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UNITED STATES MINT

BEFORE THE HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY, TRADE AND TECHNOLOGY

General Coin Issues and
H.R. 5077, "Numismatic Rarities Certainty Act of 2006"
JULY 19, 2006

Chairman Pryce, Representative Maloney, members of the subcommittee, the United States Mint welcomes this opportunity to report to you today. I am pleased to say that the United States Mint has never been busier, with 35 new coins at some stage of design and production, in addition to the manufacture of circulating coins for commerce at an average rate of 70 million per day. In the past year, we have launched many popular coins and coin products authorized by Congress, including five state quarters in the 50 State Quarters® series, the final two nickels in the Westward Journey Nickel Series, the John Marshall and Ben Franklin commemorative coins, the sold-out Marine Corps commemorative coin and American Legacy coin set and, most recently, the 24-Karat American Buffalo Gold Proof Coin and Bullion program. While we are pleased with the success of all of these programs, we are particularly proud of the success of the 24-karat program, which we were able to execute and offer to the public less than six months from the date of enactment of Public Law 109-145.

Despite significant challenges presented by rising base metal prices and increasing use of electronic transactions, the United States Mint has increased total revenue, cut costs, increased funds returned to the Treasury and made its products accessible to more and more Americans. Moreover, in Fiscal Year 2005, the United States Mint transferred

$775 million to the Treasury General Fund, an increase of $110 million over Fiscal Year 2004.

Total revenue increased by 7.3% to $1,771.0 million as both circulating and numismatic (non bullion) lines of business realized revenue increases. Circulating revenue from coins shipped to the Federal Reserve Bank (FRB) increased 15 percent to $1,114.8 million in Fiscal Year 2005. Demand for circulating quarters increased 18 percent to $663.9 million, and demand for the circulating Sacagawea dollar coin increased by 120 percent to $70.1 million. Numismatic program profits increased 78 percent from $44.1 million in Fiscal Year 2004 to $78.7 million in Fiscal Year 2005.

The United States Mint has reduced costs by producing coins more efficiently. We have embraced a lean manufacturing approach that has resulted in significant improvements in our manufacturing processes and overall efficiency. We are also working to extend die life, standardize equipment and improve automation. We have introduced new technologies to improve our design capabilities. The old coin design method--a drawing by hand turned into a clay model followed by a plaster model to be traced and cut into steel--is being replaced with a digital design process--a computer drawing scanned into an engraving machine.

Despite average metal price increases from Fiscal Year 2004—nickel by 13%, copper by 30%, and zinc by 25%--the unit cost of four out of six circulating coin denominations actually decreased in Fiscal Year 2005. But, as I stated in my letter to the Committee on

Financial Services on May 1, 2006, base metal prices have recently climbed dramatically. In Fiscal Year 2005, the United States Mint produced one-cent coins at a unit cost of $0.0097 and produced five-cent coins at a unit cost of $0.0484. These unit costs are the sum of four elements: metal, fabrication, labor/overhead and transportation. A variety of factors determines annual coin production costs, including quality and valuation of inventory, production volume, and metal costs. Therefore, current costs do not necessarily predict annual year-end results. At this point in time, the year-to-date cost of producing a penny and a nickel, using our existing metal inventory, is above face value (1.12 cents and 5.11 cents respectively). However, producing pennies and nickels using metal purchased at recent prevailing prices and assuming all other factors are unchanged, would result in a unit cost for the penny of approximately 1.4 cents and a unit cost for the nickel of approximately 7.0 cents. We look forward to working with Congress on this important issue.

Conversion costs refer to the costs of converting metal into coins. The ability to keep conversion costs down is critical to our success because of the rising cost of metal and fabrication—costs we cannot control. We have reduced our conversion cost per 1,000 coin equivalents by 26 percent over the past two years—from $9.96 in Fiscal Year 2003, to $7.93 in Fiscal Year 2004, and to $7.42 in Fiscal Year 2005. We expect further gains in efficiency in Fiscal 2006 and beyond.

During the past three years we have also significantly reduced General and Administrative (G&A) costs. From Fiscal Year 2002 to 2005, we reduced G&A

expenses by 13 percent. This was accomplished by workforce streamlining and improved business processes, including time to market. In other words, we have speeded up the process of moving coins from legislation or authorization to sale and delivery to our customers. By improving time to market, we can offer our customers more products throughout the year and spend less time and money on pre-sales activities. Our focus on production planning and reducing time to market allowed us to release our 2005 annual products 21 to 141 days earlier than they were in 2004.

While improving our business and manufacturing efficiencies, we have maintained the integrity of our financial management systems. We have had 12 consecutive clean opinions. An internal audit required by OMB Circular A-123 and a recently completed independent annual audit of the United States Mint found no material weakness.

The United States Mint has vastly improved its safety record in the last three years and continues to emphasize safety. We reduced our Lost Time Accident (LTA) Rate from 5.0 per 200,000 hours worked in Fiscal Year 2000 to .8 at present. From Fiscal Year 2004 to Fiscal Year 2005 alone, we decreased LTAs by 31 percent. The Philadelphia facility received the Voluntary Protection Programs' STAR status from the Occupational Health and Safety Administration in 2005, its top award. This came only three years after the facility had been shut down for six weeks over safety concerns.

The United States Mint has also improved its environmental management. In May, we received the 2006 White House *Closing the Circle Award* for excellent environmental management systems. The award recognizes Federal agencies and employees for outstanding achievement in environmental stewardship.

The United States Mint is engaged in workforce streamlining to meet its human resource needs. The current number of employees is 1944, down from more than 2800 in Fiscal Year 2000. We have transferred a number of HR functions to the Bureau of Public Debt's Administrative Resource Center (ARC), a center of excellence under the Administration's line of business initiative. ARC will also take over some functions under the Office of the Chief Financial Officer such as components of procurement, accounting and finance.

The United States Mint consistently ranks at the highest levels in customer satisfaction among government agencies and scores higher than private industry benchmarks for customer satisfaction. From 1999 through 2005, we have ranked at the top among federal agencies measured in the American Customer Satisfaction Survey. We monitor customer satisfaction internally in three ways: quality, as measured by the number of returns; efficiency, measured by orders fulfilled in seven days or less; and quarterly customer surveys.

The United States Mint's high level of performance continues in the current fiscal year. Despite rising metal prices since 2004, and significant price increases in Fiscal Year 2005, we currently project a transfer of approximately $800 million to the Treasury General Fund in Fiscal Year 2006.

Last month we launched the 38th quarter in the most popular coin program in the history of the United States, the 50 State Quarters® program. More than 140 million state quarters collectors are counting down the remaining 12 states, as this wonderfully successful coin program comes to an end.

Currently, the United States Mint is energetically implementing the requirements of the Presidential $1 Coin Act of 2005. In accordance with Public Law 109-145, we minted and issued the Nation's first 24-Karat American Buffalo Gold Coin within six months of the law's enactment. The initial success of the 24-Karat program is significant. In the first three weeks of the program, we sold nearly a quarter of a million ounces of 24-karat gold totaling more than $150 million in revenue.

The other important elements of the Presidential $1 Coin Program are proceeding on schedule, with Presidential coin designs completed and approved and the required hubs, plates and dies now in production. Designs for the First Spouse gold coins and bronze medals are in development. For the first time we will employ edge lettering on a circulating coin, allowing the date, mint mark and inscriptions "In God We Trust" and "E Pluribus Unum" to be incused into the edge.

Together with the Federal Reserve System, the United States Mint hosted a well-attended and well-received coin-users group forum on June 8th to discuss how to maximize circulation and acceptance of $1 coins. Attending were representatives from depository institutions, armored car operators, food and beverage services, vending and coin manufacturers, vending machine owners and operators, car washes and laundries, transit and parking authorities, coin dealers and collectors, and federal entities. We will continue to work closely with the Federal Reserve System and financial institutions, retailers, vendors, federal agencies and other coin users cited in the legislation in the coming months to increase circulation and acceptance of dollar coins. In coordination with the Federal Reserve System, we are devising a plan to place pre-orders from banks beginning in November.

In August, we will hold a Presidential $1 Coin outreach forum with coin collectors at the American Numismatics Association's conference. We are organizing a forum with retailers, and working with the Federal Reserve Board to participate in upcoming Cash Advisory Committee meetings with large-scale depository institutions. We are also exploring regional opportunities with smaller depository institutions to facilitate participation by large retail chains and armored car operators.

Customer surveys conducted early this year along with a demand and acceptance study will help us gauge potential demand for the Presidential $1 Coins and First Spouse coins and medals, and provide insights into appropriate production levels and distribution strategies. By early September, we will have enlisted the help of an experienced public relations firm to assist us in launching a public information and awareness campaign to ensure that the public, and consumers in particular, know of the availability of the coins. We expect to conduct this campaign consistent with the Sense of Congress that the coins "should not be introduced with an overly expensive taxpayer-funded public relations campaign." Through the fall and winter, we will create strong public awareness and build anticipation for the inauguration of the Presidential $1 Coin Program and the launch of the first Presidential $1 coin honoring George Washington on President's Day, February 19, 2007.

We look forward and are committed to a successful program.

H.R. 5077 Numismatic Rarities Certainty Act of 2006. We turn from general information on recent United States Mint performance to the specific matter of H.R. 5077, a bill which, if passed and approved, would become the "Numismatic Rarities Certainty Act of 2006." This bill contains several key provisions, including the creation of an inventory of coins, medals and numismatic items in the Government's possession; an authorization to destroy certain coins, medals and numismatic items; and a requirement to transfer the proceeds from the sale of excess coins, medals and numismatic items to the Smithsonian Institution. The most significant provision, however, would summarily terminate the public's ownership of any coin, medal or numismatic item made prior to January 1, 1933, if such item is not then in the possession of the United States Government as of the date of enactment.

The United States Mint's mission is to fulfill our congressionally mandated role as the Nation's coiner of money and, as we have done since 1792, we will continue to mint and issue coins, medals and numismatic items as authorized by legislation. In the broader context, the production, integrity, use, and security of our money is central to the

Treasury Department's mission and responsibilities. The United States Mint, in particular, has been vigilant in its efforts to ensure the security of its production facilities and the integrity of its operations. In recent years these efforts have included working with the Department of Justice and Federal law enforcement agencies, including the Secret Service and the Treasury Inspector General, to investigate instances of counterfeiting and allegations of internal theft and unauthorized production of numismatic rarities within our mints.

We are very proud of the successful efforts of our United States Mint Police in preventing and deterring such behavior. It was not long ago—in the late 1990's—that some of your colleagues had questioned whether the United States Mint was taking sufficient measures to protect the property in its custody and whether it was making the necessary efforts to prevent the production and removal of unauthorized pieces at its facilities. Our efforts over the last decade in particular have virtually put a stop to these incidents and we are particularly proud of that. Indeed, because of the numismatic community's attraction to so-called error coins, many hobbyists have commented that we have become too good at preventing them. I punctuate these efforts because they represent an abiding respect for the Congress's historic and unwavering commitment to the American people that the United States Mint—as well as any Federal agency—must vigilantly protect the public's property.

As you know, the Constitution grants the power to coin money to the Congress. By statute, Congress specifies the coins, medals, and numismatic items that the Secretary of the Treasury is authorized to mint, strike, and prepare. Likewise, by statute, Congress specifies which coins, medals and numismatic items the Secretary is authorized to issue. Accordingly, the precursor to a coin, medal or numismatic item remains the property of the United States Government and the American people until the Secretary has minted, struck, or prepared it in accordance with law, and the Secretary has issued it in accordance with law. A coin, medal or numismatic item for which there was no authority to mint, strike, prepare, or issue—yet leaves the United States Mint through illegal or inappropriate channels—is a chattel that retains its status as public property belonging to the United States.

The United States Mint recognizes that over its long history, a handful of examples of so-called "mystery coins" have surfaced within the numismatic collecting community. Each of these examples has its own history and its own degree of legitimacy. Some of these examples, such as the 1943 copper Lincoln cents that may have been struck on copper planchets that remained in the press hopper from the 1942 production, may be the result of innocent mistakes. Although these coins are understandably numismatic rarities, they may very well have been legally struck and properly issued. Other examples are most certainly not as innocent, such as the 1933 $20 gold double eagles, which the Secret Service and Federal courts determined were removed illegally from the Philadelphia Mint because there was no lawful authority to issue them.

Every so often, the United States Mint is asked to articulate its position on the legality of one or more of these examples. When there is a clear record that a coin was properly struck and issued, we acknowledge its legitimacy. When the record is not as clear, we are understandably reluctant to provide assurances that may not withstand the scrutiny of subsequently discovered evidence.

We recognize and appreciate the concerns of the numismatic community regarding the desire for clear title to items claimed to be coins, medals and other numismatic items sold on the secondary market. But clearly, the numismatic community is not unique in this respect. Antique collectors certainly have similar concerns when they encounter potentially protected antiquities, art collectors face these concerns when they consider paintings that may have been commission by the Works Progress Administration, treasure hunters must deal with these concerns when they find the remains of sunken U.S. Navy shipwrecks, and even philatelists must be watchful of these concerns when they consider the purchase of error stamps. In all these cases, when the property in question might be public property belonging to the United States, these concerns have always given way to the more important principle that we are a nation of laws and, therefore, no Government official—even one who appears to be acting under color of official authority—can dispose of public property unless he or she actually has the lawful power to do so and does so strictly in accordance with the explicit terms of that power. Our courts have repeatedly upheld the principle that, unless lawfully disposed of, title to public property belonging to the United States remains permanently and indefeasibly in the citizens of the United States.

That is why, while the United States Mint appreciates the efforts of Congressman Lucas to lend certainty to the status of such numismatic rarities, we are particularly concerned that this proposed bill could have the effect of transferring title to rare antiquities, and other “national treasures” currently owned by the public, from the Government to the person who happens to possess it—and this transfer of title would occur regardless of whether a person unwittingly paid value to acquire the item, acquired it with knowledge or belief that it might be public property and was not legal to own, or worse, played a role in its illegal production or distribution.

If this bill goes forward, we see numerous unintended consequences as well. For instance, the bill would strip the public’s ownership of a coin, medal, or numismatic item given to the Government as a gift or bequeathal because it would exempt only those items that the Government reacquires “through value given in a sale or exchange.” Additionally, the bill would convert title to any coin, medal or numismatic item that the Government incidentally has on loan to a museum or any other party; this is because the bill categorically and summarily passes title to such items to the party who then happens to possess them.

But there is an even more glaring oversight in the bill’s draftsmanship: In the unlikely event that a thief could walk into a federal facility today and steal a numismatic rarity minted prior to 1933 from the National Numismatic Collection, this bill, if approved as drafted, would strip the public of its ownership of that coin, medal, or numismatic item and vest title to it in the thief. We are confident that the sponsors of the bill could not have desired such an outcome, nor the unintended consequences evident in numerous other provisions of the bill.

In any event, the United States Mint respectfully submits that the status quo in this area of the law is preferable and that the proposed bill attempts to fix a problem that does not exist. The ostensible claim is that the uncertain status of these items is untenable. Yet, with the one exception of the 1933 Double Eagles, there has been no legal claim or litigation pertaining to any such coin, medal, or numismatic item in decades. Indeed, until earlier this year, we cannot recall of any person, since Louis Eliasberg dutifully returned a 1933 Double Eagle to the Director of the United States Mint on September 4, 1952, who has come forward with such an item, occasioned by a request or claim to quiet title.

Additionally, the bill's inventory, sale, and public auction mandates generally duplicate a satisfactory legal and procedural framework for the sale of numismatic items through the United States Mint, and the transfer or disposal of excess and surplus public property through the General Services Administration. This framework is functional and extremely fair; moreover, it already calls for agency officials to exercise sound judgment in determining whether such an item should be retained and preserved by the Government for historical, educational, or cultural purposes, or should be made available for private ownership through public sale or auction.

In conclusion, this bill puts the Department of the Treasury in an interesting position because it must choose to either support a small faction of the numismatic hobby that the United States Mint nonetheless regards as one if its vital stakeholders, or support the broader Government interest in protecting the public's property as trustee of the citizenry. With due deference to some in the hobby who would like to enjoy the windfall of knowing that they own, free and clear, national treasures that might belong to the public, we respectfully must support the latter position and inform you that the Administration opposes this legislation.

In conclusion, we are proud of the work of the men and women of the United States Mint, who strive to be good stewards of the taxpayer's money and fulfill our mission of producing coins and protecting America's assets.

The question posed by this hearing is "can we afford to make money?" We at the United States Mint are determined to prove the answer is "yes."

Ms. Chairman, thank you again for inviting me this morning. I would happy to take any questions.