

We are now following up with the executive agencies to review the actions which they have taken since the circular became effective about a year ago. We have not completed our reviews but, on the basis of preliminary findings, we think progress has been reasonably satisfactory. For example, organizational and staffing arrangements have been completed by the agencies for assuring that the policies and procedures in A-76 are being effectively applied. The inventorying of commercial and industrial type products and services required by section 7 of the circular is proceeding and the provisions of the circular with respect to "new starts" are being implemented. Also, the reviews of existing commercial and industrial type activities, required by the circular to be completed by June 30, 1968, have been started.

We also asked the agencies to describe the problems they have encountered in applying the guidelines in the circular, along with suggestions for changes that would eliminate or alleviate such problems. In response to this request, we found that, of the 26 agencies queried, less than half had problems or suggestions for improvement of the circular. Suggestions related almost entirely to the need for clarification or refinement of the provisions of the circular without changing any of its basic policies or requirements. We are working now on a revision of A-76 to reflect these changes.

Some suggestions for change, however, would have an impact upon the substantive provisions of the circular. One of these relates to inclusion in the comparative cost statements of State and local taxes, that is, the Government cost of supplying a commercial or industrial product or service would be increased to include these taxes. Present provisions of A-76 provide for including Federal taxes foregone, but not State and local taxes. The other suggestion that would have an impact on the substantive provisions of the circular would change the 10-percent differential for new starts. As it stands now, new starts by the Government of commercial or industrial activities involving a capital investment of \$25,000 or more, or additional annual costs of production of \$50,000 or more, ordinarily will not be approved unless the Government's costs will be at least 10 percent less than costs of obtaining the product or service from commercial sources. This provision was adopted originally in order to allow a margin, or leeway, for uncertainties such as early obsolescence, miscalculation of maintenance and production costs, State and local taxes, et cetera. The suggestion made is to raise the 10-percent margin to 15 percent, but apply it only to new starts involving additional capital investment.

In the case of both these suggestions, we feel we need more study and experience before reaching a conclusion. The new circular, the committee may recall, has been in effect now for only a little more than 1 year, and none of the agencies with significant commercial or industrial type activities has completed the work required of them by the circular. Our initial estimate of the situation is that while the suggestion relating to State and local taxes would not have a significant impact, the one concerning "new starts" might. We want to be certain we are moving in the right direction on both these important matters before changing the circular.

As the committee has recognized, a great deal of Agency work is required by the provisions of A-76, the results of which cannot be