

DEPARTMENT OF THE TREASURY
WASHINGTON

January 11, 1996

INFORMATION

ASSISTANT SECRETARY

INFORMATION

MEMORANDUM FOR SECRETARY RUBIN

THROUGH: John D. Hawke, Jr. *JDH*
Under Secretary for Domestic Finance

FROM: Darcy Bradbury *DB*
Assistant Secretary
Financial Markets

Roger L. Anderson *RA*
Senior Advisor
Federal Finance

SUBJECT: Debt Limit Scenario

We have updated our latest scenario in response to your comments to give more precise estimates of 1) when various actions would have to be taken both to stay under the debt limit and to maintain adequate cash balances and 2) how long such actions would take us.

We have also updated the summary chart of our needs.

These estimates are based on the assumptions in the daily cashflow and show adjustments only when the assumptions differ.

These estimates, of course, vary daily.

ATTACHMENT: Tab 1: Debt Limit Scenario
Tab 2: Summary of Needs

EXECUTIVE SECRETARIAT

Scenário III

01/05/96

	<u>Cash*</u>	<u>Debt*</u>	<u>Adjustments</u>	<u>Cash Effect</u>	<u>Debt Effect</u>	<u>Adj. cash</u>	<u>Adj. debt**</u>	<u>DL margin**</u>
1/1	20.5	4,962.8				20.5	4,887.4	12.6
1/2	24.2	4,966.2	CSRDF adjustment		1.7	24.2	4,892.5	7.5
1/3	14.5	4,952.3				14.5	4,878.6	21.4
1/4	12.1	4,955.2				12.1	4,881.5	18.5
1/5	11.8	4,955.7				11.8	4,882.0	18.0
1/8	13.1	4,952.6	CSRDF adjustment		0.5	13.1	4,879.4	20.6
1/9	13.1	4,950.4				13.1	4,877.2	22.8
1/10	13.1	4,952.4				13.1	4,879.2	20.8
1/11	14.5	4,953.6				14.5	4,880.4	19.6
1/12	13.6	4,953.4				13.6	4,880.2	19.8
1/15	13.6	4,953.4				13.6	4,880.2	19.8
1/16	11.6	4,949.6				11.6	4,876.4	23.6
1/17	22.3	4,952.4				22.3	4,879.2	20.8
1/18	24.0	4,953.9				24.0	4,880.7	19.3
1/19	29.0	4,955.8				29.0	4,882.6	17.4
1/22	35.1	4,957.5				35.1	4,884.3	15.7
1/23	39.2	4,960.1				39.2	4,886.9	13.1
1/24	39.6	4,961.5				39.6	4,888.3	11.7
1/25	38.3	4,958.0				38.3	4,884.8	15.2
1/26	37.5	4,961.4				37.5	4,888.2	11.8
1/29	38.7	4,963.7				38.7	4,890.5	9.5
1/30	39.2	4,965.4				39.2	4,892.2	7.8
1/31	37.2	4,968.0				37.2	4,894.8	5.2

*01/05/96 forecast

**Trust funds invested to limit; actual debt at \$4.9 trillion

Scenario III

01/05/96

	<u>Cash*</u>	<u>Debt*</u>	<u>Adjustments</u>	<u>Cash Effect</u>	<u>Debt Effect</u>	<u>Adj. cash</u>	<u>Adj. debt**</u>	<u>DL margin**</u>
2/1	28.2	4,961.7	CSRDF adjustment		2.0	28.2	4,890.5	9.5
2/2	12.1	4,950.7	cash mgt bill	6.0	6.0	18.1	4,885.5	14.5
2/5	9.0	4,950.9				15.0	4,885.7	14.3
2/6	7.4	4,952.0				13.4	4,886.8	13.2
2/7	5.7	4,950.6	CSRDF adjustment		0.5	11.7	4,885.9	14.1
2/8	9.5	4,948.4				15.5	4,883.7	16.3
2/9	4.8	4,947.6				10.8	4,882.9	17.1
2/12	5.7	4,950.2				11.7	4,885.5	14.5
2/13	4.7	4,951.7				10.7	4,887.0	13.0
2/14	4.6	4,952.6				10.6	4,887.9	12.1
2/15	5.5	4,979.3	unspecified actions		(35.0)	11.5	4,879.6	20.4
2/16	6.4	4,980.3				12.4	4,880.6	19.4
2/19	6.4	4,980.3				12.4	4,880.6	19.4
2/20	9.9	4,981.8				15.9	4,882.1	17.9
2/21	10.3	4,983.7				16.3	4,884.0	16.0
2/22	15.4	4,991.3	cash mgt bill matures	(6.0)	(6.0)	15.4	4,885.6	14.4
2/23	13.7	4,991.2				13.7	4,885.5	14.5
2/26	14.1	4,992.2				14.1	4,886.5	13.5
2/27	12.2	4,995.8				12.2	4,890.1	9.9
2/28	11.9	4,997.0				11.9	4,891.3	8.7
2/29	16.3	5,003.6				16.3	4,897.9	2.1

*01/05/96 forecast

**Trust funds invested to limit; actual debt at \$4.9 trillion

Scenario III

01/05/96

	<u>Cash*</u>	<u>Debt*</u>	<u>Adjustments</u>	<u>Cash Effect</u>	<u>Debt Effect</u>	<u>Adj. cash</u>	<u>Adj. debt**</u>	<u>DL margin**</u>
3/1	(11.8)	4,984.2	CSRDF adjt; cash mgt bill; unspec'd actions	20.0	12.0	8.2	4,890.5	9.5
3/4	(10.6)	4,985.5				9.4	4,891.8	8.2
3/5	(14.2)	4,985.8				5.8	4,892.1	7.9
3/6	(15.8)	4,982.8				4.2	4,889.1	10.9
3/7	(9.4)	4,983.1	CSRDF adjustment		0.5	10.6	4,889.9	10.1
3/8	(12.2)	4,983.1				7.8	4,889.9	10.1
3/11	(11.3)	4,984.1				8.7	4,890.9	9.1
3/12	(12.6)	4,987.4				7.4	4,894.2	5.8
3/13	(14.1)	4,990.5				5.9	4,897.3	2.7
3/14	(9.3)	4,996.8	unspecified actions		(10.0)	10.7	4,893.6	6.4
3/15	(6.0)	4,999.1				14.0	4,895.9	4.1
3/18	2.7	5,000.3				22.7	4,897.1	2.9
3/19	6.0	5,001.7				26.0	4,898.5	1.5
3/20	5.4	5,003.2				25.4	4,900.0	0.0
3/21	12.8	5,011.1	cmb matures; reduce bill auction	(15.0)	(15.0)	17.8	4,892.9	7.1
3/22	10.7	5,011.0				15.7	4,892.8	7.2
3/25	11.7	5,011.6				16.7	4,893.4	6.6
3/26	10.9	5,014.0				15.9	4,895.8	4.2
3/27	9.9	5,016.9				14.9	4,898.7	1.3
3/28	16.1	5,024.9	reduce bill auction	(7.0)	(7.0)	14.1	4,899.7	0.3
3/29	17.8	5,024.2				15.8	4,899.0	1.0

*01/05/96 forecast

**Trust funds invested to limit; actual debt at \$4.9 trillion

Scenario III

01/05/96

	<u>Cash*</u>	<u>Debt*</u>	<u>Adjustments</u>	<u>Cash Effect</u>	<u>Debt Effect</u>	<u>Adj. cash</u>	<u>Adj. debt**</u>	<u>DL margin**</u>
4/1	5.0	5,020.0	unspecified actions; CSRDF adjustment	20.0	2.0	23.0	4,896.8	3.2
4/2	5.4	5,021.3				23.4	4,898.1	1.9
4/3	(13.2)	5,009.7	cash mgt bill	12.0	12.0	16.8	4,898.5	1.5
4/4	(16.1)	5,008.3				13.9	4,897.1	2.9
4/5	(22.2)	5,008.8	CSRDF adjustment		0.5	7.8	4,898.1	1.9
4/8	(21.4)	5,006.2				8.6	4,895.5	4.5
4/9	(23.6)	5,003.0				6.4	4,892.3	7.7
4/10	(24.7)	5,006.2				5.3	4,895.5	4.5
4/11	(24.3)	5,008.2				5.7	4,897.5	2.5
4/12	(22.8)	5,009.7				7.2	4,899.0	1.0
4/15	(15.3)	5,005.2				14.7	4,894.5	5.5
4/16	3.9	5,007.5				33.9	4,896.8	3.2
4/17	11.4	5,009.8				41.4	4,899.1	0.9
4/18	19.9	5,011.3	cash mgt bill matures	(12.0)	(12.0)	37.9	4,888.6	11.4
4/19	24.4	5,013.2				42.4	4,890.5	9.5
4/22	36.3	5,015.5				54.3	4,892.8	7.2
4/23	44.0	5,017.9				62.0	4,895.2	4.8
4/24	46.5	5,022.4				64.5	4,899.7	0.3
4/25	49.8	5,025.5	reduce bill auction	(10.0)	(10.0)	57.8	4,892.8	7.2
4/26	52.7	5,026.7				60.7	4,894.0	6.0
4/29	56.5	5,028.0				64.5	4,895.3	4.7
4/30	52.4	5,029.9				60.4	4,897.2	2.8

*Q1/05/96 forecast

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Scenario III

01/05/96

	Cash*	Debt*	Adjustments	Cash Effect	Debt Effect	Adj. cash	Adj. debt**	DL margin**
5/1	44.1	5,023.5	CSRDF adjustment		2.0	52.1	4,892.8	7.2
5/2	46.6	5,025.0				54.6	4,894.3	5.7
5/3	28.2	5,011.6				36.2	4,880.9	19.1
5/6	26.9	5,012.4				34.9	4,881.7	18.3
5/7	22.9	5,016.4	CSRDF adjustment		0.5	30.9	4,886.2	13.8
5/8	21.0	5,015.1				29.0	4,884.9	15.1
5/9	20.8	5,011.3				28.8	4,881.1	18.9
5/10	20.2	5,014.1				28.2	4,883.9	16.1
5/13	22.0	5,016.8				30.0	4,886.6	13.4
5/14	21.0	5,019.3				29.0	4,889.1	10.9
5/15	(4.3)	5,025.3	unspecified actions	15.0		18.7	4,895.1	4.9
5/16	(0.7)	5,026.3				22.3	4,896.1	3.9
5/17	(1.6)	5,026.7				21.4	4,896.5	3.5
5/20	(1.3)	5,027.7				21.7	4,897.5	2.5
5/21	(2.9)	5,029.0				20.1	4,898.8	1.2
5/22	(4.8)	5,030.0				18.2	4,899.8	0.2
5/23	(5.5)	5,031.3	reduce bill auction	(8.0)	(8.0)	9.5	4,893.1	6.9
5/24	(7.6)	5,033.0				7.4	4,894.8	5.2
5/27	(7.6)	5,034.1				7.4	4,895.9	4.1
5/28	(6.2)	5,035.7				8.8	4,897.5	2.5
5/29	(6.2)	5,037.7				8.8	4,899.5	0.5
5/30	(8.4)	5,037.4				6.6	4,899.2	0.8
5/31	(18.3)	5,033.0	unspecified actions	10.0		6.7	4,894.8	5.2

*01/05/96 forecast

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Scenario III

01/05/96

	<u>Cash*</u>	<u>Debt*</u>	<u>Adjustments</u>	<u>Cash Effect</u>	<u>Debt Effect</u>	<u>Adj. cash</u>	<u>Adj. debt**</u>	<u>DL margin**</u>
6/3	(40.3)	5,004.5	cash mgt bill; CSRDF adjustment	28.0	29.8	12.7	4,896.1	3.9
6/4	(42.3)	5,006.5				10.7	4,898.1	1.9
6/5	(46.1)	5,008.2				6.9	4,899.8	0.2
6/6	(46.1)	5,004.6				6.9	4,896.2	3.8
6/7	(46.4)	4,999.2				6.6	4,890.8	9.2
6/10	(45.3)	4,999.3				7.7	4,890.9	9.1
6/11	(44.9)	5,001.4				8.1	4,893.0	7.0
6/12	(45.4)	5,004.6				7.6	4,896.2	3.8
6/13	(44.9)	5,006.4				8.1	4,898.0	2.0
6/14	(44.2)	5,006.8				8.8	4,898.4	1.6
6/17	(29.2)	5,008.5	cash mgt bill matures	(12.0)	(12.0)	11.8	4,888.1	11.9
6/18	0.8	5,011.3				41.8	4,890.9	9.1
6/19	8.3	5,014.4				49.3	4,894.0	6.0
6/20	13.3	5,015.6	cash mgt bills matures	(16.0)	(16.0)	38.3	4,879.2	20.8
6/21	15.0	5,017.2				40.0	4,880.8	19.2
6/24	17.9	5,018.8				42.9	4,882.4	17.6
6/25	18.2	5,020.4				43.2	4,884.0	16.0
6/26	18.0	5,024.3				43.0	4,887.9	12.1
6/27	17.2	5,024.2	reduce bill auction	(15.0)	(15.0)	27.2	4,872.8	27.2
6/28	19.2	5,064.1	don't invest CSRF interest payment		(14.0)	29.2	4,898.7	1.3

*01/05/96 forecast

**Trust funds invested to limit; actual debt at \$4.9 trillion

<u>ON</u>	<u>WE NEED</u>	<u>TO GET TO</u>
2/15	35.0	3/1
3/1	10.0	3/14
3/14	10.0	4/1
4/1	20.0	5/15
5/15	15.0	5/31
5/31	<u>10.0</u>	6/28
	100.0	



96-155023

January 18, 1996

ACTION

MEMORANDUM FOR SECRETARY RUBIN

THROUGH: Linda L. Robertson *LLR*
Assistant Secretary
Legislative Affairs and Public Liaison

FROM: Victor A. Rojas *VAR*
Deputy Assistant Secretary
Legislative Affairs and Public Liaison

SUBJECT: Telephone Call to Senate Majority Whip Trent Lott regarding
Possible Senate Action Next Week to Raise the Debt Limit

ACTION FORCING EVENT:

Sen. Trent Lott, Senate Majority Whip, in comments to the press yesterday after a speech to the U.S. Chamber of Commerce, stated that "I personally assume that the Congress will take some action to avoid some sort of debt crisis development in the debt ceiling." Lott went on to say that "I presume we may do something on (the debt limit) next week...[T]here may be a necessity for some conditions in order to move it through the House...I would assume that in the Senate the inclination is going to be to move (the debt limit) in as clean a fashion as possible."

RECOMMENDATION:

Senate - and presumably subsequent House - action on the debt limit next week could significantly impact our strategy for moving forward in our assessment and announcement of options that might carry us through February. We strongly recommend that you call Majority Whip Lott this afternoon before you depart for the G-7 meetings to ask him directly his assessment of what - if anything - is likely to occur next week regarding Senate action on the debt limit.

Agree: _____ Disagree: _____ Let's Discuss _____

TELEPHONE CALL TO SENATE MAJORITY WHIP TRENT LOTT REGARDING
POSSIBLE SENATE ACTION NEXT WEEK TO RAISE THE DEBT LIMIT

- I read with great interest your comments to the press yesterday suggesting that the Senate might act next week to raise the debt limit.
- Any action which the Congress might take next week to raise the debt limit would be - as you can well imagine - of significant importance to us and we continue to work our way through this problem.
- To this end, I would appreciate anything that you could tell me - going beyond your comments of yesterday - regarding the possibility of Congressional action on the debt limit next week.
- As I am certain you are aware, we continue to believe that it is of the utmost importance that Congress pass a clean debt limit extension, to disentangle the debt limit from the budget process once and for all.
- As we go forward (beyond February), it becomes increasingly difficult to avoid default. However, we remain committed to take whatever future steps are lawful to avert default.
 - We are currently studying various options, but as we go forward, these options become increasingly limited.
- Moreover, as we depart further and further from our regular finance methods, the U.S. Treasury Department becomes an increasing subject of concern for outsiders.
 - Standard and Poors, ICBA, and officials in both Brazil and Argentina have recently expressed concerns about this.
- I appreciate your taking the time to talk and I look forward to the resolution of this matter.



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON

January 21, 1996

INFORMATION

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MEMORANDUM FOR SECRETARY RUBIN

THROUGH: John D. Hawke, Jr. *JDH*
Under Secretary for Domestic Finance

FROM: Darcy Bradbury *DB*
Assistant Secretary
Financial Markets

Roger L. Anderson *RLA*
Senior Advisor
Federal Finance

SUBJECT: Debt Limit Scenario

We have updated our latest scenario to estimate 1) when various actions would have to be taken both to stay under the debt limit and to maintain adequate cash balances and 2) how long such actions would take us.

We have also updated the graph of cumulative new actions needed.

These estimates are based on the assumptions in the daily cashflow and show adjustments only when the assumptions differ.

These estimates, of course, vary daily.

Finally, we have updated the graph showing the amounts in the G-Fund and the CSRDF not invested on a daily basis since November 15.

ATTACHMENT: Tab 1: Debt Limit Scenario
Tab 2: Cumulative New Actions Needed
Tab 3: Amounts Uninvested

CLOSE HOLD

ASSISTANT SECRETARY

	<u>Cash*</u>	<u>Debt*</u>	<u>Adjustments</u>	<u>Cash Effect</u>	<u>Debt Effect</u>	<u>Adj. cash</u>	<u>Adj. debt**</u>	<u>DL margin**</u>
1/1	20.5	4,962.8				20.5	4,887.4	12.6
1/2	24.2	4,966.2	CSRDF adjustment		1.7	24.2	4,892.5	7.5
1/3	14.5	4,952.3				14.5	4,878.6	21.4
1/4	12.1	4,955.2				12.1	4,881.5	18.5
1/5	11.5	4,958.8				11.5	4,885.1	14.9
1/8	13.0	4,959.1				13.0	4,885.4	14.6
1/9	14.8	4,959.2				14.8	4,885.5	14.5
1/10	14.3	4,959.2				14.3	4,885.5	14.5
1/11	15.4	4,959.2				15.4	4,885.5	14.5
1/12	14.4	4,957.3	CSRDF adjustment		0.5	14.4	4,884.1	15.9
1/15	14.4	4,957.3				14.4	4,884.1	15.9
1/16	11.8	4,953.1				11.8	4,879.9	20.1
1/17	23.4	4,958.7				23.4	4,885.5	14.5
1/18	22.3	4,958.6				22.3	4,885.4	14.6
1/19	26.2	4,960.6				26.2	4,887.4	12.6
1/22	33.9	4,962.4				33.9	4,889.2	10.8
1/23	38.4	4,965.2				38.4	4,892.0	8.0
1/24	39.9	4,966.7				39.9	4,893.5	6.5
1/25	36.9	4,962.3				36.9	4,889.1	10.9
1/26	36.2	4,964.6				36.2	4,891.4	8.6
1/29	38.2	4,965.8				38.2	4,892.6	7.4
1/30	38.5	4,965.6				38.5	4,892.4	7.6
1/31	36.9	4,966.5				36.9	4,893.3	6.7

*01/20/96 forecast

**Trust funds invested to limit; actual debt at \$4.9 trillion

	<u>Cash*</u>	<u>Debt*</u>	<u>Adjustments</u>	<u>Cash Effect</u>	<u>Debt Effect</u>	<u>Adj. cash</u>	<u>Adj. debt**</u>	<u>DL margin**</u>
2/1	33.6	4,965.7	CSRDF adjustment		1.7	33.6	4,894.2	5.8
2/2	17.3	4,956.2				17.3	4,884.7	15.3
2/5	14.8	4,957.7				14.8	4,886.2	13.8
2/6	12.7	4,959.1				12.7	4,887.6	12.4
2/7	10.9	4,957.0	CSRDF adjustment		0.1	10.9	4,885.6	14.4
2/8	14.1	4,953.6	CSRDF adjustment		0.3	14.1	4,882.5	17.5
2/9	9.4	4,953.8				9.4	4,882.7	17.3
2/12	8.3	4,956.3				8.3	4,885.2	14.8
2/13	7.3	4,957.8				7.3	4,886.7	13.3
2/14	7.1	4,958.7				7.1	4,887.6	12.4
2/15	8.0	4,985.3	cut bills; extraordinary actions	(2.4)	(27.4)	5.6	4,886.8	13.2
2/16	9.5	4,986.3				7.1	4,887.8	12.2
2/19	9.5	4,986.3				7.1	4,887.8	12.2
2/20	12.6	4,987.7				10.2	4,889.2	10.8
2/21	13.6	4,989.6				11.2	4,891.1	8.9
2/22	10.7	4,989.1				8.3	4,890.6	9.4
2/23	9.0	4,989.0				6.6	4,890.5	9.5
2/26	8.6	4,989.9				6.2	4,891.4	8.6
2/27	7.7	4,993.5				5.3	4,895.0	5.0
2/28	7.3	4,994.7				4.9	4,896.2	3.8
2/29	7.5	4,998.2				5.1	4,899.7	0.3

*01/20/96 forecast

**Trust funds invested to limit; actual debt at \$4.9 trillion

	<u>Cash*</u>	<u>Debt*</u>	<u>Adjustments</u>	<u>Cash Effect</u>	<u>Debt Effect</u>	<u>Adj. cash</u>	<u>Adj. debt**</u>	<u>DL margin**</u>
3/1	11.4	5,013.8	CSRDF adjustment; extraordinary actions		(22.3)	9.0	4,893.0	7.0
3/4	12.6	5,015.1				10.2	4,894.3	5.7
3/5	9.0	5,015.4				6.6	4,894.6	5.4
3/6	7.4	5,012.4				5.0	4,891.6	8.4
3/7	13.3	5,012.2	CSRDF adjustment		0.1	10.9	4,891.5	8.5
3/8	10.5	5,012.2	CSRDF adjustment		0.3	8.1	4,891.8	8.2
3/11	11.4	5,013.2				9.0	4,892.8	7.2
3/12	10.1	5,016.5				7.7	4,896.1	3.9
3/13	8.6	5,019.6				6.2	4,899.2	0.8
3/14	13.4	5,025.9	extraordinary actions		(13.0)	11.0	4,892.5	7.5
3/15	16.7	5,028.2				14.3	4,894.8	5.2
3/18	25.4	5,029.4				23.0	4,896.0	4.0
3/19	28.7	5,030.8				26.3	4,897.4	2.6
3/20	28.1	5,032.3				25.7	4,898.9	1.1
3/21	10.4	5,015.1				8.0	4,881.7	18.3
3/22	8.3	5,015.0				5.9	4,881.6	18.4
3/25	9.3	5,015.6				6.9	4,882.2	17.8
3/26	8.5	5,018.0				6.1	4,884.6	15.4
3/27	7.5	5,020.9				5.1	4,887.5	12.5
3/28	7.6	5,022.9				5.2	4,889.5	10.5
3/29	9.3	5,022.2				6.9	4,888.8	11.2

	<u>Cash*</u>	<u>Debt*</u>	<u>Adjustments</u>	<u>Cash Effect</u>	<u>Debt Effect</u>	<u>Adj. cash</u>	<u>Adj. debt**</u>	<u>DL margin**</u>
4/1	8.2	5,029.8	CSRDF adjustment; extraordinary actions		(20.3)	5.8	4,876.1	23.9
4/2	8.6	5,031.1				6.2	4,877.4	22.6
4/3	19.9	5,052.6				17.5	4,898.9	1.1
4/4	16.9	5,050.9				14.5	4,897.2	2.8
4/5	10.8	5,051.4	CSRDF adjustment		0.1	8.4	4,897.8	2.2
4/8	11.6	5,048.8	CSRDF adjustment		0.3	9.2	4,895.5	4.5
4/9	9.4	5,045.6				7.0	4,892.3	7.7
4/10	8.3	5,048.8				5.9	4,895.5	4.5
4/11	8.6	5,050.7				6.2	4,897.4	2.6
4/12	10.1	5,052.2				7.7	4,898.9	1.1
4/15	17.6	5,047.7				15.2	4,894.4	5.6
4/16	36.8	5,050.0				34.4	4,896.7	3.3
4/17	44.3	5,052.3				41.9	4,899.0	1.0
4/18	11.3	5,012.2				8.9	4,858.9	41.1
4/19	15.8	5,014.1				13.4	4,860.8	39.2
4/22	27.7	5,016.4				25.3	4,863.1	36.9
4/23	35.4	5,018.8				33.0	4,865.5	34.5
4/24	37.9	5,023.3				35.5	4,870.0	30.0
4/25	28.6	5,013.9				26.2	4,860.6	39.4
4/26	31.5	5,015.1				29.1	4,861.8	38.2
4/29	35.3	5,016.4				32.9	4,863.1	36.9
4/30	35.9	5,023.6				33.5	4,870.3	29.7

*01/20/96 forecast

**Trust funds invested to limit; actual debt at \$4.9 trillion

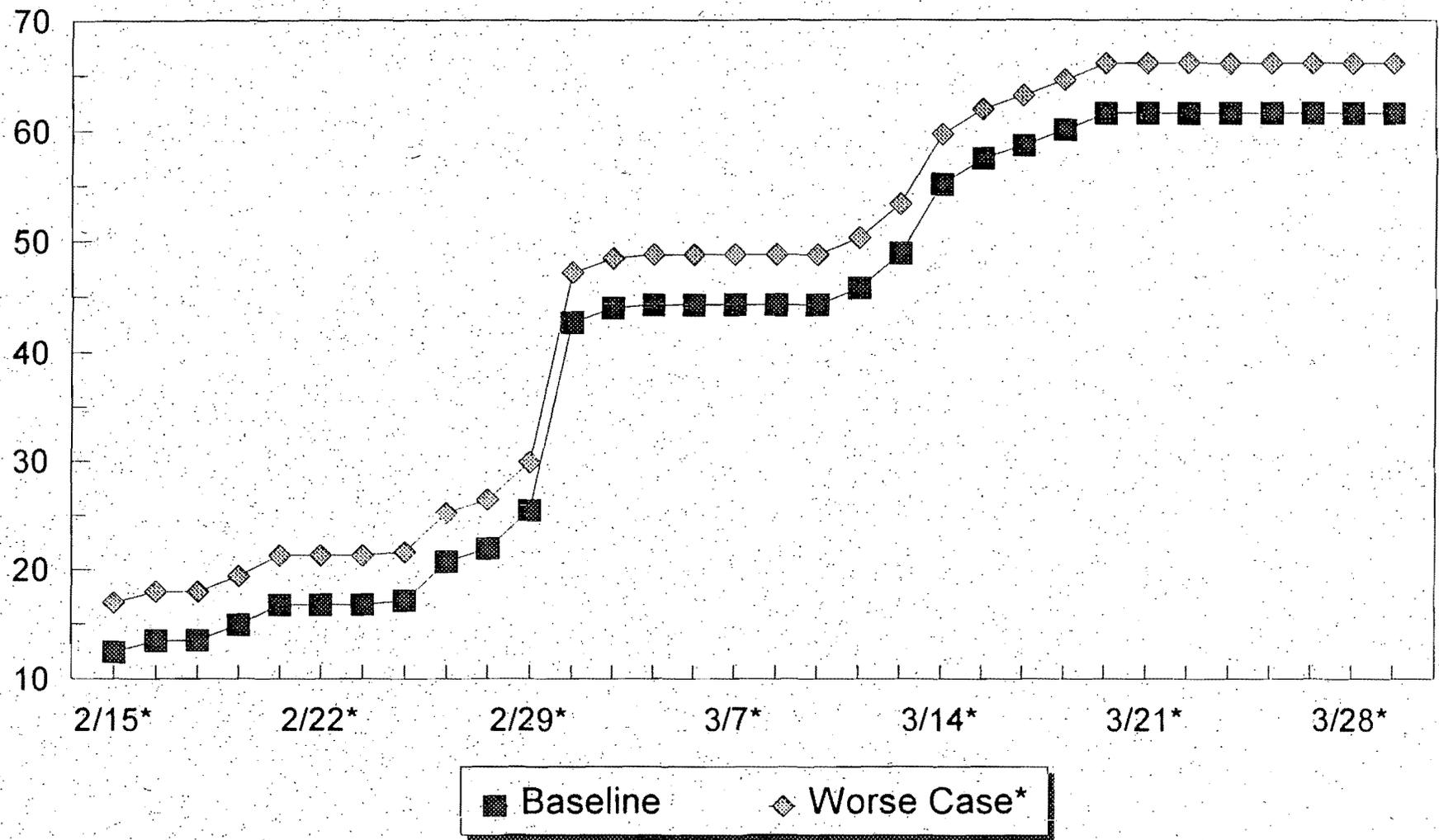
	<u>Cash*</u>	<u>Debt*</u>	<u>Adjustments</u>	<u>Cash Effect</u>	<u>Debt Effect</u>	<u>Adj. cash</u>	<u>Adj. debt**</u>	<u>DL margin**</u>
5/1	27.6	5,017.2	CSRDF adjustment		1.7	25.2	4,865.6	34.4
5/2	27.6	5,016.3				25.2	4,864.7	35.3
5/3	9.2	5,005.9				6.8	4,854.3	45.7
5/6	7.9	5,006.7				5.5	4,855.1	44.9
5/7	11.9	5,018.8	CSRDF adjustment		0.1	9.5	4,867.3	32.7
5/8	10.0	5,017.5	CSRDF adjustment		0.3	7.6	4,866.3	33.7
5/9	11.4	5,015.3				9.0	4,864.1	35.9
5/10	10.8	5,018.1				8.4	4,866.9	33.1
5/13	12.6	5,020.8				10.2	4,869.6	30.4
5/14	11.6	5,023.3				9.2	4,872.1	27.9
5/15	19.3	5,062.3	cut bills; extraordinary actions		(26.0)	16.9	4,885.1	14.9
5/16	23.7	5,063.2				21.3	4,886.0	14.0
5/17	22.8	5,063.6				20.4	4,886.4	13.6
5/20	23.1	5,064.6				20.7	4,887.4	12.6
5/21	21.5	5,065.9				19.1	4,888.7	11.3
5/22	19.6	5,066.9				17.2	4,889.7	10.3
5/23	18.9	5,068.3				16.5	4,891.1	8.9
5/24	16.8	5,070.0				14.4	4,892.8	7.2
5/27	16.8	5,071.1				14.4	4,893.9	6.1
5/28	18.2	5,072.7				15.8	4,895.5	4.5
5/29	18.2	5,074.7				15.8	4,897.5	2.5
5/30	18.1	5,076.3	cut bill auction	(3.0)	(3.0)	12.7	4,896.1	3.9
5/31	12.0	5,075.8				6.6	4,895.6	4.4

	<u>Cash*</u>	<u>Debt*</u>	<u>Adjustments</u>	<u>Cash Effect</u>	<u>Debt Effect</u>	<u>Adj. cash</u>	<u>Adj. debt**</u>	<u>DL margin**</u>
6/3	17.0	5,077.3	CSRDF adjustment		1.7	11.6	4,898.8	1.2
6/4	15.0	5,079.3	cut bills; extraordinary actions		(5.0)	9.6	4,895.8	4.2
6/5	11.2	5,081.0				5.8	4,897.5	2.5
6/6	11.2	5,077.4				5.8	4,893.9	6.1
6/7	10.9	5,072.0	CSRDF adjustment		0.1	5.5	4,888.6	11.4
6/10	12.0	5,072.1	CSRDF adjustment		0.3	6.6	4,889.0	11.0
6/11	12.4	5,074.2				7.0	4,891.1	8.9
6/12	11.9	5,077.4				6.5	4,894.3	5.7
6/13	12.3	5,079.2				6.9	4,896.1	3.9
6/14	13.0	5,079.6				7.6	4,896.5	3.5
6/17	28.0	5,081.3				22.6	4,898.2	1.8
6/18	31.1	5,057.1				25.7	4,874.0	26.0
6/19	38.6	5,060.2				33.2	4,877.1	22.9
6/20	10.6	5,028.3				5.2	4,845.2	54.8
6/21	12.3	5,029.9				6.9	4,846.8	53.2
6/24	15.2	5,031.5				9.8	4,848.4	51.6
6/25	15.5	5,033.1				10.1	4,850.0	50.0
6/26	15.3	5,037.0				9.9	4,853.9	46.1
6/27	15.3	5,037.9				9.9	4,854.8	45.2
6/28	17.4	5,077.7	don't invest CSRF interest payment		(14.0)	12.0	4,880.6	19.4

*01/20/96 forecast

**Trust funds invested to limit; actual debt at \$4.9 trillion

Cumulative New Actions Needed

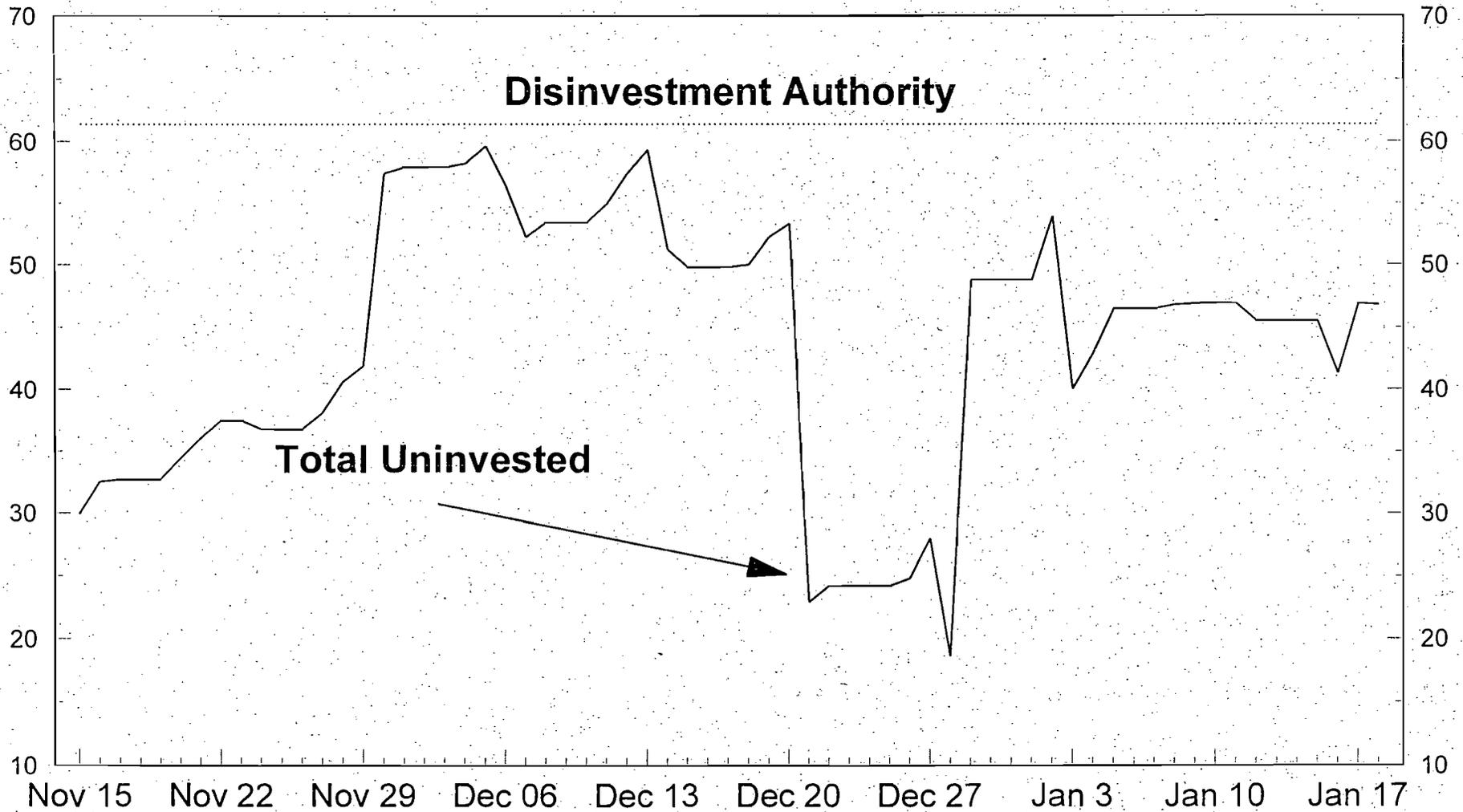


*Assumes increase in outlays

Cumulative New Actions Needed

<u>Date</u>	<u>Baseline</u>	<u>Worse Case</u>
2/15*	12.5	17.0
2/16	13.5	18.0
2/19	13.5	18.0
2/20	14.9	19.4
2/21	16.8	21.3
2/22*	16.8	21.3
2/23	16.8	21.3
2/26	17.1	21.6
2/27	20.7	25.2
2/28	21.9	26.4
2/29*	25.4	29.9
3/1*	42.7	47.2
3/4	44.0	48.5
3/5	44.3	48.8
3/6	44.3	48.8
3/7*	44.3	48.8
3/8	44.3	48.8
3/11	44.3	48.8
3/12	45.8	50.3
3/13	48.9	53.4
3/14*	55.2	59.7
3/15	57.5	62.0
3/18	58.7	63.2
3/19	60.1	64.6
3/20	61.6	66.1
3/21*	61.6	66.1
3/22	61.6	66.1
3/25	61.6	66.1
3/26	61.6	66.1
3/27	61.6	66.1
3/28*	61.6	66.1
3/29	61.6	66.1

Adjustments of Trust Fund Investments * (\$ Billions)



* Excludes noninvestment of \$14 billion interest payment to CSRDF on December 29.

TREASURY CLEARANCE SHEET

NO. _____
Date 1/19/96

MEMORANDUM FOR: SECRETARY DEPUTY SECRETARY EXECUTIVE SECRETARY
 ACTION BRIEFING INFORMATION LEGISLATION
 PRESS RELEASE PUBLICATION REGULATION SPEECH
 TESTIMONY OTHER _____

FROM: Darcy Bradbury Assistant Secretary (Financial Markets)

THROUGH: John D. Hawke, Jr. *JDH*

SUBJECT: Debt Limit Scenario

REVIEW OFFICES (Check when office clears)

CLOSE HOLD

- Under Secretary for Finance
 - Domestic Finance
 - Economic Policy
 - Fiscal
 - FMS
 - Public Debt
- Under Secretary for International Affairs
 - International Affairs
- Enforcement
 - ATF
 - Customs
 - FLETC
 - Secret Service
 - General Counsel
 - Inspector General
 - IRS
 - Legislative Affairs
 - Management
 - OCC
- Policy Management
 - Scheduling
 - Public Affairs/Liaison
 - Tax Policy
 - Treasurer
 - E & P
 - Mint
 - Savings Bonds
 - Other _____

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S) R. Anderson	RA	1/20	Federal Finance	2-2640
REVIEWERS				

NCC to PER (JBN)
 NCC cc to LS
 NCC cc to JBN
 1/22/96
 SMT
 MB
 SD

SPECIAL INSTRUCTIONS

CLOSE HOLD



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

January 22, 1996

The Honorable Newt Gingrich
Speaker
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

As I stated in my testimony before the House Banking Committee on December 13, the ability of the Department of the Treasury to continue to finance the operations of the Government without an increase in the debt limit is limited. I also stated that when we approached the next critical date relating to our ability to finance the Government's operations, I would provide Congress and the American people with information as to whether we could get beyond that date, and, if so, how.

I have now concluded that either February 29 or March 1 is the date on which Treasury will no longer be able to fulfill all of its financial obligations without legislation increasing the statutory debt limit. On February 29, an interest payment of \$5.8 billion is due. On March 1, over \$30 billion of payments are due including Social Security, Veterans, Railroad Retirement, Civil Service Retirement, military retirement, and other benefits, certain Medicare and low income housing payments, and military active duty pay. I detail below the extraordinary actions I can take to provide sufficient debt limit room prior to those dates. Beyond these actions, there are no legal and prudent options I am able or willing to take. I want to urge in the strongest terms that Congress take action this week to enact a clean debt limit increase.

If we were not to take any extraordinary actions, we would not have sufficient leeway under the debt limit to raise the cash needed to pay bills on February 15. In the absence of such actions, the United States would default on its debt on February 15 for the first time in the Nation's history. However, I have repeatedly said that default is unthinkable, and I do not believe Congress will let it happen. In letters to Congress, I have always said that I will take whatever legal and practical steps I can take to avoid default.

There are several steps that I believe are both legal and prudent to take to avoid a default on February 15 if Congress does not increase the debt limit before then:

- First, I will suspend the re-investment of the approximately \$3.9 billion of Treasury securities held by the Exchange Stabilization Fund (ESF). These securities will equal the amount of the ESF's holdings of dollars, and the ESF will be given a credit balance in that amount. This is an action that several Treasury Secretaries prior to me have been forced to take.

- Second, the Federal Financing Bank (FFB), as permitted by its statutes, will exchange approximately \$9 billion of the assets held in its portfolio, consisting of debt obligations of various federal agencies, for an equivalent amount of Treasury securities held by certain government trust funds. FFB will, in turn, reduce its own indebtedness to the Treasury by transferring such securities to Treasury, which will in turn cancel these securities.
- Third, based on current circumstances, I will amend my November 15 determination of a 12-month debt issuance suspension period to extend that period by another two months, to 14 months. This action is consistent with the earlier opinions given to me and represents the maximum term permissible under these circumstances. This action will permit the redemption of approximately \$6.4 billion in additional Treasury debt held by the Civil Service Retirement and Disability Fund (CSRDF).

We estimate that these actions will enable us to finance Government operations into the last week of February -- although I caution that our present projections are subject to change as our information on cash flows is updated daily. The recent Government shutdown and extreme weather conditions have affected both revenues and outlays.

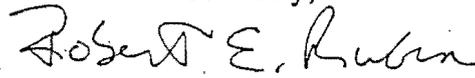
These actions may not create sufficient debt limit room to enable us to make the \$5.8 billion interest payment on February 29, and in no case will they create sufficient debt limit room to enable us to raise enough cash to make the \$30 billion of benefit and other payments due on March 1.

I want to emphasize that we will have no other options that are both legal and prudent. While a variety of possible additional actions have been mentioned in the press, there are no other actions that we will be able or willing to take. Some of these suggested actions are beyond our legal authority. Others, such as delaying tax refunds to American taxpayers and selling the Nation's gold reserves are completely unacceptable, particularly in light of the fact that Congress clearly has the power to ensure that the government will meet its obligations by assuming its responsibility to increase the debt limit. Tens of millions of Americans count on the Department of the Treasury to make prompt payments to them of tax refunds to which they are entitled, and it would create enormous hardship to delay these payments. Further, as Secretary Baker wrote to Congress in 1985, it would undercut confidence in our Government both here and abroad if we were to consider selling the Nation's gold.

The actions I am announcing today are all fully authorized and have been concurred in by my General Counsel and the Office of Legal Counsel at the Department of Justice. These actions will be unnecessary if Congress increases the debt limit prior to February 15. As I have repeatedly said, this is no way to run the finances of a great nation. We need a clean increase in the debt limit in order to stop putting unnecessary costs on the American taxpayers, to avoid the uncertainty in the financial markets that will surface as we get closer to March 1, and to concentrate on the critical task of balancing the budget. Failing to increase the debt limit does not reduce the deficit by one cent. The Nation's creditworthiness is critical to all of us and should be off the table with respect to the budget process.

I again urge Congress to pass a clean increase in the debt limit this week. We will of course be most eager to work with you to craft an agreeable bill.

Sincerely,

A handwritten signature in cursive script that reads "Robert E. Rubin".

Robert E. Rubin

cc: Congressional Leadership
Committee Chairmen
Ranking Members



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

January 22, 1996

The Honorable Thomas A. Daschle
Democratic Leader
United States Senate
Washington, D.C. 20510

Dear Mr. Leader:

As I stated in my testimony before the House Banking Committee on December 13, the ability of the Department of the Treasury to continue to finance the operations of the Government without an increase in the debt limit is limited. I also stated that when we approached the next critical date relating to our ability to finance the Government's operations, I would provide Congress and the American people with information as to whether we could get beyond that date, and, if so, how.

I have now concluded that either February 29 or March 1 is the date on which Treasury will no longer be able to fulfill all of its financial obligations without legislation increasing the statutory debt limit. On February 29, an interest payment of \$5.8 billion is due. On March 1, over \$30 billion of payments are due including Social Security, Veterans, Railroad Retirement, Civil Service Retirement, military retirement, and other benefits, certain Medicare and low income housing payments, and military active duty pay. I detail below the extraordinary actions I can take to provide sufficient debt limit room prior to those dates. Beyond these actions, there are no legal and prudent options I am able or willing to take. I want to urge in the strongest terms that Congress take action this week to enact a clean debt limit increase.

If we were not to take any extraordinary actions, we would not have sufficient leeway under the debt limit to raise the cash needed to pay bills on February 15. In the absence of such actions, the United States would default on its debt on February 15 for the first time in the Nation's history. However, I have repeatedly said that default is unthinkable, and I do not believe Congress will let it happen. In letters to Congress, I have always said that I will take whatever legal and practical steps I can take to avoid default.

There are several steps that I believe are both legal and prudent to take to avoid a default on February 15 if Congress does not increase the debt limit before then:

- First, I will suspend the re-investment of the approximately \$3.9 billion of Treasury securities held by the Exchange Stabilization Fund (ESF). These securities will equal the amount of the ESF's holdings of dollars, and the ESF will be given a credit

balance in that amount. This is an action that several Treasury Secretaries prior to me have been forced to take.

- Second, the Federal Financing Bank (FFB), as permitted by its statutes, will exchange approximately \$9 billion of the assets held in its portfolio, consisting of debt obligations of various federal agencies, for an equivalent amount of Treasury securities held by certain government trust funds. FFB will, in turn, reduce its own indebtedness to the Treasury by transferring such securities to Treasury, which will in turn cancel these securities.
- Third, based on current circumstances, I will amend my November 15 determination of a 12-month debt issuance suspension period to extend that period by another two months, to 14 months. This action is consistent with the earlier opinions given to me and represents the maximum term permissible under these circumstances. This action will permit the redemption of approximately \$6.4 billion in additional Treasury debt held by the Civil Service Retirement and Disability Fund (CSRDF).

We estimate that these actions will enable us to finance Government operations into the last week of February -- although I caution that our present projections are subject to change as our information on cash flows is updated daily. The recent Government shutdown and extreme weather conditions have affected both revenues and outlays.

These actions may not create sufficient debt limit room to enable us to make the \$5.8 billion interest payment on February 29, and in no case will they create sufficient debt limit room to enable us to raise enough cash to make the \$30 billion of benefit and other payments due on March 1.

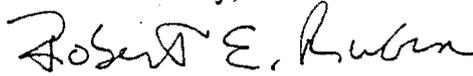
I want to emphasize that we will have no other options that are both legal and prudent. While a variety of possible additional actions have been mentioned in the press, there are no other actions that we will be able or willing to take. Some of these suggested actions are beyond our legal authority. Others, such as delaying tax refunds to American taxpayers and selling the Nation's gold reserves are completely unacceptable, particularly in light of the fact that Congress clearly has the power to ensure that the government will meet its obligations by assuming its responsibility to increase the debt limit. Tens of millions of Americans count on the Department of the Treasury to make prompt payments to them of tax refunds to which they are entitled, and it would create enormous hardship to delay these payments. Further, as Secretary Baker wrote to Congress in 1985, it would undercut confidence in our Government both here and abroad if we were to consider selling the Nation's gold.

The actions I am announcing today are all fully authorized and have been concurred in by my General Counsel and the Office of Legal Counsel at the Department of Justice. These actions will be unnecessary if Congress increases the debt limit prior to February 15. As I have repeatedly said, this is no way to run the finances of a great nation. We need a clean increase in the debt limit in order to stop putting unnecessary costs on the American taxpayers, to avoid the uncertainty in the financial markets that will surface as we get closer

to March 1, and to concentrate on the critical task of balancing the budget. Failing to increase the debt limit does not reduce the deficit by one cent. The Nation's creditworthiness is critical to all of us and should be off the table with respect to the budget process.

I again urge Congress to pass a clean increase in the debt limit this week. We will of course be most eager to work with you to craft an agreeable bill.

Sincerely,

A handwritten signature in cursive script that reads "Robert E. Rubin".

Robert E. Rubin

cc: Congressional Leadership
Committee Chairmen
Ranking Members



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

January 22, 1996

The Honorable Richard A. Gephardt
Minority Leader
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Leader:

As I stated in my testimony before the House Banking Committee on December 13, the ability of the Department of the Treasury to continue to finance the operations of the Government without an increase in the debt limit is limited. I also stated that when we approached the next critical date relating to our ability to finance the Government's operations, I would provide Congress and the American people with information as to whether we could get beyond that date, and, if so, how.

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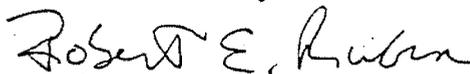
I want to emphasize that we will have no other options that are both legal and prudent. While a variety of possible additional actions have been mentioned in the press, there are no other actions that we will be able or willing to take. Some of these suggested actions are beyond our legal authority. Others, such as delaying tax refunds to American taxpayers and selling the Nation's gold reserves are completely unacceptable, particularly in light of the fact that Congress clearly has the power to ensure that the government will meet its obligations by assuming its responsibility to increase the debt limit. Tens of millions of Americans count on the Department of the Treasury to make prompt payments to them of tax refunds to which they are entitled, and it would create enormous hardship to delay these payments. Further, as Secretary Baker wrote to Congress in 1985, it would undercut confidence in our Government both here and abroad if we were to consider selling the Nation's gold.

The actions I am announcing today are all fully authorized and have been concurred in by my General Counsel and the Office of Legal Counsel at the Department of Justice. These actions will be unnecessary if Congress increases the debt limit prior to February 15. As I have repeatedly said, this is no way to run the finances of a great nation. We need a clean increase in the debt limit in order to stop putting unnecessary costs on the American taxpayers, to avoid the uncertainty in the financial markets that will surface as we get closer

to March 1, and to concentrate on the critical task of balancing the budget. Failing to increase the debt limit does not reduce the deficit by one cent. The Nation's creditworthiness is critical to all of us and should be off the table with respect to the budget process.

I again urge Congress to pass a clean increase in the debt limit this week. We will of course be most eager to work with you to craft an agreeable bill.

Sincerely,

A handwritten signature in cursive script that reads "Robert E. Rubin".

Robert E. Rubin

cc: Congressional Leadership
Committee Chairmen
Ranking Members



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

January 22, 1996

The Honorable Robert Dole
Majority Leader
United States Senate
Washington, D.C. 20510

Dear Mr. Leader:

As I stated in my testimony before the House Banking Committee on December 13, the ability of the Department of the Treasury to continue to finance the operations of the Government without an increase in the debt limit is limited. I also stated that when we approached the next critical date relating to our ability to finance the Government's operations, I would provide Congress and the American people with information as to whether we could get beyond that date, and, if so, how.

I have now concluded that either February 29 or March 1 is the date on which Treasury will no longer be able to fulfill all of its financial obligations without legislation increasing the statutory debt limit. On February 29, an interest payment of \$5.8 billion is due. On March 1, over \$30 billion of payments are due including Social Security, Veterans, Railroad Retirement, Civil Service Retirement, military retirement, and other benefits, certain Medicare and low income housing payments, and military active duty pay. I detail below the extraordinary actions I can take to provide sufficient debt limit room prior to those dates. Beyond these actions, there are no legal and prudent options I am able or willing to take. I want to urge in the strongest terms that Congress take action this week to enact a clean debt limit increase.

If we were not to take any extraordinary actions, we would not have sufficient leeway under the debt limit to raise the cash needed to pay bills on February 15. In the absence of such actions, the United States would default on its debt on February 15 for the first time in the Nation's history. However, I have repeatedly said that default is unthinkable, and I do not believe Congress will let it happen. In letters to Congress, I have always said that I will take whatever legal and practical steps I can take to avoid default.

There are several steps that I believe are both legal and prudent to take to avoid a default on February 15 if Congress does not increase the debt limit before then:

- First, I will suspend the re-investment of the approximately \$3.9 billion of Treasury securities held by the Exchange Stabilization Fund (ESF). These securities will equal the amount of the ESF's holdings of dollars, and the ESF will be given a credit

balance in that amount. This is an action that several Treasury Secretaries prior to me have been forced to take.

- Second, the Federal Financing Bank (FFB), as permitted by its statutes, will exchange approximately \$9 billion of the assets held in its portfolio, consisting of debt obligations of various federal agencies, for an equivalent amount of Treasury securities held by certain government trust funds. FFB will, in turn, reduce its own indebtedness to the Treasury by transferring such securities to Treasury, which will in turn cancel these securities.
- Third, based on current circumstances, I will amend my November 15 determination of a 12-month debt issuance suspension period to extend that period by another two months, to 14 months. This action is consistent with the earlier opinions given to me and represents the maximum term permissible under these circumstances. This action will permit the redemption of approximately \$6.4 billion in additional Treasury debt held by the Civil Service Retirement and Disability Fund (CSRDF).

We estimate that these actions will enable us to finance Government operations into the last week of February -- although I caution that our present projections are subject to change as our information on cash flows is updated daily. The recent Government shutdown and extreme weather conditions have affected both revenues and outlays.

These actions may not create sufficient debt limit room to enable us to make the \$5.8 billion interest payment on February 29, and in no case will they create sufficient debt limit room to enable us to raise enough cash to make the \$30 billion of benefit and other payments due on March 1.

I want to emphasize that we will have no other options that are both legal and prudent. While a variety of possible additional actions have been mentioned in the press, there are no other actions that we will be able or willing to take. Some of these suggested actions are beyond our legal authority. Others, such as delaying tax refunds to American taxpayers and selling the Nation's gold reserves are completely unacceptable, particularly in light of the fact that Congress clearly has the power to ensure that the government will meet its obligations by assuming its responsibility to increase the debt limit. Tens of millions of Americans count on the Department of the Treasury to make prompt payments to them of tax refunds to which they are entitled, and it would create enormous hardship to delay these payments. Further, as Secretary Baker wrote to Congress in 1985, it would undercut confidence in our Government both here and abroad if we were to consider selling the Nation's gold.

The actions I am announcing today are all fully authorized and have been concurred in by my General Counsel and the Office of Legal Counsel at the Department of Justice. These actions will be unnecessary if Congress increases the debt limit prior to February 15. As I have repeatedly said, this is no way to run the finances of a great nation. We need a clean increase in the debt limit in order to stop putting unnecessary costs on the American taxpayers, to avoid the uncertainty in the financial markets that will surface as we get closer

96 159508

January 23, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: Robert E. Rubin

SUBJECT: Telephone Call to Newt Gingrich to Discuss Debt Limit Deadline

Yesterday, I notified Congress that by February 29th or March 1st we will not longer be able to meet all of our financial obligations without a debt limit increase. The Leadership has responded by saying it will not move legislation without hearing from you. Rather than permitting a procedural hang-up to cloud this issue, I request a brief telephone call to Speaker Gingrich simply advancing your request for a clean debt limit. This call should be brief and it should not be used to negotiate details of this legislation.

Debt Limit Discussion

- Working hard on State of the Union Address, so I won't take much of your time.
- As you know, Secretary Rubin has concluded that on February 29th or March 1st Treasury will no longer be able to meet all of its financial obligations without a debt limit increase. Just to get to that date he has to take three additional extraordinary actions -- the last ones he has remaining. Congressional enactment of a clean debt limit extension this week would make these actions unnecessary.
- After we take these three steps, we will have no other legal and prudent options remaining.
 - While other possible actions have been mentioned in the press [e.g. selling gold or delaying tax refunds], there are no other actions that we will be able or willing to take.
- Come March 1, without a debt limit increase, we will not be able to pay Social Security, Railroad Retirement, Civil Service Retirement, military retirement, veterans' and other benefits, at least for several months.
- Congress should pass a debt limit increase now, to:
 - avoid the uncertainty in the financial markets that will surface as we get closer to March 1, and;
 - concentrate on the critical task of balancing the budget.
- I look forward to seeing you tonight. Good-bye.



DEPARTMENT OF THE TREASURY
WASHINGTON

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155007
X

GENERAL COUNSEL

February 6, 1996

MEMORANDUM TO SECRETARY RUBIN

INFORMATION

FROM:

EDWARD S. KNIGHT

Edward S. Knight

SUBJECT: Authority of the Secretary to Suspend Reinvestment of Exchange Stabilization Fund Investments in Treasury Obligations

You have requested my opinion regarding your authority to suspend reinvestment of Exchange Stabilization Fund ("ESF") dollar amounts invested in Treasury debt instruments. For the reasons set out below, I conclude that you have the authority to refrain from reinvesting ESF dollars in Treasury obligations. Indeed, in the present debt limit impasse, refraining from reinvesting these ESF dollars, and thereby reducing the risk of imminent default by the United States, is consistent with the statutory purpose of the ESF: that it be a means by which the Secretary can promote orderly exchange arrangements and a stable system of exchange rates.

First, the language of the ESF statute, 31 U.S.C. § 5302, grants you considerable discretion to manage the ESF. The explicit statutory authority includes discretion to invest ESF funds so long as those funds are not needed for the specific purposes listed in the ESF statute. The statute also implicitly authorizes you to refrain from investing some or all of such "extra" funds. The structure of the present ESF investment system supports this reading of the statute. Moreover, there is ample precedent for, and presumptive legislative assent to, such action: the Secretary has exercised his authority to disinvest or suspend ESF dollar investments on at least nine previous occasions over three decades, precisely for debt limit management purposes, yet no legislation abridging that authority has ever been enacted.

I. The ESF Statute Permits the Secretary to Invest ESF Monies, but Does Not Require Him to Do So.

The statute establishing the ESF provides in relevant part:

The Department of the Treasury has a stabilization fund. The fund is available to carry out this section, . . . and for investing in obligations of the United States Government those amounts in the fund the Secretary of the Treasury, with the approval of the President, decides are not required at the time to carry out this section. . . .

EXECUTIVE SECRETARIAT

31 U.S.C. § 5302(a)(1).

The plain language of the statute expressly gives the Secretary discretion, subject to the approval of the President, to invest ESF monies when those monies are not required for the specific ESF programs identified in the statute. This investment authority is permissive, not mandatory; the fund is "available...for investing" to the extent the Secretary decides that monies are not needed for the specific statutory purposes. In short, the statute does not require the Secretary to invest.

II. The Flexibility of the Present Investment Plan Supports Reading the Statute to Grant the Secretary Authority to Suspend Investment.

Pursuant to an investment plan approved by President Kennedy, ESF dollars are currently invested in special market-based Treasury certificates of indebtedness ("COIs"). Unlike most Treasury obligations, the COIs are designed to give the Secretary flexibility: they are redeemable at par at any time. This flexibility was an important feature of the investment plan when it was submitted for Presidential approval. In his submission of the plan to the President, Secretary Dillon characterized the COIs as "giving the Fund the required access to ready cash for its operations." See Tab A at 1. The plan submitted by Secretary Dillon was approved by President Kennedy without alteration.

Consistent with the language of the authorizing statute, the Presidentially-approved plan expressly states that the Secretary has authority to refrain from investing ESF monies not required for the specific statutory purposes of the ESF: Secretary Dillon's submission states that under the plan the Secretary has authority "to invest any portions of the Fund he deems not currently required for stabilizing the exchange value of the dollar... to such extent as he deems appropriate...." Id. at 3.¹

¹ As a matter of law, President Kennedy's approval authorizes the Secretary to invest ESF monies "to such extent as [the Secretary] deems necessary" when they are not necessary to carry out the purposes of the ESF. At the time of President Kennedy's approval, the purpose of the ESF was to stabilize the exchange value of the dollar. In 1976, the statute was amended to authorize the use of the ESF "consistent with the obligations of the Government in the International Monetary Fund." 31 U.S.C. § 5302(b). Those obligations include efforts to stabilize exchange rates as part of the overall responsibility of the United States in the IMF to foster an orderly international monetary system.

III. Historical Precedent Confirms the Secretary's Authority to Suspend Investment.

On at least nine occasions over the past three decades, Treasury has disinvested or suspended investment of a portion of the ESF dollar pool in order to avoid exceeding the public debt limit. (A list of these occasions is attached at Tab B.) Congress has implicitly assented to these actions. In many instances, Congress has subsequently enacted "make-whole" legislation restoring to government trust funds and accounts, including the ESF, interest lost as a result of the disinvestment or suspension. E.g., Pub.L. 99-177 (Dec. 12, 1985) Sec. 272; Pub.L. 101-140 (Nov. 8, 1989) Sec. 301; Pub.L. 101-508 (Nov. 5, 1990) Sec. 11901(b). The plain language of these bills directs their application to the ESF as one of the government trust funds or accounts that lost interest earnings as a result of the Treasury's actions to avoid exceeding the debt limit. E.g. Pub.L. 99-177, Sec. 272(3)(G); Pub.L. 101-140, Sec. 301(d)(2); Pub.L. 101-508, Sec. 11901(b)(5)(B). Moreover, through Treasury reports on the ESF, through OMB budget reports, and through GAO reports on the Secretary's actions to avoid debt limit crises, Congress has been specifically informed of the disinvestment and/or suspension of investment in the ESF. See Tab B, n.1. Yet no legislation limiting the Secretary's authority in this regard has ever been enacted.

IV. Suspending Investment in These Circumstances Is Consistent with the Legislative Intent in Creating the ESF.

The purpose of the ESF is to give the Secretary of the Treasury means by which to promote orderly exchange arrangements and a stable system of exchange rates. 31 U.S.C. § 5362(b). The Secretary's exercise of his discretion to suspend investment of "extra" ESF dollars, as part of an effort to avoid imminent default by the United States on its obligations, is consistent with that purpose. Consistent with the overwhelming bipartisan consensus of members of Congress and Treasury officials over the last three decades, you have concluded that default, or even a serious threat of imminent default, would have a destabilizing effect on exchange arrangements and rates.

V. Conclusion.

For the reasons set out above, I conclude that you have authority in the present circumstances to suspend reinvestment of ESF dollar resources in Treasury obligations.

Attachments

A



THE SECRETARY OF THE TREASURY
WASHINGTON

*file ESF
authorization*

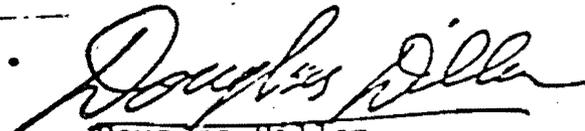
JAN 24 1963

MEMORANDUM FOR THE PRESIDENT

Subject: Investment of Exchange Stabilization Fund

There is attached a letter requesting your approval of investment of the Exchange Stabilization Fund in any direct United States obligations. The law permits this, but outstanding authorizations approved by the President limit investment to \$100 million in any direct obligations and an additional \$150 million only in Treasury bills.

If you approve, I plan to have issued to the Fund for some of its portfolio special non-marketable obligations which will be redeemable upon demand. This action will give the Fund the required access to ready cash for its operations and at the same time enable us to avoid undesirable market effects, which at times arise from Exchange Stabilization Fund transactions in other marketable obligations. I envisage that the interest rate on the special obligations will be related to the rate for three-month Treasury bills.


Douglas Dillon



THE SECRETARY OF THE TREASURY
WASHINGTON

JAN 24 1963

Dear Mr. President:

The legislation which established the Exchange Stabilization Fund authorizes the investment in direct obligations of the United States of any portions of the Fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar.

There are presently outstanding two authorizations for investment approved by the President: one dated January 18, 1956, which permits investment in any direct obligations of the United States up to an aggregate of \$100 million, and another dated February 12, 1960, which permits additional investment in Treasury bills up to an aggregate of \$150 million. At present the Fund's investments total about \$97 million, of which about \$51 million is in Treasury bills and about \$46 million is in longer-term marketable obligations of the United States.

With all of the Fund's investments in obligations which must be marketed to convert them into cash for stabilization operations, it has been considered necessary to maintain some cash balance. This cash balance, which fluctuates greatly but which is often a considerable amount, earns no interest. This situation could be obviated if a part of the Fund's investments could be made in special obligations of the United States which would be redeemable on demand. Under such an arrangement, investment in Treasury bills could also be wholly avoided when, as now, it is desirable to maintain pressure on the Treasury bill rate.

For these reasons, I believe that a portion of the Fund should be invested in special non-marketable obligations of the United States which would be redeemable on demand and which would bear interest at a rate determined by the Secretary of the Treasury after taking into consideration the rate on Treasury bills. This would make possible full investment of the Fund without any risk of loss, or of operations ever being impaired because of inadequate liquidity.

In order to carry out the arrangement, I recommend that, in lieu of the present authorizations, the Secretary of the Treasury be authorized to invest any portions of the Fund he deems not currently required for stabilizing the exchange value of the dollar in direct obligations of the United States, including, to such extent as he deems appropriate, the special obligations described above.

Faithfully yours,

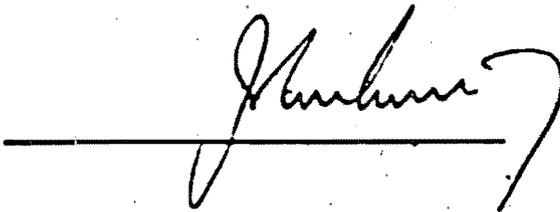


Douglas Dillon

The President

The White House

APPROVED:



B

SUSPENSION OF REINVESTMENT IN ESF OBLIGATIONS
DURING PREVIOUS ADMINISTRATIONS¹

1. November 1957 - Eisenhower Administration
2. March 1979 - Carter Administration
3. May - June 1980 - Carter Administration
4. September 1984 - Reagan Administration
5. September 1985 - Reagan Administration
6. October 1986 - Reagan Administration
7. August 1989 - Bush Administration
8. November 1989 - Bush Administration
9. October 1990 - Bush Administration

¹ See GAO/AIMD-96-38R, Debt Ceiling Limitations and Treasury Actions (January 26, 1996); Office of Management and Budget, Special Analyses, Budget of the United States Government, Fiscal Years 1981, 1982, 1986, 1987, 1988; Report of the Comptroller General, A New Approach to the Public Debt Legislation Should Be Considered, (FGMSD-79-58, Sept. 7, 1979); Exchange Stabilization Fund: Report of Audit for FY 1958 at 9.



DEPARTMENT OF THE TREASURY
WASHINGTON

February 14, 1996

GENERAL COUNSEL

MEMORANDUM FOR SECRETARY RUBIN

FROM:

EDWARD S. KNIGHT

Edward S. Knight

SUBJECT:

Authority of the Federal Financing Bank and the Secretary of the Treasury to Enter into a Certain Transaction that Is Intended to Reduce the Amount of Outstanding Debt that Is Subject to the Debt Limit Statute

You have requested my opinion regarding a proposal to have the Federal Financing Bank (the "FFB") and the Secretary of the Treasury (the "Secretary") enter into a certain transaction described in detail below (the "Proposed Transaction") that, when completed, is intended to have the effect of reducing the total amount of outstanding debt that is subject to the debt limit statute.¹

For the reasons outlined below, it is my opinion that:

(1) as Secretary, you are authorized to enter into each step of the Proposed Transaction to be entered into by the Secretary, and the FFB is authorized to enter into each step of the Proposed Transaction to be entered into by the FFB;

(2) when the Proposed Transaction is completed, the total amount of outstanding debt that is subject to the debt limit statute will be reduced;

(3) any issuance capacity under the debt limit statute that is made available from completing the Proposed Transaction may be used to issue to the public new debt obligations of the United States to obtain additional funds for the Treasury's cash account, and your issuance of new debt obligations within such debt issuance capacity will not violate the debt limit statute;

(4) the Proposed Transaction is substantially similar to actions that the Secretary and the FFB took on several previous occasions, and the General

¹31 U.S.C. §3101.

Accounting Office concluded that those previous actions met all legal requirements; and

(5) the conclusions reached in this opinion are consistent with the conclusions reached by past Treasury General Counsels.

Background on the FFB.

The FFB was created by the Federal Financing Bank Act of 1973 (the "FFB Act").² The FFB is a "body corporate"³ and an "instrumentality of the United States Government."⁴ The FFB is "subject to the general supervision and direction of the Secretary,"⁵ and the Secretary is the chairman of the board of directors of the FFB.⁶ In 1974, the President designated⁷ four offices in the Treasury Department whose incumbents would be, ex officio, the other members of the board of directors of the FFB.

The FFB was established by the Congress at the request of the Treasury Department to deal with severe debt management problems resulting from years of off-budget financing that had flooded the government securities market with a variety of government-backed securities. These securities were financed outside of the Treasury Department by various federal agencies in the form of direct agency debt issues, sales of loan assets with federal guarantees, and federal guarantees of obligations of private borrowers. These securities competed with Treasury securities, undermined the Treasury Department's debt management policies, and placed the Treasury Department in a position of acquiescing in agency financings on terms which the Treasury Department believed did not reflect the full value of the government backing.

In addition, although these government-backed securities were the credit equivalent of Treasury securities, they sold at demonstrably higher interest rates. The borrowing costs for these government-backed securities exceeded the Treasury Department's cost of borrowing because of the sheer proliferation of competing issues crowding each other in the financing

²Pub. L. No. 93-224, 87 Stat. 937, 12 U.S.C. § 2281 et seq.

³FFB Act § 4, 12 U.S.C. § 2283.

⁴Id.

⁵Id.

⁶FFB Act § 5(a), 12 U.S.C. § 2284(a).

⁷Under FFB Act § 5(a), 12 U.S.C. § 2284(a).

calendar, the cumbersome nature of many of the securities, and the limited markets in which they were sold. Underwriting costs and other transaction fees and expenses were also significant factors in the higher borrowing cost.

When federal and federally assisted borrowing programs are financed through the FFB rather than the capital markets, the cost of financing those programs is reduced because the interest rates offered by the FFB for such financing are significantly less than the interest rates offered by capital market investors. Therefore, financing federal and federally assisted borrowing programs through the FFB accomplishes the purposes for which the FFB was established: reducing the cost to the government (and ultimately to the U.S. taxpayer) of financing such federal programs and centralizing government-backed borrowing in the Treasury.

The Proposed Transaction.

The Proposed Transaction involves purchases and sales of the following debt obligations:

(a) certain debt obligations of the United States Postal Service ("USPS") that USPS previously issued to the FFB and that are presently held by the FFB, which obligations are identified on Schedules A-1 and A-2 attached to this opinion (such obligations being the "USPS Debt Obligations");

(b) certain debt obligations of the Tennessee Valley Authority ("TVA") that TVA previously issued to the FFB and that are presently held by the FFB, which obligations are identified on Schedule A-3 attached to this opinion (such obligations being the "TVA Debt Obligations");

(c) certain special Treasury debt obligations that the Secretary previously issued to the Civil Service Retirement and Disability Fund (the "Fund") as investments and that are presently held by Fund, which obligations are identified on Schedule B attached to this opinion (such obligations being the "Treasury Specials"); and

(d) certain debt obligations of the FFB that the FFB previously issued to the Secretary and that are presently held by the Secretary, which obligations are identified on Schedule C attached to this opinion (such obligations being the "FFB Debt Obligations").

The steps of the Proposed Transaction are as follows:

The FFB and the Secretary, as manager of the Fund, will enter into an exchange transaction in which the USPS Debt Obligations and the TVA Debt Obligations that are presently held by the FFB will be exchanged for the Treasury Specials that are presently held by the Fund. Specifically:

Step 1A: The FFB sells to the Fund the USPS Debt Obligations and the TVA Debt Obligations that are presently held by the FFB.

Step 1B: The Secretary, as manager of the Fund, purchases the USPS Debt Obligations and the TVA Debt Obligations as investments for the Fund.

Step 2A: As payment for the purchase of the USPS Debt Obligations and the TVA Debt Obligations, the Secretary, as manager of the Fund, delivers to the FFB the Treasury Specials that are presently held by the Fund as investments.

Step 2B: The FFB accepts the Treasury Specials as payment for the USPS Debt Obligations and the TVA Debt Obligations sold to the Fund.

Next, the FFB and the Secretary will enter into an exchange transaction in which the Treasury Specials that the FFB receives from the Fund will be exchanged for the FFB Debt Obligations that are presently held by the Secretary. Specifically:

Step 3A: The FFB sells back to the Secretary the Treasury Specials that the FFB received from the Fund.

Step 3B: The Secretary purchases the Treasury Specials from the FFB.

Step 4A: As payment for the purchase of the Treasury Specials, the Secretary delivers to the FFB the FFB Debt Obligations that are presently held by the Secretary.

Step 4B: The FFB accepts the FFB Debt Obligations as payment for the Treasury Specials sold back to the Secretary.

My conclusions regarding the Proposed Transactions are as follows:

I.

As Secretary, You Are Authorized to Enter into Each Step of the Proposed Transaction To Be Entered into by the Secretary, and the FFB Is Authorized To Enter into Each Step of the Proposed Transaction To Be Entered into by the FFB.

Step 1A: The FFB sells to the Fund the USPS Debt Obligations and the TVA Debt Obligations that are presently held by the FFB.

a. The FFB Act authorizes the proposed sales.

Section 6(a) of the FFB Act authorizes the FFB to sell the USPS Debt Obligations and the TVA Debt Obligations. This sentence provides, in relevant part:

The Bank [FFB] is authorized to make commitments to purchase and sell, and to purchase and sell on terms and conditions determined by the Bank [FFB], any obligation which is issued, sold, or guaranteed by a Federal agency.⁸

The USPS Debt Obligations and the TVA Debt Obligations are all "obligations," as that term is used in the FFB Act. The FFB Act defines "obligation" as:

. . . any note, bond, debenture, or other evidence of indebtedness⁹

The USPS Debt Obligations are "obligations" in the form of notes issued by USPS under section 2005 of the Postal Reorganization Act of 1970 (the "Postal Act").¹⁰ The TVA Debt Obligations are "bonds" issued by TVA under section 15d of the Tennessee Valley Authority Act of 1933 (the "TVA Act").¹¹

In addition, USPS and TVA are each a "Federal agency," as that term is used in the FFB Act. The FFB Act defines "Federal agency" as:

⁸12 U.S.C. § 2285(a) (emphasis added).

⁹FFB Act § 3(2), 12 U.S.C. § 2282(2).

¹⁰39 U.S.C. § 2005.

¹¹16 U.S.C. § 831n-4.

. . . an executive department, an independent Federal establishment, or a corporation or other entity established by the Congress which is owned in whole or in part by the United States.¹²

In the case of USPS, section 201 of the Postal Act established USPS as "an independent establishment of the executive branch of the Government of the United States."¹³ In the case of TVA, section 1 of the TVA Act established TVA as "a body corporate."¹⁴ While the TVA Act does not specifically state who owns TVA, section 2 of the TVA Act does specify that all three members of the board of directors of TVA are to be appointed by the President with the advice and consent of the Senate.¹⁵ Moreover, in litigation that arose shortly after the Congress established TVA, the United States Supreme Court referred to TVA as "an agency of the federal government"¹⁶ and "an instrumentality of the United States."¹⁷ In addition, the Congress has included TVA in the list of entities identified as "wholly owned government corporations" in the Government Corporation Control Act.¹⁸ In sum, TVA is a corporation that is wholly owned by the United States.

Accordingly, each of the USPS Debt Obligations and the TVA Debt Obligations is an "obligation which is issued . . . by a Federal agency," as those terms are used in the FFB Act. It follows that the express terms of the first sentence of section 6(a) of the FFB Act authorize the FFB to sell the USPS Debt Obligations and the TVA Debt Obligations.¹⁹

¹²FFB Act § 3(1), 12 U.S.C. § 2282(1).

¹³39 U.S.C. § 201.

¹⁴16 U.S.C. § 831.

¹⁵16 U.S.C. § 831a(a).

¹⁶Ashwander v. TVA, 297 U.S. 288, 315 (1936).

¹⁷Tennessee Electric Power Co. v. TVA, 306 U.S. 118, 134 (1939).

¹⁸31 U.S.C. § 9101(3)(N).

¹⁹The first sentence of section 6(a) of the FFB Act was also the authority under which the FFB purchased the USPS Debt Obligations from USPS and the TVA Debt Obligations from TVA in the first place. As set out above, that sentence provides that the FFB is authorized "to purchase . . . any obligation which is issued . . . by a Federal agency." Again, the USPS Debt Obligations and the TVA Debt Obligations are all "obligations, as

- b. The proposed sales are consistent with the legislative purpose of the FFB Act.

As discussed above in the background section of this memorandum, the FFB Act is essentially debt management legislation for the Treasury Department. Section 2 of the FFB Act states that the purposes of that act are threefold: (1) to assure coordination of federal and federally assisted borrowing programs with the overall economic and fiscal policies of the government; (2) to reduce the costs of federal and federally assisted borrowings from the public; and (3) to assure that such borrowings are financed in a manner least disruptive of private financial markets and institutions.²⁰

The Congress provided the FFB with authority to finance its debt management operations in two ways: either through the issuance of debt obligations of the FFB directly to the public, under section 9(a) of the FFB Act,²¹ or through the issuance of debt obligations of the FFB to the Secretary under section 9(b) of the FFB Act.²² However, the Congress also granted to the FFB an additional means of financing its operations: through selling, under section 6(a) of the FFB Act, the debt obligations of other entities that the FFB has purchased under section 6(a) of the FFB Act.

After the FFB has purchased agency debt obligations, it is possible for the FFB to structure a sale of those debt obligations in at least two ways that would be consistent with its debt management functions. First, the FFB could consolidate several individual agency debt obligations that it has purchased into a large package and coordinate the sale of that entire package (or participation interests in that package) into the market so that the timing of that sale would not disrupt or compete with the regular issuance of Treasury securities in the market. Or, secondly, the FFB could sell the agency debt obligations that qualify as permitted investments for government trust funds to one or more government trust funds. An advantage of selling agency debt obligations to trust funds, instead of to the public, would be that the debt obligations would never compete in the market with Treasury securities. The Proposed

that term is used in the FFB Act, and USPS and TVA are each a "Federal agency," as that term is used in the FFB Act. Therefore, the first sentence of section 6(a) of the FFB Act authorized the FFB to purchase the USPS Debt Obligations issued by USPS and the TVA Debt Obligations issued by TVA.

²⁰12 U.S.C. § 2281.

²¹12 U.S.C. § 2288(a).

²²12 U.S.C. § 2288(b).

Transaction is structured along the lines of this second type of use of the "sale" authority granted by the Congress to the FFB. Thus, structuring the sale of the USPS Debt Obligations and the TVA Debt Obligations as a sale to the Fund would be consistent with the debt management functions of the FFB and, consequently, consistent with the legislative purpose of the FFB Act.

- c. The contractual terms of the USPS Debt Obligations and the TVA Debt Obligations do not preclude the FFB from selling them.

The USPS Debt Obligations contain no contractual restraint on the authority of FFB to resell them under the authority of the FFB Act.

The TVA Debt Obligations contain the following contractual provision:

This Bond is not negotiable. However, upon at least sixty days' written notification to the Corporation [TVA], the Bank [FFB] may exchange this Bond for an aggregate principal amount of \$[face amount of respective bond] of negotiable Bonds of the same series, maturity, and interest rate, such Bonds to be in the form of registered Bonds. Such registered Bonds shall be in such denominations as may be agreed to by the Corporation and the Bank. Only such changes as are agreed to in writing by the Bank will be made in the form of the negotiable Bonds exchanged for this Bond. In the event the Bank desires to make such exchange and sell all or a portion of the Bonds, the Corporation shall have the right, if it so desires, to prepare any statements, opinions or other documents in connection with such sale which are generally similar to those customarily utilized in public sales of the Corporation's Bond issues.

A note or bond that is not negotiable by its terms is nevertheless assignable like any other chose of action.²³ A restriction in a note or bond making it nonnegotiable has the effect of making a purchaser of that note or bond a mere assignee rather than a "holder in due course."²⁴ The holder of a nonnegotiable note or bond is not given any of the special protections afforded by the law to a purchaser who takes a negotiable instrument for value in good faith and without certain notices. The purchaser receives only such rights or title as the

²³See 10 C.J.S. Bills and Notes; Letters of Credit § 140 (Transfer of nonnegotiable paper) (1995).

²⁴11 Am. Jur. 2d Bills and Notes § 377 (Holder of nonnegotiable instrument) (1963).

assignor possessed, and the purchaser takes title subject to all equities and defenses existing in favor of the original obligor which could be used against the original payee.²⁵

The restrictions on negotiability contained in the TVA Debt Obligations, therefore, do not preclude the FFB from selling or assigning the TVA Debt Obligations to the Fund. The effect of the restrictive provisions is simply that the Fund does not become a holder in due course with respect to the TVA Debt Obligations.

However, the Fund has no need to be a holder in due course with respect to the TVA Debt Obligations. First, the TVA Debt Obligations were issued by a federal agency (TVA). There is no plausible risk that TVA would repudiate its debt obligations or assert defenses against the Fund. Secondly, TVA issued the TVA Debt Obligations directly to another federal agency (the FFB), and that federal agency is proposing to sell them directly to the Fund. There is no other party who has held the TVA Debt Obligations, so no other party would be able to assert an intervening claim with respect to the TVA Debt Obligations. Finally, the Proposed Transaction will include a commitment by the FFB to purchase back the USPS Debt Obligations and the TVA Debt Obligations upon demand by the Secretary, as manager of the Fund.

Step 1B: The Secretary, as manager of the Fund, purchases the USPS Debt Obligations and the TVA Debt Obligations as investments for the Fund.

The USPS Debt Obligations and the TVA Debt Obligations are legally permitted investments for the Fund, notwithstanding the restrictive provisions included in the statute that specifies permitted investments for the Fund.

The Civil Service Fund statute specifies that surplus funds in the Fund may be invested in (a) special Treasury debt obligations issued directly to the Fund,²⁶ and (b) if the Secretary makes a determination that it is in the public interest to do so, (i) other interest-bearing obligations of the United States, and (ii) obligations guaranteed as to both principal and interest by the United States.²⁷

²⁵Id.

²⁶5 U.S.C. § 8348(c), (d).

²⁷5 U.S.C. § 8348(e).

Notwithstanding these restrictive provisions regarding permitted investments, it is my opinion that certain provisions of the Postal Act and the TVA Act provide supplemental authority to the Secretary to purchase the USPS Debt Obligations and the TVA Debt Obligations as investments for any government trust fund under the control of the Secretary, including the Fund.

Section 2005 of the Postal Act provides, in part:

(d) Obligations issued by the Postal Service under this section shall--

. . . .
(3) be lawful investments and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the Government of the United States²⁸

Section 15d of the TVA Act provides, in part:

(d) Bonds issued by the Corporation [TVA] hereunder shall be lawful investments and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States.²⁹

Surplus funds in the Fund are "trust . . . funds, the investment or deposit of which [are] under the authority or control of [an] officer . . . of the United States," namely, the Secretary. Accordingly, under the Postal Act and the TVA Act, respectively, the USPS Debt Obligations and the TVA Debt Obligations are "lawful investments" for the Fund.

This conclusion regarding permitted investments for the Fund is consistent with conclusions dating back to 1934 reached by prior Attorneys General and prior Treasury General Counsels regarding permitted investments for government trust funds.

In 1934, the Attorney General advised the Postmaster General that postal savings funds could lawfully be invested in bonds issued by the Federal Farm Mortgage Corporation.³⁰ The statute providing for the establishment of postal savings depository

²⁸39 U.S.C. § 2005(d).

²⁹16 U.S.C. § 831n-4(d).

³⁰See 37 Op. Att'y Gen. 479 (1934).

accounts (the "Postal Savings Act")³¹ authorized the investment of postal savings funds in "bonds or other securities of the United States."³² Section 4(a) of the Federal Farm Mortgage Corporation Act of 1934 provided, in part, that bonds issued by the Federal Farm Mortgage Corporation:

. . . shall be lawful investments, and may be accepted as security, for all fiduciary, trust and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof.³³

The Attorney General said it was "unnecessary" to consider whether bonds issued by the Federal Farm Mortgage Corporation were "bonds or other securities of the United States," the type of securities specified in the Postal Savings Act as permitted investments for postal savings funds. The Attorney General concluded that postal savings funds were "clearly comprehended" within the words "fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof." On that basis, he concluded that postal savings funds could lawfully be invested in bonds issued by the Federal Farm Mortgage Corporation by the express provision of the Federal Farm Mortgage Corporation Act.

In 1966, both the Treasury General Counsel³⁴ and the Assistant Attorney General, Office of Legal Counsel,³⁵ concluded that the Secretary had lawful authority to invest trust funds subject to the Secretary's control in certain debt obligations that the Congress made lawful investments for fiduciary, trust, and public funds in specific legislation, namely:

(1) farm loan bonds issued by Federal land banks, section 27 of the Federal Farm Loan Act of 1916, 39 Stat. 380;

³¹Act of June 25, 1910, Pub. L. No. 61-268, 36 Stat. 814 (1910).

³²Id. § 9, 36 Stat. 817.

³³Pub. L. No. 73-88, § 4(a), 48 Stat. 344, 345 (1934).

³⁴Opinion dated October 12, 1966, from Fred B. Smith, Treasury General Counsel, to Treasury Secretary Fowler.

³⁵Opinion dated October 7, 1966, from Frank M. Wozencraft, Assistant Attorney General, Office of Legal Counsel, to Fred B. Smith, Treasury General Counsel.

(2) obligations of the Federal Home Loan Banks, section 15 of the Federal Home Loan Bank Act of 1932, 47 Stat. 736;

(3) debentures of the Federal intermediate credit banks, section 6(b) of the Farm Credit Act of 1935, 49 Stat. 316;

(4) debentures of the banks for cooperatives, section 1 of the Act of August 23, 1954, 68 Stat. 770; and

(5) participation certificates of the Federal National Mortgage Association, section 311 of the Federal National Mortgage Association Charter Act, as enacted in the Housing Act of 1954, 68 Stat. 622, and as amended by section 701(b) of the Act of September 2, 1964.

The 1966 opinions of the Treasury General Counsel and the Assistant Attorney General, Office of Legal Counsel, were delivered in connection with an issuance by the Federal National Mortgage Association ("FNMA")³⁶ of certain participation certificates in a pool of government-owned mortgages. In January 1967, FNMA issued \$600 million of participation certificates to the public and \$500 million of participation certificates to various government trust funds.³⁷ The purchase by the government trust funds of the participation certificates issued by FNMA was fully examined by Congress during the hearings held by the House Ways and Means Committee to consider the Administration's

³⁶The Federal National Mortgage Association that issued the participation certificates that were the subject of the 1966 opinions of the Attorney General and the Treasury General Counsel was the wholly-owned government corporation that existed before the Housing and Urban Development Act of 1968 partitioned that single corporation into two separate corporations, one that was given the name "Government National Mortgage Association," which remained wholly within the government, and the other that was given the name "Federal National Mortgage Association," which was established as a government-sponsored private corporation. Pub. L. No. 90-448, 82 Stat. 476, 536 (1968).

³⁷\$100 million of participation certificates to the Federal Old-Age and Survivors Insurance Trust Fund, \$100 million to the Civil Service Retirement and Disability Trust Fund, \$100 million to the National Service Life Insurance Trust Fund, \$100 million to the Unemployment Trust Fund, \$50 million to the Railroad Retirement Account, and \$50 million to the Federal Hospital Insurance Trust Fund. See Administration Proposal to Temporarily Increase the Debt Ceiling: Hearings before the House Comm. on Ways and Means, 90th Cong., 1st Sess. 33 (1967).

proposal then pending to increase temporarily the public debt limit.³⁸

More recently, in 1985, 1986, 1987, 1988, 1989, and 1990, the Secretary, as manager of the Fund, purchased obligations issued by the FFB under section 9(a) of the FFB Act³⁹ as investments for the Fund, notwithstanding the fact that those debt obligations of the FFB were not the type of securities specified in the Civil Service Fund statute as permitted investments for the Fund, namely, special Treasury debt obligations, other interest-bearing obligations of the United States, and obligations guaranteed as to both principal and interest by the United States. But, as in the case of the Postal Act with respect to debt obligations issued by USPS, and in the case of the TVA Act with respect to debt obligations issued by TVA, the FFB Act designates debt obligations issued by the FFB as lawful investments for all government trust funds under the control of an officer of the United States.⁴⁰

In conclusion, the express provisions of the Postal Act and the TVA Act authorize the Secretary to purchase the USPS Debt Obligations and the TVA Debt Obligations as investments for any government trust fund under his control, as an officer of the United States, which includes the Fund.

³⁸Administration Proposal to Temporarily Increase the Debt Ceiling: Hearings before the House Comm. on Ways and Means, 90th Cong., 1st Sess. (1967).

³⁹12 U.S.C. § 2288(a).

⁴⁰Section 9(d) of the FFB Act provides:

(d) Obligations of the Bank [FFB] issued pursuant to this section shall be lawful investments, and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of the United States, the District of Columbia, the Commonwealth of Puerto Rico, or any territory or possession of the United States, or any agency or instrumentality of any of the foregoing, or any officer or officers thereof.

12 U.S.C. § 2288(d).

Step 2A: As payment for the purchase of the USPS Debt Obligations and the TVA Debt Obligations, the Secretary, as manager of the Fund, delivers to the FFB the Treasury Specials held by the Fund as investments.

The Secretary, as manager of the Fund, is authorized to deliver to the FFB the Treasury Specials presently held by the Fund if the Proposed Transaction constitutes a true exchange, that is, if the USPS Debt Obligations and the TVA Debt Obligations that are to be received by the Fund are equal in value to the Treasury Specials that are to be surrendered by the Fund.

The Treasury Specials that are presently held by the Fund are special interest-bearing obligations of the United States that the Secretary issued directly to the Fund as investments for the surplus funds in the Fund.⁴¹ The maturities and interest rates of these Treasury Specials are fixed by statute.⁴²

I understand that the principal amounts, interest rates, and maturity dates of the USPS Debt Obligations and the TVA Debt Obligations that are to be received by the Fund do not match exactly the principal amounts, interest rates, and maturity dates of the Treasury Specials that are to be surrendered by the Fund.

However, I further understand that the Mr. Joshua Gotbaum, Treasury Assistant Secretary (Economic Policy), has determined, on behalf of the Secretary under authority duly delegated to him, that the value of the USPS Debt Obligations and the TVA Debt Obligations that are to be received is equal to the value of the Treasury Specials that are to be surrendered.

For purposes of this opinion, I assume the validity of Mr. Gotbaum's determination. With that determination having been made, the Proposed Transaction constitutes a true exchange, and the Secretary, as manager of the Fund, is authorized to deliver to the FFB the Treasury Specials presently held by the Fund.

I understand that Mr. Gotbaum's determination as to the value of the USPS Debt Obligations and the TVA Debt Obligations was based, in part, on a contractual commitment by the FFB to purchase the USPS Debt Obligations and the TVA Debt Obligations back from the Fund at any time, upon demand by the Secretary, as manager of the Fund. That commitment by the FFB is authorized by section 6(a) of the FFB Act.

Section 6(a) of the FFB Act authorizes the FFB to commit to purchase back the USPS Debt Obligations and the TVA Debt

⁴¹5 U.S.C. § 8348(c), (d).

⁴²See 5 U.S.C. § 8348(d).

Obligations that the FFB proposes to sell to the Fund. As set out above, but with different parts emphasized here, this section provides, in relevant part:

The Bank [FFB] is authorized to make commitments to purchase and sell, and to purchase and sell on terms and conditions determined by the Bank [FFB], any obligation which is issued, sold, or guaranteed by a Federal agency.⁴³

Thus, a commitment by the FFB to purchase the USPS Debt Obligations and the TVA Debt Obligations back from the Fund under terms and conditions determined by the FFB is authorized by section 6(a) of the FFB Act.

Step 2B: The FFB accepts the Treasury Specials as payment for the USPS Debt Obligations and the TVA Debt Obligations sold to the Fund.

Section 6(a) of the FFB Act also authorizes the FFB to accept the Treasury Specials as payment for the USPS Debt Obligations and the TVA Debt Obligations sold to the Fund. As set out above, but with different parts emphasized here, this section provides, in relevant part:

The Bank [FFB] is authorized to make commitments to purchase and sell, and to purchase and sell on terms and conditions determined by the Bank [FFB], any obligation which is issued, sold, or guaranteed by a Federal agency.⁴⁴

Section 6(a) of the FFB Act thus provides the FFB with broad discretion to determine the terms and conditions on which to sell the USPS Debt Obligations and the TVA Debt Obligations to the Fund. That broad discretion may reasonably include accepting delivery of certain debt obligations, instead of cash, as payment for the USPS Debt Obligations and the TVA Debt Obligations. Therefore, section 6(a) of the FFB Act authorizes the FFB to accept the Treasury Specials as payment for the USPS Debt Obligations and the TVA Debt Obligations.

⁴³12 U.S.C. § 2285(a) (emphasis added).

⁴⁴Id.

Step 3A: The FFB sells back to the Secretary the Treasury Specials that the FFB received from the Fund.

As in Step 1A (in which the FFB sells the USPS Debt Obligations and the TVA Debt Obligations to the Fund), section 6(a) of the FFB Act authorizes the FFB to sell to the Secretary the Treasury Specials that the FFB received from the Fund. As set out above, this section provides, in relevant part:

The Bank [FFB] is authorized to make commitments to purchase and sell, and to purchase and sell on terms and conditions determined by the Bank [FFB], any obligation which is issued, sold, or guaranteed by a Federal agency.⁴⁵

The Treasury Specials are "obligations," as that term is used in the FFB Act. Again, the FFB Act defines "obligations" as "any note, bond, debenture, or other evidence of indebtedness."⁴⁶ As described above, the Treasury Specials that the FFB will receive from the Fund are all interest-bearing debt obligations of the United States issued by the Secretary.

Those Treasury Specials were issued by the Secretary through the Treasury Department. The Treasury Department is a "Federal agency," as that term is used in the FFB Act. Again, the FFB Act defines "Federal agency" as including any "executive department."⁴⁷ The Treasury Department is an executive department.⁴⁸

Accordingly, each of the Treasury Specials is an "obligation which is issued . . . by a Federal agency," as those terms are used in the FFB Act. It follows that the express terms of the first sentence of section 6(a) of the FFB Act authorize the FFB to sell the Treasury Specials back to the Secretary.

⁴⁵Id.

⁴⁶FFB Act § 3(2), 12 U.S.C. § 2282(2).

⁴⁷FFB Act § 3(1), 12 U.S.C. § 2281(1).

⁴⁸Section 301(a) of title 31, United States Code, provides:

(a) The Department of the Treasury is an executive department of the United States Government at the seat of the Government.

31 U.S.C. § 301(a).

Step 3B: The Secretary purchases the Treasury Specials from the FFB.

Section 3111 of title 31, United States Code, authorizes the Secretary to purchase the Treasury Specials before their maturities. This section provides:

An obligation may be issued under this chapter to buy, redeem, or refund, at or before maturity, outstanding bonds, notes, certificates of indebtedness, Treasury bills, or savings certificates of the United States Government. Under regulations of the Secretary of the Treasury, money received from the sale of an obligation and other money in the general fund of the Treasury may be used in making the purchases, redemptions, or refunds.⁴⁹

The first sentence of section 3111 refers to the purchase of "bonds," "notes," "certificates of indebtedness," "Treasury bills," and "savings certificates" of the United States government. There is no doubt that section 3111 of title 31, United States Code, also applies to the special Treasury debt obligations that are issued by the Secretary directly to various government trust funds and deposit accounts as investments, including the Treasury Specials that are part of the Proposed Transaction.

The special Treasury debt obligations that the Secretary issues directly to trust funds and deposit accounts are, in fact, "bonds," "notes," and "certificates of indebtedness," depending upon the respective maturities of such special Treasury debt obligations. As evidence of this, section 3102(a) of title 31, United States Code, specifies that the "bonds" that are authorized to be issued by that section may be issued either "to the public" or "to Government accounts."⁵⁰ Accordingly, the special Treasury debt obligations having terms greater than ten years that are issued directly to government accounts are "bonds" issued by the Secretary under section 3102 of title 31, United States Code. Similarly, the special Treasury debt obligations

⁴⁹31 U.S.C. § 3111 (emphasis added).

⁵⁰The second sentence of section 3102(a) of title 31, United States Code, provides:

. . . The Secretary may issue bonds authorized by this section to the public and to Government accounts at any annual interest rate and prescribe conditions under section 3121 of this title.

31 U.S.C. § 3102(a) (emphasis added).

having terms from one to ten years that are issued directly to government accounts are "notes" issued by the Secretary under section 3103 of title 31, United States Code, and the special Treasury debt obligations having terms less than one year that are issued directly to government accounts are "certificates of indebtedness" issued by the Secretary under section 3104 of title 31, United States Code.

One central difference between the bonds, notes, and certificates of indebtedness that the Secretary issues to the public and the bonds, notes, and certificates of indebtedness that the Secretary issues directly to certain government trust funds is the amount of discretion that the Secretary is granted to prescribe the terms and conditions of such obligations. Section 3121 of title 31, United States Code, provides the Secretary with broad discretion to prescribe the terms and conditions of the bonds, notes, and certificates of indebtedness that the Secretary issues to the public.⁵¹ In contrast, the statutes governing the investment of certain government trust funds prescribe specific terms and conditions, such as the interest rate and the method

⁵¹Section 3121(a) of title 31, United States Code, provides:

(a) In issuing obligations under sections 3102-3104 of this title, the Secretary of the Treasury may prescribe--

(1) whether an obligation is to be issued on an interest-bearing basis, a discount basis, or an interest-bearing and discount basis;

(2) regulations on the conditions under which the obligation will be offered for sale, including whether it will be offered for sale on a competitive or other basis;

(3) the offering price and interest rate;

(4) the method of computing the interest rate;

(5) the dates for paying principal and interest;

(6) the form and denominations of the obligations; and

(7) other conditions.

31 U.S.C. § 3121.

for computing the interest rate, of the bonds, notes, and certificates of indebtedness to be issued directly to such trust funds.⁵²

Notwithstanding the limitations on the Secretary's discretion to determine certain of the terms and conditions of the special Treasury debt obligations that the Secretary issues directly to government trust funds and deposit accounts, such special obligations are nonetheless covered by sections 3111 of title 31, United States Code. Consequently, the Secretary is authorized to purchase the Treasury Specials from the FFB under section 3111 of title 31, United States Code.

Moreover, even though section 3111 refers to the outstanding obligations of the United States government being purchased through either the issuance of new Treasury obligations under chapter 31 of title 31 or through the use of money in the general fund of the Treasury, there is no doubt that the Secretary is also authorized, under section 324 of title 31, United States Code, to pay for such purchases by delivering obligations that have been acquired by the Secretary. This conclusion is discussed in more detail in the analysis of the next step of the Proposed Transaction.

Step 4A: As payment for the purchase of the Treasury Specials, the Secretary delivers to the FFB the FFB Debt Obligations that are presently held by the Secretary.

Section 324 of title 31, United States Code authorizes the Secretary to deliver the FFB Debt Obligations as payment for the Treasury Specials. First, subsection (a) of that section provides, in part:

⁵²For example, the statute governing the investment of surplus funds in the Fund specifies:

The obligations issued for purchase by the Fund shall . . . bear interest at a rate equal to the average market yield computed as of the end of the calendar month next preceding the date of issue, borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of that calendar month. If the average market yield is not a multiple of 1/8 of 1 percent, the rate of interest on the obligations shall be a multiple of 1/8 of 1 percent nearest the average market yield.

5 U.S.C. § 8348(d).

(a) The Secretary of the Treasury may--

(1) dispose of obligations--

(A) acquired by the Secretary
for the United States Government

.⁵³

The Secretary acquired the FFB Debt Obligations that are presently held by the Secretary when the FFB issued obligations to the Secretary under section 9(b) of the FFB Act to finance the original purchases of the USPS Debt Obligations and the TVA Debt Obligations by the FFB.⁵⁴ Accordingly, the FFB Debt Obligations are "obligations . . . acquired by the Secretary for the United States," as those terms are used in section 324(a) of title 31, United States Code.

Secondly, subsection (b) of that section specifically authorizes the Secretary to accept obligations, instead of cash, as payment for obligations disposed of by the Secretary under subsection (a). Subsection (b) provides:

(b) The Secretary may dispose . . . of obligations under subsection (a) of this section in the way, in amounts, at prices (for cash, obligations, property, or a combination of cash, obligations, or property), and

⁵³31 U.S.C. § 324(a).

⁵⁴Section 9(b) of the FFB Act provides, in relevant part:

(b) The Bank [FFB] is also authorized to issue its obligations to the Secretary of the Treasury and the Secretary of the Treasury may in his discretion purchase or agree to purchase any such obligations, and for such purpose the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds of the sale of any securities hereafter issued under chapter 31 of Title 31, and the purposes for which securities may be issued under chapter 31 of Title 31 are extended to include such purchases. Each purchase of obligations by the Secretary of the Treasury shall be on such terms and conditions as to yield a return at a rate not less than a rate determined by the Secretary of the Treasury, taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable maturity. . . .

12 U.S.C. § 2288(b).

on conditions the Secretary considers advisable and in the public interest.⁵⁵

Therefore, section 324 of title 31, United States Code, authorizes for the Secretary to deliver to the FFB the FFB Debt Obligations presently held by the Secretary as payment for the purchase of the Treasury Specials.⁵⁶ Moreover, subsection (b) of that section provides the Secretary with broad discretion to determine the price at which to deliver the FFB Debt Obligations.

Step 4B: The FFB accepts the FFB Debt Obligations as payment for the Treasury Specials sold back to the Secretary.

As in Step 2B (in which the FFB accepts the Treasury Specials as payment for the USPS Debt Obligations and the TVA Debt Obligations sold to the Fund), section 6(a) of the FFB Act authorizes the FFB to accept the FFB Debt Obligations as payment for the Treasury Specials sold back to the Secretary. As set out above, this section provides, in relevant part:

The Bank [FFB] is authorized to make commitments to purchase and sell, and to purchase and sell on terms and conditions determined by the Bank [FFB], any obligation which is issued, sold, or guaranteed by a Federal agency.⁵⁷

⁵⁵31 U.S.C. § 324(b) (emphasis added).

⁵⁶Section 9(b) of the FFB Act also authorizes the Secretary to sell the FFB Debt Obligations held by the Secretary. This section provides, in part:

. . . The Secretary of the Treasury may sell, upon such terms and conditions and at such price or prices as he shall determine, any of the obligations acquired by him under this subsection [9(b)].

As discussed above, the FFB Debt Obligations are "obligations", as that term is used in the FFB Act. Furthermore, the FFB Debt Obligations are "obligations acquired by [the Secretary] under this subsection [9(b)]." As also discussed above, the Secretary acquired the FFB Debt Obligations in connection with the FFB having borrowed funds from the Secretary under section 9(b) of the FFB Act to finance the FFB's original purchases of the USPS Debt Obligations and the TVA Debt Obligations. It follows that the express terms of section 9(b) of the FFB Act authorize the Secretary to sell the FFB Debt Obligations back to the FFB.

⁵⁷12 U.S.C. § 2285(a) (emphasis added).

Section 6(a) of the FFB Act thus provides the FFB with broad discretion to determine the terms and conditions on which to sell the Treasury Specials back to the Secretary. That broad discretion may reasonably include accepting delivery of certain debt obligations, instead of cash, as payment for the Treasury Specials. Therefore, the first sentence of section 6(a) of the FFB Act authorizes the FFB to accept the FFB Debt Obligations as payment for the Treasury Specials sold back to the Secretary.

In conclusion, each step of the Proposed Transaction is authorized by an express provision of the relevant governing statute.

II.

When the Proposed Transaction Is Completed, the Total Amount of Outstanding Debt That Is Subject to the Debt Limit Statute Will Be Reduced.

When the Proposed Transaction is completed, the USPS Debt Obligations and the TVA Debt Obligations that are presently held by the FFB will be held by the Fund. The USPS Debt Obligations and the TVA Debt Obligations are not debt that is subject to the debt limit statute. The current debt limit statute provides, in pertinent part:

(b) The face amount of obligations issued under this chapter [chapter 31 of title 31, United States Code] and the face amount of obligations whose principal and interest are guaranteed by the United States Government (except guaranteed obligations held by the Secretary of the Treasury) may not be more than \$4,900,000,000,000, outstanding at one time, subject to changes periodically made in that amount as provided by law through the congressional budget process described in Rule XLIX of the Rules of the House of Representatives or otherwise.⁵⁸

The USPS Debt Obligations and the TVA Debt Obligations are not obligations that were issued under chapter 31 of title 31, United States Code,⁵⁹ and they are not obligations that are guaranteed

⁵⁸31 U.S.C. §3101(b).

⁵⁹The USPS Debt Obligations were issued by USPS under 39 U.S.C. § 2005; the TVA Debt Obligations were issued by TVA under 16 U.S.C. §831n-4.

as to both principal and interest by the United States.⁶⁰ Since the USPS Debt Obligations and the TVA Debt Obligations are not debt that is subject to the debt limit statute, the steps of the Proposed Transaction involving the purchase and sale of the USPS Debt Obligations and the TVA Debt Obligations will have no effect (increase or decrease) on the amount of outstanding debt subject to the debt limit statute.

When the Proposed Transaction is completed, the FFB Debt Obligations that are presently held by the Secretary will be cancelled. However, the FFB Debt Obligations are not debt that is subject to limit.⁶¹ Therefore, the cancellation of the FFB Debt Obligations will have no effect (increase or decrease) on the amount of outstanding debt that is subject to the debt limit statute.

When the Proposed Transaction is completed, the Treasury Specials (having a value equal to the value of the USPS Debt Obligations and TVA Debt Obligations that are sold to the Fund) that are presently held by the Fund will be held by the Secretary. The Treasury Specials are debt that is subject to limit. Therefore, the fact that the Treasury Specials will no longer be "outstanding" debt will cause a decrease in the total amount of outstanding debt that is subject to the debt limit statute.⁶² The amount of that decrease will be equal to the face amount of the Treasury Specials that the Secretary accepted as payment from the FFB as a part of the Proposed Transaction.

⁶⁰See 39 U.S.C. § 2005(d)(5) (payment of principal of or interest on obligations issued by USPS not guaranteed by the government of the United States); 16 U.S.C. § 831n-4(b) (payment of principal of or interest on obligations issued by TVA not guaranteed by the government of the United States).

⁶¹As set out in text accompanying footnote 58, supra, the debt limit statute applies to (1) obligations issued under chapter 31 of title 31, United States Code, and (2) obligations whose principal and interest are guaranteed by the United States. Debt obligations that are issued by the FFB are issued under section 9 of the FFB Act, 12 U.S.C. § 2288, not chapter 31 of title 31, United States Code. In addition, the FFB Act does not specifically provide that debt obligations that are issued by the FFB are guaranteed as to both principal and interest by the United States. Therefore, the FFB Debt Obligations are not debt that is subject to the debt limit statute.

⁶²The debt limit statute applies to the face amount of certain types of obligations that are "outstanding at one time." 31 U.S.C. § 3101(b). When the Treasury Specials are held by the Secretary, they are no longer "outstanding," for purposes of the debt limit statute.

III.

Any debt issuance capacity under the debt limit statute that would be made available from the Proposed Transaction may be used to issue to the public new debt obligations of the United States to obtain additional funds for the Treasury's cash account, and your issuance of new debt obligations within such debt issuance capacity will not violate the debt limit statute.⁶³

IV.

The Proposed Transaction Is Substantially Similar to Actions that the Secretary and the FFB Took on Several Previous Occasions, and the General Accounting Office Concluded that those Previous Actions Met All Legal Requirements.

Each step of the Proposed Transaction is, as a factual matter, substantially similar to actions taken by the Secretary and the FFB in 1985, 1986, 1987, 1988, 1989, and 1990.⁶⁴

The only difference between those previous actions and the Proposed Transaction is that in the previous actions the Secretary purchased, as investments for the Fund, certain debt

⁶³See generally Memorandum dated November 10, 1995, from Walter Dellinger, Assistant Attorney General, Office of Legal Counsel, to Treasury General Counsel Edward S. Knight, at 6.

⁶⁴On October 9, 1985, the Secretary purchased, as an investment for the Fund, a debt obligation of the FFB in the principal amount of \$5 billion that matured June 30, 1986. On October 25, 1985, the Secretary purchased, as an investment for the Fund, a debt obligation of the FFB in the principal amount of \$3.5 billion that matured June 30, 1986. On October 31, 1985, the Secretary purchased, as an investment for the Fund, a debt obligation of the FFB in the principal amount of \$6.499,990 billion that matured June 30, 1986. Those short-term debt obligations were paid in full on June 30, 1986. On July 31, 1986, the Secretary purchased, as investments for the Fund, debt obligations of the FFB in the principal amounts of \$5 billion, \$5 billion, and \$4.99,990 billion that matured on June 30 of 1987, 1988, and 1989, respectively. Those debt obligations were refunded on their respective maturity dates with new debt obligations of the FFB that the Secretary purchased, as investments for the Fund. Now the Fund holds debt obligations of the FFB in the principal amounts of \$5 billion, \$4.99,990 billion, and \$5 billion that mature on June 30 of 2003, 2004, and 2005, respectively.

obligations that were issued by the FFB itself,⁶⁵ whereas in the Proposed Transaction the Secretary proposes to purchase, as investments for the Fund, certain debt obligations that were issued by USPS and TVA, respectively, and are presently held by the FFB. Except for the difference in the identities of the obligations proposed to be purchased by the Fund, the Proposed Transaction is the same as the previous actions. And, as discussed above, the USPS Debt Obligations and the TVA Debt Obligations are as much lawful investments for government trust funds as are debt obligations issued by the FFB.

The first in this series of previous actions taken by the Secretary and the FFB was the subject of congressional hearings.⁶⁶ At those hearings, the Comptroller General of the United States reported his conclusions regarding that first FFB transaction with the Fund. Those conclusions were:

(1) that there was nothing improper in the FFB issuing debt obligations of the FFB to the Fund because section 9(d) of the FFB Act provides that debt obligations of the FFB shall be lawful investments for all trust funds under the control of the United States;

(2) that the FFB could prepay its own debt owed to the Secretary with Treasury debt obligations acquired by the FFB from the Fund;

(3) that, after doing so, the amount of outstanding Treasury debt obligations would be reduced by the amount Treasury debt obligations that the FFB paid to the Secretary;

(4) that the Secretary could thereupon issue new Treasury debt obligations to the public in an amount equal to the amount of Treasury debt obligations paid by the FFB to the Secretary;

(5) that the legality of the Secretary's actions depended solely on whether the FFB debt obligations issued to the Fund count as debt that is subject to the debt limit statute; and

⁶⁵As set out in footnote 40, *supra*, debt obligations issued by the FFB are lawful investments for all government trust funds under the control of any officer of the United States. FFB Act § 9(d), 12 U.S.C. § 2288(d).

⁶⁶See generally *The Federal Financing Bank and the Debt Ceiling: Hearings Before the Subcomm. on Economic Stabilization of the House Comm. on Banking, Finance, and Urban Affairs, 99th Cong., 1st Sess. (1985).*

(6) that FFB debt obligations issued to the Fund do not count as debt that is subject to the debt limit statute.⁶⁷

Thus, the Comptroller General concluded that the first of the 1985 FFB actions with the Fund met all legal requirements. The Proposed Transaction is substantially similar to that previous action.

V.

The Conclusions Reached in this Opinion Are Consistent with the Conclusions Reached by Past Treasury General Counsels.

In 1982, then Treasury General Counsel Peter J. Wallison also concluded that the FFB could lawfully exchange debt obligations issued by USPS and TVA for special Treasury debt obligations held by government trust funds. In a memorandum to the Treasury Assistant Secretary (Domestic Finance) evaluating the permissibility of, among other options, having the FFB sell to government trust funds certain obligations that the FFB held in its loan portfolio to raise additional funds for the Treasury's cash account during a debt limit impasse, Mr. Wallison concluded:

. . . with respect to the TVA and Postal Service debt now held by the FFB . . . , the obligations are clearly both permissible trust fund investments and not subject to the public debt limit. Any purchases of FFB-held debt would allow the FFB to repay some of its obligations to the Treasury, bringing in cash. Because this type of transaction involves non-limit securities, use of new trust fund cash or cash raised by redeeming specials should not raise any legal difficulties, assuming yields were appropriate.⁶⁸

In 1985, then Treasury General Counsel Robert M. Kimmitt concluded that it would be permissible for the Secretary to use of the authority of the FFB, under section 9(a) of the FFB Act, to issue up to \$15 billion of debt obligations of the FFB outside of the debt limit statute to obtain additional funds for the Treasury's cash account. However, Mr. Kimmitt also concluded that the use of other cash-raising options that would permit the Treasury Department to act for extended periods of time without

⁶⁷Id. at 32.

⁶⁸Memorandum dated May 11, 1982, from Treasury General Counsel Peter J. Wallison to Treasury Assistant Secretary Mehle at 2.

congressional action would be held to be an impermissible evasion of the debt limit. In a memorandum to the Treasury Secretary evaluating the permissibility of, among other options, having the Secretary and the FFB sell their entire loan portfolios to raise additional funds for the Treasury's cash account during a debt limit impasse, Mr. Kimmitt concluded:

To use billions of dollars of special purpose agency debt in effect to raise money to pay the general obligations of the United States for well over a year after the debt limit is reached is to make a mockery of the debt limit.⁶⁹

Significantly, Mr. Kimmitt reached his negative conclusion about the option of selling entire loan portfolios to keep the government operating for extended periods of time after the public debt limit has been reached.

In contrast, I am reaching here a favorable conclusion about a much more limited action, namely, having the FFB sell the relatively small portion of the FFB portfolio made up of the USPS Debt Obligations and the TVA Debt Obligations. My office considered the possibility of having the FFB sell the other obligations held in the FFB portfolio, but each of those other obligations was eliminated for one of two reasons: either (1) it was not free from doubt that the respective obligation qualified as a permitted investment for government trust funds; or (2) if the respective obligation did qualify as a permitted investment for trust funds, it was not free from doubt that a sale of such obligation would make available any additional issuance capacity under the debt limit statute. The USPS Debt Obligations and the TVA Debt Obligations are the only obligations presently held by the FFB as to which I can deliver an favorable opinion without qualification that (1) they may be lawfully sold to any government trust fund, including the Fund, as investments, and (2) their sale will make available additional issuance capacity under the debt limit statute.⁷⁰

Moreover, the Proposed Transaction involving the sale of the USPS Debt Obligations and the TVA Debt Obligations to the Fund is but one of three actions that, when taken together, will keep the government operating for only a very short period. Thus, the Proposed Transaction does not "make a mockery of the debt limit."

⁶⁹Memorandum dated October 16, 1985, from Treasury General Counsel Robert M. Kimmitt to Treasury Secretary Baker, Attachment B at 6. (emphasis added).

⁷⁰The FFB is not selling to the Fund a \$300 million variable rate debt obligation of USPS because it has been determined that debt obligation is not an appropriate investment for the Fund.

Accordingly, the conclusions reached in this opinion are consistent with the conclusions reached by past Treasury General Counsels.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 12, 1996

ACTION ACTION

MEMORANDUM FOR: SECRETARY RUBIN
DEPUTY SECRETARY SUMMERS
THROUGH: UNDER SECRETARY HAWKE JDF
FROM: Gerald Murphy CD
Fiscal Assistant Secretary
SUBJECT: Exchange Stabilization Fund Investments
Subject to the Debt Limit

ACTION FORCING EVENT:

In the absence of an increase in the current statutory debt limit of \$4,900 billion, the ceiling will be exceeded on February 15, 1996. In order to avoid exceeding the limit, we need to temporarily discontinue the reinvestment of the Exchange Stabilization Fund (ESF). Based upon past approvals (copies attached), Treasury has left ESF uninvested many times to avoid exceeding the statutory debt limit.

The discontinuance of reinvestment does not reduce the cash available to ESF to carry out its functions. However, it will result in a loss of some earnings to the ESF. Since, by way of offset, the General Fund pays less interest as a result of this action, there is no net cost to the Government.

As of January 31, 1996, the ESF had a balance of \$3.9 billion invested in Treasury securities subject to the debt limit.

We would appreciate your immediate approval to discontinue the reinvestment of the ESF when needed to avoid exceeding the statutory debt limit.

✓ *ALN*
____ Approved _____ Disapproved _____ Let's Discuss

Attachment: Tab 1 - Past Approved Memoranda



ASSISTANT SECRETARY

~~Administratively Confidential~~

DEPARTMENT OF THE TREASURY
WASHINGTON

JGP, 4/12/80-93006

October 19, 1990

MEMORANDUM FOR: SECRETARY BRADY
DEPUTY SECRETARY ROBSON
THROUGH: UNDER SECRETARY GLAUBER
FROM: Gerald Murphy
Fiscal Assistant Secretary

ACTION FORCING EVENT:

On October 19, 1990 it appears that the debt may come very close to the statutory limit of \$3195.0 billion. There is a possibility that the limit may be exceeded on this day. In order to avoid exceeding the limit we may need to disinvest the Exchange Stabilization Fund (ESF). Based on past approval (copies attached) Treasury has disinvested ESF many times to avoid breaching the debt limit.

These temporary disinvestments do not reduce the cash available to ESF to carry out its functions, but they will result in some loss of earnings to the account. Since by way of offset, the General Fund pays less interest, there is no cost to the Government.

As of March 31, 1990 (see attached unclassified balance sheet), ESF had a balance of \$24.9 billion. However, most of that was held in the form of foreign currencies and SDR's and .9 billion was actually invested in Treasury securities subject to the limit. The current balance sheet could not be attached to this memorandum since it is classified, however it will be made available upon request.

We would appreciate your immediate approval to disinvest if needed.

 JFM Approve _____ Disapprove _____ Other _____

Attachments

~~Administratively Confidential~~

JGP, 4/12/85



DEPARTMENT OF THE TREASURY
WASHINGTON

June 30, 1989

ASSISTANT SECRETARY

MEMORANDUM FOR: SECRETARY BRADY
DEPUTY SECRETARY ROBSON

THROUGH: Under Secretary Glauber *Zg*

FROM: ~~Marcus W. Page~~
Acting Fiscal Assistant Secretary

SUBJECT: Use of E.S.F. for Debt Limit Purposes

ACTION FORCING EVENT:

On July 3, 1989 it appears that the debt may come very close to the statutory limit of \$2,800.0 billion. There is a remote possibility that the limit may be exceeded on this day due to large Social Security investments that take place on the first workday of each month. In order to avoid exceeding the limit we may need to disinvest the Exchange Stabilization Fund (ESF). Based on past approval (copies attached) Treasury has disinvested ESF many times to avoid breaching the debt limit.

These temporary disinvestments do not reduce the cash available to ESF to carry out its functions, but they will result in some loss of earnings to the account. Since by way of offset, the General Fund pays less interest, there is no cost to the Government.

As of December 31, 1988 (see attached unclassified balance sheet), ESF had a balance of \$21.4 billion. However, most of that was held in the form of foreign currencies and SDR's and \$2.3 billion was actually invested in Treasury securities subject to the limit. The current balance sheet could not be attached to this memorandum since it is classified, however it will be made available upon request.

We would appreciate your approval by June 30, 1989 to disinvest and reinvest various amounts on a daily basis, if needed, to accommodate fluctuations in the debt until the limit is increased.

h7n Approve _____ Disapprove _____ Other _____

Attachments

DEPARTMENT OF THE TREASURY
WASHINGTON

October 3, 1986

MEMORANDUM FOR: SECRETARY BAKER
 THROUGH: Under Secretary Gould *RG*
 FROM: Gerald Murphy *GM*
 Fiscal Assistant Secretary
 SUBJECT: Use of E.S.F. for Debt Limit Purposes

It appears likely that the Treasury will have to disinvest the Exchange Stabilization Fund (ESF) in order not to exceed the current debt ceiling (\$2,111 billion). The ESF currently totals about \$483 million. Current estimates indicate the need to fully disinvest the ESF by October 8. Once the debt limit is increased the Fund will be fully invested.

We would appreciate your approval by close of business today, October 3, 1986.

Approval: *GM*

zoellick RZ 10/3

We disinvested
in 1985, help
in September!

attached see

Bk

FILE CODE IRNAME	INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	SE
	F/DACHlodo	F/BADerrick	H/FCavanaugh	H/MBrenner	I/DMilford	GA
INITIALS/DATE	<i>AC</i> / 10/2/86	<i>BA</i> / 10/3	<i>XC</i> / 10/3	<i>WPS</i> / 10/3	<i>DM</i> / 10/3	<i>M</i>



Memorandum



ACTION



BRIEFING



INFORMATION

FOR: SECRETARY BAKER
THRU: Deputy Secretary Darman

DATE: August 28, 1985

FROM: Gerald Murphy *GM*
Acting Fiscal Assistant Secretary

SUBJECT: Debt Subject to Limit

In John Niehenke's memo to Deputy Secretary Darman (copy attached), he indicated that a portion of the Exchange Stabilization Fund (ESF) would have to be disinvested in early September to avoid exceeding the debt limit of \$1823.8 billion. Treasury has disinvested ESF many times in the past to avoid breaching the debt limit. Essentially what we do each day during a crisis is to calculate the total debt as of the preceding day and then disinvest or reinvest ESF to stay within the ceiling.

These temporary disinvestments do not reduce the cash available to ESF to carry out its functions, but they will result in some loss of earnings to the account.

As of June 30, 1985 (see attached balance sheet), ESF had a balance of \$12.9 billion. However, most of that is held in the form of foreign currencies and SDR's and only \$2.3 billion is actually invested in Treasury securities subject to the debt limit. At this time, we anticipate the need to disinvest and reinvest various amounts on a daily basis to accommodate fluctuations in the debt until the limit is increased.

We would appreciate your approval by September 3.

Attachments

APPROVE: *8/29/85*
Jeanne A. Sabotta

cc: Mr. Gould

	INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	SEC:
CODE JRNAME	F:DACHiodo	H:FCavanaugh	H:JNiehenke	I:DMulford	Kimmitt	Cork
INITIALS / DATE	<i>WIC</i> / 8-28	<i>FC</i> / 8-28	<i>JN</i> / 8-28	<i>DM</i> / 8-28	<i>RHK</i> / 8-29	<i>GM</i>

Date: September 4, 1984

MEMORANDUM FOR: SECRETARY REGAN

THRU: Under Secretary Sprinkel *BSR*

From: Carole Jones Dineen
Fiscal Assistant Secretary

Subject: Debt Subject to Limit

On September 6, the debt subject to limit is estimated at \$1574.2 which would be \$1.2 billion over the statutory ceiling. Therefore, it will be necessary on Friday, September 7, to disinvest the Exchange Stabilization Fund by about \$1.2 billion (as of Thursday, September 6). While this amount will be reinvested the next day, there will be several other days through September 20 when the disinvestment of ESF will be necessary to stay under the ceiling. Current estimates indicate a maximum uninvested balance of approximately \$2.0 billion.

These temporary disinvestments do not reduce the cash available to ESF to carry out its functions, but they will result in some loss of earnings to the account.

A separate memo from Tom Healey will advise you further on the debt forecast for the end of September/early October.

Approve: *JMR*
9/7/84

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec
Surname	GMURPHY	THEALEY			Hicks	Stucky
als / Date	<i>GM</i> / 9-4	<i>T</i> / 9-4				<i>ES</i> / 9

TREASURY CLEARANCE SHEET

NO. _____

Date 2-5-96

MEMORANDUM FOR: SECRETARY DEPUTY SECRETARY EXECUTIVE SECRETARY
 ACTION BRIEFING INFORMATION LEGISLATION
 PRESS RELEASE PUBLICATION REGULATION SPEECH
 TESTIMONY *6m* OTHER _____

FROM: Gerald Murphy, Fiscal Assistant Secretary
 THROUGH: Under Secretary Hawke *2/12/96*
 SUBJECT: Exchange Stabilization Fund Investments Subject to Debt Limit

REVIEW OFFICES (Check when office clears)

- | | | |
|--|--|---|
| <input type="checkbox"/> Under Secretary for Finance | <input type="checkbox"/> Enforcement | <input type="checkbox"/> Policy Management |
| <input type="checkbox"/> Domestic Finance | <input type="checkbox"/> ATF | <input type="checkbox"/> Scheduling |
| <input type="checkbox"/> Economic Policy | <input type="checkbox"/> Customs | <input type="checkbox"/> Public Affairs/Liaison |
| <input type="checkbox"/> Fiscal | <input type="checkbox"/> FLETC | <input type="checkbox"/> Tax Policy |
| <input type="checkbox"/> FMS | <input type="checkbox"/> Secret Service | <input type="checkbox"/> Treasurer |
| <input type="checkbox"/> Public Debt | <input type="checkbox"/> General Counsel | <input type="checkbox"/> E & P |
| <input type="checkbox"/> Under Secretary for International Affairs | <input type="checkbox"/> Inspector General | <input type="checkbox"/> Mint |
| <input type="checkbox"/> International Affairs | <input type="checkbox"/> IRS | <input type="checkbox"/> Savings Bonds |
| | <input type="checkbox"/> Legislative Affairs | <input type="checkbox"/> Other _____ |
| | <input type="checkbox"/> Management | |
| | <input type="checkbox"/> OCC | |

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
DMonroe	<i>DM</i>	<i>2/5/96</i>	Cash and Debt Management	622-0580
REVIEWERS				
DChiodo	<i>DC</i>	<i>2/5/96</i>	Cash and Debt Management	622-0580
DBradbury	<i>DB</i>	<i>2/5</i>	Federal Finance	622-2710
EKnight	<i>ES</i>	<i>2/6/96</i>	General Counsel	622-0287
JShafer	<i>JS</i>	<i>2/6/96</i>	International Affairs	622-0060
<i>T Coit</i>	<i>TC</i>	<i>2/6/96</i>	IA	<i>622-0656</i>
<i>John Bowman</i>	<i>JB</i>	<i>2/6</i>	GC	
<i>Russ Munk</i>	<i>RM</i>	<i>2/6</i>	GC	

SPECIAL INSTRUCTIONS

Review Officer _____ Date _____ Executive Secretary _____ Date _____



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

UNDER SECRETARY

March 15, 1996

The Honorable Newt Gingrich
Speaker
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

Secretary Rubin has asked me to bring you up to date on debt limit developments since my letter to you of February 26, and to give you a current report on Treasury's projected cash and debt positions for the balance of this month. He has also asked that I convey his appreciation for the temporary debt limit action recently taken by the Congress, and for the Leadership's constructive comments about the need to resolve the debt limit issue by passing longer term legislation prior to the expiration of the current temporary debt limit measure.

In my last letter I noted that our March 12 announcement of the regular bill auction scheduled to be conducted on March 18 would have to be made conditional absent some debt limit action by the Congress. With the passage of H.R. 3021 on March 7, however, we were able to make a timely and unconditional announcement of that auction. As a consequence, we will be able to raise sufficient funds to redeem the \$25.5 billion in bills maturing on March 21.

H.R. 3021 was signed into law on March 12 as Public Law No. 104-115. Under the terms of that legislation, the Secretary of the Treasury is authorized to issue obligations, exempt from the debt limit, in respect of amounts deposited in federal trust funds and government accounts (a) on or after March 15 (or such earlier on which the Secretary would not otherwise be able to issue such obligations), and (b) before March 30. This new authority was first used on March 13, when amounts were received for deposit in certain trust funds that, but for the exemption provided in Public Law 104-115, could not have been invested in Treasury obligations because of insufficient debt limit leeway. Pursuant to the new exemption, however, these deposits were fully invested, and all other deposits received before March 30 will also be fully invested. In addition, obligations held by trust funds and government accounts that mature during this period will be reinvested under the terms of the new legislation.

On March 19, we plan to announce, unconditionally, a regular weekly bill auction to be held March 25, which will provide sufficient funds to redeem the \$24.7 billion in bills that mature on March 28.

Subsequent auctions, however, may have to be announced conditionally in the absence of a further debt limit increase. Specifically, on March 20, we are scheduled to announce the amounts of 2- and 5-year notes to be auctioned on March 27 and 28, respectively, and to be

issued and paid for on April 1. On March 22, we are scheduled to announce the amount of 52-week bills to be auctioned on March 28, and issued and paid for on April 4. And on March 26, we are scheduled to announce the amounts of 13- and 26-week bills to be auctioned on April 1, and issued and paid for on April 4.

If there is no debt limit increase, or assurance of a debt limit increase, by the time of the scheduled announcement date for any of these auctions, such announcement will state that the auction will be held only if Treasury has assurance of its ability to issue the securities on the scheduled issuance date without exceeding the debt limit. As I mentioned in my February 26 letter, we strongly prefer not to make such conditional announcements because they prohibit "when-issued" trading in the securities to be auctioned. Dealers may thus be less able to pre-market the securities, and their risk of participating in the auction may thus be increased, raising the government's costs of borrowing.

On March 30, absent further action by the Congress, the exemptions provided in Public Law 104-115 will expire, and all of the outstanding debt issued pursuant to Public Laws 104-103 and 104-115 will become subject to the debt limit. This will raise the amount of outstanding debt to a level substantially in excess of the current debt limit. Because outstanding debt will be in excess of the debt limit on March 30, Treasury will be immediately disabled from issuing any additional debt. Accordingly, we will be unable to issue securities to the public or to any trust fund or federal account, including securities that would otherwise be issued to roll over maturing investments.

On April 1, approximately \$28.6 billion in Treasury securities mature and must be redeemed. We do not currently project that we will have sufficient cash available for the required redemption of these maturing securities absent a debt limit increase. In addition, on April 1 we project that there will be approximately \$13 billion in receipts and rollovers to be invested for federal trust funds and government accounts, of which approximately \$1.9 billion will be for the Social Security and Medicare funds. Unless Congress acts to increase the debt limit before that time, we will be unable to issue new securities for investments or to redeem those maturing. As you know, the statutes governing these funds and accounts (other than the Civil Service Retirement and Disability Fund and the G Fund) have no provision for automatic restoration of interest lost as the result of Treasury's inability to invest receipts or to roll over maturing investments.

Also on April 1, absent any authority to issue debt, it is likely, based on our current projections, that the Treasury will not be able to pay \$6.4 billion of interest due on outstanding securities, as well as \$11.8 billion of other payments, including military, civil service, veterans' and railroad retirement benefits, and military active duty pay. On April 3, we would be unable to make \$21.3 billion of payments, including Social Security benefits.

Let me say again that our cash and debt projections are subject to change to reflect the actual volumes of daily receipts and expenditures that we experience. We will keep you

informed of any changes that would materially affect the projections that we have set forth in this letter.

We understand that Congress expects to act to increase the debt limit before March 29. We continue to believe that it is of great importance for Congress to resolve the uncertainties surrounding the debt limit by promptly enacting a long-term increase acceptable to both Congress and the President, as the Congressional Leadership pledged to the President on February 1. Secretary Rubin looks forward to working with Members of Congress to achieve this objective.

Sincerely,



John D. Hawke, Jr.
Under Secretary of the Treasury
for Domestic Finance

cc: Congressional Leadership
Committee Chairmen
Ranking Members