



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

March 13, 2015

The Honorable John A. Boehner
Speaker
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

I am writing to follow up on my March 6 letter regarding the debt limit.

As you know, in February 2014, Congress passed the Temporary Debt Limit Extension Act, suspending the statutory debt limit through March 15, 2015. Beginning on Monday, March 16, the outstanding debt of the United States will be at the statutory limit. In anticipation of reaching that date, Treasury has suspended until further notice the issuance of State and Local Government Series securities, which count against the debt limit.

Because Congress has not yet acted to raise the debt limit, the Treasury Department will have to employ further extraordinary measures to continue to finance the government on a temporary basis. Therefore, beginning on March 16, I plan to declare a "debt issuance suspension period" with respect to investments of the Civil Service Retirement and Disability Fund and also suspend the daily reinvestment of Treasury securities held by the Government Securities Investment Fund of the Federal Employees' Retirement System Thrift Savings Plan. These actions have been employed during previous debt limit impasses and are described in the appendix to this letter.

Protecting the full faith and credit of the United States is the responsibility of Congress, because only Congress can extend the nation's borrowing authority. No Congress in our history has failed to meet that responsibility. The creditworthiness of the United States is not a bargaining chip, and I again urge Congress to address this matter without controversy or brinksmanship.

Accordingly, I respectfully urge Congress to raise the debt limit as soon as possible.

Sincerely,

Jacob J. Lew

Identical letter sent to:

The Honorable Nancy Pelosi, House Democratic Leader
The Honorable Mitch McConnell, Senate Majority Leader
The Honorable Harry Reid, Senate Democratic Leader

cc: The Honorable Paul Ryan, Chairman, House Committee on Ways and Means
The Honorable Sander M. Levin, Ranking Member, House Committee on Ways and Means
The Honorable Orrin G. Hatch, Chairman, Senate Committee on Finance
The Honorable Ron Wyden, Ranking Member, Senate Committee on Finance
All other Members of the 114th Congress

Enclosure

APPENDIX

Description of the Extraordinary Measures

Secretaries of the Treasury in both Republican and Democratic administrations have used their authority to take certain extraordinary measures in order to prevent the United States from defaulting on its obligations as Congress deliberated on increasing the statutory debt limit. Four of these extraordinary measures are available at this time. The other measures that have been taken in the past are either unavailable or of limited use.

The extraordinary measures currently available are: (1) suspending sales of State and Local Government Series Treasury securities; (2) redeeming existing, and suspending new, investments of the Civil Service Retirement and Disability Fund and the Postal Service Retirees Health Benefit Fund; (3) suspending reinvestment of the Government Securities Investment Fund; and (4) suspending reinvestment of the Exchange Stabilization Fund. These measures are described in more detail below.

1. State and Local Government Securities

The Treasury Department has authority to suspend its issuance of State and Local Government Series Treasury securities (SLGS). This however, is a limited measure that does not create headroom under the debt limit.

SLGS are special purpose Treasury securities issued to state and local government entities. In ordinary times, the Treasury Department issues SLGS to state and local governments to assist these governments in complying with Federal tax laws when they have cash proceeds to invest from their issuance of tax exempt bonds. When Treasury issues these securities, they count against the debt limit. There is no statutory or other requirement for the Treasury Department to issue SLGS; they are issued in order to assist state and local governments, and Treasury may suspend SLGS sales as the debt subject to limit approaches the debt limit.

This action does not free up headroom under the debt limit. Rather, it conserves headroom (*i.e.*, it eliminates increases in debt that would count against the debt limit if issued). Approximately \$4 to \$17 billion in SLGS is issued per month, although this amount is subject to substantial variation from month to month. Some state and local governments issuing certain types of new debt after the SLGS sales are suspended will have to invest the proceeds in alternative assets in order to remain in compliance with tax law.

2. Declaring a “Debt Issuance Suspension Period”

Once the debt limit has been reached, Treasury has authority to take actions regarding investments under the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree Health Benefits Fund (PSRHBF).

a. Declaring a “Debt Issuance Suspension Period”

The CSRDF provides defined benefits to retired and disabled Federal employees covered by the Civil Service Retirement System. The fund is invested in special-issue Treasury securities, which count against the debt limit. Congress has given Treasury statutory authority to take certain actions in the event of a debt limit impasse. Specifically, the statute authorizes the Secretary of the Treasury to determine that Treasury will be unable to fully invest the CSRDF and that a “debt issuance suspension period” exists. Once the Secretary has done so, Treasury can (1) suspend new investment, and (2) redeem certain existing investments held by the CSRDF.

The Secretary of the Treasury does not have unlimited discretion to declare a debt issuance suspension period. Under the statute that governs the CSRDF, the term “debt issuance suspension period” means a period of time that the Treasury Secretary determines that Treasury securities cannot be issued without exceeding the debt limit. The determination of the length of the period must be based on the facts as they exist at the time.¹

Declaring a debt issuance suspension period is a limited measure that relates only to the CSRDF; it has no impact on any other investments or any other portion of the debt. Moreover, it only provides limited additional time. For each month of a declared debt issuance suspension period, approximately \$6.8 billion in headroom is freed up through the early redemption of existing investments held by the CSRDF. Thus, a three-month debt issuance suspension period, for example, would free up approximately \$20 billion in headroom at the beginning of the debt issuance suspension period.² However, because these redemptions would have otherwise occurred over the course of the debt issuance suspension period, as of the end of the debt issuance suspension period there is no net increase in headroom created as a result of the early redemption.

During a debt issuance suspension period, civil service benefit payments would continue to be made as long as the United States has not yet exhausted the extraordinary measures. Once the extraordinary measures have been exhausted, however, the U.S. Government will be limited in its ability to make payments across the government. After the debt limit impasse has ended, the

¹ This determination does not preclude the Secretary from making a new determination at a later time with respect to the period of time that securities cannot be issued without exceeding the debt limit, including as the result of any consideration of changed circumstances.

² The statute governing the CSRDF gives Treasury authority to redeem existing Treasury securities held by the CSRDF in an amount up to the amount of civil service benefit payments authorized to be made from the CSRDF during the debt issuance suspension period. 5 U.S.C. § 8348(k). Treasury makes approximately \$6.8 billion in civil service benefit payments from the CSRDF each month. Therefore, declaring a three-month debt issuance suspension period would allow Treasury to redeem approximately \$20 billion of the Treasury securities held by the CSRDF, freeing up approximately \$20 billion in headroom. The statute also authorizes Treasury to suspend new investments by the CSRDF. The CSRDF receives approximately \$2.5 billion in new employer and employee contributions each month. Therefore, each month approximately \$2.5 billion in headroom that would otherwise be used is conserved.

statute provides that the CSRDF is to be made whole.³ Therefore employees and retirees are unaffected by these actions.

b. One-time measure available in June.

The same statute that authorizes Treasury to redeem existing investments during a debt issuance suspension period also authorizes Treasury to suspend new investments by the CSRDF. On June 30, an estimated \$46 billion in CSRDF investments mature. In addition, an interest payment of an estimated \$15 billion is scheduled to be made to the fund on that date. Ordinarily the proceeds of the maturing investments would be reinvested and the interest payment would be invested. If, however, a debt issuance suspension period is in place at this time, Treasury may suspend these investments.⁴ Suspending these investments would free up and conserve a combined total of approximately \$60 billion in headroom. In addition, the Postal Accountability and Enhancement Act of 2006 provides that investments in the PSRHBF shall be made in the same manner as investments for the CSRDF. Investing the PSRHBF in the same manner as the CSRDF would free up approximately \$5 billion in headroom.⁵ It should be understood that this suspension of investment is a one-time measure: it is only available at the end of June.

3. G Fund

Once the debt limit has been reached, Treasury may also suspend the daily reinvestment of the Treasury securities held by the Government Securities Investment Fund (G Fund) of the Federal Employees' Retirement System Thrift Savings Plan.

The G Fund is a money market defined-contribution retirement fund for Federal employees. The fund is invested in special-issue Treasury securities, which count against the debt limit. The entire balance matures daily and is ordinarily reinvested. Congress has granted Treasury the statutory authority to suspend reinvestment of all or part of the balance of the G Fund when the Secretary determines that the fund cannot be fully invested without exceeding the debt limit.⁶

³ After the debt limit impasse has ended, Treasury is required to put the CSRDF investment portfolio into the position it would have been in if the impasse had not occurred, and to restore lost interest on the next regularly scheduled interest payment date on the Treasury securities held by the CSRDF.

⁴ Similarly, on September 30, the CSRDF will receive a statutory contribution of approximately \$35 billion from the general fund of the Treasury, and on December 31 an interest payment of an estimated \$15 billion is scheduled to be made to the CSRDF. Ordinarily, these contributions would be invested. If, however, a debt issuance suspension period is in place on the particular dates when these contributions are made, Treasury may suspend these investments.

⁵ On June 30, approximately \$4 billion in PSRHBF investments mature, and an interest payment of approximately \$1 billion is due. Ordinarily the proceeds of the maturing investments would be reinvested and the interest payment would be invested. But with the investment suspension authority available, Treasury may suspend these investments. Treasury is not scheduled to make any payments from the PSRHBF in the near future. Therefore, declaring a debt issuance suspension period would not allow Treasury to redeem Treasury securities held by the PSRHBF.

⁶ 5 U.S.C. § 8438(g).

Using this measure immediately frees up headroom under the debt limit. Because the G Fund balance is approximately \$195 billion, using this measure can immediately create up to approximately \$195 billion in headroom.

During the period of the investment suspension, payments from the G Fund continue to be made as long as the United States has not yet exhausted the extraordinary measures. Once the extraordinary measures have been exhausted, however, the U.S. Government will be limited in its ability to make payments across the government. After the debt limit impasse has ended, the G Fund is made whole.⁷ Therefore participants in the Thrift Savings Plan who contribute to the G Fund are unaffected by the actions described above.

4. Exchange Stabilization Fund

Treasury may also suspend the daily reinvestment of Treasury securities held by the Exchange Stabilization Fund (ESF).

The ESF has a number of uses, including purchasing or selling foreign currencies. A portion of the ESF is held in U.S. dollars, and the dollar-balance of the ESF is invested in special-issue Treasury securities, which count against the debt limit. The entire dollar-balance matures daily. There is no requirement that the Treasury Department invest the ESF, so Treasury may suspend all or part of the investment of the dollar-balance of the ESF during a debt limit impasse.

Suspending the daily reinvestment of the dollar-balance of the ESF immediately frees up headroom under the debt limit. Because the dollar-balance of the ESF is approximately \$23 billion, this would create up to approximately \$23 billion in headroom.

After a debt limit impasse, the interest lost by the ESF is not restored: there is no existing authority to reimburse the ESF for lost interest during the period that the dollar-balance is not invested.

* * *

Other Measures Used in the Past Are No Longer Available or of Limited Use

The other measures that have been used in past debt limit impasses in order to postpone the date by which the debt limit needed to be increased are either not available or of limited use.

First, although in the past Treasury Secretaries have suspended the issuance of U.S. savings bonds to the public, doing so now would be of little benefit. Suspending the issuance of

⁷ Treasury is required to restore lost interest on the next business day.

U.S. savings bonds would not free up any headroom under the debt limit. As is the case with suspending sales of SLGS, suspending the sales of savings bonds would only eliminate increases in debt that would count against the debt limit if the securities were issued. Moreover, suspending such sales conserves very little headroom.⁸ Second, measures relating to the Federal Financing Bank (FFB) are of limited use.⁹ Third, a measure previously used, involving the calling in of cash that Treasury kept on deposit at banks, is no longer available: Treasury no longer keeps these balances.¹⁰ Finally, Congress has in the past provided one-time tools in the midst of a debt limit impasse;¹¹ those authorities expired nearly 19 years ago.

Asset Sales

Although the U.S. Government owns other assets, such as gold, there are prudential or legal limitations on its ability to sell these assets. Selling the nation's gold to meet payment obligations would undercut confidence in the United States both here and abroad, and would be extremely destabilizing to the world financial system. With respect to financial assets acquired as part of the response to the financial crisis in 2008 and 2009, Treasury has already sold most of these assets and is conducting an orderly wind-down of the remaining investments. A fire sale of these assets, however, would be disruptive and would harm taxpayer interests. Similar considerations argue against fire sales of other public assets. And, in any event, asset sales would not generate sufficient revenue to make an appreciable difference in when the debt limit must be raised. Finally, for both legal and practical reasons, sale of the government's portfolio of student loans is not feasible. For these reasons, Secretaries of the Treasury of both parties have concluded that asset sales are not a prudent or viable alternative to increasing the debt limit.

⁸ Sales of savings bonds increase the amount of debt by less than \$100 million per month on average.

⁹ In the past, Treasury was able to free up headroom under the debt limit by entering into multi-step exchange transactions with FFB and the CSRDF, swapping obligations that do not count against the debt limit for an equal amount of Treasury securities held by the CSRDF that do count against the debt limit. In each case, FFB used the Treasury securities that it received from the CSRDF to pay down its borrowings from Treasury. Treasury extinguished the Treasury securities received from the FFB to create headroom. The potential to use such an exchange transaction is of limited use at this time because FFB has a limited amount of obligations available to exchange.

¹⁰ In the past, Treasury had an ability to increase its cash balance without increasing debt by calling in the non-interest-bearing balances that Treasury formerly kept on deposit at banks to compensate them for fiscal services they provided to Treasury. That option is no longer available because Treasury discontinued keeping those "compensating balances" after Congress appropriated funding to Treasury in 2004 to pay directly for fiscal services.

¹¹ Specifically, in 1996, in order to enable Treasury to pay the March 1996 Social Security benefits, Congress passed legislation that permitted Treasury to issue a limited amount of Treasury securities that were temporarily excluded from being counted against the debt limit. In addition, Congress passed legislation that temporarily excluded from being counted against the debt limit the new Treasury securities that Treasury issued to federal trust funds in March 1996 to invest new trust fund receipts and to reinvest the proceeds of maturing trust fund investments. Those exclusions from the debt limit expired on March 30, 1996.