

May 14, 2002

The Honorable Tom Daschle
Majority Leader
United States Senate
Washington, DC 20510

Dear Mr. Leader:

Absent other actions, the Federal government's debt subject to limit will rise above the current statutory ceiling of \$5,950 billion no later than May 16. I am writing to inform you of actions the Treasury must take to avoid reaching the current statutory debt limit, and to reiterate the Administration's request for a permanent increase of \$750 billion.

To manage debt subject to limit, the Treasury will initially take those extraordinary actions that it can reverse once the debt ceiling has been raised. First, Congress has explicitly authorized the Secretary of the Treasury to suspend or redeem investments in two funds for this purpose: the Government Securities Investment Fund of the Federal Employees Retirement System (G-Fund), and the Civil Service Retirement and Disability Fund (CSRDF). For purposes of these statutes, I have determined that a "debt issuance suspension period" will begin no later than May 16, 2002 and will last until June 28, 2002.

I am notifying you, as required under 5 U.S.C. § 8348 (1)(2) and 5 U.S.C. § 8438(h)(2), that by reason of the public debt limit, it is my determination that I will be unable to invest fully the portion of the CSRDF not immediately required to pay beneficiaries, and that I will be unable to invest fully the G-Fund. Therefore, during the debt issuance suspension period, I will redeem a portion of the investments held by the CSRDF, as authorized by law; and I will suspend the full investment of the G-Fund, as authorized by law. These actions will open an additional \$44 billion in borrowing capacity under the limit. Beneficiaries will be fully protected and will suffer no adverse consequences. The statutes require that the Treasury restore all due interest and principal to these funds as soon as this can be done without exceeding the public debt limit.

Second, to reduce borrowing as much as possible during this period, the Treasury will actively manage and draw upon as needed all available cash resources, approximately \$30 billion as of today, subject to the necessity of maintaining prudent cash balances to meet the government's payment obligations.

Based on current Treasury forecasts, these actions should be sufficient to enable us to finance the government's operations through mid-June. Uncertainty about projected debt subject to limit rises in the second half of June, in particular because of tax receipts

due on June 17. During this period, as necessary, the Treasury will take further extraordinary actions that have been previously utilized under established legal authority. However, based on the information now available to me, these additional devices at my disposal will be insufficient to manage debt subject to limit beyond June 28. On June 28, Treasury must credit an interest payment of approximately \$67 billion to various federal trust funds, including Social Security. This payment is projected to exceed Treasury's flexibility in managing debt subject to limit.

These devices could also be exhausted earlier than June 28 because of uncertainty associated with federal receipts in mid-June. I will alert you as soon as possible if that should prove to be the case.

However, in order to meet the government's payment obligations in the first week of July, sufficient confidence as to our sources of funding must be established by June 26 in order to ensure timely processing.

I again urge Congress to pass the President's request for a permanent \$750 billion increase in the debt ceiling as soon as possible.

Sincerely,

Paul H. O'Neill