key to our economic growth -- if you cut education, you cut the incomes of all people. There is nothing more important to raising incomes and raising standards of living than education.

The President has repeatedly emphasized that "education is the fault line of economic opportunity in this country."

The Department of Education

Phase II of the National Performance Review asked all agencies to look at their fundamental mission -- asking, in fact, if an agency should be in existence at all. We all were tasked to define and justify our core mission, based on what our customers, the citizens of the United States, think and want. Let me address this issue up front -- the Federal Government SHOULD have a Department of Education.

The American people, our customers, are clearly pro-education, and pro-Department of Education. Last January, a Wall Street Journal and NBC poll specifically asked the question whether there should be cutbacks in the Department of Education. Over 80 percent of the people said no; 70 percent said that the Department itself was very necessary in the role it played.

I couldn't agree more. The Department's role today is exactly as it should be -- it provides focus, direction and support to states, local communities, and institutions to improve education nationwide.

What is the role of the Federal Government in education and why are national goals and measures so important? It must be noted that states do not have a legal or constitutional obligation to educate; they must only provide the opportunity for education... The states do not guarantee educational outcomes. The Federal Government, through the Department of Education, assists in encouraging states and communities in setting challenging standards, in helping students meet high educational goals and in measuring the performance of our educational system using objective standards.

The Department of Education -- our smallest cabinet-level agency with about 5,000 FTEs -- is a model agency under NPR principles in that it is "steering more and rowing less." It too is cutting bureaucracy... reducing regulations... and devolving many of its activities to states, localities and schools. But after all the cutting is done and all the efficiencies are in place, we still need the Department of Education to provide principles, financial assistance, and assessment. It plays a fundamental leadership role that is critical to our nation.

Let me give you an example from my own experience at the Chicago Board of Education. I was having great difficulty in getting people to focus on the fact that we had a serious drop-out problem in the city and around the country. Different school systems were using different scoring systems for calculating the drop-out rate and all of them were understating the problem. The published drop-out rates were 10-12%, but the actual number of students dropping out was in the neighborhood of 50% in the large urban schools. The Department of Education assisted in getting true and full disclosure on the extent of the drop-out problem, by publishing the comprehensive "Nation At Risk" study. The study had a tremendous impact in helping Chicago and other urban school systems address problems with educational performance and drop-outs.

The Goals 2000: Education America Act was passed by Congress in 1994 with strong bipartisan support and the backing of almost every major national parental, educational, and business organization as well as the nation's governors and legislators. Today, Goals 2000 is supporting state and local efforts in Chicago and across the nation to set challenging academic standards.

Having no doubts as to the need for a Department of Education, I would now like to address management improvement efforts in the Department.

Management and the Department of Education

My observations of the Department of Education are it is making progress in several management and financial reform areas, many of which are key to NPR initiatives and to overall performance improvement. This is largely due to the leadership, follow-through and "hands-on" management style of Secretary Riley. He is focused on results and has created an environment where good ideas are rapidly translated into successes. Let me briefly highlight some of these gains:

Strategic Planning

As you know, strategic planning is a key to effective management in any organization. The Department of Education recently completed its first-ever strategic plan. This strategic plan identifies four key priorities for carrying out the Department's mission of ensuring equal access to education and promoting educational excellence nationwide.

The first three priorities focus on helping states, local communities and agencies:

- to develop higher academic standards;
- to provide school-to-work opportunities; and
- to access post-secondary education and life-long learning.

The fourth priority, that of transforming the Department into a performance-driven organization, is required to accomplish the other three.

In each of the priority areas, the plan sets ambitious performance targets for improving how the Department serves its customers and the results it expects. And its use of performance indicators puts Education ahead of many other agencies in implementing the Government Performance and Results Act (GPRA).

Over the past two years, the Department's strategic plan has driven budget priorities, resource and personnel allocations, and strategies for carrying out reform. That's sound business practice.

Financial Management

On the CFO Council, I have the opportunity, on an ongoing basis, to work closely with the Department of Education's Chief Financial Officer and Deputy Chief Financial Officer. Both individuals -- Don Wurtz and Mitchell Laine -- are eminently qualified for their respective positions. They bring to the CFO Council an enthusiastic support for the overall improvement of financial management throughout the Federal Government.

As you know, Mr. Wurtz came from the General Accounting Office (GAO) and joined the Department of Education on the heels of a critical 1993 GAO report regarding management problems at Education. In fact, he participated in the GAO review. As a result, he knows where the problems are and has the background to address them forcefully. And he's doing just that.

Further, through discussions with Mr. Wurtz and Mr. Laine, I have come to understand that the emphasis placed on implementing the CFO Act has helped the Department of Education make meaningful and substantive management improvements. Specifically, Education has been able:

- to receive, for the first time in the Department's history, a clean audit opinion from an outside auditor, with no reported material weaknesses on a major financial program -- the Direct Student Loan Program;

- to muster the resources necessary to conduct a comprehensive general ledger account reconciliation that has significantly improved the accuracy and usefulness of the Department's accounting records;

- to initiate improvements in the financial functions of cash management, accounts receivable management, prompt payment, and collections on delinquent and defaulted loans and accounts;

- to establish an innovative Financial Management Quality Team tasked with steering financial management policy to better serve the needs of program managers;

- to initiate a redesign of its Core Financial System to implement a modern, integrated financial management system; and,

- to attract technically qualified financial professionals -- people like Don Wurtz -- from both the private sector and other federal agencies to fill critical vacancies and experience gaps.

<u>Customer Service</u> -- New Flexibility:

Increasing responsiveness to customers needs is a vital NPR principle and Education is making progress on a number of fronts in adding local discretion and flexibility to its programs. Education is building on new legislation to strengthen partnerships with states, districts, schools and families, to be more flexible, and to help energize reform. The Department has several efforts underway to encourage state and local innovation and greater involvement of parents and communities in learning. The goal of these initiatives is to provide a balance between the Federal Government and communities, schools, and states to improve education for all Americans.

The Department also has implemented an agency-wide approach to improve communications with customers. It has organized focus groups with teachers, parents, students and program administrators to solicit feedback on programs and information useful in preparing policy.

A "1-800-USA-LEARN" telephone number connects customers to a "one-stop" center for information about Departmental programs and student aid. The Department's On-line Library offers information on education legislation, research, statistics, and promising programs to more than 17,000 people every week.

Regulatory Reform:

The far-reaching changes that Education is making demonstrates that the Department is serious about regulatory reform. It's strategic plan is a specific call for action that integrates NPR principles into everyday life at Education.

For example:

- Under its new "Principles for Regulating", Education regulates only when it's essential to meet program goals. Then it's as flexible and non-burdensome as possible.

- Education has identified more than 100 unnecessary burdensome procedures and action is in progress to change or eliminate most of these procedures.

Areas for Future Consideration

As I have indicated in my testimony, the Department of Education is making progress in several important areas in management reform. I would encourage the Department to continue focusing efforts on the following areas:

Continued Efforts Towards an Integrated Financial Management System

The Department is in the process of developing a central automated processing system (EDCAPS) . This single integrated system will provide system support to the Department's core business processes and will replace costly, outdated systems

which have long outlived their useful life cycle and are quite expensive to maintain. The new integrated system will substantially reduce system maintenance costs, automate many manual steps by providing work flow processing, provide enhanced reporting capabilities, and improve program delivery.

Continued Use of State-of-the-Art Information Technology

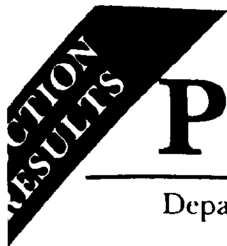
Any effort toward management reform must include technological enhancements. One such system that is already being used at Education is AskERIC:

AskERIC is an online national education information network that provides free information on education and schooling to more than 25,000 people each month through Internet and commercial online services. It includes a question/answering service and a "virtual library", which is an extensive electronic collection of resources and full-text documents for users. AskERIC breaks down many of the communication barriers between the Federal Government, universities, and public schools.

I encourage Education to continue to pursue and implement initiatives like this -- to take advantage of new technologies -- to empower public administrators, teachers, and parents to be proactive towards educational matters in America's local communities.

And finally, I encourage Education to continue its outstanding efforts in implementing the CFO Act and GPRA principles.

Thank you. I would be happy to answer any questions you may have.



PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 23, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Tenders for $17,755 million of 2-year notes, Series AE-1997, to be issued May 31, 1995 and to mature May 31, 1997 were accepted today (CUSIP: 912827T93).

The interest rate on the notes will be 6 1/8%. All competitive tenders at yields lower than 6.170% were accepted in full. Tenders at 6.170% were allotted 50%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 6.170%, with an equivalent price of 99.917. The median yield was 6.150%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 6.120%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$47,471,719	$17,754,539

The $17,755 million of accepted tenders includes $867 million of noncompetitive tenders and $16,888 million of competitive tenders from the public.

In addition, $518 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $600 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
May 23, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $28,400 million, to be issued June 1, 1995. This offering will provide about $950 million of new cash for the Treasury, as the maturing 13-week and 26-week bills are outstanding in the amount of $27,446 million. In addition to the maturing 13-week and 26-week bills, there are $16,913 million of maturing 52-week bills. The disposition of this latter amount was announced last week.

Federal Reserve Banks hold $11,345 million of bills for their own accounts in the three maturing issues. These may be refunded at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $4,351 million of the three maturing issues as agents for foreign and international monetary authorities. These may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills. For purposes of determining such additional amounts, foreign and international monetary authorities are considered to hold $3,799 million of the original 13-week and 26-week issues.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

RR-325

For press releases, speeches, public schedules and official biographies, call our 24-hour fax line at (202) 622-2040

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS
TO BE ISSUED JUNE 1, 1995

May 23, 1995

Offering Amount	$14,200 million	$14,200 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 U6 9	912794 V8 4
Auction date	May 30, 1995	May 30, 1995
Issue date	June 1, 1995	June 1, 1995
Maturity date	August 31, 1995	November 30, 1995
Original issue date	March 2, 1995	June 1, 1995
Currently outstanding	$13,523 million	- - -
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids

Competitive bids . . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . Prior to 12:00 noon Eastern Daylight Saving time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR IMMEDIATE RELEASE
May 24, 1995

STATEMENT BY TREASURY UNDERSECRETARY RONALD K. NOBLE

Treasury Secretary Robert E. Rubin has authorized me to make the following statement. Tuesday night Uniformed Division Officers of the Secret Service Emergency Response Team apprehended an intruder on the White House grounds.

Preliminary information is as follows: At approximately 10:45 p.m., Tuesday May 23, 1995, a person identified as Leland William Modjeski, age 37, of Falls Church, Va., scaled the fence on the South East side of the White House Complex. As he scaled the fence, he set off several alarms and headed toward the back of the White House. He was confronted by Scott Giambattista, a Uniformed Division officer of the Secret Service's Emergency Response Team. When Modjeski failed to obey the officer's command, he was physically restrained by Officer Giambattista. While Giambattista was struggling with Modjeski, a second officer noticed that Modjeski was carrying a handgun. Upon seeing the handgun the second officer yelled, "Weapon," fired and hit Modjeski. The bullet that struck Modjeski in the arm, exited and also hit Giambattista in the arm.

Both men were taken to George Washington University Hospital. Officer Giambattista and the suspect are listed in stable condition. The wounds are not life threatening.

At the time of the intrusion, the President and Chief of Staff Leon Panetta were in a meeting in the White House. The Secret Service immediately notified the President and the Chief of Staff of the incident. The President and first family were never in any danger.

-30-

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AUCTION RESULTS

PUBLIC DEBT NEWS

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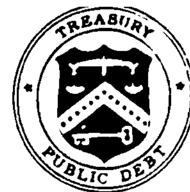

FOR IMMEDIATE RELEASE
May 25, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 52-WEEK BILLS

Tenders for $18,258 million of 52-week bills to be issued June 1, 1995 and to mature May 30, 1996 were accepted today (CUSIP: 912794Y99).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.51%	5.85%	94.429
High	5.56%	5.90%	94.378
Average	5.54%	5.88%	94.398

Tenders at the high discount rate were allotted 12%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$42,541,905	$18,258,495
Type		
Competitive	$36,510,345	$12,226,935
Noncompetitive	1,029,860	1,029,860
Subtotal, Public	$37,540,205	$13,256,795
Federal Reserve	4,450,000	4,450,000
Foreign Official Institutions	551,700	551,700
TOTALS	$42,541,905	$18,258,495

An additional $288,300 thousand of bills will be issued to foreign official institutions for new cash.

5.52 - 94.419   5.53 - 94.409   5.55 - 94.388

RR-327

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239

FOR IMMEDIATE RELEASE
May 24, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 5-YEAR NOTES

Tenders for $11,502 million of 5-year notes, Series L-2000, to be issued May 31, 1995 and to mature May 31, 2000 were accepted today (CUSIP: 912827U26).

The interest rate on the notes will be 6 1/4%. All competitive tenders at yields lower than 6.250% were accepted in full. Tenders at 6.250% were allotted 94%. All noncompetitive and successful competitive bidders were allotted securities at the yield of 6.250%, with an equivalent price of 100.000. The median yield was 6.210%; that is, 50% of the amount of accepted competitive bids were tendered at or below that yield. The low yield was 6.180%; that is, 5% of the amount of accepted competitive bids were tendered at or below that yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$29,132,473	$11,502,128

The $11,502 million of accepted tenders includes $330 million of noncompetitive tenders and $11,172 million of competitive tenders from the public.

In addition, $600 million of tenders was awarded at the high yield to Federal Reserve Banks as agents for foreign and international monetary authorities. An additional $627 million of tenders was also accepted at the high yield from Federal Reserve Banks for their own account in exchange for maturing securities.

RR-328

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

FOR RELEASE AT 2:30 P.M.
May 25, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY TO AUCTION CASH MANAGEMENT BILL

The Treasury will auction approximately $17,000 million of 13-day Treasury cash management bills to be issued June 2, 1995.

Competitive and noncompetitive tenders will be received at all Federal Reserve Banks and Branches. Tenders will not be accepted for bills to be maintained on the book-entry records of the Department of the Treasury (TREASURY DIRECT). Tenders will not be received at the Bureau of the Public Debt, Washington, D.C.

Additional amounts of the bills may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about the new security are given in the attached offering highlights.

oOo

Attachment

RR-329

HIGHLIGHTS OF TREASURY OFFERING
OF 13-DAY CASH MANAGEMENT BILL

May 25, 1995

Offering Amount	$17,000 million
Description of Offering:	
Term and type of security .	13-day Cash Management Bill
CUSIP number	912794 S6 2
Auction date	May 31, 1995
Issue date	June 2, 1995
Maturity date	June 15, 1995
Original issue date	December 15, 1994
Currently outstanding . . .	$26,823 million
Minimum bid amount	$10,000
Multiples	$1,000
Minimum to hold amount . .	$10,000
Multiples to hold	$1,000
Submission of Bids:	
Noncompetitive bids	Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids
Competitive bids . . .	(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
	(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
	(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.
Maximum Recognized Bid at a Single Yield . . .	35% of public offering
Maximum Award	35% of public offering
Receipt of Tenders:	
Noncompetitive tenders . .	Prior to 12:00 noon Eastern Daylight Saving time on auction day
Competitive tenders	Prior to 1:00 p.m. Eastern Daylight Saving time on auction day
Payment Terms	Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
Text as Prepared for Delivery
May 24, 1995

TESTIMONY OF W. SCOTT GOULD
DEPUTY ASSISTANT SECRETARY
(DEPARTMENTAL FINANCE AND MANAGEMENT)
DEPARTMENT OF THE TREASURY
BEFORE THE
HOUSE COMMITTEE ON GOVERNMENT REFORM & OVERSIGHT
SUBCOMMITTEE ON CIVIL SERVICE

RR-330

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TESTIMONY OF W. SCOTT GOULD

DEPUTY ASSISTANT SECRETARY
(DEPARTMENTAL FINANCE AND MANAGEMENT)
DEPARTMENT OF THE TREASURY

BEFORE THE
HOUSE COMMITTEE ON GOVERNMENT REFORM & OVERSIGHT
SUBCOMMITTEE ON CIVIL SERVICE

MAY 24, 1995

Mr. Chairman and Members of the Subcommittee:

I am Scott Gould, Deputy Assistant Secretary for Departmental Finance and Management for the Department of the Treasury. At Treasury, I am responsible for: budget formulation, procurement, change management (including National Performance Review initiatives, customer service, streamlining, and regulatory reform issues) and personnel policy. I appreciate the opportunity to appear before you to talk about Treasury's implementation of the Ramspeck Act.

I would like to address the following issues today:

- o The Ramspeck Act -- strengths and weaknesses
- o Treasury's overall approach to the use of this special authority
- o Treasury's system for managing the hiring process under the Act

And, of course, to answer any questions you may have.

The Ramspeck Act

As you know, the Ramspeck Act was enacted in 1940 to provide an opportunity for displaced Congressional employees to be appointed to competitive service positions.

Allowing displaced Congressional employees to be considered for positions in the career service makes sense. The major benefit of Ramspeck is that it has made it easier for displaced Congressional employees who have valuable government experience to enter the Executive branch. These employees bring with them programmatic expertise developed over years of dealing with legislative, budget, and policy issues, as well as knowledge of the legislative process.

Ramspeck's major drawback is that it may bypass the competitive process and could be subject to abuse.

Treasury's Overall Approach to the Use of this Special Authority

Treasury's guiding principle when it comes to hiring for career positions is that they be filled on the basis of merit, based on consideration of the broadest possible range of candidates. We want the best people for the job ...doing the job at Treasury.

Managing the Hiring Process Under the Ramspeck Act

The Office of Personnel Management does not routinely monitor Ramspeck appointments, but investigates when abuses are alleged. I understand that a current GAO review of over 100 recent appointments has not revealed any violations of law. And, as far back as our records show, there have not been any violations within Treasury, and we have taken positive action to ensure that there will be no violations in the future.

We have formal guidelines in place regarding appointments of displaced Congressional employees. To get the largest pool of applicants, and thus increase the likelihood of qualified candidates for job vacancies, we advise our managers to announce all jobs through vacancy announcements or other forms of advertisement under which competitive applicants, Ramspeck-eligible, and other noncompetitive applicants are considered.

Our Ramspeck hiring guidance of November 1994 establishes a temporary review process to ensure we live up to our principle and that we are able to answer any questions concerning our hiring decisions. Before a displaced Congressional employee is hired, a review panel examines documentation associated with the appointment to ensure compliance with hiring requirements for Ramspeck eligibles.

This documentation includes the following:

- the application package of the individual seeking appointment
- application packages of other highly ranked individuals considered for the appointment
- documentation of recruitment efforts to fill the position
- a copy of the vacancy announcement for the job
- benchmark rating criteria for use in candidate selection
- a copy of the position description
- certification that the position to be filled was neither scheduled for abolishment under the Federal Workforce Restructuring Act of 1994 nor created for the purpose of hiring the selectee

The November 1994 policy establishing the review panel and process will remain in effect until August 1, 1995, at which time we will decide whether to continue these additional requirements.

Treasury complies with myriad personnel laws, rules, and regulations. Particular attention has been paid to complying with the criteria set forth in the Ramspeck Act.

The process that I have just described resulted in the following hiring decisions. Between November 1, 1994, and April 30, 1995, a total of 20 displaced Congressional employees were hired by Treasury. Of the 20, 14 were hired using the Ramspeck authority. Of these, 8 positions (57%) involved general management responsibilities. As a point of reference, there are 160,000 FTEs at Treasury.

Summary

In summary, we chose to use our existing hiring system with an extra layer of review and reporting to ensure that the Department benefitted from the availability of former Congressional employees with relevant government, budgetary and programmatic experience, and that we abided by the principles of

the merit system. The existing Ramspeck authority serves as one of many tools Treasury uses to bring highly qualified candidates onboard. It has proven to be a valuable tool. Without this authority, we might loose the opportunity to immediately hire displaced Congressional employees possessing the required skills for existing vacancies.

Thank you. I would be happy to answer any questions you may have.

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FOR IMMEDIATE RELEASE
May 24, 1995

Contact: Rebecca Lowenthal
(202) 622-2960

RUBIN ANNOUNCES LEGISLATIVE AFFAIRS ASSISTANT SECRETARY NOMINEE

Treasury Secretary Robert E. Rubin announced Wednesday that President Clinton has nominated Linda L. Robertson to be Treasury Assistant Secretary for Legislative Affairs.

Ms. Robertson has been serving as Deputy Assistant Secretary for Legislative Affairs (Tax and Budget) since January 1993. She has been responsible for the Department's legislative activities relating to tax and budget issues and serves as liaison to the Office of Management and Budget and congressional budget and tax-writing committees. Prior to joining Treasury, she was a partner with the law firm of Powell, Goldstein, Frazer and Murphy in Washington, D.C., where she specialized in energy, policy and tax legislation. From 1976 through 1987, she was Staff Counsel then Tax Counsel to Representative James Jones, handling all tax legislation before the Committee on Ways and Means. Ms. Robertson is a member of the American Bar Association (Taxation Section).

She received a B.S. with honors from the University of Southern Illinois in 1976, a J.D. from the University of Tulsa in 1979, and Master of Laws in Taxation from the University of Georgetown Law Center in 1986. She was admitted to the Oklahoma Bar in 1980 and the D.C. Bar in 1987.

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AUCTION RESULTS

PUBLIC DEBT NEWS

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DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
May 30, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-WEEK BILLS

Tenders for $14,251 million of 13-week bills to be issued June 1, 1995 and to mature August 31, 1995 were accepted today (CUSIP: 912794U69).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.62%	5.80%	98.579
High	5.65%	5.83%	98.572
Average	5.64%	5.82%	98.574

Tenders at the high discount rate were allotted 34%.
The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$46,398,632	$14,250,702
Type		
Competitive	$41,107,477	$8,959,547
Noncompetitive	1,345,324	1,345,324
Subtotal, Public	$42,452,801	$10,304,871
Federal Reserve	3,445,180	3,445,180
Foreign Official Institutions	500,651	500,651
TOTALS	$46,398,632	$14,250,702

An additional $73,649 thousand of bills will be issued to foreign official institutions for new cash.

5.63 - 98.577

AUCTION RESULTS

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DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
May 30, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 26-WEEK BILLS

Tenders for $14,372 million of 26-week bills to be issued June 1, 1995 and to mature November 30, 1995 were accepted today (CUSIP: 912794V84).

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.58%	5.84%	97.179
High	5.61%	5.87%	97.164
Average	5.61%	5.87%	97.164

Tenders at the high discount rate were allotted 30%. The investment rate is the equivalent coupon-issue yield.

TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$51,050,103	$14,371,624
Type		
Competitive	$43,191,139	$6,512,660
Noncompetitive	1,173,415	1,173,415
Subtotal, Public	$44,364,554	$7,686,075
Federal Reserve	3,450,000	3,450,000
Foreign Official Institutions	3,235,549	3,235,549
TOTALS	$51,050,103	$14,371,624

An additional $475,351 thousand of bills will be issued to foreign official institutions for new cash.

5.59 -- 97.174   5.60 -- 97.169

RR-333

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR RELEASE AT 2:30 P.M.
May 30, 1995

CONTACT: Office of Financing
202/219-3350

TREASURY'S WEEKLY BILL OFFERING

The Treasury will auction two series of Treasury bills totaling approximately $28,400 million, to be issued June 8, 1995. This offering will provide about $1,175 million of new cash for the Treasury, as the maturing bills are outstanding in the amount of $27,219 million.

Federal Reserve Banks hold $6,737 million of the maturing bills for their own accounts, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders.

Federal Reserve Banks hold $2,629 million as agents for foreign and international monetary authorities, which may be refunded within the offering amount at the weighted average discount rate of accepted competitive tenders. Additional amounts may be issued for such accounts if the aggregate amount of new bids exceeds the aggregate amount of maturing bills.

Tenders for the bills will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular (31 CFR Part 356) for the sale and issue by the Treasury to the public of marketable Treasury bills, notes, and bonds.

Details about each of the new securities are given in the attached offering highlights.

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Attachment

RR-334

HIGHLIGHTS OF TREASURY OFFERINGS OF WEEKLY BILLS TO BE ISSUED JUNE 8, 1995

May 30, 1995

Offering Amount	$14,200 million	$14,200 million
Description of Offering:		
Term and type of security	91-day bill	182-day bill
CUSIP number	912794 U7 7	912794 V9 2
Auction date	June 5, 1995	June 5, 1995
Issue date	June 8, 1995	June 8, 1995
Maturity date	September 7, 1995	December 7, 1995
Original issue date	March 9, 1995	June 8, 1995
Currently outstanding	$13,140 million	- - -
Minimum bid amount	$10,000	$10,000
Multiples	$ 1,000	$ 1,000

The following rules apply to all securities mentioned above:

Submission of Bids:

Noncompetitive bids . . . . Accepted in full up to $1,000,000 at the average discount rate of accepted competitive bids

Competitive bids . . . .
(1) Must be expressed as a discount rate with two decimals, e.g., 7.10%.
(2) Net long position for each bidder must be reported when the sum of the total bid amount, at all discount rates, and the net long position is $2 billion or greater.
(3) Net long position must be determined as of one half-hour prior to the closing time for receipt of competitive tenders.

Maximum Recognized Bid at a Single Yield . . . . 35% of public offering

Maximum Award . . . . 35% of public offering

Receipt of Tenders:

Noncompetitive tenders . . . . Prior to 12:00 noon Eastern Daylight Saving time on auction day

Competitive tenders . . . . Prior to 1:00 p.m. Eastern Daylight Saving time on auction day

Payment Terms . . . . Full payment with tender or by charge to a funds account at a Federal Reserve Bank on issue date

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DEPT. OF THE TREASURY

FOR IMMEDIATE RELEASE
May 31, 1995

STATEMENT BY TREASURY SECRETARY ROBERT RUBIN

"We acted in the exchange markets this morning consistent with the exchange rate objectives expressed in the April 25 G-7 Communique.

"We are prepared to continue to cooperate in exchange markets as appropriate."

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DEPARTMENT OF THE TREASURY

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FOR IMMEDIATE RELEASE
May 31, 1995

Contact: Michelle Smith
(202) 622-2960

TREASURY SENDS MEXICO REPORT TO CONGRESS

The Treasury Department reported to Congress today that Mexico is making important progress toward strengthening its economy and continues to perform satisfactorily with U.S. support.

"Considerable progress has been made in the Mexican economy," Secretary Rubin said. "Broad-based reforms have been undertaken to get the economy back on course, including strict control over money and credit, reduced government spending and significant reduction in short-term, dollar-indexed debt."

"However, the process of stabilization will take time and the control of inflation and of potential problems in the banking sector is particularly important," Secretary Rubin said.

Treasury reaffirmed that an additional $10 billion would be available if necessary in stages after July 1 based on Mexico's continuing to fulfill its commitments under the February 21 agreements.

President Clinton, with the support of the bipartisan Congressional leadership, authorized the use of the Exchange Stabilization Fund (ESF) in order to protect American jobs, exports, security and borders threatened by Mexico's financial crisis.

This is the first monthly report to Congress regarding the U.S. Government's financial assistance program as required by Section 404 of the Mexican Debt Disclosure Act of 1995. It provides an account of the current condition of the Mexican economy, all outstanding disbursements of U.S. funds to Mexico, financial transactions involving funds from the ESF and from the Federal Reserve System, the status of the oil facility and compensation for credit risk to the U.S. Government. Treasury will also provide semi-annual reports to Congress beginning June 30.

The reports will be submitted to the House Committees on International Relations and Banking and Financial Services; the Senate Committees on Foreign Relations and Banking, Housing and Urban Affairs; and the Committees on Appropriations of both the House and the Senate.

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DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
May 31, 1995

MEDIA ADVISORY

Treasury Secretary Robert E. Rubin will visit three neighborhoods in the South Bronx, N.Y. this Friday, June 2, 1995. All locations are in the Bronx unless otherwise noted. This schedule is for planning purposes only and is not for publication. Times are tentative and subject to change.

8 a.m.	Press bus departs Local Initiatives Support Corporation (LISC), 733 Third Avenue, Manhattan.
8:30 a.m.	Cameras should be in place at the MBD Family Practice Clinic, 1690 Bryant Avenue (between 173rd and 174th Streets).
9:25 a.m.	Depart for walking tour of Bryant Street neighborhood.
9:50 a.m.	Walking tour of Charlotte Gardens, Charlotte Street at Boston Road.
10:15 a.m.	Walking tour of Longwood Avenue business district, Longwood Avenue at Fox Street.
10:45 a.m.	Roundtable discussion with local political leaders and business owners, 866 Beck Street (at the corner of Beck and Intervall Streets).

All of the tour stops are open to the press. Media wishing to ride the press bus should contact Jon Murchinson or Mike Patterson at the phone numbers below by 3 p.m. on Thursday, June 1.

Contacts: Jon Murchinson, Treasury, (202) 622-2014
Mike Patterson, LISC, (212) 455-9849

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AUCTION RESULTS

PUBLIC DEBT NEWS

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FOR IMMEDIATE RELEASE
May 31, 1995

CONTACT: Office of Financing
202-219-3350

RESULTS OF TREASURY'S AUCTION OF 13-DAY BILLS

Tenders for $17,126 million of 13-day bills to be issued June 2, 1995 and to mature June 15, 1995 were accepted today (CUSIP: 912794S62).

RANGE OF ACCEPTED
COMPETITIVE BIDS:

	Discount Rate	Investment Rate	Price
Low	5.83%	5.95%	99.789
High	5.86%	5.98%	99.788
Average	5.85%	5.95%	99.789

Tenders at the high discount rate were allotted 45%.
The investment rate is the equivalent coupon-issue yield.

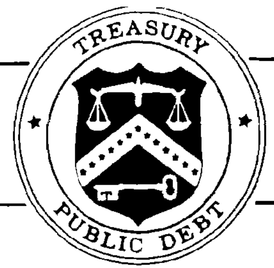
TENDERS RECEIVED AND ACCEPTED (in thousands)

	Received	Accepted
TOTALS	$57,101,000	$17,126,000
Type		
Competitive	$57,100,000	$17,125,000
Noncompetitive	1,000	1,000
Subtotal, Public	$57,101,000	$17,126,000
Federal Reserve	0	0
Foreign Official Institutions	0	0
TOTALS	$57,101,000	$17,126,000

5.84--99.789

RR-338

PUBLIC DEBT NEWS



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JUN 5 95 000426

FOR IMMEDIATE RELEASE
May 31, 1995

Contact: Peter Hollenbach
(202) 219-3302

DEPT. OF THE TREASURY

BUREAU OF THE PUBLIC DEBT AIDS SAVINGS BONDS OWNERS AFFECTED BY FLOODING IN ILLINOIS

The Bureau of Public Debt took action to assist victims of the flooding that struck Illinois by expediting the replacement or payment of United States Savings Bonds for owners in the affected areas. The emergency procedures are effective immediately for paying agents and owners in those areas of Illinois hit by floods. These procedures are effective immediately and will remain in effect through July 31, 1995.

Public Debt's action waives the normal six-month minimum holding period for Series EE savings bonds presented to authorized paying agents for redemption by residents of the affected area. Most financial institutions serve as paying agents for savings bonds.

The counties of Illinois included in the initial declaration are Madison and St. Clair. Should additional jurisdictions be declared disaster areas the emergency procedures for savings bonds owners will go into effect for those areas.

The replacement of bonds lost or destroyed will also be expedited by Public Debt. Bond owners should complete form PD-1048, available at most financial institutions or the Federal Reserve Bank. Bond owners should include as much information as possible about the lost bonds on the form. This information should include how the bonds were inscribed, social security number, approximate dates of issue, bond denominations and serial numbers if available. The completed form must be certified by a notary public or an officer of a financial institution. Completed forms should be forwarded to Public Debt's Savings Bonds Operations Office located at 200 Third St., Parkersburg, West Virginia 26106-1328. Bond owners should write the word "Floods" on the front of their envelopes to help expedite the processing of claims.

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PA-184
(RR-339)

federal financing bank
WASHINGTON, D.C. 20220
NEWS
Press 202-622-2960
FFB 202-622-2450

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DEPT. OF THE TREASURY

May 31, 1995

FEDERAL FINANCING BANK

Charles D. Haworth, Secretary, Federal Financing Bank (FFB), announced the following activity for the month of April 1995.

FFB holdings of obligations issued, sold or guaranteed by other Federal agencies totaled $95.4 billion on April 30, 1995, posting a decrease of $2,892.5 million from the level on March 31, 1995. This net change was the result of a decrease in holdings of agency debt of $1,898.2 million, in holdings of agency assets of $995.4 million, and an increase in holdings of agency-guaranteed loans of $1.1 million. FFB made 16 disbursements during the month of April, and executed one repricing of an REA-guaranteed loan. FFB also received 92 prepayments in April.

Attached to this release are tables presenting FFB April loan activity and FFB holdings as of April 30, 1995.

RR-340

FEDERAL FINANCING BANK
APRIL 1995 ACTIVITY

BORROWER	DATE	AMOUNT OF ADVANCE	FINAL MATURITY	INTEREST RATE
AGENCY DEBT				
RESOLUTION TRUST CORPORATION				
Note 26 /Advance #1	4/3	$19,756,138,435.39	7/3/95	6.013% S/A
GOVERNMENT - GUARANTEED LOANS				
GENERAL SERVICES ADMINISTRATION				
Oakland Office Building	4/4	$468,825.04	9/5/23	7.515% S/A
Foley Services Contract	4/12	$182,724.61	12/11/95	6.287% S/A
HCFA Headquarters	4/12	$721.65	6/30/95	5.963% S/A
Foley Square Courthouse	4/18	$1,917,588.00	12/11/95	6.191% S/A
HCFA Services	4/20	$83,184.00	6/30/95	5.921% S/A
Memphis IRS Service Cent.	4/20	$3,807,493.89	1/2/96	6.203% S/A
Atlanta CDC Office Bldg.	4/26	$2,844,825.66	9/1/95	6.047% S/A
Chamblee Office Building	4/28	$661.50	4/1/97	6.673% S/A
Miami Law Enforcement	4/28	$661.50	1/3/22	7.434% S/A
GSA/PADC				
ICTC Building	4/18	$9,910,038.83	11/2/26	7.507% S/A
RURAL UTILITIES SERVICE				
Farmers Telephone #399	4/4	$1,144,000.00	1/2/96	6.406% Qtr.
Lewis River Tele. #378	4/6	$130,000.00	12/31/12	7.241% Qtr.
South Texas Electric #322	4/17	$2,193,000.00	12/31/19	7.350% Qtr.
Central Iowa Power #385	4/20	$2,835,000.00	12/31/14	7.287% Qtr.
Amelia Telephone #394	4/26	$217,000.00	1/3/28	7.370% Qtr.
@M & A Electric #111	4/28	$1,421,954.92	1/3/17	7.311% Qtr.

S/A is a Semi-annual rate: Qtr. is a Quarterly rate.
@ interest rate buydown

FEDERAL FINANCING BANK
(in millions)

Program	April 30, 1995	March 31, 1995	Net Change 4/1/95-4/30/95	FY '95 Net Change 10/1/94-4/30/95
Agency Debt:				
Department of Transportation	$ 0.0	$ 0.0	$ 0.0	$ -664.7
Export-Import Bank	3,149.8	3,149.8	0.0	-776.6
Resolution Trust Corporation	17,858.0	19,756.1	-1,898.2	-8,661.2
Tennessee Valley Authority	3,200.0	3,200.0	0.0	-200.0
U.S. Postal Service	7,873.1	7,873.1	0.0	-1,100.0
sub-total*	32,080.9	33,979.1	-1,898.2	-11,402.4
Agency Assets:				
FmHA-ACIF	4,463.0	5,453.0	-990.0	-1,600.0
FmHA-RDIF	3,675.0	3,675.0	0.0	0.0
FmHA-RHIF	23,631.0	23,631.0	0.0	-760.0
DHHS-Health Maintenance Org.	10.5	10.5	0.0	-14.8
DHHS-Medical Facilities	28.5	33.8	-5.3	-7.2
Rural Utilities Service-CBO	4,598.9	4,598.9	0.0	0.0
Small Business Administration	0.7	0.8	-0.1	-0.3
sub-total*	36,407.7	37,403.1	-995.4	-2,382.4
Government-Guaranteed Loans:				
DOD-Foreign Military Sales	3,629.1	3,635.4	-6.3	-156.3
DHUD-Community Dev. Block Grant	95.9	95.9	0.0	-14.0
DHUD-Public Housing Notes	1,688.5	1,688.5	0.0	-58.0
General Services Administration +	2,208.5	2,189.3	19.2	179.0
DOI-Virgin Islands	21.2	21.2	0.0	-0.7
DON-Ship Lease Financing	1,432.1	1,432.1	0.0	-47.4
Rural Utilities Service	17,299.2	17,292.7	6.5	-17.4
SBA-Small Business Investment Cos.	19.1	21.6	-2.5	-37.6
SBA-State/Local Development Cos.	480.4	496.2	-15.8	-42.6
DOT-Section 511	11.4	11.4	0.0	-3.2
sub-total*	26,885.4	26,884.3	1.1	-198.4
grand-total*	$ 95,374.0	$ 98,266.4	$-2,892.5	$-13,983.2

*figures may not total due to rounding
+does not include capitalized interest

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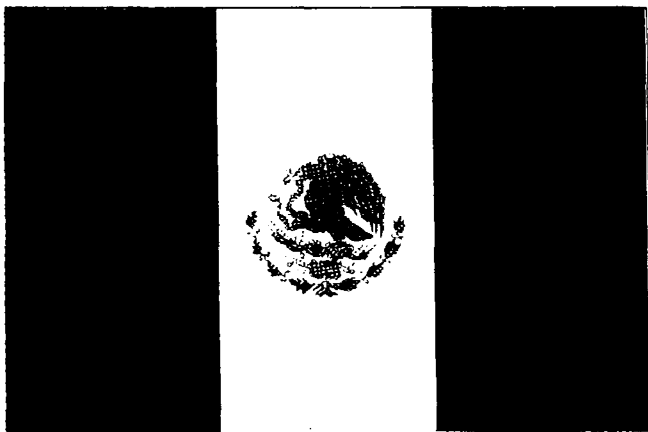
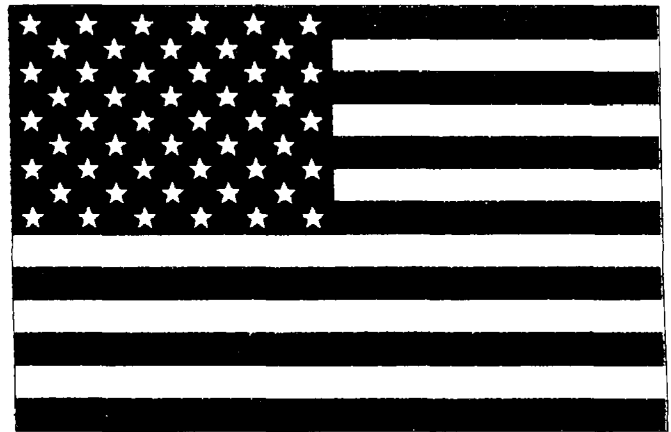
DEPARTMENT OF THE TREASURY

Monthly Report by the Secretary of the Treasury

Pursuant to the Mexican Debt Disclosure Act of 1995





May 31, 1995

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I. Overview

On January 31, 1995, after consulting with both congressional leadership and the Federal Reserve Board, President Clinton announced that the United States would provide an emergency support package to Mexico through the Exchange Stabilization Fund (ESF).

This decision was made to prevent the liquidity crisis facing Mexico from escalating into a prolonged and severe economic downturn, which would put at risk important U.S. interests -- some 700,000 export-related jobs and a secure U.S.-Mexico border -- and jeopardize the position of other emerging markets.

At the President's instructions, the Secretary of the Treasury entered into four agreements with Mexican authorities on February 21, 1995 ("the Agreements"), which provide for up to $20 billion conditioned on strict economic, financial, and reporting requirements. To date, the U.S. has disbursed $11 billion to Mexico, with a total of $10 billion outstanding under short-term and medium-term swap agreements.

Mexico is currently meeting its commitments under the Agreements. Mexico has undertaken broad-based reforms to set its economy back on course, including strict control over money and credit, reduced government spending, and reduction in its short-term, dollar-indexed debt. The economy's external position has improved substantially, due to strong export performance and restrained imports. Moreover, prospects for further privatization and private investment in Mexico's infrastructure have improved, as the Government of Mexico has advanced the necessary regulatory and legislative reforms. Although it is still too early to make definitive judgements, recent indicators suggest that financial markets are beginning to respond with more confidence in Mexico's economic outlook.

While these positive developments confirm that progress has been made, the corner has yet to be turned in some important respects. For example, the condition of Mexico's banking sector, weak going into the crisis, continues to deteriorate, as exhibited by the increasing proportion of overdue loans in the banking system. Moreover, unemployment continues to rise, while high inflation is eroding real incomes. Thus, significant challenges remain. We continue to work closely with the Mexican authorities to monitor Mexico's performance and compliance with U.S.-Mexico Framework Agreements.

U.S. and IMF financial support has allowed Mexico to cut drastically its short-term, dollar-indexed tesobonos to $11.5 billion, down from $29.2 billion at the beginning of this year. As a consequence, the risk of a sovereign default, with its devastating impact on the Mexican economy, seems to have abated in the eyes of financial market participants.

Mexico's obligations under the four agreements are backed by the full faith and credit of the Mexican Government, and the interest rates on swaps are sufficient to cover the risks that the United States is likely to bear. In the unlikely event that Mexico fails to meet its obligations, the U.S. Government has the right to set off Mexico's obligations against the proceeds from its crude oil, petrochemical and refined product exports, which flow through a special account at the Federal Reserve Bank of New York. The oil proceeds mechanism has been functioning

II. Current Condition of the Mexican Economy

Monetary and Fiscal Policy

The success of the Government of Mexico's economic adjustment program relies on its adherence to disciplined monetary and fiscal policies. The Bank of Mexico is holding to its commitment to maintain tight monetary policy, with the monetary base decreasing substantially by several measures.

- Between December 31, 1994 and May 9, 1995, the nominal monetary base dropped 16 percent, declining by nearly 32 percent in real terms through April 28.

- Some of this decline is seasonal but, comparing the year-over-year change to eliminate these effects, restraint on money growth is still evident.

- The nominal monetary base increased 13 percent between April 1994 and April 1995, a 17 percent real decline; this contrasts with a nominal increase of 21 percent between December 1993 and December 1994, a 13 percent real increase.

The Government of Mexico has adopted a number of measures to tighten fiscal policy. Budgetary results for the first quarter exceeded the government's targets and reflect an improvement in the fiscal position despite the weakening economy and a higher interest burden on the public sector debt.

- The primary balance (which excludes interest payments) carried a surplus of NP25.8 billion compared to NP11.4 billion in the same period a year ago. Despite substantially higher interest payments, the overall economic balance was also in surplus by NP9.0 billion, compared to NP4.3 billion in the same period last year.

- The government increased the VAT from 10 percent to 15 percent on April 1, boosted gasoline and diesel fuel prices 35 percent, and raised electricity rates 20 percent after March 9, 1995.

- In the first quarter, non-interest expenditures dropped 12.3 percent in real terms, while revenues increased 2.7 percent in real terms.

Economic Adjustment

Mexico faces a difficult year of adjustment, but the economy is already exhibiting signs that the program is working. The economy's external position has improved substantially, due to strong export performance and restrained imports.

- Mexico ran a trade surplus of $165 million in the first quarter of 1995, compared to a deficit of $4.3 billion during the same period a year ago. The $460 million trade surplus in March was Mexico's second consecutive monthly surplus.

- As a consequence of this year's sharp policy adjustments, Mexico's imports have declined. The rate of decline has tapered recently, however, with a year-over-year decline of 2 percent in March compared to 7 percent in February and increases of 12.2 percent in January and 18 percent in December.

- At the same time, Mexico's exports are growing strongly, increasing 32 percent in March from a year earlier, compared to year-over-year increases of 29 percent in February, 39.3 percent in January, and 13 percent in December.

Mexico's strong export performance allowed for first quarter declines in GDP and industrial production that were lower than expected.

- Real GDP fell 0.6 percent in the first quarter of 1995 compared to the same period a year ago. While this represents a sharp decline from a growth rate of 3.5 percent in 1994, this decline was more modest than officially projected, reflecting buoyant export performance partially offsetting weaker domestic demand.

- Still, GDP is expected to decline further this year, before economic growth resumes.

- Also due to this strong export growth, the decline in industrial production has been modest with a 1.1% decline in February from a year earlier compared to year-over-year increases of 3.8% in January and 0.1% in December.

The adjustment has triggered a decline in domestic demand and weakened labor markets.

- Retail sales dropped 20 percent on a year-over-year basis in March and 23 percent in February, following a decline of only 3 percent in January.

- The official unemployment rate, which covers only urban workers in the formal sector, rose to 5.7 percent in March compared to 3.2 percent at the end of 1994.

- Real wages in the manufacturing sector, among the strongest in the economy, declined in February by 0.2 percent from a year ago after increases near 5.5 percent in both January and December over a year earlier.

Inflation, which is expected to decline in coming months, has risen in the first four months of this year, as the lagged effect of the peso's devaluation, the increase in public sector prices, and the value added tax (VAT) take hold.

- The 8-percent increase in consumer prices in April was largely fueled by the 50-percent increase in the VAT on April 1; it was the largest monthly increase of the year.
- However, most analysts expect inflation to drop sharply in the next several months as the effects of the peso depreciation and the VAT increase work through the economy and market demand for goods, services and labor remains weak.

During late April, Mexico took several steps to meet its commitment to accelerate structural reforms.

- The Government of Mexico (GOM) submitted, and the Senate passed, a bill to open long- distance telecommunications services to private and foreign firms. To maximize competition and to improve Mexico's telecommunications infrastructure, the GOM decided not to charge private firms a fee to enter the market.
- The GOM also submitted a bill, which the Chamber of Deputies passed, to amend its Constitution to allow private companies to build and operate natural gas pipelines and distribution networks. This will help facilitate the privatization of electricity and petrochemical plants, which use natural gas.
- In addition, the Mexican Congress passed constitutional changes allowing private and foreign investment in railroads and satellite transmissions.

Financial Market Trends

Although it is still too early to make definitive judgements, recent indicators suggest that financial markets are responding with more confidence in the adjustment program and in Mexico's economic outlook.

- For example, the peso has stabilized, trading near NP6.0 per U.S. dollar in recent weeks, following a steady appreciation from its low of NP7.55 per U.S. dollar in March.
- As of May 22, Mexico's stock market was up 44.45 percent in peso terms, and 45 percent in dollar terms, since its low on February 27, 1995.

- Mexico's benchmark 28-day Treasury bill (cete) rate dipped from 82.65 percent at the end of March to 76.50 percent in the last weekly auction in April. It fell further to 48 percent at the end of May.

- Reduced fear of default on sovereign debt has been an important factor in this turnaround, as indicated by the decline in interest rates on dollar-linked tesobonos, which have dipped to about 13-14 percent from highs above 30 percent.

- In addition, as of May 22, the market price of Brady bonds, with the U.S. backing stripped out, has risen by roughly 62.48 percent since mid-March.

Banking Sector

The condition of Mexico's banking sector remains weak. As one indication, the percentage of overdue loans throughout the system increased from 7.4 percent in December, 1994, to 13.5 percent as of March 31, 1995.

The Mexican government has undertaken a number of initiatives to support the banking sector, including:

- Creating a program that allows banks to restructure approximately 25 percent of loans outstanding in the banking system through inflation-indexed instruments (UDIs), a measure that will ease liquidity pressures on banks' credit-worthy customers.

- Establishing the Temporary Capitalization Program (PROCAPTE), which enables banks to meet regulatory capital requirements through the issuance of convertible debentures to the deposit protection fund (FOBAPROA); and

- Working to secure World Bank and Inter-American Development Bank loans totalling $2.25 billion to help finance the restructuring of troubled banks and to strengthen bank supervision.

This month, however, banks have reduced their reliance on dollar liquidity loans from FOBAPROA and have reduced their outstanding balances by 30 percent since the first week of April.

III. Reserve Position of the Bank of Mexico

As of May 12, 1995, Mexico's international reserves totalled $8.3 billion, as defined in the Law of the Bank of Mexico. Reserves have risen $2.2 billion since the end of 1994.

IV. Disbursements and Outstanding Swaps and Guarantees and Compensation to the U.S. Treasury

As of May 23, 1995, $11 billion in U.S. funds have been disbursed to Mexico under the support program, of which a total of $10 billion remains outstanding under swaps. To date, the United States has not extended any guarantees to Mexico under this program.

Under the swap agreements, Mexico purchases dollars and credits a corresponding amount of pesos to the U.S. account at the Bank of Mexico. On the maturity date, Mexico repurchases the pesos and pays back the dollars. Both the short-term and medium-term swap facilities require Mexico to maintain the dollar value of peso credits to the United States, adjusting the amount of pesos on a quarterly basis, in accordance with changes in the dollar-peso exchange rate.

As provided for in the agreements, the Government of Mexico must pay the Treasury interest on the swap balances outstanding. The interest charges applied to short term swaps are designed to cover the cost of funds to the Treasury, and thus are set at the inception of each transaction at the current Treasury Bill rate.

The interest charges applied to the medium-term swaps are designed to cover the cost of funds to the Treasury plus a premium for the credit risk associated with the extension of such funds, as assessed at the time of each disbursement. Paragraph 6(d) of the Medium-Term Exchange Stabilization Agreement provides that interest rates on swaps with Mexico are "intended to be at least sufficient to cover the current U.S. Government credit risk cost for Mexico." For each disbursement, the premium is the greater of 1) a rate determined by the U.S. Government's inter-agency country risk assessment system (ICRAS) as adequate compensation for sovereign risk of countries such as Mexico, or 2) a rate based on the amount of U.S. funds outstanding to Mexico from short-term swaps, medium-term swaps, and loan guarantees at the time of disbursement.

Mexico has not missed an interest or repayment date under either the short-term or medium-term swaps. The schedule of swaps outstanding under both ESF and Federal Reserve swap lines is as follows:

As of May 23, 1995, $9.5 billion has been disbursed through the ESF, of which $9 billion remains outstanding.

Short-term swaps:

- On January 11 and January 13, 1995, Mexico made two drawings of $250 million each under short-term swaps through the ESF. Mexico repaid these drawings on March 14, 1995.
- On February 2, 1995, the U.S. disbursed $1 billion under a short-term swap through the ESF; Mexico renewed this

swap for an additional 90-day period on May 3, 1995. The current interest rate is 5.75%

Medium-term swaps:

- Mexico drew $3 billion under a medium-term swap on March 14, 1995, $1 billion of which was used to pay back an existing short-term swap. The current interest rate is 8.1%. Repayment to be made in seven installments as follows: six equal installments of $375 million each, payable on June 30, 1998 and each successive calendar quarter date to and including September 30, 1999; and one installment of $750 million, payable on December 31, 1999.

- On April 19, 1995, Mexico made a second $3 billion drawing through a medium-term swap. The current interest rate is 10.34%. Repayment to be made in twelve installments as follows: eleven equal installments of $245 million each, payable on June 30, 1997 and each successive calendar quarter date to and including December 31, 1999; and one installment of $305 million, payable on March 31, 2000.

- Most recently, Mexico drew $2 billion under a medium-term swap on May 19, 1995. The current interest rate is 10.34%. Repayment to be made in twelve installments as follows: eleven equal installments of $170 million each, payable on June 30, 1997 and each successive calendar quarter date to and including December 31, 1999; and one installment of $130 million, payable on March 31, 2000.

Federal Reserve

Disbursements to Mexico through the Federal Reserve System total $1.5 billion as of May 23, 1995, with $1 billion outstanding. All Federal Reserve disbursements are in the form of short-term swaps.

Short-term swaps:

- On January 11 and January 13, 1995, Mexico made two short-term swap drawings of $250 million each through the Federal Reserve. Mexico repaid these drawings on March 14, 1995.

A short-term swap of $1 billion was extended on February 2, 1995; Mexico renewed the swap for an additional 90-day period on May 3, 1995.

V. Mexico's Financial Transactions

With U.S. and IMF financial support, Mexico has dramatically reduced the amount of outstanding tesobonos, or short-term, dollar-linked government debt, since the onset of its liquidity crisis in December. Since the beginning of the year, the amount of tesobonos outstanding in public hands has declined from $29.2 billion to $11.5 billion at the end of May, 1995.

Effective upon the signing of the agreements on February 21, 1995, prior to each disbursement, Mexico must provide Treasury with information on the intended use of U.S. funds, and Treasury must verify that such uses are consistent with Mexico's Financial Plan. To date, Mexico has requested and Treasury has authorized the use of funds to redeem tesobonos and other short-term debt. As of May 23, 1995, Mexico has used $6.3 billion in U.S. funds to redeem tesobonos and $3.7 billion to accumulate reserves for future redemptions of tesobonos and other short-term obligations.

VI. Status of the Oil Facility

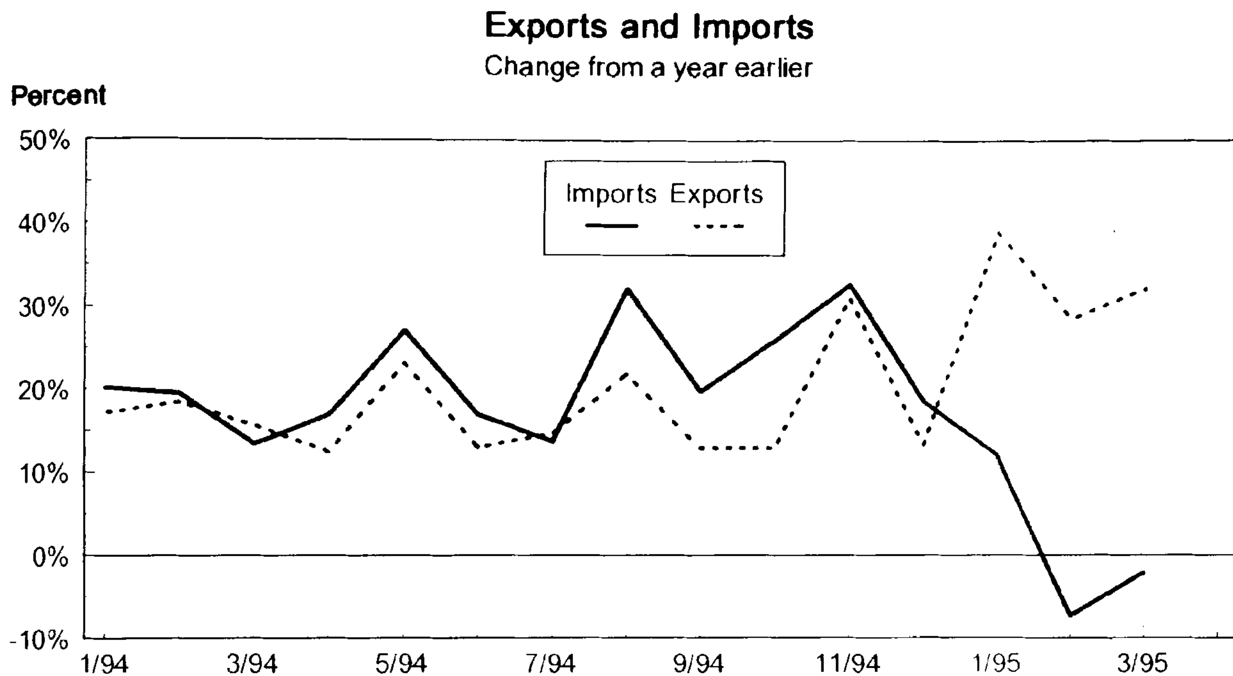
Payments to the Federal Reserve Bank of New York

Since taking effect on March 8, the payment mechanism, established under the Oil Proceeds Facility Agreement, has been functioning smoothly. As of May 15, 1995, over $1.5 billion has flowed through Mexico's special funds account at the Federal Reserve Bank of New York. Approximately $25-30 million flows through the account each day. To date, there have been no set offs against the proceeds from Mexico's crude oil, petrochemical, and refined product exports.

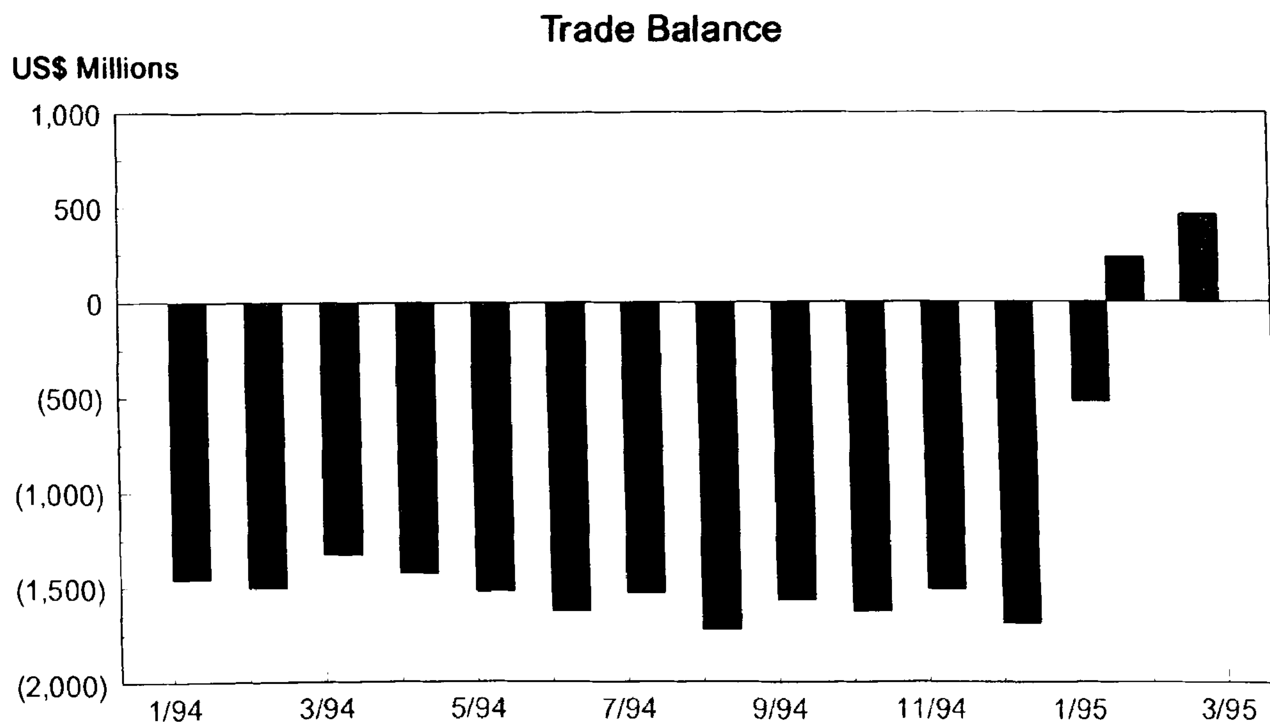
Appendix

Tab A: Key Trends in Mexico's Economy

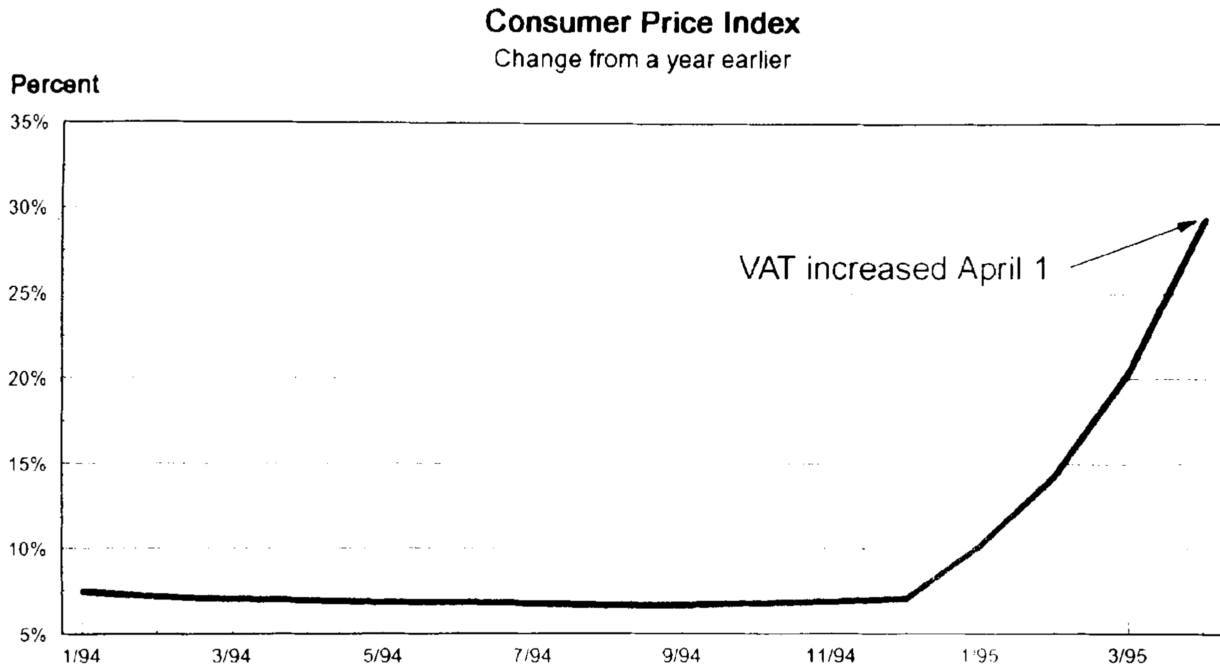
Strong Export Growth, While Imports Fall Back...



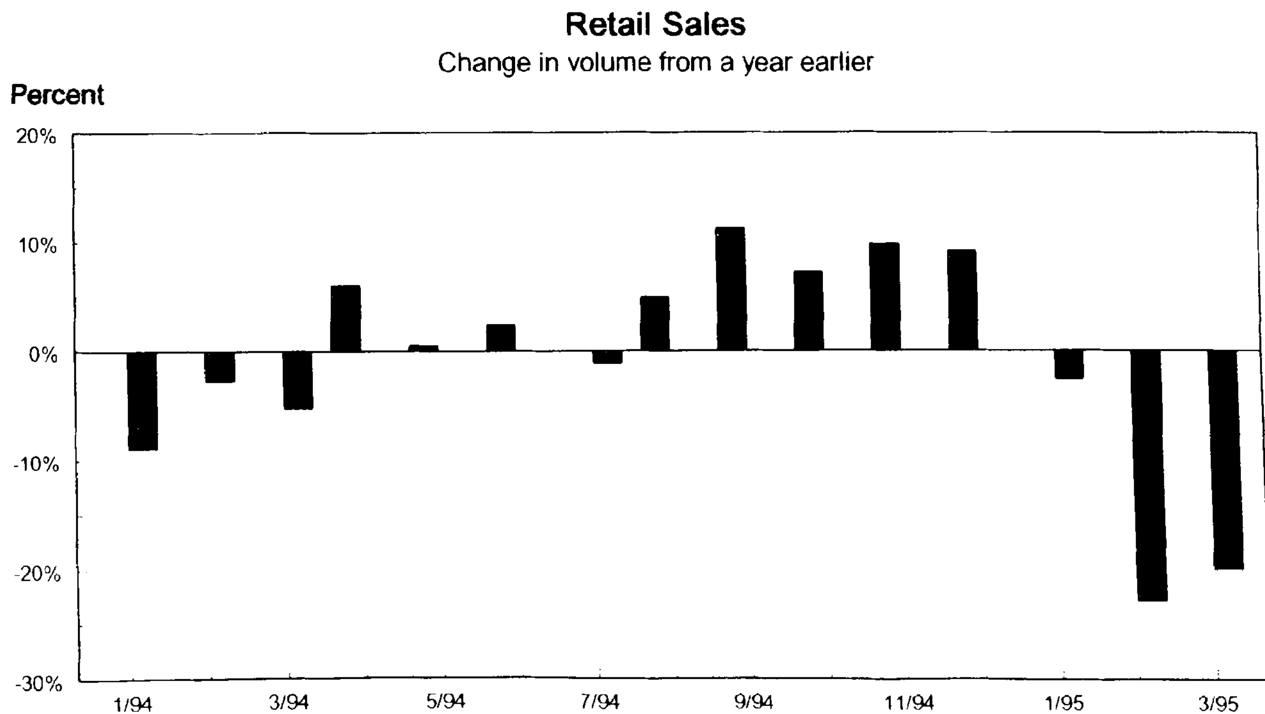
...Bringing Mexico's Balance of Trade into Surplus



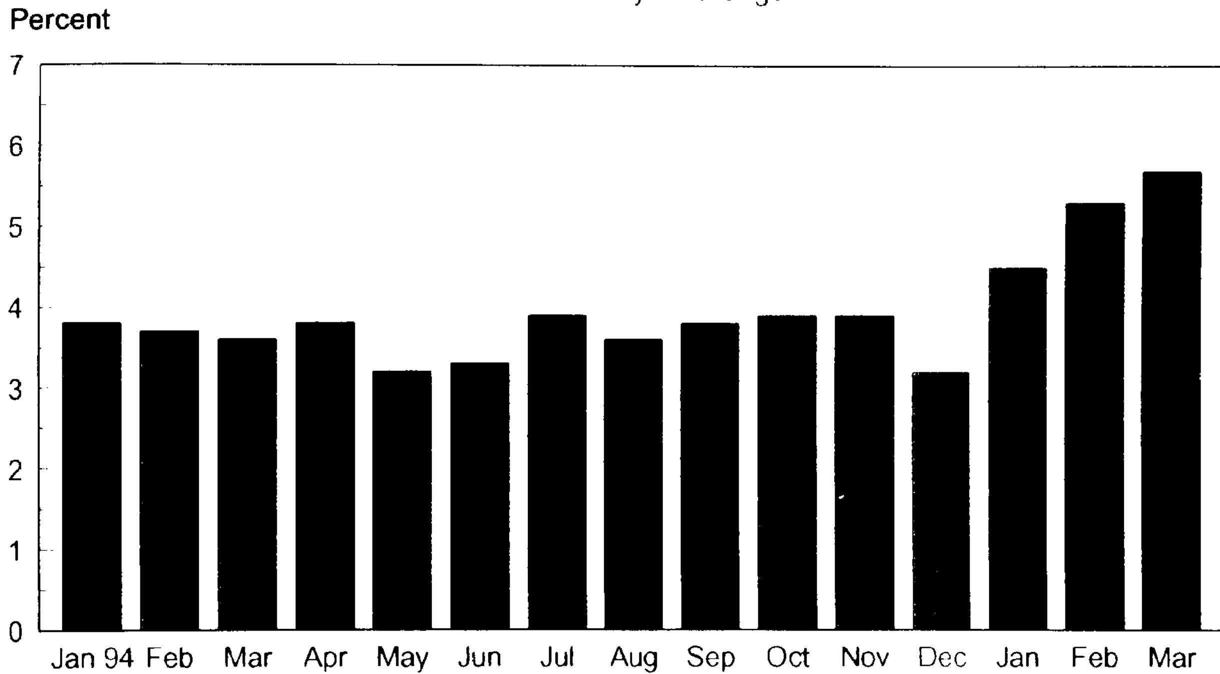
Consumer Prices Rising...

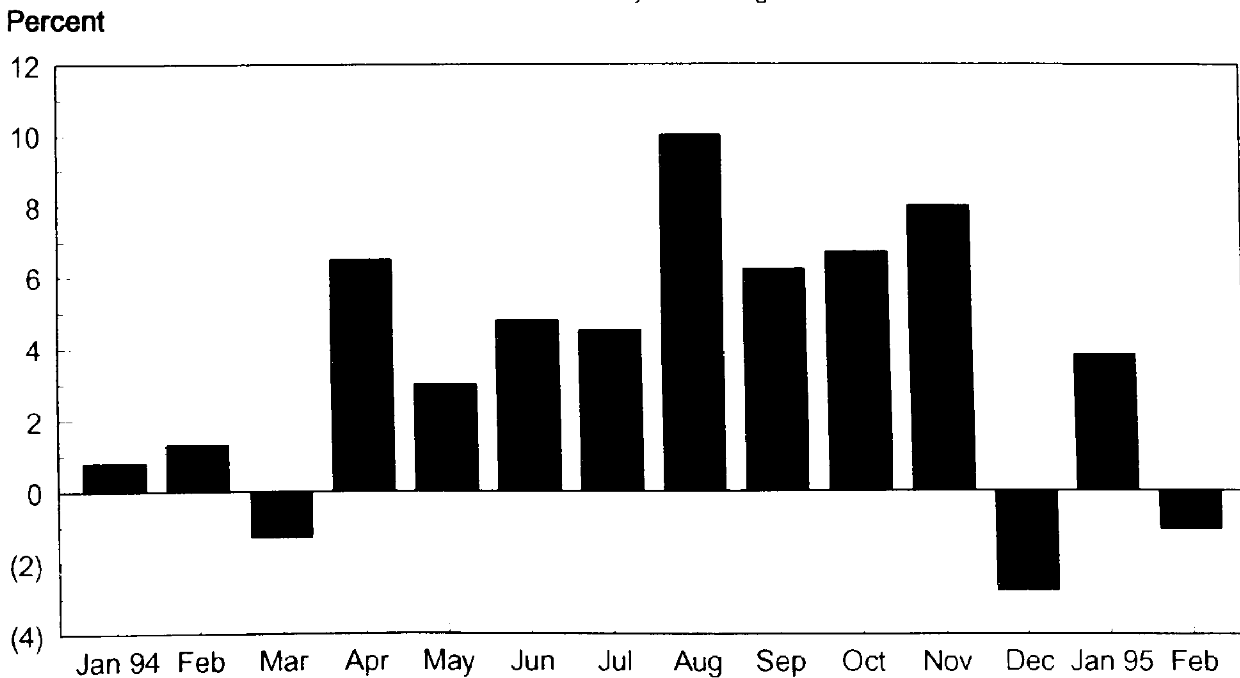


...Volume of Retail Sales Falling

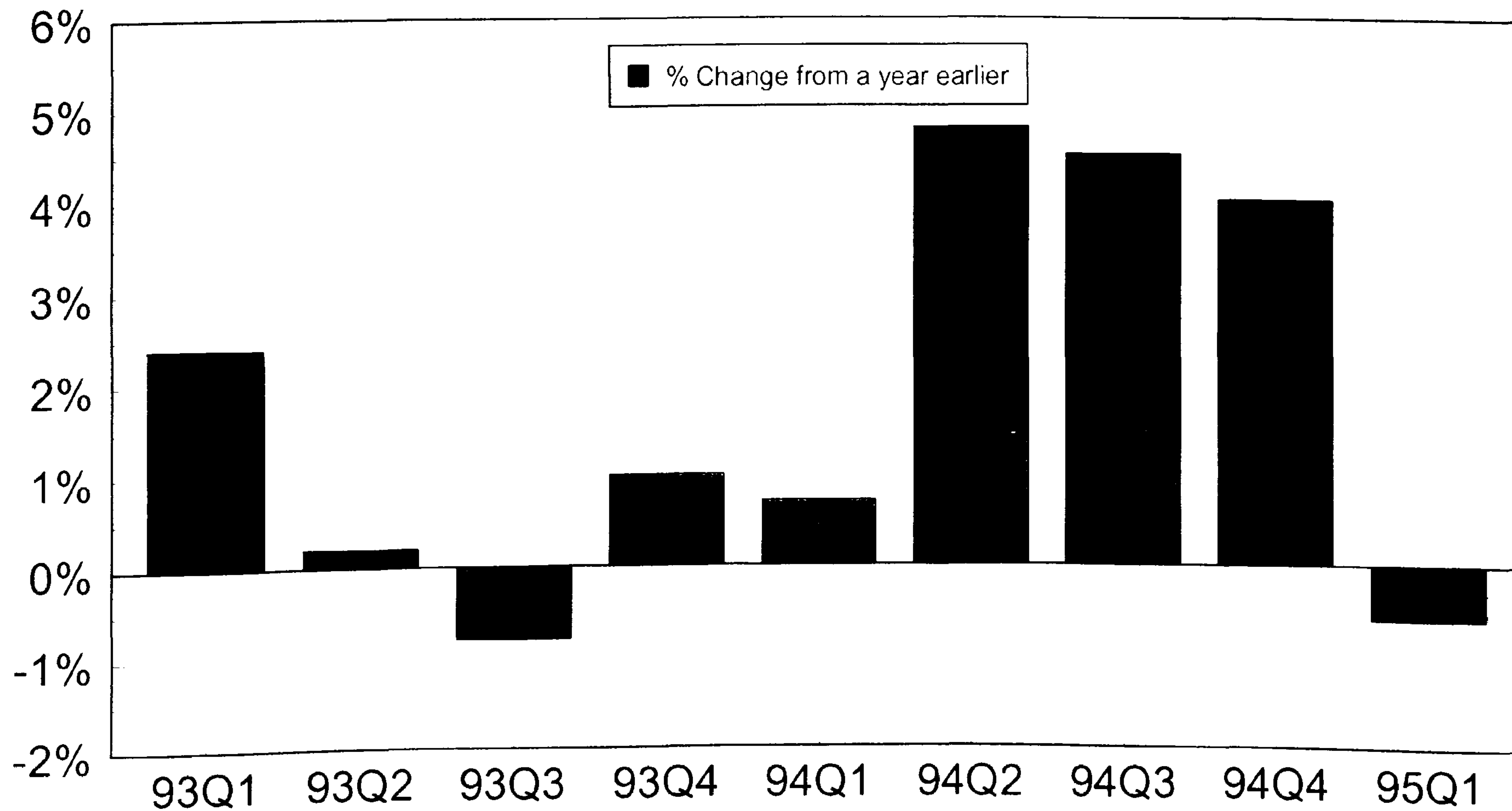


Unemployment Rises as Production Slows



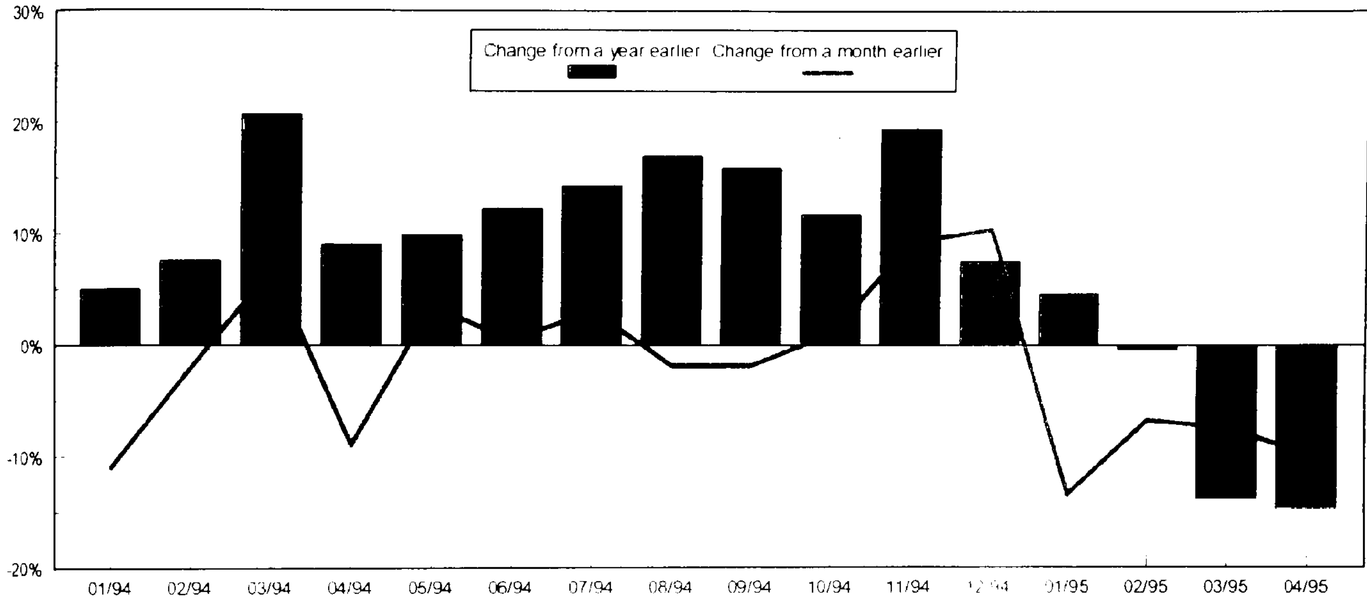


GDP Falls After Strong Growth in 1994

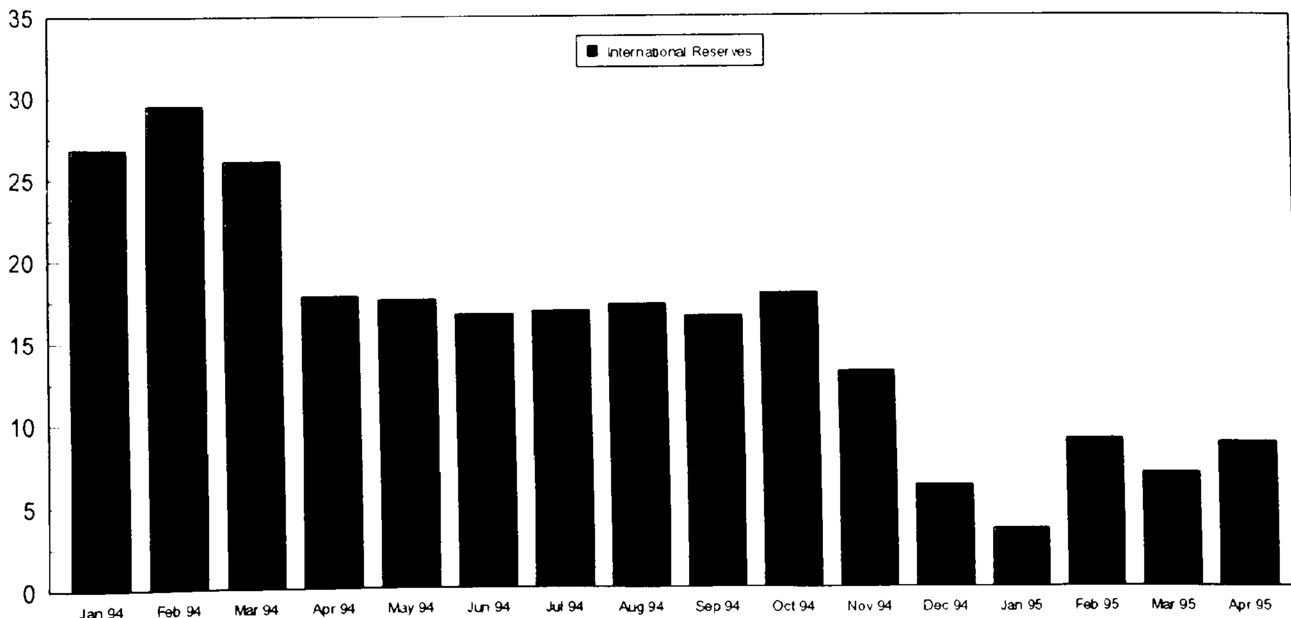


Mexico's Real Monetary Base is Shrinking...

Percent Change in Real Money

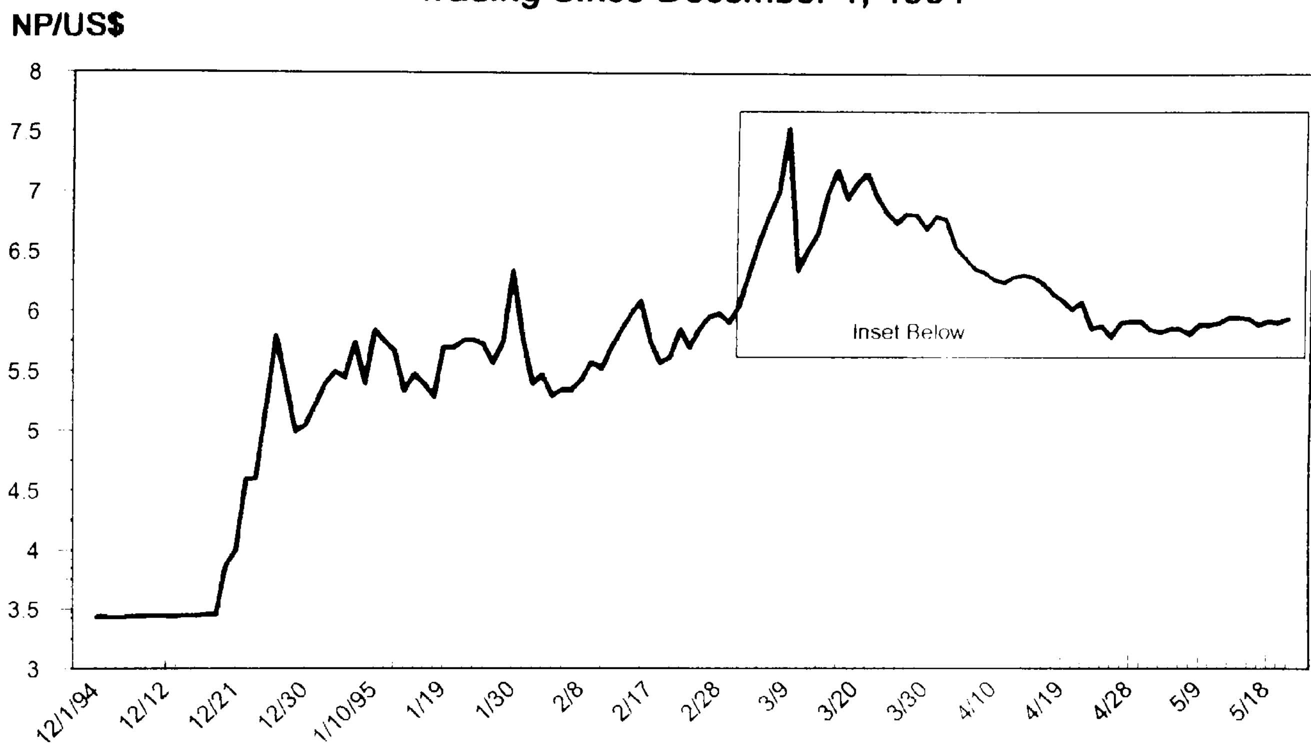


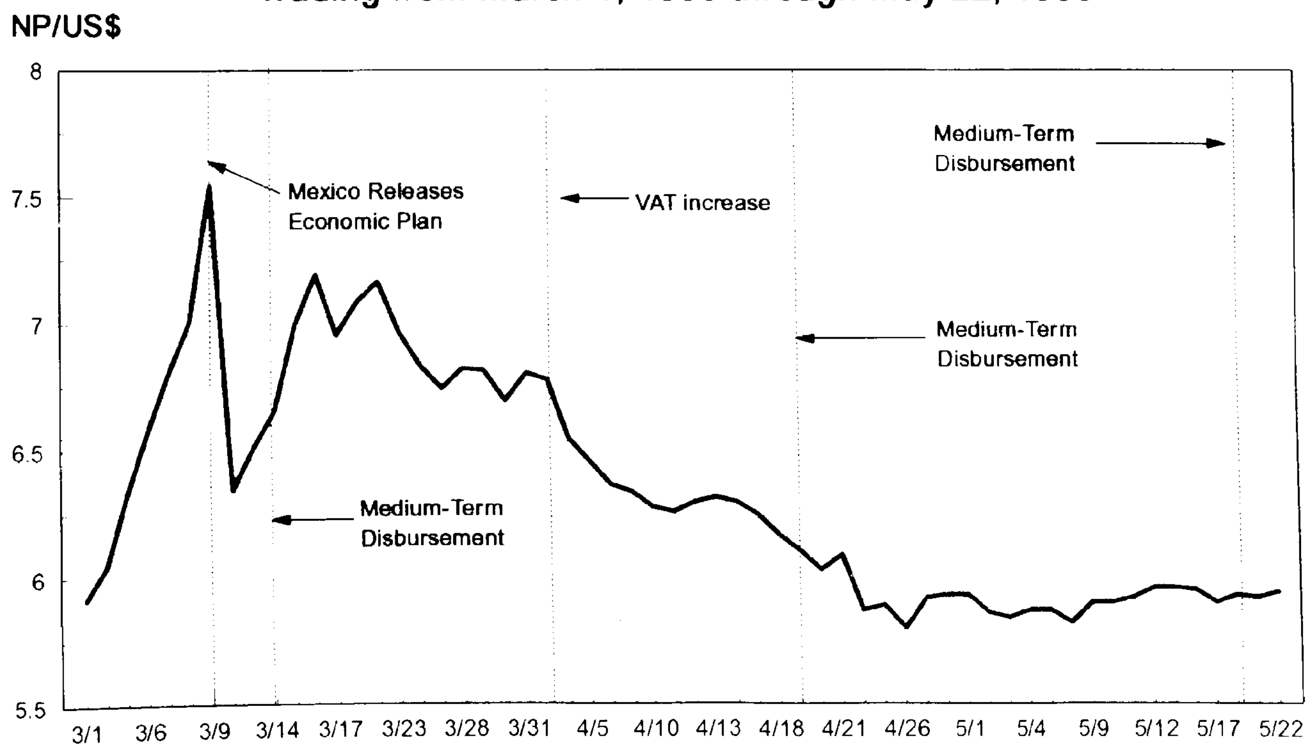
... While Reserves are Well Above January Lows



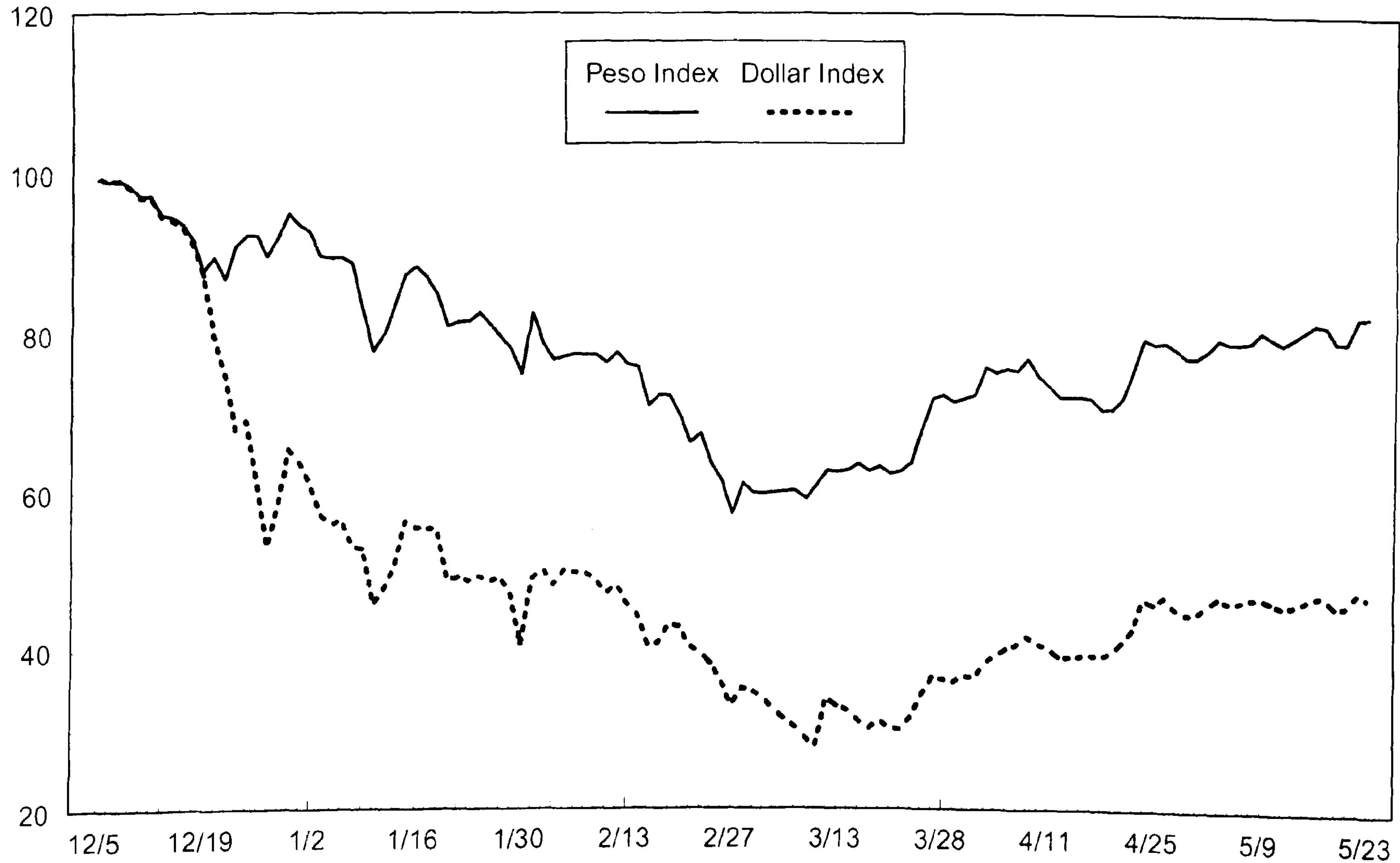
Tab B: Key Trends in Financial Markets

Peso-Dollar Exchange Rate

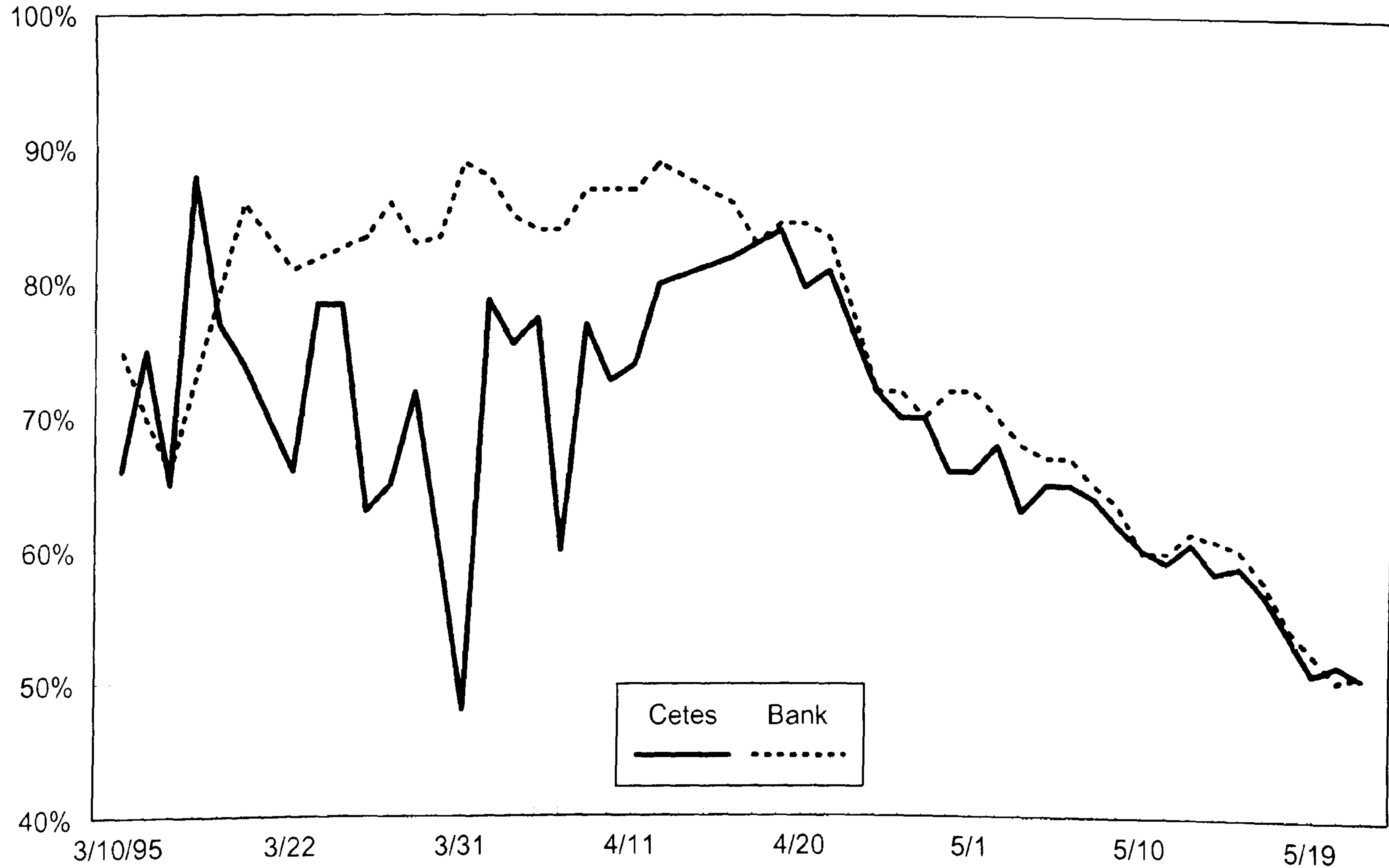




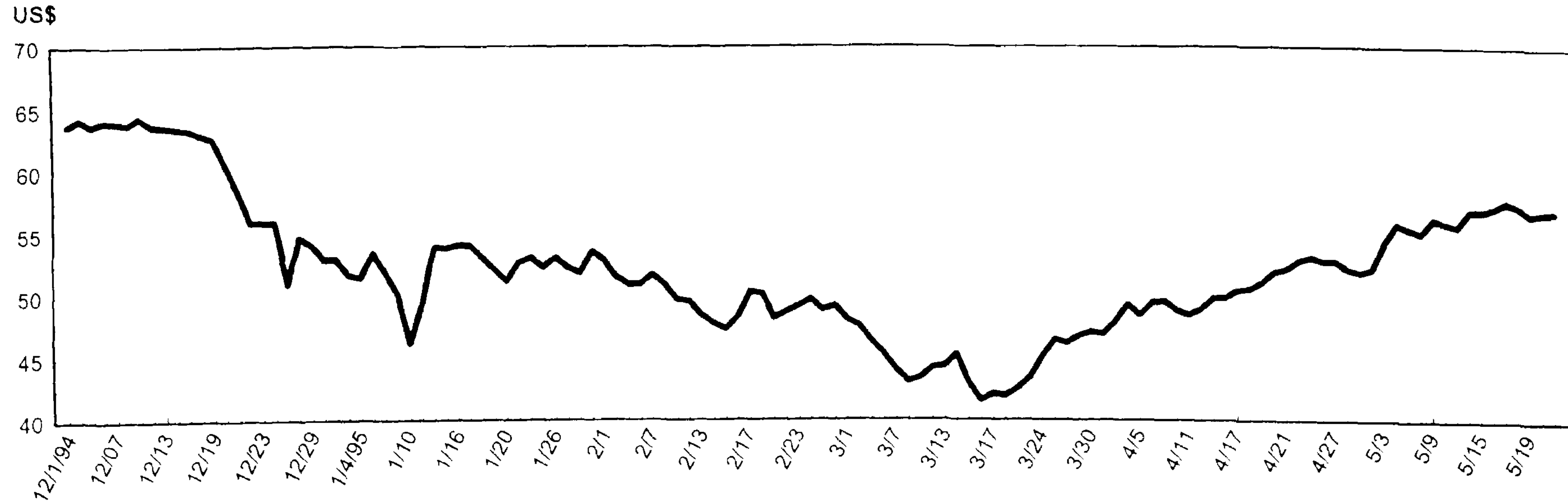
Mexican Stock Market:
Peso and Dollar Indices

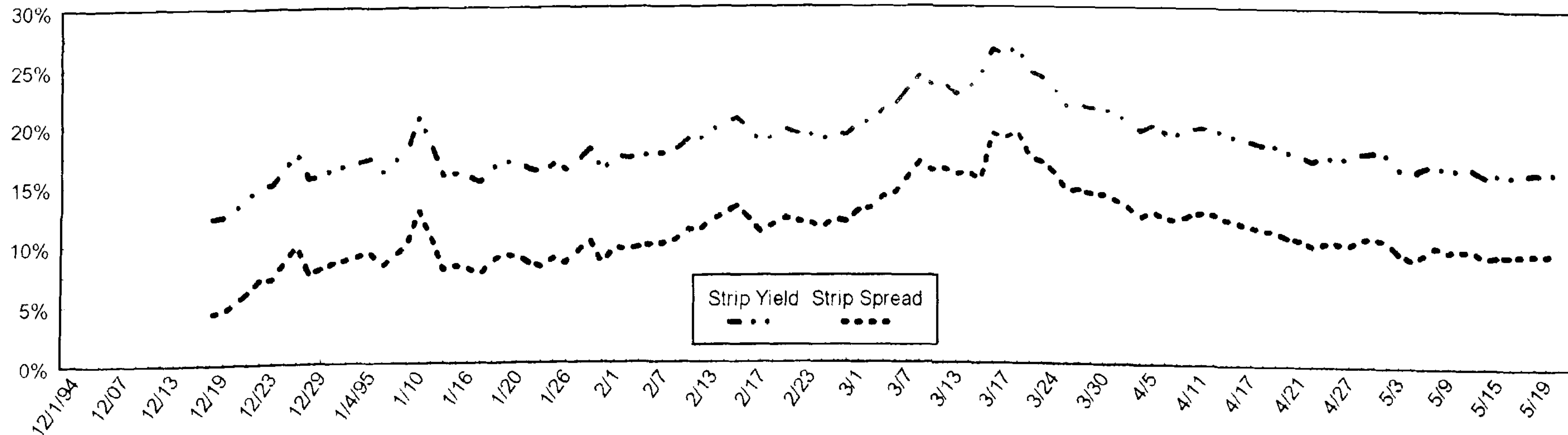


Overnight Treasury Bill (Cetes) and Bank Paper Rates



Mexican Par Brady Bonds





Outstanding Tesobono Balance and Weekly Amortizations