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FEDERAL TRUST AND OTHER EARMARKED FUNDS

Answers to Frequently Asked Questions

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Abbreviations

AIR-21	Aviation Investment and Reform Act for the 21st Century
CCC	Commodity Credit Corporation
CSRD	Civil Service Retirement and Disability
CSRS	Civil Service Retirement System
DCA	Deficit Control Act
DI	Disability Insurance
ESRD	End Stage Renal Disease
FCC	Federal Communications Commission
FEGLI	Federal Employees Government Life Insurance
FEHB	Federal Employees Health Benefits
FEHBP	Federal Employees Health Benefits Program
FERS	Federal Employees Retirement System
FICA	Federal Insurance Contributions Act
FUTA	Federal Unemployment Tax Act
GDP	Gross Domestic Product
HI	Hospital Insurance
LTC	Long-Term Care
LWCF	Land and Water Conservation Fund
OASI	Old-Age and Survivors Insurance
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PAYGO	Pay-as-you-go
REHB	Retired Employees Health Benefits
SMI	Supplemental Medical Insurance
TEA-21	Transportation Equity Act for the 21st Century
TVA	Tennessee Valley Authority
UC	Unemployment Compensation
USDA	United States Department of Agriculture

Preface

In fiscal year 1999, trust fund receipts represented nearly half of all federal budget receipts. Despite their importance in the budget, the relationship between federal trust funds—such as the Social Security or Medicare trust funds—and other earmarked funds—such as the Nuclear Waste Fund or the Postal Service Fund—and the rest of the federal budget can be confusing to both policymakers and the public. There is confusion about the distinction between federal trust funds and private trust funds, about how trust funds compare to other fund types, about how earmarked funds are controlled in the federal budget, and about the relationship between fund accounting and the government's overall financial condition.

Prior to 1969, three concepts were variously used as federal budgets: (1) administrative, (2) consolidated cash, and (3) federal sector in the national income accounts. The most commonly used of these, the administrative budget, excluded the operations of all trust funds, which were shown in the consolidated cash and national income accounts budgets. Trust fund transactions did not receive much attention in appropriations debates and action. The administrative budget was viewed as an increasingly incomplete and unreliable measure of government activities.

Acting on a recommendation from the 1967 *Report of the President's Commission on Budget Concepts*, the federal government adopted a unified budget for fiscal year 1969—including the transactions of both federal and trust funds in calculating a single budget surplus or deficit. Separate accounts were maintained for the individual trust funds, and tabulations were made of the trust fund and federal fund groups in total. Although the decision to include trust fund transactions in the 1969 budget produced a single statement of the United States government's use of funds, it did not definitively resolve concerns about the budget treatment of trust funds. Rather, it opened a new debate on trust fund budget treatment and status. For example, some observers raised concerns that inadequate attention was being paid to whether trust fund surpluses were being used to finance and mask increasing federal funds deficits.

We developed this report to provide answers to some basic questions that often arise about trust funds and other earmarked funds. In addition, appendix II contains a more specific discussion about some of the larger earmarked funds, and appendix IV contains a glossary of relevant budget terms.

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What Are Federal Trust and Other Earmarked Funds?

Q1.1 What Are Federal Trust Funds

A1.1 Federal trust funds represent one accounting mechanism used to link earmarked receipts[1] with the expenditures of those receipts. The Office of Management and Budget (OMB) and the Department of the Treasury determine budgetary designation as a trust fund when a law both earmarks receipts to a program and identifies the account as a "trust fund" account.

Q1.2 How Are Federal Trust Funds Different From Private Trust Funds?

A1.2 In the federal budget the meaning of the term "trust" differs significantly from its private sector usage. In the private sector, a person creates a private trust fund using his or her own assets to benefit a stated individual(s). The creator of the trust names a trustee who has a fiduciary responsibility to manage the designated assets in accordance with the stipulations of the trust. In the federal sector, the Congress creates a federal trust fund in law and designates a funding source to benefit stated groups or individuals.[2] However, in contrast to a private trust fund, the federal government does not have a fiduciary responsibility to the trust beneficiaries, and it can raise or lower future trust fund collections and payments or change the purposes for which the collections are used by changing existing laws. Moreover, the federal government has custody and control of the funds as well as the earnings of most federal trust funds.

There are cases—such as the federal employees' Thrift Savings Fund[3]—in which the federal government holds nonfederal monies in trust as a custodian on behalf of some entity outside the government. Since the government makes no decisions about the amount of these deposits or how they are spent, they are not considered to be federal trust funds. Rather, they are considered to be nonbudgetary and are excluded from the federal budget. Accordingly, these funds are not included within the scope of this report. The following text box discusses the example of Indian Tribal Funds, which the government recently reclassified from trust to nonbudgetary deposit funds.

[1]In this report, the term "earmarked receipts" refers to collections that, by law, have been dedicated to a specific fund for a specific purpose or program.

[2]In some cases, such as gift funds, the federal government is the beneficiary of the trust.

[3]The Thrift Savings Fund is composed of individual accounts maintained by the Federal Retirement Thrift Investment Board on behalf of individual federal employee participants in the fund. These participants may select how their contributions are distributed among three investment funds.

Reclassification of Indian Tribal Funds From Federal Trust Funds to Nonbudgetary Deposit Funds

Beginning in fiscal year 2000, the federal budget no longer includes funds that are owned by Indian tribes but are held and managed in a fiduciary capacity by the government on behalf of the tribes. These Indian tribal funds were included in the budget totals beginning with the adoption of the unified budget in 1969 through fiscal year 1999 under the generic title "tribal trust funds." However, they are trusts in the private sector meaning of the term. For example, the funds include (1) Indian-owned assets derived from tribal-owned natural resources, (2) judgments against the United States, and (3) monies derived from legislative acts and for government obligations. Appropriate application of current federal budget concepts dictates that most of the Indian tribal funds should not have been included in the budget or been subject to budgetary constraints, and accordingly they have been reclassified as nonbudgetary deposit funds. This reclassification affects only budget coverage, not the operation of the funds or ownership of the funds' assets. The funds will continue to be managed by the federal government according to present law, with the same rights and responsibilities that existed prior to the reclassification.

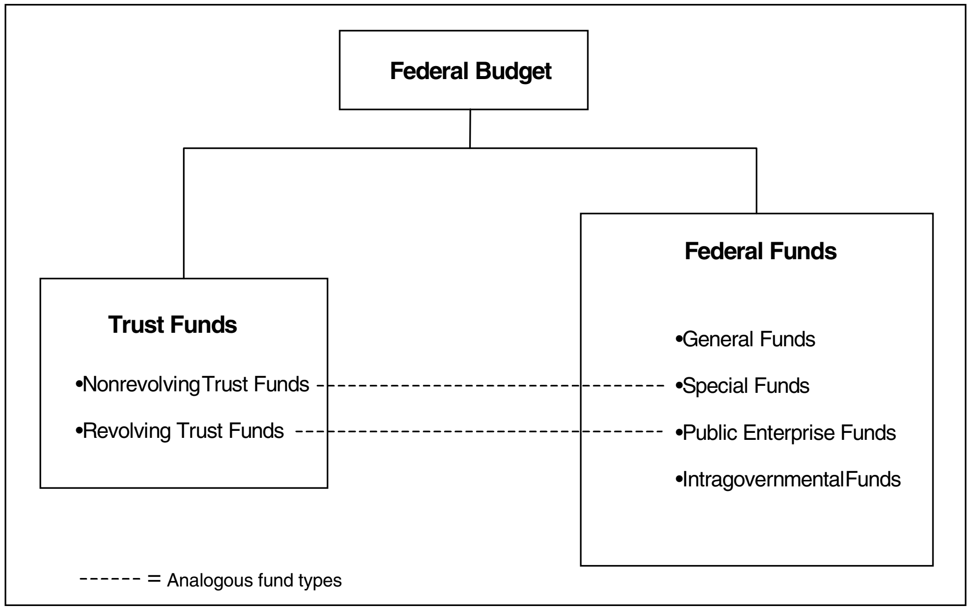
Q1.3 How Do Federal Trust Funds Fit Within the Unified Budget Concept?

A1.3 The unified budget, as conceived by the 1967 *Report of the President's Commission on Budget Concepts*, includes the full range of federal activities, regardless of their fund type or whether they are on- or off-budget.[4] The unified budget can be divided into two fund groups: (1) federal funds and (2) trust funds. Section 4.2 of this report discusses the effect of both groups of funds on the unified budget totals.

As shown in figure 1.1, within these two fund groups there are six fund types: (1) the general fund, (2) special funds, (3) public enterprise funds, (4) intragovernmental funds, (5) nonrevolving trust funds, and (6) revolving trust funds. All of these, except the two types of trust funds, are considered to be "federal funds."

[4] On-budget refers to transactions included in the budget. Off-budget refers to transactions required by law to be excluded from the budget even though they are part of total government transactions. The budget combines the on- and off-budget totals to derive unified or consolidated totals for federal activity. Nonbudgetary refers to transactions of the government that do not belong in the budget because they do not represent a cost to the government.

Figure 1.1: Fund Types in the Federal Budget



Q1.4 What Fund Types Within The Federal Budget Are Earmarked?

A1.4 Trust funds are created to account for monies that are earmarked; that is, dedicated for a specific purpose. While earmarked monies are heavily concentrated in trust funds, trust funds are not the only way earmarked monies can be accounted for in the federal budget. For example, special and public enterprise funds also are used for programs primarily financed by earmarked collections. Trust, special, and public enterprise funds are used to account for the receipt and expenditure of monies earmarked by the government for carrying out specific purposes and programs in accordance with legislation.[5] Revolving trust funds are similar to public enterprise funds: they carry out a cycle of business-type operations and their earmarked receipts are basically revenues generated by their business activities. Nonrevolving trust funds, such as Social Security, are similar to special funds, such as Funds for Strengthening

[5]Some general fund accounts also receive earmarked receipts in the form of offsetting collections—either from the public or from federal sources—that are credited directly to the account and are available for use, often without further legislative action. These have been discussed in *Budget Issues: Earmarking in the Federal Government* (GAO/AIMD-95-216FS, Aug. 1, 1995) and *Federal User Fees: Budgetary Treatment, Status, and Emerging Management Issues* (GAO/AIMD-98-11, Dec. 19, 1997).

Markets, Income, and Supply: they are used to account for earmarked receipts and spending that primarily are not the result of business-type activities.

Among authorizing statutes for similar kinds of programs there is no consistency in whether they are funded by earmarked receipts or general fund appropriations. For example, both the Coast Guard Military Retirement System and the general Military Retirement System are noncontributory pension plans. However, the Coast Guard's system is financed through the general fund while the Military Retirement System is financed through a trust fund. Another example of the inconsistency is the Multinational Species Conservation Fund and the Cooperative Endangered Species Conservation Fund. Both funds support efforts to protect endangered species and their habitats, yet the former is financed through a general fund while the latter is a special fund.

Q1.5 What Are the Differences Between Earmarked Fund Types?

A1.5 The major difference between the four types of earmarked funds is whether the activities they finance are business- or non-business-type activities—not whether the funds are labeled "trust funds." Both revolving trust funds and public enterprise funds primarily are used for business-type activities, whereas both nonrevolving trust funds and special funds primarily are used for non-business-type activities.

There are no substantive differences between a revolving trust fund and a public enterprise fund. Both are credited with offsetting collections to finance the costs of their business-type activities. For example, the Veterans Special Life Insurance revolving trust fund and the Veterans Reopened Insurance public enterprise fund both finance payments on Veterans' life insurance claims.

Similarly, there is no substantive distinction between a nonrevolving trust fund and a special fund. Both are used to track receipts and spending for programs that have specific taxes or other revenues earmarked for their use. By definition, the only difference between them is whether the word "trust" is included in the legislation establishing the account. For example, the Environmental Protection Agency's Hazardous Substance Superfund—a fund with receipts earmarked for environmental cleanup—was designated by law as a trust fund, while the Department of Energy's Nuclear Waste Fund—also having earmarked receipts and similar purposes—was established in legislation as a separate fund and is shown by Treasury and OMB as a special fund. Notwithstanding the definition and examples like this, our analysis found that in practice there is a notable difference between the use of nonrevolving trust and special funds:

- Trust fund monies predominantly fund long-term commitments, whereas no special fund monies currently fund long-term commitments. (See section 2.4 for a discussion of what funds serve long-term commitments.)
- Trust fund accounts are more likely to fund large dollar programs than special fund accounts.

The text box below discusses how OMB determines whether an account is a trust fund.

Application of Trust Fund Criteria

OMB's policy is to identify receipts as belonging to a trust fund if the receipts have the following two attributes: (1) they are dedicated by law to a particular program or set of programs and (2) they are dedicated to accounts designated in law as "trust accounts." It is possible, however, for an account to be labeled a trust fund in legislation but, because it does not have funding that meets the above criteria for dedication to a trust fund, OMB and Treasury would not consider it to be a trust fund. For example, the Violent Crime Reduction Trust Fund was established pursuant to the Violent Crime Control and Law Enforcement Act of 1994. Notwithstanding its name, because the fund is substantively a means of accounting for general fund appropriations and does not consist of dedicated receipts, it is classified by OMB and Treasury as a federal fund rather than a trust fund.

Q1.6 How Many Earmarked Funds Are There?

A1.6 In fiscal year 1999, Treasury identified 224 federal trust funds and 247 special funds. However, in doing our analysis, which was based on OMB budget data, we identified 130 federal trust funds.[6] This included 120 nonrevolving trust funds and 10 revolving trust funds. Using OMB budget data, we also identified 149 special funds and 113 public enterprise funds. A complete list of these funds, including their fiscal year 1999 incomes, gross expenditures, and end-of-year balances is shown in appendix III.[7] The text box below discusses how earmarked funds are recorded in the federal budget and in federal financial statements.

[6]OMB and Treasury report funds differently. While Treasury records earmarked funds in separate accounts, OMB does not always report them separately in annual budget documents. Because the federal budget rounds amounts to millions of dollars, it does not show funds with amounts less than $500,000. Accordingly, OMB instructs agencies to consolidate small trust fund accounts with larger general fund accounts. In addition, OMB will sometimes report trust fund groups rather than individual trust funds. Groups may include two or more trust funds with similar purposes. For example, it groups the five trust funds related to “foreign service national separation liability” associated with five different agencies under one group trust fund name. However, Treasury tracks monies for each discrete trust fund account down to the penny in order to fulfill its governmentwide accounting and cash management responsibilities. Thus, Treasury’s count of funds represents the actual number of separate entities designated as earmarked funds.

Because this report was written primarily from a budgetary perspective, we used OMB budget data to analyze earmarked funds. Accordingly, our analysis does not separately identify funds with amounts less than $500,000. Although, to the extent possible, we individually counted trust funds that OMB grouped together, we could not always separately identify expenditures that had been merged or consolidated with other accounts. As a result, the number of earmarked funds we identify is more than the number of funds tracked by OMB but fewer than the actual number tracked by Treasury. According to OMB, there were 112 trust funds and trust fund groupings in fiscal year 1999. Alternatively, Treasury tracked 224 trust funds in fiscal year 1999.

[7]In some cases, we could not separately identify expenditures and fund balances because these budget data had been merged or consolidated with other accounts. In these cases, we listed fund groups in our appendix.

Recording Earmarked Funds

As part of its governmentwide accounting responsibility, the Treasury establishes numbered accounts for each agency of the government. Receipts are recorded in "receipt accounts" and expenditures in "expenditure accounts." Nonrevolving trust and special funds are recorded differently from revolving trust and public enterprise funds.

Nonrevolving trust and special funds are comprised of both receipt accounts and expenditure accounts. Receipt accounts are grouped by unique 4-digit receipt account numbers. Each of these numbers correlates to one nonrevolving trust or special fund, which may have one or more receipt accounts. Typically, these funds will have a single expenditure account. However, some funds have multiple expenditure accounts, each with a separate expenditure account number. For example, the Oil Spill Liability Trust Fund's receipt account symbol is 8185. It obtains receipts from five different sources such as excise taxes, earnings on investments, and fines and penalties, with each in a separate receipt account—8185.10, 8185.20, 8185.30, 8185.40, and 8185.50. Coincidentally, the fund also includes six expenditure accounts for purposes such as oil spill response, oil spill research, and pipeline safety.

In some cases, matching receipt accounts with their related expenditure accounts is difficult because the expenditures for accounts with relatively small dollar amounts and similar purposes have been consolidated into a different account altogether—sometimes not even a special or trust fund account. For example, the receipts for "Fees, Operation and Maintenance of Recreation Facilities, Forest Service" are credited to a special fund receipt account (12-5072.00). However, the corresponding expenditures from these receipts are reported in the general fund account, "National Forest System" (12-1106).

Revolving trust funds and public enterprise funds are relatively easier to identify because each has a unique expenditure account number. In addition, these funds do not use receipt accounts; they primarily collect monies from their business-type or market-oriented activities that are credited to expenditure accounts. These collections are then used to offset expenses.

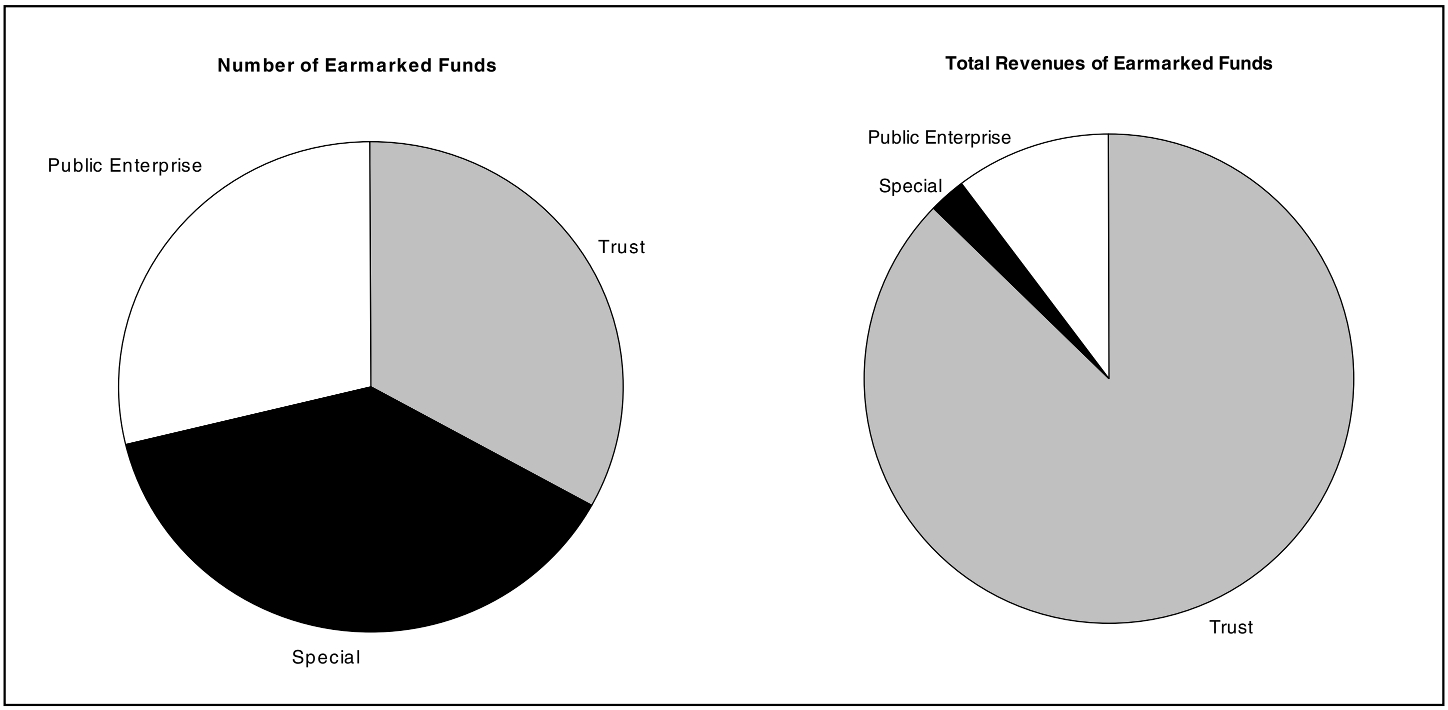
Federal accounting standards classify revenue to the government as part of either an exchange or a nonexchange transaction.[8] Exchange revenue is revenue resulting from the government's business-type activities; hence it includes most user charges. The standards require that financial statements recognize exchange revenue at the time that a government entity provides goods or services, measured at the price likely to be received. Thus, financial statements for public enterprise and revolving trust funds—the budget accounts used for business-type activities—would recognize revenue when it is earned rather than when it is paid. In the *Financial Report of the United States Government,* intragovernmental exchange revenue would be deducted from the totals.

Nonexchange revenue includes inflows of resources arising from the government's sovereign power to tax, as well as voluntary donations. These revenues are recognized when the collection is probable (i.e., a reporting entity has established a specifically identifiable, legally enforceable claim to cash or assets) and the amount can reasonably be estimated. Nonrevolving trust and special funds generally would have nonexchange revenue.

[8] According to the Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, exchange revenues, also known as earned revenues, arise when a government entity provides goods and services to the public or to another government entity for a price. Nonexchange revenues arise primarily from exercise of the government's power to demand payments from the public (e.g., taxes, duties, fines, and penalties) but also include donations. The term "revenue" does not encompass all financing sources of government reporting entities; for example, most of the appropriations they receive are not included.

Almost 100 percent of trust fund revenues are concentrated in 20 funds, nearly 90 percent of special fund revenues are concentrated in 20 funds, and about 90 percent of public enterprise fund revenues are concentrated in 16 funds. Figure 1.2 below compares the number of funds in each fund type to the total revenues of each fund type.

Figure 1.2: Comparison of the Number of Earmarked Funds to Funds' Total Revenues



Q1.7 Why Are Earmarked Funds Established?

A1.7 Earmarked funds are established as a way to link receipts to a specific purpose or activity. This concept of dedicated receipts can be very appealing to a public interested in supporting that purpose or activity. Although for trust, special, and public enterprise funds, the earmarking of receipts by law indicates the government's intent to restrict the use of those funds to the specified purpose, the government can always change this restriction by changing the law. As discussed in section 5, designation as a trust fund does not in and of itself impose a greater commitment on the government to carry out that activity than it has to carry out other government activities. However, the confusion of the federal use of the term "trust fund" with the private sector use of the term may lead the public to expect a similar commitment and hence may provide some degree of political protection. This "protection" may affect the allocation of resources within the budget. Constituencies may create pressure to spend earmarked revenues because the revenues are there, regardless of the need for the spending at the moment or the priority that would otherwise be given such spending. Ironically, earmarked funds may also constrain program spending when the spending threatens to outstrip accumulated balances. This is because the fund balance determines whether Treasury has the legal authority to issue checks for a program.[9]

In practice, as discussed in section 2.3, the strength of the link between the source and use of earmarked receipts can vary considerably. While the link is clear in many cases, such as with the payroll tax portion of social insurance programs, in some cases the source and use of monies appear unrelated. For example, the Elk Hills School Lands (special) fund was established to dispense a percentage of the sale proceeds from the Elk Hills Naval Petroleum Reserve for payment to the State of California for its Teachers' Retirement Fund. Although the sources are very different from those for social insurance funds, the sources and uses of funds are linked for gifts and bequests and for business-type funds. For business-type funds—public enterprise and revolving trusts—the earmarking of receipts received as payment for goods or services permits an ongoing cycle of business activity.

Q1.8 When Were Earmarked Funds Established?

A1.8 One of the earliest of the largest trust funds established was the Civil Service Retirement and Disability fund, set up in 1920. Since then, trust funds have often been created in response to the public policy concerns of the time. For example, during the bleak economic times of the 1930s, the Unemployment and the Federal Old-Age & Survivors Insurance trust funds were created. During the more prosperous 1950s, Federal Disability Insurance was added and, in the 1960s, two medical trust funds: Federal Hospital Insurance and Federal Supplementary Medical Insurance. In the 1980s, the Leaking Underground Storage Tank Trust Fund was created. This trust fund provides funds for responding to releases from leaking underground petroleum tanks.

The oldest of the largest special funds is the Reclamation Fund, established in 1902. The largest special fund (in terms of receipts) is Funds for Strengthening Markets, Income, and Supply (Section 32) which was established in 1935. Later, the Land and Water Conservation Fund was

[9]The Antideficiency Act prohibits incurring obligations or making expenditures in excess of amounts available in appropriation or fund accounts, unless specifically authorized by law.

established by the Land and Water Conservation Act of 1964. The Nuclear Waste Fund was established in 1983 by the Nuclear Waste Policy Act to finance the disposal of spent fuel from nuclear powered electrical generators. Special funds are established from time to time to meet specific needs for funds to finance specified activities. For example, the Elk Hills School Lands (special) Fund was established as a result of the Fiscal Year 1996 National Defense Authorization Act to finance payment to the State of California for its Teachers' Retirement Fund.

The largest public enterprise fund by far is the Postal Service Fund. It was established by the 1970 Postal Reorganization Act. Other large public enterprise funds include the Commodity Credit Corporation Fund, a predecessor of which was established in 1933, and the Tennessee Valley Authority Fund (TVA).[10] TVA was established during the depression and created by the Act of May 18, 1933. More recently established public enterprise funds are the Bank Insurance Fund, the Federal Savings and Loan Insurance Corporation Resolution Fund, and the Savings Association Insurance Fund. These funds were established by the Financial Institutions Reform Recovery and Enforcement Act of 1989.[11]

Q1.9 By Design, Earmarked Funds May Accumulate Balances. What Do Balances Really Mean?

A1.9 The vast majority of earmarked funds take in more than their current needs.[12] On an annual basis, this is often described as having a "surplus." The accumulated surpluses result in these funds having a "balance." The balances of earmarked funds are assets of the funds in that they provide a claim on the general fund of the Treasury for future spending. However, the balances are not cash. As with all other money collected by the government, the general fund of the Treasury receives the actual earmarked taxes and fees paid by the public. Treasury then credits these collections as assets (often in the form of Treasury securities) to the appropriate fund accounts. From the general fund's perspective, these fund assets are a liability. From the standpoint of the government as a whole, the earmarked funds' assets and the general fund's liabilities offset each other so that neither an asset nor a liability is shown for the federal

[10] The Postal Service Fund accounts for over half of all public enterprise fund outlays, while the Commodity Credit Corporation Fund and the Tennessee Valley Authority Fund account for about 8 percent and 6 percent of all public enterprise fund outlays, respectively.

[11] The Bank Insurance Fund and the Savings Association Insurance Fund are both successors of previous funds.

[12] In fiscal year 1999, only 53 of 392 earmarked funds had balances of less than $500,000.

government as a whole in the consolidated *Financial Report of the United States Government.*

The relationship between earmarked fund balances and the claim on future resources depends on whether the program financed by the fund was structured so that earmarked receipts would cover the future program claims. Not all funds are structured to be actuarially sound. Depending on the financing structure, the balance may or may not equal the future claim. For example, the current and expected earmarked receipts from Social Security are not structured to cover the expectations for future payments stemming from the program's defined benefit structure. Conversely, the Highway Trust Fund has no defined benefit structure other than that based on receipts to the fund. Although payments from both funds are limited to the fund balance, the difference in benefit structure leads to a different expectation for future payments beyond its balance. The relationship between fund balances and the government's ability to meet future commitments is discussed further in section 2.6.

Q1.10 What Receipt Sources Contribute to Fund Balances?

A1.10 Fund balances stem from a combination of earmarked receipts (e.g., taxes and collections from market-oriented activities) and appropriated contributions from the general fund. These contributions include such things as interest payments, the employer share of federal employee pension costs, and in some cases, such as Medicare's Supplemental Medical Insurance (SMI) trust fund, what might be viewed as a subsidy from the general fund. Excluding interest payments and the federal employer's share of compensation-related payments (pensions, etc.), 39 out of 269 nonrevolving trust and special funds received general fund contributions totaling about $72 billion during fiscal year 1999. Of this amount, about $70 billion was related to Medicare.

Q1.11 What Do Funds Do With Their Balances?

A1.11 Whether and how funds invest their balances is based on specific legal authorizations by the Congress. Trust funds generally are required by 31 U.S.C. 9702 to be invested in government obligations at an annual interest rate of at least 5 percent. Most of the balances of earmarked funds are invested in special, nonmarketable U.S. Treasury securities; Treasury credits the appropriate fund with the securities. If the fund reaches a point where outgoing payments exceed current receipts, the fund may redeem these securities to make the required payments. A few funds do not invest in Treasury securities and simply hold credit balances. Finally, some earmarked funds are specifically authorized by the Congress to invest outside Treasury securities. For example, the Civil Service Retirement and Disability trust fund also carries but does not routinely invest in federal agency securities while TVA invests in a portfolio of securities designed to earn interest in line with overall equity market performance.

Q1.12 What Do the Treasury Securities Represent?

A1.12 When an earmarked fund invests in U.S. Treasury securities, it has “lent” money to the general fund of the Treasury. The value of the securities held is recorded as “debt held by government accounts” and represents debt owed by one part of the government to another.[13] In many ways, the special U.S. Treasury securities held by government accounts are indistinguishable from the marketable government debt sold to the public. A maturity date is set, interest is accrued at established market rates, and the securities count as part of the overall federal debt. These securities, however, are not traded in the financial markets. They can only be redeemed by the Treasury Department. The interest they earn is simply credited to the fund accounts in the form of additional Treasury securities.

Debt held by government accounts represents over a third of gross federal debt and like publicly held debt is guaranteed for principal and interest by the full faith and credit of the United States government. At the end of fiscal year 2000, debt held by government accounts was about $2.2 trillion. This debt does not appear on the government’s consolidated financial statements because it represents internal debt—amounts that one part of the government owes to another part of the government. However, it does constitute a liability for the Treasury since the Treasury must pay back the debt held by government accounts when these accounts need to redeem their securities to be able to make their expenditures. When this happens, Treasury would have to obtain cash to finance the government’s spending either through increased taxes, spending cuts, increased borrowing from the public, retiring less debt (if the unified budget is in surplus), or some combination thereof.

[13] Debt held by government accounts plus debt held by the public are the two components of gross federal debt, which totaled about $5.7 trillion at the end of fiscal year 2000. A key difference between the two components of debt is their effect on credit markets. Changes in debt held by the public approximates the federal government’s competition for credit with the private sector in the credit markets and affects current interest rates and private capital accumulation. In contrast, changes in debt held by government accounts does not compete with the private sector for available funds in the credit market. However, when the government accounts redeem their securities to obtain cash to make expenditures, Treasury competes with the private sector for cash by borrowing more from the public (or redeeming less debt held by the public if in a unified surplus position). For additional information on federal debt, see *Federal Debt: Answers to Frequently Asked Questions—An Update* (GAO/OCG-99-27, May 28, 1999).

Q1.13 To What Extent Do Earmarked Funds Earn Interest?

A1.13 Generally, earmarked funds earn interest on balances. The extent to which funds may earn interest and the rate at which interest is earned is determined by specific legal authorization from the Congress. As discussed in section 1.11, most of the balances of earmarked funds are invested in special, nonmarketable U.S. Treasury securities. In some cases, laws may permit that the interest earned by one fund's investment be used for a different purpose. For example, the interest earned by the Abandoned Mine Reclamation Fund (a special fund) is transferred to the United Mine Workers' Combined Benefits Fund.

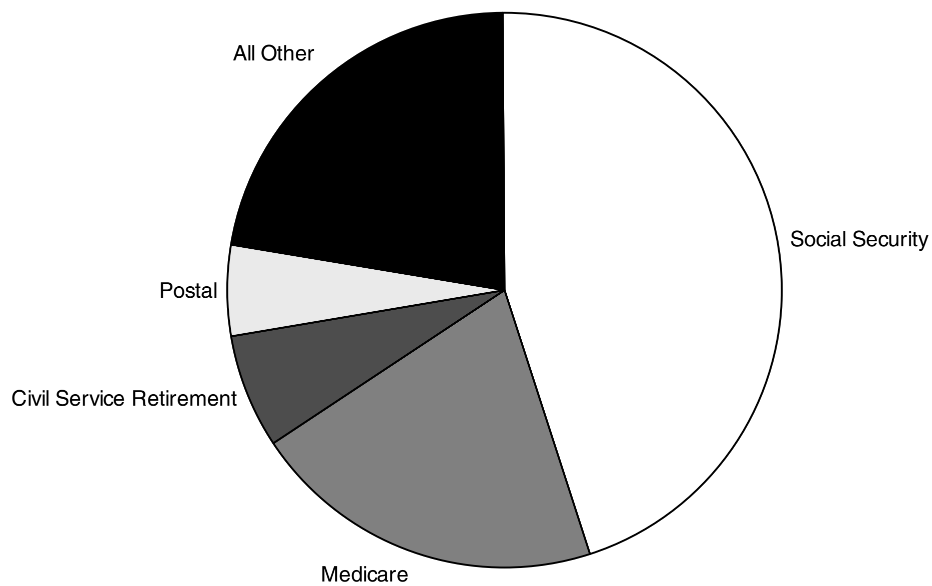
Some funds with relatively small balances, such as the Radiation Exposure Compensation Trust Fund, do not invest their balances but receive interest as if they had invested. Because of provisions contained in the Transportation Equity Act for the 21st Century, as amended, the Highway Trust Fund is unusual in that securities held after September 30, 1998, are noninterest bearing.

What Is the Composition of Earmarked Funds?

Q2.1 What Are the Sources of Income for Earmarked Funds?

A2.1 Nonrevolving trust and special funds obtain revenues primarily through earmarked receipts, such as Social Security payroll taxes, and, to a far lesser extent, offsetting collections.[1] In contrast, revolving trust and public enterprise funds operate primarily through offsetting collections resulting from their business-type activities. Although there were 392 trust, special, and public enterprise funds in the budget during fiscal year 1999, a few large funds received most of the revenues. In fact, about 78 percent of all earmarked revenues were associated with just six funds in fiscal year 1999, with the remaining 22 percent earmarked to all other 386 funds. These six large funds included the two Social Security trust funds, the two Medicare trust funds, the Civil Service Retirement and Disability trust fund, and the Postal Service public enterprise fund. Figure 2.1 illustrates this concentration of revenues.

Figure 2.1: Concentration of Revenues Among Earmarked Funds



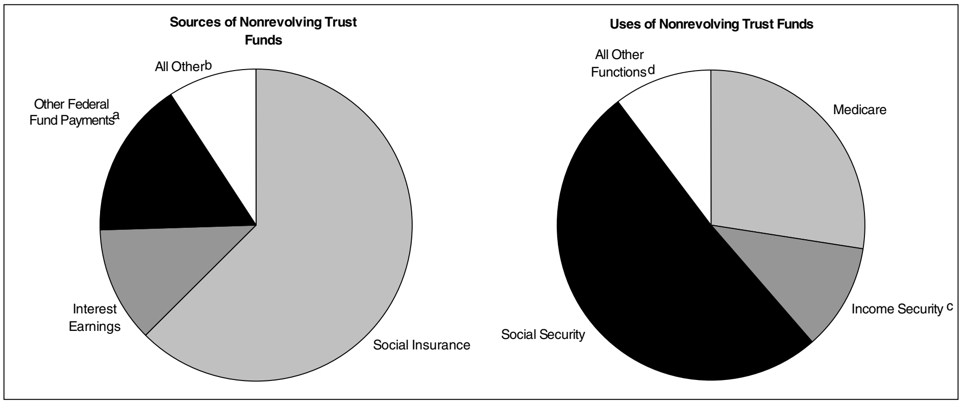
[1]Offsetting collections are monies credited directly to expenditure accounts rather than receipt accounts.

The concentration of earmarked revenues in a few funds can also be seen in the sources and uses of fund receipts. Specific sources and uses of funds in fiscal year 1999 are described below.

- Nonrevolving trust funds received almost two-thirds of their receipts from taxes and contributions related to social insurance (largely Social Security and Medicare). About 12 percent of receipts stemmed from interest earnings on balances and another 16 percent from other federal fund transfers, such as the federal government's contribution to its employees' pension funds.
- Special funds received over half of their receipts from customs duties, permits, and regulatory fees. Nearly a third was derived from business or market-oriented activities with the public such as income from housing loans, rents and royalties, and fees for other services such as nuclear waste disposal and recreational programs.
- About 95 percent of revolving trust fund collections came from federal employee health benefit contributions (81.4 percent) and federal employees' life insurance premiums (13.3 percent).
- Over half of public enterprise fund collections came from postal revenues with the remainder collected from multiple sources such as the Commodity Credit Corporation and the Tennessee Valley Authority.

Figure 2.2 shows the types of sources and uses, by budget function, of receipts for nonrevolving trust funds and figure 2.3 shows the sources and uses of receipts for special funds.

Figure 2.2: Sources and Uses of Nonrevolving Trust Fund Receipts



Notes:

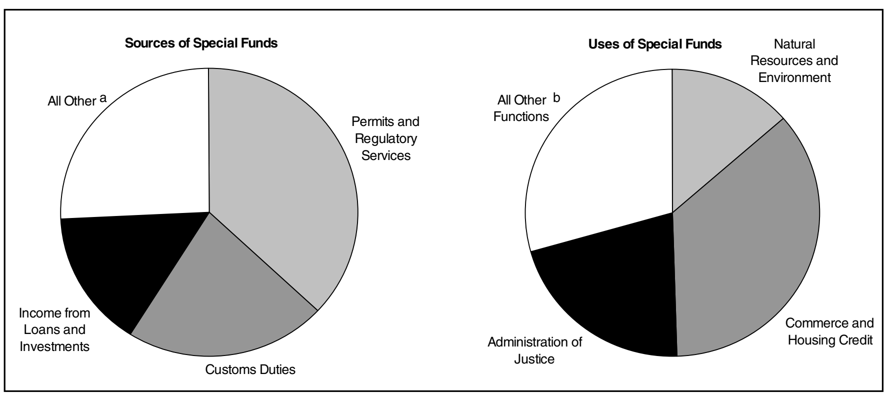
[a]Includes receipts such as federal contributions to Medicare and Social Security, and employing agency contributions to retirement programs.

[b]Includes receipts such as excise taxes, fees, and sale of government property.

[c]Includes outlays such as those for federal pension programs, for example the Civil Service Retirement and Disability Trust Fund.

[d]Includes budget functions such as Transportation, Natural Resources and Environment, and Veterans Benefits.

Figure 2.3: Sources and Uses of Special Fund Receipts



Notes:

[a]Includes receipts for such things as royalties and rents, fees, sale of products, and interest on investments.

[b]Includes other budget functions such as Energy, Income Security, and General Government.

Q2.2 What Purposes and Activities Do Earmarked Funds Finance?

A2.2 Every budget function included some activities financed by earmarked funds in fiscal year 1999. However, as was the case for revenues, the distribution was not even. Gross outlays financed by earmarked revenues were also concentrated in a few specific areas.

- Over 75 percent of nonrevolving trust fund dollars supported social insurance programs, including Social Security (50.9 percent) and Medicare (27.5 percent). Income security, which primarily includes pension programs, ran third, consuming about 11 percent of total gross outlays.
- Although special funds served a broader variety of functions than trust funds, they were heaviest in commerce and housing credit (35.8 percent), administration of justice (21 percent), and natural resources and environment (13.7 percent).
- Revolving trust fund spending was highly concentrated in the health budget function (86.8 percent), which is completely driven by federal employees' health benefits.
- Public enterprise fund monies were dominated by the Postal Service fund and thus were concentrated in the commerce and housing credit function (58.7 percent). A large portion (28.4 percent) of public enterprise fund monies served multiple functions.

Q2.3 What Is the Relationship Between the Sources and Uses of Earmarked Funds?

A2.3 Because revolving trust and public enterprise funds carry out a cycle of business-type operations, the sources and uses of monies for these funds are directly related.[2] In addition, for the majority of nonrevolving trust and special fund revenues, the relationship between the sources and uses of the revenues is relatively direct. For example, Old-Age Survivors and Disability Insurance Trust Funds receive most of their monies from Federal Insurance Contributions Act (FICA) taxes paid by employees and their employers, and they use the monies to finance Social Security payments to individuals and to invest in Treasury securities. The sources and uses of monies for Medicare taxes and premiums[3] and pension

[2]Because revolving trust and public enterprise funds receive monies through offsetting collections deposited in expenditure accounts and do not have receipt accounts, detailed data on the explicit sources of monies were not always readily available. However, the collections would be payments from the public or another federal entity for goods or services provided by the fund's business activity.

[3]Nearly three-fourths of the SMI portion of Medicare is financed from general fund contributions.

programs are also directly related. However, in some cases the relationship is less direct. For example, the largest special fund, Funds for Strengthening Markets, Income, and Supply (Section 32) is financed by 30 percent of customs duties collected and automatically appropriated for expanding outlets for nonbasic agricultural commodities. Most of these earmarked customs duties are used primarily to support child nutrition programs.[4]

Q2.4 What Earmarked Funds Serve Long-Term Commitments? What Is the Rationale for Earmarking Receipts for These Long-Term Commitments?

A2.4 Funds that provide social insurance,[5] federal insurance, federal pensions, and certain education benefits represent what we classify as long-term commitments of the federal government.[6] About 93 percent of all nonrevolving trust fund outlays were associated with funds representing long-term commitments. Some examples of earmarked funds that do not represent long-term commitments include gift funds, such as the Library of Congress gift fund; funds that transfer collected revenues to state or local governments for local use, such as the special fund for Mineral Leasing on Public Lands; and transportation funds, such as the Highway Trust Fund. Although only 38 of the 392 earmarked funds were dedicated to long-term commitments in fiscal year 1999, these funds represented the vast proportion of dollars collected. Most long-term commitments were associated with nonrevolving trust funds rather than revolving trust or public enterprise funds; none were associated with special funds. The payments for long-term commitments that were made by these funds tended to be cash payments to or on behalf of individuals rather than services to the general public. Overall, projected fund balances may not equal the future claims the federal government could be responsible for under current law. For example, Social Security's trust funds are projected to have balances sufficient to fund benefits through 2037, leaving an unfunded claim at that date of about 28 percent of benefits owed.[7]

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[4]See appendix II for more detailed discussion of this fund.

[5]For social insurance funds, we included the funds listed in the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 17, *Accounting for Social Insurance*, August 1999.

[6]Long-term commitments are not an established budget concept; individuals may differ on what they perceive should be included in this category.

[7]*Status of the Social Security and Medicare Programs*. A Summary of the 2000 Annual Reports (Revised April 2000), Social Security and Medicare Boards of Trustees.

One rationale for earmarking revenues to finance long-term commitments is that the benefits are financed by the contributions made by the beneficiaries. However, the current projections for the earmarked revenues for the largest long-term commitment programs would be insufficient to fully finance expected benefits: that is, the earmarked financing of the program is not structured to fully cover future benefits. For example, only about a quarter of the revenues paid into Medicare's Supplemental Medical Insurance trust fund stem from enrollees' monthly premiums; the bulk of the program's financing comes from federal general revenues. In theory, monitoring the funding status of long-term commitments may trigger policy action if a fund becomes too far out of balance. For example, in the past, the threat of trust fund depletion led to changes in the Social Security program and its financing. Recently, concerns over the long-term viability of the Social Security trust funds have led to myriad proposals for reform. Other measures that indicate fund solvency are discussed in more detail in section 5.

Although long-term commitments are in many cases financed by earmarked revenues, this is not always the case. For example, long-term commitments related to some pensions and some environmental cleanup are financed through general fund revenues instead of earmarked funds. The lifecycle costs of capital[8] also typically are financed by general funds.

Q2.5 What Were The Revenues, Gross Outlays, and Balances of Earmarked Accounts in Fiscal Year 1999? What Portions of These Amounts Represent Long-Term Commitments?

A2.5 Nonrevolving trust funds receive and use the bulk of earmarked revenues, even though there are more special funds and almost as many public enterprise funds. Moreover, nonrevolving trust funds are overwhelmingly used for financing programs that make long-term commitments. Table 2.1 below shows the earmarked revenues, outlays, and balances by fund type for fiscal year 1999, separately identifying amounts earmarked for long-term commitments.

[8]Life-cycle costs of capital include initial costs plus costs of operation and maintenance, and any costs of decommissioning or disposal. Capital assets are tangible assets (such as buildings, equipment, and information technology) that are owned by the federal government and primarily used to deliver federal services.

Table 2.1: Breakout of Fiscal Year 1999 Revenues, Gross Outlays, and Balance, by Fund Type

Dollars in billions

		Revenues		Gross outlays		Fund balances	
Fund type	Number of funds	Total	Long-term commitments	Total	Long-term commitments	Total	Long-term commitments
Nonrevolving trust	120	$ 983	$ 916	$ 771	$ 718	$ 1,847	$ 1,786
Special	149	27	0	14[a]	0	40[a]	0
Revolving trust	10	22	3	21	2	29	22
Public enterprise	113	120	9	127	8	163	55
Totals	392	$ 1,152	$ 928	$ 933[a]	$ 728	$ 2,079[a]	$ 1,863

[a]This amount is understated because some special fund appropriations have been consolidated into general fund accounts. Thus, an unknown portion of special fund outlays are included in general fund outlays and some special fund balances is included in general fund balances.

Q2.6 How Do Accumulated Balances of Earmarked Funds Affect the Government's Ability to Meet Its Long-Term Commitments?

A2.6 Annual surpluses can accumulate into large trust fund balances. However, because these balances are really bookkeeping credits to the fund with the actual cash commingled with other collections, the accumulation of large balances does not by itself affect the government's ability to meet long-term commitments or make a program more sustainable in the future. In other words, accumulated balances do not increase the government's ability to acquire future resources to meet long-term commitments. Nor do they necessarily represent the full future cost of existing commitments. From a macro perspective, the critical question is not how much a trust fund has in assets but whether the government as a whole has the economic capacity to finance the claims on the trust funds for benefits now and in the future and at the cost of other competing claims for scarce resources. The President's Budget includes a useful discussion on the relationship of balances to the economy.

> "Increases in trust fund balances do strengthen the ability to pay future benefits if the surplus in the trust fund is matched by an improvement in the Government's net financial position. It is in this sense that future benefits can be prefunded. If a trust fund surplus is matched by a corresponding reduction in publicly held debt, then the Government's financial position will be improved. This makes it easier to finance future benefits in two respects. The first, direct effect, is that this debt reduction reduces future interest payments and frees up general receipts to finance the future benefits. The second is that debt reduction increases the

> resources available for investment in the economy as a whole. Greater investment now increases future incomes and wealth, which will provide more real economic resources to support the benefits, and may prolong the solvency of the trust funds."[9]

From a micro perspective, projected trust fund balances can provide a vital signaling function for policymakers about underlying fiscal imbalances in covered programs. However, balances do not provide meaningful information about program sustainability,[10] notwithstanding that financial condition is often gauged by the solvency of the fund. Extending a trust fund's solvency without reforms to make the underlying program more sustainable over the long-term can obscure the warning signals that trust fund balances provide, thereby creating a false sense of security and delaying needed reform.

[9] *Analytical Perspectives, Budget of the United States Government*, Fiscal Year 2001, p. 346.

[10] By program sustainability, we are referring to the Nation's ability to finance promised benefits over the long run.

How Are Earmarked Funds Controlled in the Federal Budget Process?

Q3.1 Are Earmarked Funds Treated Differently in the Budget Process?

A3.1 Fund type does not determine how fund spending is controlled. The budget distinguishes between federal funds and trust funds; however, this designation does not control federal spending. Although some have advocated the creation of earmarked funds with an eye toward giving these monies special treatment, these are not the labels that matter for budgetary control. The Deficit Control Act (DCA)[1] divides the budget into "discretionary" and "mandatory" categories—and it is these categories that determine how a fund is controlled. What matters for budget control is whether an earmarked fund is classified as discretionary or mandatory and whether it has any special rules accompanying it.

All spending classified as discretionary (whether from earmarked or general funds) is subject to annual adjustable dollar limits (spending caps) and is controlled through the regular appropriations process. Mandatory spending is subject to pay-as-you-go (PAYGO) rules, regardless of whether its financing source is earmarked or general fund. These rules require that the aggregate effect of new legislation that either increases mandatory spending or decreases receipts be deficit neutral (that is not increase the deficit or decrease the surplus). The two Social Security trust funds are exempt from these general budget enforcement procedures but are subject to special rules of each chamber of the Congress barring legislation that would erode trust fund balances. The legal authority to issue checks for programs financed by earmarked funds is limited to their fund balances, except where there is authority to borrow.

Q3.2 Are Earmarked Funds Discretionary or Mandatory?

A3.2 DCA classification is relatively consistent across fund types. The majority of each earmarked fund type is mandatory. A large number (59) of nonrevolving trust funds and special funds have both mandatory and discretionary authority. The public enterprise group has more individual funds (24) with strictly discretionary spending than do the other earmarked fund types.

Of the 392 funds we analyzed for fiscal year 1999, we were able to determine DCA classification for 367.[2] The revenues and outlays for 268 of

[1]The actual title of this act is the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. However, for simplicity, we refer to it as DCA. It is often referred to as the Budget Enforcement Act (BEA) because that act added the current sequestration process and designated accounts as either mandatory or discretionary.

[2]DCA classification data were not readily available for 25 of the 392 funds because they had no receipts or expenditures during fiscal year 1999.

these 367 funds were completely mandatory. Spending from these funds was governed by the legislation that established the program, that is, eligibility criteria and benefit formulas. Another 31 funds were completely discretionary. Spending from these funds was controlled by the appropriations process and was subject to the spending caps, thus limiting the amounts that could be spent from the funds. Finally, 68 funds had a mixture of mandatory and discretionary revenues and outlays. The Hazardous Substance Superfund (trust fund) is an example of such a case. The outlays of this fund are all discretionary while revenues have both mandatory and discretionary components. The mandatory revenues stem from taxes, fines, recoveries and interest while the discretionary revenues stem from additional appropriations from the general fund.

Q3.3 What Does “Off-Budget” Mean? Are “Off-Budget” Funds Governed by Different Rules?

A3.3 Every year since 1971 at least one federal entity has been “off-budget.” Off-budget federal entities are federally owned and controlled, but their transactions are excluded from the budget totals by law. The off-budget federal entities currently consist of the two Social Security trust funds and the Postal Service public enterprise fund. "Off-budget" is a display distinction not a control distinction.

As discussed in section 1.3, the federal government uses the unified budget concept as the foundation for its budgetary analysis and presentation. It is a comprehensive display of the full range of federal activities, regardless of fund type or on- and off-budget status. Thus, whether a fund is “on-budget” or “off-budget” affects the way totals are displayed in various summary budget tables. However, it has no effect on the collection or expenditure of funds or on the way the funds are controlled. As discussed in section 3.1, it is the DCA mandatory and discretionary categories and Social Security’s special rules that determine how a fund is controlled. Taking a fund off-budget does not by itself exempt it from DCA controls. Whether a fund is exempt from DCA depends on the existence of a law specifying exclusion, such as the specific exclusion of Social Security contained in DCA.

Q3.4 What Kinds of Special Treatment Have Been Given to Some Earmarked Funds? What Arguments Have Been Used for Such Treatment?

A3.4 Since 1974, the Postal Service—a public enterprise fund—has been moved on- and off-budget. Currently, it is off-budget, financed by business transactions with the public, and excluded from DCA controls. Social Security was taken off-budget in response to concern about its financial condition, fear that use of its surpluses to offset other spending would hurt the program, and criticism that surplus Social Security taxes were hiding the size of budget deficits. It is excluded from DCA controls and subject to its own set of congressional rules designed to prohibit legislation that would erode its surpluses.

During the 106th Congress, proposals were made to move a number of additional funds off-budget: the Airport and Airway Trust Fund, the Civil Service Retirement and Disability (trust) Fund, the Nuclear Waste (special) Fund, the Inland Waterways and Harbor Maintenance Trust Funds, and the Land and Water Conservation (special) Fund. All these proposals would also have excluded these funds from DCA controls. Proponents argue that the combination of off-budget and DCA exclusion is a stronger way to set aside earmarked monies and assure that they are used in the near term for their dedicated purpose rather than for general government activities. Opponents of off-budget designations argue that changing its label or category does not make an activity less federal, does not change total federal revenues or spending, and contributes to a more confusing picture of the federal government’s total taxes and spending. Opponents of DCA exemptions argue that removing a fund’s transactions from the existing budgetary Congressional controls reduces the ability of the President and the Congress to make trade-offs across government priorities.

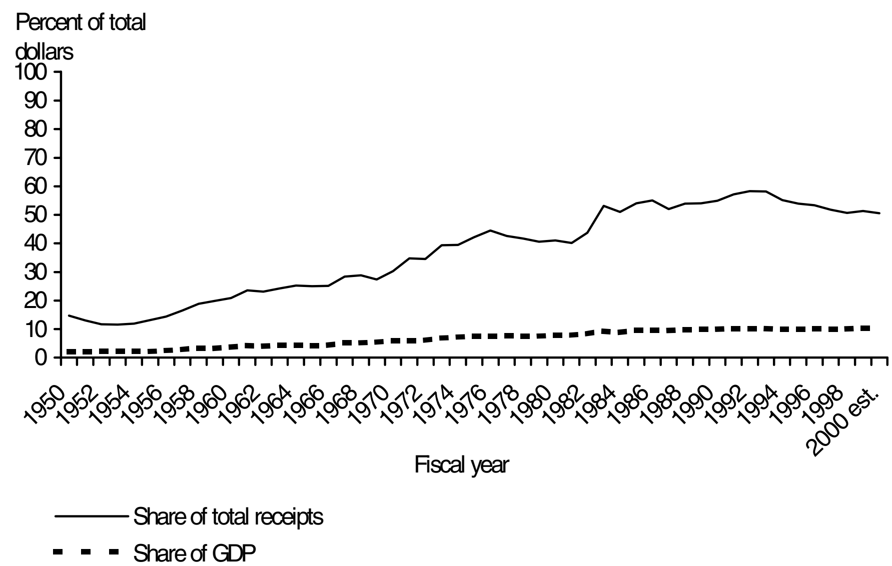
Special budgetary treatment has been provided to the transportation trust funds without moving them off-budget or excluding them from DCA. The Transportation Equity Act for the 21st Century (TEA-21), enacted in 1998, guaranteed specific levels of funding for many highway and mass transit programs based on the user tax receipts credited to the Highway Account of the Highway Trust Fund. More recently, a similar treatment of the Airport and Airway trust fund was provided in the Aviation Investment and Reform Act for the 21st Century (AIR-21), enacted April 5, 2000. Since these funds are technically under the discretionary caps, their guaranteed funding levels in effect reduced the ability of policymakers to make trade-offs among discretionary spending programs.

How Do Earmarked Funds Affect Federal Fiscal Position?

Q4.1 How Has the Composition of Earmarked Versus Unearmarked Federal Receipts Changed Over Time?

A4.1 Historical budget data on earmarked receipts are only readily available for those earmarked to trust funds. It is the trust fund historical trends that are most important, however, because they hold about 90 percent of all earmarked balances. Over the last 50 years, trust fund receipts have grown both as a share of total federal receipts and as a share of Gross Domestic Product (GDP). Today, annual trust fund receipts make up about half of all federal receipts and about 10 percent of GDP. In fiscal year 1950, trust fund receipts made up only about one-seventh of total receipts and about 2 percent of GDP. Even in 1970, after the enactment of Medicare, trust fund receipts made up less than a third of all federal receipts. The big jump in the mid 1980s in large part reflects the effect of the Social Security Amendments of 1983 when payroll taxes were set higher than needed to cover current expenditures, causing the trust fund balances to grow. Figure 4.1 illustrates this growth.

Figure 4.1: Trust Funds' Share of Total Receipts and GDP Over Time



Source: *Historical Tables, Budget of the United States Government, Fiscal Year 2001*, tables 1.2 and 1.4

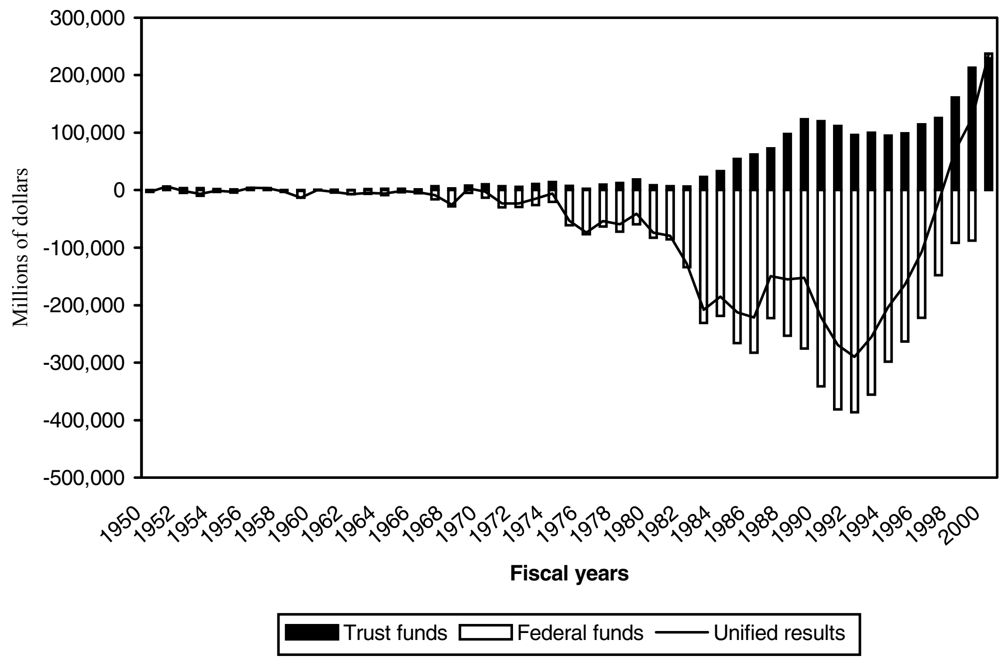
Q4.2 What Is the Effect of Earmarked Funds in Measuring Unified Budget Deficits or Surpluses?

A4.2 Again, historical budget data do not readily separate special and public enterprise funds from other federal funds. There are rich historical data, however, on federal versus trust fund surpluses and deficits. The sum of trust fund and federal fund surpluses/deficits comprise the annual unified budget total. Accordingly, any trust fund surpluses add to the unified budget totals (increasing a surplus or reducing a deficit), and any trust fund deficits subtract from them. Since 1963, in the aggregate, trust funds have been running surpluses, thus reducing the federal government's need to borrow from the public. As discussed earlier, these surpluses generally are invested in special U.S. Treasury securities. For fiscal year 2000, the unified budget had a surplus of $237.0 billion—the cumulative result of a trust funds surplus of $228.7 billion (including interest received from federal funds) and a federal funds surplus of $8.3 billion (including interest paid to trust funds). As discussed in section 1.10, trust funds receive contributions from the general fund for such things as interest payments, the employer share of federal employee pension costs, and, in some cases, such as Medicare, what might be viewed as a subsidy from the general fund. Interest payments make up a significant portion of these contributions. For example, if the $128.9 billion in interest paid to trust funds were excluded from surplus calculations, the fiscal year 2000 federal funds surplus of $8.3 billion would increase to a surplus of $137.2 billion. Similarly, the trust funds surplus of $228.7 billion would be reduced to a surplus of only $99.8 billion.

Figure 4.2 illustrates the extent to which trust fund surpluses/deficits have affected the unified budget deficit or surplus over time.[1]

[1]For additional information on deficits/surpluses and their relationship to federal debt, see Federal Debt: Answers to Frequently Asked Questions—An Update (GAO/OCG-99-27, May 28, 1999).

Figure 4.2: Effect of Trust Fund Surpluses/Deficits on Unified Budget Totals Over Time



Note: Data exclude the extra quarter in fiscal year 1976, which resulted from the shift in fiscal years from July 1st to October 1st.

Source: *Historical Tables, Budget of the United States Government, Fiscal Year 2001*, table 1.4, pages 25 and 26, and the Final Monthly Treasury Statement of Receipts and *Outlays of the United States Government, For Fiscal Year 2000 through September 30, 2000, and Other Periods*.

Q4.3 What Are the Implications of Investing Balances in Treasury Securities?

A4.3 When earmarked funds hold balances as Treasury securities, the securities represent a future claim on the Treasury. While the security is an asset to the earmarked fund, it is a liability to the general fund of the Treasury.[2] If earmarked surpluses are used to finance other governmental activities, the government's need for additional cash to finance these activities is less than what it otherwise would have been. Using earmarked surpluses to redeem debt held by the public does not reduce gross federal

[2]The same would be true whether the balances are invested in Treasury securities or simply maintained as uninvested balances.

debt because debt held by government accounts increases by the same amount that debt held by the public decreases. However, as discussed in section 2.6, using these surpluses to reduce publicly-held debt not only improves the government's net financial position but, because it frees up private funds for other investments, also promotes future economic growth. As a result, the government's ability to pay the future claims for which the surpluses were earmarked would be enhanced. Therefore, if the trust fund surpluses were used to strengthen the government's fiscal position by causing unified surpluses to be higher or deficits lower than they otherwise would have been, then the government's ability to pay future benefits could be improved. Currently, there is bipartisan consensus to use the surpluses of the largest long-term commitment—Social Security—to redeem publicly-held debt.

When an earmarked fund's annual outlays for benefits and expenses exceed annual earmarked receipts, it redeems some of its Treasury securities. The Treasury would need to obtain cash to redeem these securities. Cash could be obtained either through increased taxes, spending cuts, increased borrowing from the public, retiring less debt (if the unified budget is in surplus), or some combination thereof.

Q4.4 What Issues Are Raised by Proposals to Permit the Investment of Earmarked Revenues in the Private Sector?

A4.4 Allowing earmarked revenues to be invested in the stock market, as has recently been proposed for some trust funds, would have consequences for the programs financed by those revenues, the U.S. economy, and federal budget policy.[3] Historically, the rates of return on stocks have exceeded interest rates on Treasury securities, although stock returns are more variable. While the prospect of higher stock market returns might allow the funds to pay benefits longer without other program changes, the government would also face greater risk and other implementation issues. For example, if stock investing were implemented in isolation of other program reforms, the trust funds would inevitably need to liquidate their stock portfolios to pay promised benefits and would be vulnerable to losses in the event of a general downturn in the market.

Proposals for government stock investing typically suggest investing passively in a broad-based stock index to reduce both the costs and the fear that the government, through its stock ownership, would influence

[3]For additional information on this topic, see *Social Security Financing: Implications of Government Stock Investing for the Trust Fund, the Federal Budget, and the Economy* (GAO/AIMD/HEHS-98-74, April 22, 1998).

individual companies. Although index investing would help achieve these goals, it would not completely eliminate the possibility of political influence over stock selections. Nor would it answer the question of what to do about voting rights. Even choosing not to vote would affect corporate decision-making by enhancing the voting power of other shareholders or investment managers.

In contrast to the current situation in which earmarked funds hold their balances in Treasury securities, stock investing would have the immediate effect of decreasing the unified surplus (or increasing any unified deficit) because, under current budget scoring rules, stock purchases would be treated as outlays. This is because monies would actually be expended outside the government and any money used to purchase stocks would no longer be invested in Treasury securities, thus reducing Treasury's available cash. To the extent that this resulted in unified budget deficits, the Treasury would need to borrow from the public to replace cash used to buy stocks, unless offsetting spending or revenue actions were taken. This would have no effect on gross federal debt. However, if stock purchases were scored under different rules than other types of federal spending, they could be excluded from government outlays.

Without compensating changes in fiscal policy, stock investing would not significantly alter the effect of federal finances on national saving and the economy. To cover a deficit, the government would increase borrowing from the public, but it would offset this action by purchasing stocks from other investors. This asset shuffle could lead to higher stock prices and higher interest rates, undercutting somewhat the potential gain from stock investing and increasing the government's cost of borrowing. Even with such price effects, higher returns might result in the government still coming out ahead by investing in stocks. However, any higher returns earned by the government would otherwise have accrued to other investors. In short, by itself, government stock investing should have no appreciable effect on future national income.

Although the immediate budgetary effect of investing in stocks would lead to decreased unified budget surpluses or possible deficits, stock investing might also indirectly lead to changes in federal fiscal policy that could increase national saving. By making earmarked fund surpluses unavailable to the Treasury, stock investing could focus more attention on any budgetary imbalances that may exist when such surpluses are excluded. Increased attention could prompt policymakers to address an imbalance either by cutting spending or raising revenue. Such fiscal actions could boost national saving and long-term economic growth.

Q4.5 What Does It Mean When People Say the Fund Balances Are Used for Other Than Intended Purposes?

A4.5 Concerns have been raised that, because the actual earmarked cash borrowed from the funds is commingled in the Treasury with other receipts and used to pay whatever bills the government currently has on hand, the federal government has inappropriately diverted funds for purposes other than what was intended. Treasury accounts for earmarked monies by crediting these collections to the appropriate funds. Any surpluses resulting from these collections are then lent to the general fund of the Treasury and the funds in most cases are given special, nonmarketable Treasury securities in return.[4] These special securities are claims on the Treasury (i.e., IOUs) that can be redeemed in the future to obtain the cash needed to pay the intended benefits. However, if sufficient surpluses are not available to redeem the securities, the government would either need to increase borrowing from the public, raise future taxes, reduce future spending, retire less debt (if the unified budget is in surplus), or some combination thereof. This future need for cash to redeem Treasury securities emphasizes the importance of using earmarked surpluses to reduce debt held by the public, thereby increasing economic growth and making it easier for the government to pay these future commitments.

Although the special Treasury securities are nonmarketable, like other Treasury securities they are backed by the full faith and credit of the United States government. History provides no evidence to suggest that the U.S. would not honor these obligations as it does its other obligations. In fact, some trust funds support programs with long-term commitments in which current expenditures on benefits and administration have already exceeded dedicated annual tax revenues (that is, the funds have run a cash deficit). These trust funds have redeemed some of their Treasury securities to make current benefit payments. For example, from 1992 through 1998, the Medicare Hospital Insurance (Part A) Trust Fund had a cash deficit and, as needed, redeemed a portion of its accumulated securities each year to pay current claims. The combined Social Security trust funds also redeemed some of their Treasury securities to cover their cash deficits starting in the mid-1970s through the early 1980s, when payroll taxes were increased. The combined Social Security trust funds are projected to reach the point at which current expenditures exceed annual cash receipts by 2015.

[4]Even if the surpluses were not invested in Treasury securities, they would be used for other purposes.

The following text box discusses the implications of using earmarked fund surpluses of long-term commitments for debt reduction.

Setting Aside Annual Surpluses of Funds Earmarked for Long-Term Commitments to Reduce Debt

In fiscal year 1999, about $125 billion of the $201 billion in annual surplus earmarked funds collected for long-term commitments was related to Social Security, leaving about $76 billion related to other long-term commitments, such as pensions, insurance, and other social insurance programs. There was bipartisan consensus to use the surpluses associated with Social Security to reduce debt held by the public—a concept sometimes referred to as a “lockbox.” Because the government spent the remaining surpluses related to other long-term commitments, if these surpluses had instead been used to reduce debt held by the public, spending would have had to be cut and/or taxes raised.

Policy and Design Issues Related to Earmarked Funds

The federal budget is an instrument of national policymaking. It seeks to facilitate the Nation's economic stabilization and growth as well as the allocation of resources among competing claims. Accordingly, it is essential that the budget be transparent, that is, understandable, to as much of the public and as many of their elected representatives as possible. Transparency permits the public to participate intelligently in the important decisions that the budget brings to bear. In addition, the budget should provide decisionmakers with sufficient information to signal when and what forms of corrective actions are needed.

Federal budget concepts are based on the recommendations set forth by the 1967 budget commission almost 35 years ago. Although they apply broadly in the budget process, not all recommendations were implemented and they do not address certain issues that are plaguing lawmakers and budget scorekeepers. For example, issues such as long-term commitments, Social Security reforms, biennial budgeting, and accrual of long-term costs raise concern among budget scorekeepers. Accordingly, there have been proposals for a new budget concepts commission. Should such a commission convene, it could consider a number of the issues raised in the following sections.

Transparency Issues

Certain aspects of earmarked funds can reduce budget transparency. First, the term "trust fund" in the federal budget does not mean what it does in the private sector. Unlike a private trust fund, the federal government can unilaterally change the terms of a trust fund financed program; it can raise or lower future trust fund collections and payments and change the purposes for which the collections can be used. Also, some believe that the government has a greater commitment to carry out an activity financed by a trust fund than its commitment to other government activities. This is not true. For example, the U.S. Constitution provides that the government is responsible for the common defense of the nation—an activity that is not financed through a trust fund. The lack of a trust fund financing arrangement is certainly not an indication that the government has some lesser commitment to a strong national defense than it does to trust fund activities. Contrary to what many citizens may believe, the absence or presence of a trust fund does not necessarily represent the strength of the government's commitment to a particular activity.

While earmarking does not confer any permanent, unchangeable benefit to a program, it may influence debates about program creation or changes if the program is financed in whole or in part by its beneficiaries. Given these political benefits, earmarking as a means of specifying the financing for a program is unlikely to disappear. However, transparency could be increased by recognizing the similarity between nonrevolving trust funds and special funds and between revolving trust funds and public enterprise funds. Do we need four fund types when two might suffice?

Consideration should be given to whether budget transparency could be improved by eliminating the use of the term “trust fund” in the federal budget. Use of a term that is not identical to a private sector term with a different meaning could clear up some of the public’s confusion. For example, using the term “special fund” instead of trust fund could eliminate the confusion. Also, it might increase consistency within the budget given the lack of distinction between fund types. Alternatively, an entirely new term could be developed to encompass current trust, special, and public enterprise fund labels.

Finally, it may be confusing that gross federal debt can increase during a time when budget surpluses are being used to pay down the debt. This occurs because gross federal debt includes both debt held by government accounts (that is, the balances in earmarked funds) and debt held by the public. Trust funds are generally required by law to be invested in government obligations. When such earmarked funds have annual surpluses—as in the current case of Social Security trust funds—debt held by government accounts increases. Using the earmarked surpluses to reduce debt held by the public merely exchanges publicly held debt for debt held by government accounts; gross federal debt remains unchanged. If the surpluses in earmarked funds are not all used to reduce debt held by the public, total debt would increase even when the budget is in surplus. Moreover, reforms to Social Security and Medicare can increase balances and hence could increase gross federal debt if they increase any near-term surpluses in these funds.

Some reconsideration of how debt is defined might help clarify the situation. For example, the term “debt held by government accounts”—essentially a bookkeeping entry of what has been earmarked to particular purposes in excess of spending—could be reconsidered. This debt might be excluded from gross federal debt so that gross federal debt reflects only borrowing from the public which is a better concept for analyzing the effect of the budget on the economy.[1] Debt held by government accounts

[1]Debt held by the public is a useful measure because it represents the cumulative burden of past federal borrowing on today’s economy and the federal budget. Because debt held by government accounts is neither equal to future benefit payments nor a measure of the commitments of the current system, it cannot be seen as a measure of this future burden.

could also be excluded from the amount that is subject to the federal debt limit. The balances of debt held by government accounts could be tracked and interest paid, but it would not be called “debt.” This single clarification could make public discourse on debt more transparent.

Signaling Issues

The federal budget is intended to facilitate the allocation of resources among competing claims as well as the Nation’s economic stabilization and growth. As a general principle, decision-making is enhanced if the government recognizes the costs of its commitments at the time it makes them. For most programs, cash-based budgeting accomplishes this. However, for some programs, such as credit, pension, and insurance, cash-based measurement is incomplete and potentially misleading. For such programs and others established to account for long-term commitments like Social Security, the budget in some cases attempts to accumulate earmarked balances in anticipation of future claims.

Because an earmarked fund’s accumulated balance does not necessarily reflect the full future cost of existing government commitments, it is not an adequate measure of a fund’s solvency or sustainability. As discussed in section 2.3, the relationship between projected future fund balances and the claim on future resources depends on whether the program financed by the fund was structured such that earmarked receipts would cover the future program claims stemming from its benefit structure. However, when programs are not designed to be fully self-financed, their projected accumulated balances can provide a vital signaling function about underlying fiscal imbalances. For example, under current law, the long-term projected balances in the Social Security trust funds will not cover the cost of Social Security benefits projected for the same long-term period. In that case and others, the information on accumulated fund balances provides an indication of the solvency of the fund but does not fully inform policymakers about either the size of the benefit promised or the sustainability of the programs financed by earmarked funds. Tracking the estimated future balances in earmarked funds does make it possible, however, to estimate how much more funding is needed to pay for the commitments that have been promised. A shortfall between the long-term projected fund balance and projected costs can signal that the fund, either by design or because of changes in circumstances, is collecting insufficient monies to finance future payments. This signaling device can eventually prompt policymakers to action.

The difficulty of developing meaningful measures of fund sustainability is exacerbated by the length of time covered by long-term commitments. The longer the span of time between the collection and the expenditure of funds, the greater the uncertainty involved in forecasting future needs. Social insurance, pensions, and other programs that create long-term commitments will frequently grapple with these timing issues. Having several measures may in fact be the most informative. For example, Social Security uses three alternative sets of economic and demographic assumptions to estimate a range of possible future experiences.[2]

In that balances do not fully inform policymakers and the public about the long-term sustainability of the programs financed by earmarked funds, consideration is warranted of other ways to make long-term commitments more apparent when making budget decisions. For example, similar to credit programs, one might look at the net present value of estimated costs and receipts for specific programs. Alternatively, constructing meaningful measures that would trigger some action, such as expected program growth beyond a specified share of GDP, might offer another means to focus policymaker attention on certain long-term commitments. For example, we have suggested that Medicare reforms could include a trigger that would require the President to propose how to deal with the growth and the Congress to vote on the proposal, either accepting it or developing an alternative.[3] Whether ways to make long-term commitments more apparent should represent changes in how the budget is measured or simply changes in budget display would need to be considered based on what is appropriate for each type of program. As we have said before, the future sustainability of programs is the key issue policymakers should address—i.e., the capacity of the economy and budget to afford the

[2]The three sets of estimates include low-, high-, and intermediate-cost assumptions that are used to prepare 10-year and 75-year estimates. The low-cost alternative is more optimistic for trust fund financing, the high-cost alternative is more pessimistic, and the intermediate-cost alternative reflects the "best estimate" of future experience.

[3]*Medicare Reform: Issues Associated With General Revenue Financing* (GAO/T-AIMD-00-126, Mar. 27, 2000).

commitment. Fund solvency can help, but only if promoting solvency improves the future sustainability of the program.

Scope and Methodology

OMB and Treasury report funds differently. For example, because amounts in the federal budget are rounded to millions of dollars, OMB instructs agencies to consolidate small accounts with larger general fund accounts.[1] However, Treasury tracks monies for each discrete trust fund account down to the penny in order to fulfill its governmentwide accounting and cash management responsibilities. Thus, Treasury's count of funds represents the actual number of separate entities designated as earmarked funds.

Because this report was written primarily from a budgetary perspective, we used OMB budget data to analyze earmarked funds. Accordingly, our analysis does not separately identify funds with amounts less than $500,000. Although, to the extent possible, we individually counted trust funds that OMB grouped together, we could not always separately identify expenditures that had been merged or consolidated with other accounts. As a result, the number of earmarked funds we identify is more than the number of funds tracked by OMB but fewer than the actual number tracked by Treasury.

The budget data we used were extracted from automated information collected and maintained by OMB. We obtained this data for the fiscal year 2001 budget, which included data for fiscal year 1999. We extracted account data on receipts (including source information), offsetting collections, gross outlays, and balances (including unappropriated, unobligated, and obligated balance data). We also extracted data on budget function and Deficit Control Act classification as mandatory or discretionary. We excluded (1) financing accounts, since they are nonbudgetary; (2) funds established after 1999; and (3) legislative proposals included in the 2001 budget. Although we did not independently verify the extracted data for every earmarked fund, we reconciled account data for a judgmentally selected set of funds to the published *Budget of the United States Government, Fiscal Year 2001—Appendix* and, in many cases to the Department of Treasury's receipt data published in the *United States Government Annual Report—Appendix*.

We defined earmarked funds that carry some degree of long-term commitment as those that finance federal insurance programs, social

[1]OMB also will sometimes report trust fund groups rather than individual trust funds. Groups may include two or more trust funds with similar purposes. For example, it groups the five trust funds related to "foreign service national separation liability" associated with five different agencies under one group trust fund name

insurance programs, and federal pensions. We recognize that there is no universal agreement on which programs constitute federal insurance[2] and social insurance. We determined our list based on the programs previously identified by OMB and the Federal Accounting Standards Advisory Board. We also included earmarked pension funds that had filed under P.L 95-595 as well as others we identified. In addition, we included two railroad funds related to Social Security and Unemployment Insurance and two Department of Defense education funds that represent exchange transactions.

To develop historical perspective on earmarked funds, we reviewed relevant literature. In addition, we met with budget specialists from OMB, CRS, and CBO and held telephone conversations with specialists from the Department of Treasury. We obtained comments on this report and incorporated them as appropriate.

Our work was performed in Washington, D.C., and was done in accordance with generally accepted auditing standards.

[2]See *Budget Issues: Budgeting for Federal Insurance Programs* (GAO/AIMD-97-16, Sept. 30, 1997).

Description of Selected Earmarked Funds

Earmarked funds serve a multitude of purposes and can vary considerably in their makeup. To provide a sense of this variety, this appendix briefly describes the background and purpose of some of the bigger funds and each fund's Deficit Control Act category, fiscal year 1999 fund data, investment information, and current issues. We include funds from each of the four types of earmarked funds and have ordered them alphabetically.

- Airport and Airway Trust Fund *(Nonrevolving Trust Fund)*
- Civil Service Retirement and Disability Fund *(Nonrevolving Trust Fund)*
- Commodity Credit Corporation Fund *(Public Enterprise Fund)*
- Federal Employees and Retired Employees Health Benefits Funds *(Revolving Trust Fund)*
- Employees Life Insurance Fund *(Revolving Trust Fund)*
- Highway Trust Fund *(Nonrevolving Trust Fund)*
- Land and Water Conservation *(Special Fund)*
- Medicare (Hospital Insurance and Supplemental Medical Insurance) *(Nonrevolving Trust Funds)*
- Military Retirement Fund *(Nonrevolving Trust Fund)*
- Nuclear Waste Fund *(Special Fund)*
- Postal Service Fund *(Public Enterprise Fund)*
- Strengthening Markets, Income, and Supply (Section 32) *(Special Fund)*
- Social Security (Old-Age and Survivors Insurance Fund and Disability Insurance Fund) *(Nonrevolving Trust Funds)*
- Tennessee Valley Authority Fund *(Public Enterprise Fund)*
- Unemployment Insurance Fund *(Nonrevolving Trust Fund)*
- Universal Service Fund *(Special Fund)*

Airport and Airway Trust Fund (20-8103-0-7-402)

Fund type, authorization, background, and purpose:

The Airport and Airway Trust Fund is a *nonrevolving trust fund* established by Title II of the Airport and Airway Revenue Act of 1970 (section 208 of P.L. 91-258). The "Aviation Trust Fund," as it is also known, was established to provide funding for capital improvements and operations for the nation's airport and airway system. The most recent reauthorization of aviation programs occurred with passage of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181).

The aviation trust fund receives the vast majority of its funding from a percentage tax on domestic airline tickets and a flight segment tax. Additional funding is obtained from taxes on aviation fuels, cargo waybills, and international departures and arrivals.

Deficit Control Act category: Mandatory receipts and discretionary outlays

Budget subfunction: Air transportation (402)

Fiscal year 1999 fund data:

(Dollars in millions)

Income			**$11,121**
Source of funds:			
Taxes (governmental receipts)		$10,391	
Offsetting collections		32	
Proprietary receipts		0	
General fund transfers:		698	
Interest	$698		
Appropriations	0		
Other	0		
Outlays			**$ 8,089**
Balance at end of year			**$12,446**

Investments: The fund is invested in nonmarketable federal securities.

Current issues: In April 2000, the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21) was enacted. This law changes the budgetary treatment of the Airport and Airway Trust Fund so that it is similar to that of the Highway Trust Fund (i.e., establishes annual guaranteed minimum funding levels that are tied to receipts.) Providing guaranteed funding levels to any one activity in the budget protects that activity from competition with other areas for finite resources. GAO has previously testified on guaranteed funding levels and trust fund control in the budget.[1]

Civil Service Retirement and Disability Fund (24-8135-0-7-602)

Fund type, authorization, background, and purpose:

Civil Service Retirement and Disability (CSRD) is a *nonrevolving trust fund* covering the defined benefit components of the two major federal civilian retirement systems: the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). According to the Office of Personnel Management's annual report, the CSRS and FERS retirement plans cover about 90 percent of the federal civilian workforce.

From 1920 to 1984, CSRS was the retirement plan covering most civilian federal employees. In 1935, the Congress enacted the Social Security system for private sector workers. The Congress extended Social Security coverage to state and local government workers in the early 1950s and, in 1983, the Congress enacted P.L. 98-21, which mandated that workers hired into permanent federal positions on or after January 1, 1984, be covered by Social Security.

In June 1986, the Congress passed the Federal Employees' Retirement System Act of 1986 (P.L. 99-335) creating FERS. Unlike CSRS, which is a defined benefit plan,[2] FERS has three components: (1) Social Security defined benefit, (2) a FERS defined benefit pension, and (3) the Federal Thrift Savings Plan defined contribution plan. CSRS was closed to new entrants after December 31, 1983.

Deficit Control Act category: Primarily mandatory; some discretionary outlays

[1] *Budget Issues: Trust Funds in the Budget* (GAO/T-AIMD/RCED-99-110, March 8, 1999) and *Budget Issues: Cap Structure and Guaranteed Funding* (GAO/T-99-210, July 21, 1999).

[2] Federal workers covered by CSRS also may participate in the thrift savings plan, but their total contribution is limited to 5 percent of pay and they receive no matching contributions from their employing agency.

Budget subfunction: Federal employee retirement and disability (602)

Fiscal year 1999 fund data:

(Dollars in millions)

Income			**$ 74,522**
Source of funds:			
Governmental receipts: employee contributions		$ 4,421	
Proprietary receipts		0	
Offsetting collections		0	
General fund transfers:		70,101	
Interest	$33,579		
Appropriations	21,427		
Other (employer contributions)	15,095		
Outlays			**$ 43,932**
Balance at end of year			**$481,273**

Investments: The fund is invested in interest-bearing securities of the U.S. government. It also carries, but does not routinely invest in certain federal agency securities.

Current issues: At present, there is no looming financial crisis facing either CSRS or FERS. According to the actuaries of the Office of Personnel Management, both programs will have sufficient resources to meet their obligations for the indefinite future. Periodically, proposals have been made to take the CSRD trust fund off-budget, as has been done with the Social Security trust funds. For example, since 1993, at least three bills have been introduced to move the CSRD trust fund off-budget. However, none of these bills was enacted.

Congressional interest in the civil service retirement programs in the past has tended to focus on the "under-funding" of retirement annuities in CSRS. While FERS was set up to be fully funded, CSRS has always been funded on a pay-as-you-go basis.[3] In other words, payments into the CSRD trust fund were used to pay benefits to already retired workers rather than to prefund the pension benefits of current workers. Proposals to prefund CSRS in the same manner as FERS have tended to founder on the issue of whether they would be given additional budget authority or make higher contributions from their existing budget authority. While recording additional budget authority in agency budgets would properly reflect the costs of CSRS employees, the accumulation of large surplus balances in the trust fund does not by itself affect the government's ability to meet commitments or make a program more sustainable in the future.

Commodity Credit Corporation Fund (12-4336-0-3-999)

Fund type, authorization, background, and purpose:

The Commodity Credit Corporation (CCC) fund is a *public enterprise fund*.

CCC was established in 1933 as one of the first pieces of New Deal legislation proposed by President Roosevelt. CCC was originally incorporated under a Delaware charter and was reincorporated in 1948 as a federal corporation within the U.S. Department of Agriculture (USDA) by the Commodity Credit Corporation Charter Act (P.L. 80-806). CCC was established to stabilize, support, and protect farm incomes and prices and to assist in maintaining balanced and adequate supplies of agricultural commodities and in facilitating their orderly distribution. CCC carries out this mission by financing a variety of income and commodity support programs through direct payments and loans. These programs assist in the production and marketing of agricultural commodities such as feed grains, wheat, rice, and cotton. CCC's mission was expanded in recent years to include the financing of a range of commodity export, resource conservation, and disaster assistance programs. Among other things, these programs are intended to enhance price competitiveness of U.S. commodities in foreign markets, assist producers in implementing conservation practices on their farms, and indemnify producers for the extraordinary losses of crops or livestock resulting from weather-related

[3]Because the full costs of CSRS are not met by the combined total of employee contributions, agency contributions, and the supplemental payments from Treasury, some future CSRS benefits will of necessity be paid from contributions that were made to the fund on behalf of employees who are covered by FERS. This would have created an unfunded liability for FERS. However, funding for this liability is provided through a series of 30-year amortization payments from the general fund of the Treasury to the CSRD trust fund.

disasters and pest infestations. CCC uses offsetting collections from the sale of commodities, loan repayments, interest income, dairy assessments, and various other program fees. CCC has no employees; its operations are carried out principally through the personnel and facilities of USDA's Farm Service Agency, Foreign Agricultural Service, and Natural Resources and Conservation Service.

Deficit Control Act category: Mandatory

Budget subfunction: Multiple functions (999)

Fiscal year 1999 fund data:

(Dollars in millions)

Income			**$ 9,882**
Source of funds:			
Taxes (governmental receipts):		$ 0	
Proprietary receipts		0	
General fund transfers		0	
Offsetting collections:		9,882	
Interest	$ 0		
Federal sources	1,621		
Nonfederal sources	8,261		
Gross outlays			**$29,182**
Balance at end of year			**$ 1,402**

Federal Employees and Retired Employees Health Benefits Funds (24-9981-0-8-551)

Fund type, authorization, background, and purpose:

This account is a *revolving trust fund* and combines the Federal Employees Health Benefits fund (FEHB) and the Retired Employees Health Benefits fund (REHB). Authorized by the Federal Employees Health Benefits Act of 1959 (P.L. 86-382), the FEHB program began operations on July 1, 1960. The basic structure of FEHB has undergone relatively few changes since the program began operation.[4] The REHB program was created by the Retired Federal Employees Health Benefits Act (P.L. 86-724). Together, these two funds comprise the FEHB trust fund.

FEHBP is the nation's largest voluntary employer-sponsored health insurance program and is administered by the Office of Personnel Management (OPM). Employees and retirees share the costs of health coverage with the federal government, which pays 72 percent of premium costs, on average.[5] FEHBP serves as an insurance purchaser contracting with several hundred private health plans to offer health benefits to federal employees, retirees, and their dependents. OPM negotiates premiums and benefits with participating health plans but it does not directly reimburse claims or directly provide health care services. Participation in FEHBP is voluntary and enrollees may change from one plan to another during annual "open seasons." At the time of retirement, eligible enrollees must make a one-time election to continue to participate in FEHBP as retirees. Participating retirees pay the same premiums as active employees.

Deficit Control Act category: Primarily mandatory

Budget subfunction: Health care services (551)

[4]Since 1991, OPM has required participant plans to implement cost containment procedures and policies such as hospital precertification, case management, and development of preferred provider networks.

[5]The Balanced Budget Act of 1997 (P.L. 105-33) established a new formula that permanently sets the government's share of premiums at 72 percent of the average total premium cost of all plans in the FEHBP, weighted by the number of participants in each plan. The government share cannot exceed 75 percent of the premium of any particular plan.

Fiscal year 1999 fund data:

(Dollars in millions)

Income			**$18,039**
Source of funds:			
Taxes (governmental receipts): employee contributions		$ 0	
Proprietary receipts		0	
General fund transfers		0	
Offsetting collections:		18,039	
Interest	$ 360		
Employer/government contributions	12,759		
Employee/annuitant contributions	4,920		
Outlays			**$18,463**
Balance at end of year			**$ 5,813**

Investments: The fund is invested in nonmarketable, market-based government debt securities, which have a yield that equals the average of all marketable government debt securities with 4 or more years to maturity.

Current issues: As of October 1, 2000, OPM began allowing employees of the executive branch agencies to pay their share of FEHB insurance costs with pretax dollars, thus increasing employees after-tax income. Only current employees will be able to pay their premiums in this manner. We have estimated that the tax loss associated with this method of payment will be over $700 million annually.

S. 2218 and H.R. 4040 have been introduced to establish a long-term care (LTC) insurance program for federal employees and annuitants, current and retired members of the uniformed services, and their qualified relatives. Under these proposals, OPM would contract with private insurance carriers or a consortium of insurers to provide LTC benefits. Insured individuals would be responsible for 100 percent of premiums.

Employees Life Insurance Fund (24-8424-0-8-602)

Fund type, authorization, background, and purpose:

This *revolving trust fund* finances payment to a private insurance company for federal employees' group life insurance (FEGLI) and expenses incurred by OPM to administer the program. The life insurance program was created by the Federal Employees Group Life Insurance Act of 1954 (P.L. 83-598) and covers about 90 percent of eligible employees, annuitants, and many of their family members.

The FEGLI program provides basic coverage and three types of optional coverage, including standard, additional, and family optional coverage. FEGLI is administered through a contract with Metropolitan Life Insurance Company. Basic insurance is determined by the amount of an employee's annual rate of basic pay, rounded to the next highest thousand, plus $2,000. All federal employees are automatically covered by basic insurance unless they decline. Starting in 1995, living benefits were added to the FEGLI program. Living benefits allow eligible terminally ill enrollees to receive their basic insurance benefits during the last stage of their lives.

Deficit Control Act category: Primarily mandatory

Budget subfunction: Federal employee retirement and disability (602)

Fiscal year 1999 fund data:

(Dollars in millions)

Income			**$ 2,945**
Source of funds:			
Taxes (governmental receipts)		$ 0	
Proprietary receipts		0	
General fund transfers		0	
Offsetting collections:		2,945	
Interest	$1,311		
Nonfederal sources	1,240		
Other (Agency contributions)	394		
Outlays			**$ 1,561**
Balance at end of year			**$20,486**

Investments: The fund is invested in nonmarketable, market-based government debt securities, which have a yield that equals the average of all marketable government debt securities with 4 or more years to maturity.

Highway Trust Fund (20-8102-0-7-401)

Fund type, authorization, background, and purpose:

The Highway Trust Fund is a *nonrevolving trust fund* comprised of two accounts: highways and mass transit. The Highway Trust Fund was created by Title II of P.L. 84-627, the Highway Revenue Act of 1956. This 1956 act provided funding for construction of the interstate highway system and for some other federal highway programs. The Highway Trust Fund was established as a way to provide funding for capital construction and this remains its principal focus.

The mass transit account, created by the Surface Transportation Assistance Act of 1982 (P.L. 97-424), represented the culmination of a long congressional debate about the position of transit in the national transportation system. The transit account provided a consistent federal funding source for capital spending on new and rehabilitated mass transit infrastructure and for other purposes.

Deficit Control Act category: Mandatory receipts; predominantly discretionary outlays

Budget subfunction: Ground transportation (401)

Fiscal year 1999 fund data:

(Dollars in millions)

Income		**$39,427**
Source of funds:		
Taxes (governmental receipts)	$39,299	
Offsetting collections	126	
Proprietary receipts: interest	2	
Outlays		**$29,036**
Balance at end of year		**$28,979**

Investments: The fund is invested in nonmarketable Treasury securities which are noninterest bearing.

Current issues: Over the last 40 years, the Highway Trust Fund and the federal program it supports have been changed numerous times. In almost every instance, the Congress has chosen to expand the scope of the federal highway program. At various times over the same period, the

Congress has also chosen to increase the revenue stream into the trust fund by raising federal excise taxes on motor fuels. Over the last several years, a number of bills have proposed to both move the Highway Trust Fund off-budget and exempt it from DCA controls in order to ensure that highway spending is not held down in order to lower the federal deficit.

Instead of moving the fund off-budget, legislation in May 1998 established minimum guaranteed spending levels. The Transportation Equity Act for the 21st Century (P.L. 105-178), referred to as TEA-21,[6] established two new categories within the discretionary spending caps set forth in the DCA: the highway category and the mass transit category, each with its own outlay caps through fiscal year 2003. TEA-21 also established minimum obligation limitations or spending levels for the highway and mass transit categories for fiscal years 1999 through 2003. For the highway category, these minimum spending levels are tied to receipts (from the previous year) of the highway category. TEA-21 provides a mechanism for adjusting these spending levels upward or downward each year based on actual receipts from 2 years prior to the fiscal year, as reported by Treasury, plus revised Treasury receipt projections for the fiscal year in question. For example, for fiscal year 2000, TEA-21 requires that this adjustment be calculated by comparing (1) actual highway account receipts for fiscal year 1998 with the TEA-21 projection of these receipts and (2) revised projections of the highway account receipts for fiscal year 2000 with the TEA-21 projection of these receipts. The sum of these differences becomes the adjusted funding level. GAO has previously testified on guaranteed funding levels and trust fund control in the budget.[7]

Land and Water Conservation Fund (14-5005-0-2-303)

Fund type, authorization, background and purpose:

The Land and Water Conservation Fund (LWCF) is a *special fund* administered by the Department of the Interior. The fund was created by the Land and Water Conservation Fund Act of 1965 (Pub.L. 88-578). The fund was originally authorized through fiscal year 1989 but was

[6] A technical corrections bill provided additional clarification of funding formulas, highway safety regulations related to drunk driving, and certain budget offsets. The technical corrections for TEA-21 were ultimately incorporated into Title IX of the Internal Revenue Service Restructuring and Reform Act of 1988 (P.L. 105-206), which was enacted on July 22, 1998.

[7] *Budget Issues: Trust Funds in the Budget* (GAO/T-AIMD/RCED-99-110, March 9, 1999) and *Budget Issues: Cap Structure and Guaranteed Funding* (GAO/T-99-210, July 21, 1999).

reauthorized through fiscal year 2015 by the Omnibus Budget Reconciliation Act of 1987.

Revenues to the fund are comprised of federal recreation fees, proceeds from the sale of surplus federal real property, part of the motorboat fuel tax, and part of the receipts from oil and gas leases on the Outer Continental Shelf. The latter item constitutes the bulk of the revenues to the fund.

LWCF funds are available to support federal land acquisition and state recreation programs only upon appropriation by the Congress. Appropriations are made for the Forest Service in the Department of Agriculture and to three Department of the Interior agencies (National Park Service, Fish and Wildlife Service, and Bureau of Land Management).

Deficit Control Act category: Mandatory receipts and discretionary outlays

Budget subfunction: Recreational resources (303)

Fiscal year 1999 fund data:

(Dollars in millions)

Income			**$ 908**
Source of funds:			
Taxes (governmental receipts) [motorboat fuels tax]		$ 1	
General fund transfers (intragovernmental transfers)			
Interest			
Appropriations			
Other			
Proprietary receipts:		907	
Outer Continental Shelf lands rent	$899		
Surplus property sales	8		
Offsetting collections		385	
Outlays			**$ 1,087**
Balance at end of year			**$12,936**

Investments: The Land and Water Conservation Fund is not authorized to invest surplus funds in Treasury securities.

Current issues: Concerns have been raised that, over the years, spending from the LWCF has been held down to help reduce the federal budget deficit. A substantial balance of unappropriated funds has accumulated, and even if funds were appropriated at the authorized level, the fund would be unlikely to spend down the balance in the near future. Some advocates see the current budget surpluses as an opportunity to spend more money on these activities.

Bills to greatly expand federal financial support for land and resource acquisition and for protection and recreation have been introduced during the 106th Congress. Some proposals would replace annual appropriations with a permanent appropriation. Other proposals would take the LWCF off-budget and exempt it from any general budget limitation. The House passed H.R 701 on May 11, 2000. This bill would increase funding for LWCF by transferring up to $900 million annually from a newly established Conservation and Reinvestment Act Fund. Funding for federal land acquisition would remain subject to appropriations acts while a portion of the funds would not be subject to appropriations.

Medicare Trust Funds (20-8004-0-7-571 and 20-8005-0-7-571)

Fund type, authorization, background, and purpose:

Medicare, financed through two *nonrevolving trust funds*, is a federal health insurance program enacted in 1965. Initially, eligible Americans age 65 or older were covered. Coverage was later extended to certain disabled persons by the Social Security Amendments of 1972. Medicare is the nation's largest health insurance program. It is administered by the Health Care Financing Administration, which contracts with insurance companies for claims processing services.

Medicare has two parts, A and B, and two trust funds, HI and SMI, each of which is financed differently.

Part A: Federal Hospital Insurance (HI) Component: Medicare Part A is financed through the HI trust fund, which covers inpatient hospital, skilled nursing facility, home health, and hospice services. It is financed by a 1.45 percent payroll tax on employers and employees. It also receives a portion of federal income taxes paid on Social Security benefits. All citizens 65 years of age or older with credit for at least 40 quarters of employment are fully covered for life under Social Security. They are entitled to Part A at no cost. Senior citizens without sufficient quarters of coverage can purchase Part A for premiums based on the actuarial value of benefits. Persons who have received Social Security disability benefits for 24 months and most people with kidney disease—End Stage Renal Disease (ESRD)—are also entitled to Part A without additional premiums.

Part B: Federal Supplementary Medical Insurance (SMI) Component: Medicare Part B is financed through the SMI trust fund. It is a voluntary program under which anyone age 65 or older, disabled persons, or ESRD patients entitled to Part A can purchase coverage for a wide range of outpatient services ranging from physicians' services to clinical laboratory tests. Enrollees pay a monthly premium that covers about 25 percent of program costs; federal general revenues pay the remainder. Beneficiaries are responsible for a $100 annual deductible payment. For most covered services, beneficiaries are also responsible for 20 percent coinsurance. If a Medicare beneficiary qualifies for Medicaid (an income-tested program), the Medicaid program will pay his or her Medicare Part B premiums.

Deficit Control Act category: Benefit payments, comprising about 98 percent of gross outlays, are mandatory; administrative expenses, comprising about 2 percent of outlays, are discretionary.

Budget subfunction: Medicare (571)

Fiscal year 1999 fund data:

Federal Hospital Insurance

(Dollars in millions)

Income			**$153,018**
Source of funds:			
Taxes (governmental receipts)		$132,337	
Offsetting collections		3	
Proprietary receipts:		1,403	
Interest	$ 2		
Premiums	1,401		
General fund transfers:		19,275	
Interest	9,286		
Appropriations	7,413		
Other (federal employer contributions)	2,576		
Outlays			**$131,503**
Balance at end of year			**$138,421**

Federal Supplementary Medical Insurance

(Dollars in millions)

Income			**$85,457**
Source of funds:			
Taxes (governmental receipts)		$ 0	
Offsetting collections		179	
Proprietary receipts		20,167	
Interest	$ 7		
Premiums	20,160		
General fund transfers:		65,111	
Interest	2,926		
Appropriations	62,185		
Outlays			**$80,697**
Balance at end of year			**$45,649**

Investments: The Social Security Act requires that funds not necessary to meet current expenditures be invested in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. These investments are carried at face value as determined by Treasury.

Current issues: Absent changes, the long-term financial outlook for the Medicare program is bleak. Under the Trustees' 1999 intermediate projections, HI and SMI expenditures taken together are expected to increase dramatically, rising from about 12 percent of all federal revenues in 1999 to about 25 percent by mid-century, even without any additions to the benefit package. Over the same time frame, Medicare's expenditures are expected to double as a share of the economy, from 2.5 percent to 5.3 percent.

Medicare trust fund reports show that the HI component had a cash deficit from 1992 through 1998 but is now running a surplus that is projected to continue until 2025. Nevertheless, the Medicare program is fiscally unsustainable in its present form as the disparity between program expenditures and program revenues is expected to reopen and widen dramatically after 2025. Moreover, the program has not adopted modern, market-based management tools and its benefit package contains gaps in desired coverage compared to private employer coverage. Compounding the difficulties of responding to these competing concerns is the sheer size of the Medicare program—even modest program changes send ripples across the program's 39-million beneficiary population and the approximately 1 million health care providers that bill the program.

A number of legislative proposals dealing with Medicare benefits and financing have been made. Options to reform Medicare must balance the needs of all parties and require hard choices based on affordability, equity, adequacy, feasibility, and acceptance.

Military Retirement Fund (97-8097-0-7-602)

Fund type, authorization, background, and purpose:

The Military Retirement Fund is a *nonrevolving trust fund*. It was established by the Department of Defense Authorization Act of 1984.

The military retirement system provides benefits for retirement after a military career, disability retirement, and survivor benefits for eligible survivors of deceased retirees. Benefits are paid after 20 years of active service, regardless of age, and are intended more to retain qualified personnel through a full 20-year career than to provide adequate retirement income. The system seeks to minimize turnover and the government's training costs for skilled personnel and to encourage the retirement of service members who have become too old to meet the physical and mental demands of military service. The military retirement system is a noncontributory (i.e., no employee contributions) defined benefit plan.

Deficit Control Act category: Mandatory

Budget subfunction: Federal employee retirement and disability (602)

Fiscal year 1999 fund data:

(Dollars in millions)

Income			**$ 38,227**
Source of funds:			
Taxes (governmental receipts): employee contributions		$ 0	
Proprietary receipts		0	
Offsetting collections		0	
General fund transfers:		38,227	
Interest	$12,560		
Appropriations	15,250		
Other (employer contributions)	10,417		
Outlays			**$ 31,889**
Balance at end of year			**$151,853**

Investment: The fund is invested in nonmarketable, special-issue Treasury securities.

Current issues: A variety of major changes in military retirement were enacted in the fiscal year 2000 National Defense Authorization Act (P.L. 106-65). Some of the changes included (1) allowing military personnel the option of retiring under the “Redux” system with a cash bonus of $30,000 or under a more generous pre-Redux formula without the bonus payment;[8] (2) allowing military personnel to enroll in the federal civil service’s Thrift Savings Plan; (3) repealing dual compensation laws that required military retirees in the federal civil service to forfeit some or all of their retired pay; and (4) authorizing a special payment to some people who receive both military nondisability retired pay and Department of Veterans Affairs disability compensation.

[8] Redux refers to cuts incorporated in military retirement pay for persons who would first be retiring in mid-2006. Redux was established in the Military Retirement Reform Act of 1986 (P.L. 99-348) based on allegations that military retirement cost too much, had overly generous benefits, and contributed to inefficient military personnel management.

Nuclear Waste Fund (89-5227-0-2-271)

Fund type, authorization, background, and purpose:

The Nuclear Waste Fund is a *special fund* under the jurisdiction of the Department of Energy. It was established by the Nuclear Waste Policy Act of 1982, Public Law 97-425, enacted January 7, 1983. It finances the activities of the nuclear waste disposal program, which consists of the development, acquisition, and operation of facilities for the disposal of nuclear waste.

The act requires that reactor operators pay (1) fees for electricity generated by a civilian nuclear power reactor and (2) a one-time fee for spent nuclear fuel for power generated prior to the act. These fees are credited to the fund. The act said that, in return for these fees, the Secretary of Energy, beginning not later than January 31, 1998, would provide for the disposal of the high-level radioactive waste or spent nuclear fuel accumulated at nuclear power plants. The Secretary was authorized to make expenditures from the fund for purposes of authorized radioactive waste disposal activities, subject to appropriations that would remain available until expended. Balances in the fund may be invested in Treasury securities.

Deficit Control Act category: Discretionary

Budget subfunction: Energy Supply (271)

Fiscal year 1999 fund data:

(Dollars in millions)

Income			**$ 768**
Source of funds:			
Taxes (governmental receipts)			
Proprietary receipts :		$662	
Fees for Services	$662		
General fund transfers (intragovernmental transfers)		106	
Interest	106		
Appropriations			
Other			
Offsetting collections			
Outlays			**$ 188**
Balance at end of year			**$7,927**

Investments: The fund is invested in U.S. Treasury securities, which are classified as “available-for-sale” and are reported at market value.

Current issues: The goal of accepting radioactive waste into a repository at Yucca Mountain, Nevada, in 1998 was not achieved. The goal now is to open the facility in 2010 at the earliest. The lack of a disposal site has been a contentious issue over the years. Nuclear utilities, which have paid for the waste disposal program for years through the fee on nuclear power, have become concerned over the delays and the need to store spent nuclear fuel. Some delays have been blamed on poor program management, while the Department of Energy contends that tight funding has been a major barrier. Congressional approval is required to spend the fees collected, and only about half of the fees collected have been appropriated to the program. Some surplus in the fund may be needed to pay future costs after nuclear plants have ceased operation.

In the 106th Congress, bills to modify the civilian waste program were considered in both houses. The House Commerce Committee approved H.R. 45, which would have moved the Nuclear Waste Fund off-budget and exempted it from DCA controls. Although appropriations would still be required for all expenditures from the fund, the appropriations would not be subject to budget caps. This proposal raised considerable concern from the House Budget Committee. The Senate bill (S. 1287) would leave the current funding mechanism in place but would authorize waste shipments to the repository site if it receives a Nuclear Regulatory Commission construction permit. S. 1287 passed both houses of Congress but the President vetoed the legislation on April 25, 2000. A Senate override attempt on May 2, 2000, was unsuccessful.

Postal Service Fund (18-4020-0-3-372)

Fund type, authorization, background, and purpose:

The U.S. Postal Service is financed through a public enterprise fund. The Service’s roots date back to 1775 when the Continental Congress appointed Benjamin Franklin as Postmaster General. Throughout the years, the mode and price of mail delivery changed. In 1970, President Nixon signed into law the Postal Reorganization Act (P.L. 91-375), the most comprehensive postal legislation in nearly two centuries. The 1970 act removed the Post Office Department from the President’s cabinet, retained the postal mail monopoly, ended the authority of the Congress to set employee wages and postage rates, and granted the new independent establishment substantial fiscal autonomy over its operations. Its primary mission is to provide universal postal service at reasonable rates. It must also remain self-supporting from postal revenues.

Currently, the Postal Service is one of two off-budget federal entities; the other is Social Security. By law, the government must exclude the transactions of off-budget programs from the totals of the President's budget and the Congress' budget resolutions, even though they are part of total government transactions.

Deficit Control Act category: Excluded

Budget subfunction: Postal Service (372)

Fiscal year 1999 fund data:

(Dollars in millions)

Income			**$62,943**
Source of funds:			
Taxes (governmental receipts)		$ 0	
Proprietary receipts		0	
General fund transfers		0	
Offsetting collections:		62,943	
Interest	$ 29		
Federal sources	957		
Nonfederal sources	61,957		
Gross outlays			**$63,964**
Balance at end of year			**$22,107**

Investments: The Postal Service invests in nonmarketable U.S. Treasury securities.

Current issues: Direct and indirect competition to the Postal Service is growing. Advances in communications technology, privatized and deregulated foreign postal services, and consumer demand fueled by dramatic growth in Internet commerce make it imperative to raise the quality and ease of use of products and services. In particular, the Postal Service has been hampered by long-standing challenges in labor-management relations that, if continued, may hinder efforts to achieve desired improvements. Continued success will depend heavily on the Postal Service's ability to control operating costs, improve productivity, strengthen internal controls, and ensure the integrity of its services.

Funds for Strengthening Markets, Income, and Supply (Section 32) (12-5209-0-2-605)

Fund type, authorization, background, and purpose:

Funds for Strengthening Markets, Income, and Supply (Section 32) is a *special fund* administered by the Agricultural Marketing Service of the Department of Agriculture. Section 32 of the Act of August 24, 1935, Chap. 641 (7 USC 612c) authorized a permanent appropriation equal to 30 percent of the gross receipts from duties collected under the customs laws to be maintained in a separate fund. The money was first made available during the depression to assist farmers suffering from price-depressing surpluses.

Funds must be used for (1) encouraging the export of farm products through producer payments or other means, (2) encouraging the domestic consumption of farm products by diverting them from normal channels and expanding use by low-income groups, and (3) reestablishing farmers' purchasing power. The Secretary of Agriculture has wide discretion in deciding how to achieve these objectives since the legislation provided that the sums shall be expended for one or more of the specified purposes and at such times, in such manner, and in such amounts as the Secretary determines. However, no more than 25 percent may be spent on any one commodity or product.

Most of the money credited to this special fund is transferred to the Food and Nutrition Service and is used to purchase commodities under section 6 of the National School Lunch Act and other authorities specified in the child nutrition appropriation. In fiscal year 1999 just over $5 billion was transferred to Child Nutrition Programs. An amount equal to 30 percent of receipts collected on fishery products ($66 million in 1999) was transferred to the Department of Commerce for fisheries research. The remaining funds are available for administrative expenses for direct commodity purchases and to serve as a contingency reserve.

Deficit Control Act category: Mandatory

Budget subfunction: Food and nutrition assistance (605)

Fiscal year 1999 fund data:

(Dollars in millions)

Income		**$5,681**
Source of funds:		
Taxes (governmental receipts): customs duties	$5,680	
Proprietary receipts		
General fund transfers		
Offsetting collections: Nonfederal sources	1	
Outlays		**833**
Transfers to other accounts		**$5,114**
Balance at end of year		**$ 486**

Investments: This fund has no investments in Treasury Securities.

Current issues: Among the issues identified by the Congressional Research Service is the issue of whether 30 percent of customs receipts is still an appropriate source and level of funding. The Congress designated this level in 1935 on the premise that 30 percent of the population then lived on farms. Thus, the amount theoretically represented the farmers' "fair share" of customs revenues. Today only about 2 percent of the population live on farms. Those who take exception to that argument contend that the food and fiber system accounts for about 13 percent of GDP and provides 23 million jobs. Only about 3 percent of the customs receipts are spent on the direct purchase of agricultural products. The bulk of the fund receipts are transferred to the Food and Nutrition Service and are being used to reimburse schools and other institutions for meals served to children. If this level were reduced, discretionary appropriations would have to be increased to maintain the same level of child nutrition programs.

Social Security Trust Funds (20-8006-0-7-651 and 20-8007-0-7-651)

Fund type, authorization, background, and purpose:

In 1935, the Social Security Act was enacted, establishing a program to provide monthly retirement benefits to workers. Program benefits are generally based on average lifetime taxable earnings. Over the years, the benefit amount, taxable income base, and tax rates have substantially increased. Participation in the program has become mandatory for most workers. In addition to changes in benefits and taxation, the law has also been amended to add survivor's coverage and to provide benefits for the disabled. As a result, Title II of the Social Security Act now provides for two programs that are financed by two *nonrevolving trust funds*: the Federal Old-Age and Survivors Insurance Trust Fund (OASI) and the Federal Disability Insurance Trust Fund (DI).

Each of these programs is financed by Federal Insurance Contribution Act and Self-Employment Contributions Act payroll tax contributions from employees and employers that are placed in separate nonrevolving trust funds from which benefits are paid. Both programs are federally administered by the Social Security Administration.

Old Age and Survivors Insurance Component: Under the OASI program, workers may retire at age 65 and receive full benefits.[9] Retirees man opt to retire as early as age 62 and receive reduced benefits.

Disability Insurance Component: The DI program is administered by both the federal government and state entities (Disability Determination Services). The DI program pays benefits to individuals who are unable to work for long periods because of medical conditions that prevent substantial gainful activity.

Over time, there have been several proposals to remove Social Security from the federal budget. Measures were enacted in 1983 and 1985 specifying that Social Security should not be included in the budget. In 1990, Social Security's off-budget status was reaffirmed and was also removed from calculations in the sequestration process . Although the program is part of the unified budget, budget totals are shown both on a unified basis (including Social Security) and excluding Social Security.

Deficit Control Act category: Benefit payments, comprising over 99 percent of gross outlays, are mandatory; administrative expenses, comprising less than 1 percent of outlays, are discretionary. Both trust funds are excluded from DCA controls but are subject to special enforcement provisions.

Budget subfunction: Federal employee retirement and disability (602)

[9]The normal retirement age, when a person may first become entitled to unreduced retirement benefits, is currently 65 years and 2 months. However, under current law, it is scheduled to gradually increase to 67 for persons reaching that age in 2027 or later.

Fiscal year 1999 fund data:

Old-Age and Survivors Insurance

(Dollars in millions)

Income			**$449,489**
Source of funds			
Taxes (governmental receipts): employee/employer contributions		$383,559	
General fund transfers (intragovernmental transfers)		63,409	
Interest	$46,847		
Appropriations	10,188		
Other (employer contributions)	6,374		
Proprietary receipts		9	
Offsetting collections		2,512	
Outlays			**$340,427**
Balance at end of year			**$762,374**

Disability Insurance

(Dollars in millions)

Income			**$67,791**
Source of funds			
Taxes (governmental receipts): employee/employer contributions		$60,909	
General fund transfers (intragovernmental transfers)		6,870	
Interest	$5,223		
Appropriations	636		
Other (employer contributions)	1,011		
Proprietary receipts		12	
Offsetting collections		0	
Outlays			**$52,142**
Balance at end of year			**$92,628**

Investments: OASI and DI trust fund balances may be invested only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. These investments consist of U.S. Treasury special issues and bonds. Special issues are special public debt obligations for purchase exclusively by the trust funds. They are always purchased and redeemed at face value.

Current issues: The Social Security program is not in long-term actuarial balance. This means Social Security revenues are not expected to be sufficient to pay all benefit obligations through 2075. Without changing the current program, excess cash revenues from payroll and income taxes are expected to begin declining substantially in the near future. After 2014, cash revenues will be insufficient to pay all program costs and Social Security will have to start redeeming some of its assets to obtain the cash needed to pay benefits. The trust funds are expected to be exhausted in 2037.[10]

Two important factors affecting Social Security's pending financing problems are increasing life expectancy and the rapidly approaching retirement of the baby boom generation. The oldest of this generation will reach early retirement age (62) in 2008, and the youngest will reach it in 2026. This large number of longer living retirees would substantially increase program costs and strain the ability of the program to pay benefits even if they were the only factors affecting future costs.

Exacerbating the problem of the retirement of the baby boom generation is the relatively smaller generation that follows it. The post-baby boom generation, which resulted from the rapid decline in birth rates from the mid-1960s to the mid-1980s, will result in relatively fewer workers to support a larger number of retirees.

Numerous proposals have been forwarded to address Social Security financing issues. In our opinion, such proposals should be evaluated based on three criteria: (1) sustainable solvency, (2) equity and adequacy, and (3) feasibility and transparency.

[10]Based on the intermediate assumptions of Social Security's 2000 Annual Report.

Tennessee Valley Authority Fund (64-4110-0-3-999)

Fund type, authorization, background, and purpose:

The Tennessee Valley Authority (TVA) fund is a *public enterprise fund*. TVA is a wholly owned government corporation created by the Tennessee Valley Authority Act of 1933 (16 U.S.C. 831-831dd). It was established to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. TVA's programs are divided into two categories: power and nonpower programs. Substantially all TVA revenues and assets are attributable to the power program. The power program has historically been separate from the nonpower programs and is required to be self-supporting; it does not receive any annual appropriations. Although most of the funding for TVA's nonpower programs has historically been provided by annual appropriations, beginning in fiscal year 2000, they will be funded primarily by power revenues.

Deficit Control Act category: Primarily mandatory

Budget subfunction: Multiple functions (999)

Fiscal year 1999 fund data:

(Dollars in millions)

Income			**$6,588**
Source of funds:			
Taxes (governmental receipts):		$ 0	
Proprietary receipts		0	
General fund transfers:		50	
Appropriations	$ 50		
Offsetting collections:		6,538	
Interest	0		
Federal sources	77		
Nonfederal sources	6,827		
Capital transfers and debt repayment	-366		
Gross outlays			**$6,906**
Balance at end of year			**$ 644**

Investments: TVA maintains an investment fund to provide funding for the decommissioning of nuclear power plants. The funds are invested in securities designed to achieve a return in line with overall equity market performance.

Current issues: TVA faces increasing competition in electricity markets, deregulation, and the possibility of losing legislative protections.

Unemployment Trust Fund (20-8042-0-7-999)

Fund type, authorization, background, and purpose:

The financial transactions of the federal, state, and railroad unemployment insurance systems are made through the *nonrevolving Unemployment Trust Fund*. Such unemployment compensation (UC), established by the Social Security Act of 1935, as amended, was intended to (1) provide temporary relief through partial wage replacement for workers who lose jobs for economic reasons and (2) help stabilize the economy during recessions. The UC system operates in each state, the District of Columbia, Puerto Rico, and the Virgin Islands. Federal law sets broad rules that the 53 state programs must follow and levies a payroll tax on employers under the Federal Unemployment Tax Act (FUTA). States set most of the specific rules for eligibility, benefits, and financing. States also process claims and pay the benefits. The U.S. Treasury receives federal and state payroll taxes, maintains the trust fund, and makes loans to states with insolvent accounts.

Deficit Control Act category: Primarily mandatory

Budget subfunction: Multiple functions (999)

Fiscal year 1999 fund data:

(Dollars in millions)

Income			**$31,681**
Source of funds:			
Taxes (governmental receipts)		$26,480	
Proprietary receipts		3	
Offsetting collections		0	
General fund transfers:		5,198	
Interest	$4,795		
Appropriations	403		
Other	0		
Outlays			**$24,938**
Balance at end of year			**$77,699**

Investments: The fund is invested in nonmarketable Treasury Certificates of Indebtedness and special-issue Treasury bonds.

Current issues: Changes in the federal-state UC system are being considered during the 106th Congress. For example, S. 462 proposes to shift some federal UC responsibilities to the states. Broader UC reform legislation has been introduced in H.R. 1830, which would provide incentives to states to expand eligibility, strengthen administrative financing, and improve the solvency of state accounts. The Taxpayer Refund and Relief Act of 1999, passed by the House and Senate on August 5, 1999, included a provision to repeal the UC surtax extension after December 31, 2004. However, the President vetoed the bill on September 23, 1999. Other bills, including S. 103 and S. 625, as amended, also contain provisions to repeal the FUTA surtax.

Universal Service Fund (27-5183-0-2-376)

Fund type, authorization, background, and purpose:

The Universal Service Fund is a *special fund* under the jurisdiction of the Federal Communications Commission (FCC). The fund was established as a result of the Telecommunications Act of 1996 (Public Law 104-104 enacted on February 8, 1996). The act requires every carrier of interstate telecommunications services to contribute funds to preserve and advance universal service. The universal service concept was created to ensure the availability of telecommunications services for all consumers, including low-income consumers as well as those in rural and high cost areas.

The contributions by the providers are used to support carriers offering services in high cost areas of the United States and those offering services to low income consumers. Also, telecommunications carriers and certain other eligible providers receive support payments for providing discounted service to schools, libraries, and health care providers.

Deficit Control Act category: Mandatory

Budget subfunction: Other advancement of commerce (376)

Fiscal year 1999 fund data:

(Dollars in millions)

Income		**$3,752**
Source of funds:		
Governmental receipts : statutory assessments	$3,752	
Proprietary receipts		
General fund transfers (intragovernmental transfers)		
Interest		
Appropriations		
Offsetting collections		
Outlays		**$3,293**
Balance at end of year		**$1,479**

Investments: This fund has no investments.

Current issues: According to the Congressional Research Service, most policymakers support the universal service concept. However, the FCC's implementation of the schools and libraries provision of the 1996 act has generated significant controversy. Oversight of the schools and libraries program by the Congress was intense, with congressional comments ranging from those who called for the abolishment of the program, to those who supported the program but felt it needed major revisions, to those who continued to support the program as funded and designed. Concerns regarding the schools and libraries program focus on: the administrative structure designed to implement the program; the scope and funding level of the program; and the potential for fraud, waste, and abuse. An additional related issue—industry billing practices—has also had an impact on the schools and libraries program.

List of Funds' Revenues, Gross Outlays, and Balances for Fiscal Year 1999

This appendix lists each earmarked fund's revenues, gross outlays, and balance for fiscal year 1999. Table III.1 lists the funds in alphabetical order, grouped by fund type. Table III.2 lists the largest 10 funds, in terms of total revenue for each fund type.

Available budget data for certain funds, typically small nonrevolving trust and special funds, were, in some instances, consolidated or merged for budget presentation purposes. As a result, budget data did not always permit us to de-aggregate the data belonging to specific funds. Also, when amounts were transferred or appropriated from one account to another account, outlays are reflected in the accounts that received the transferred or appropriated amounts.

Table III.1: Earmarked Funds Revenues, Gross Outlays, and Balances for Fiscal Year 1999

(Dollars in millions)

Fund name	Fund type	Revenues	Gross outlays	Balance
Advances for Cooperative Work, Department of Energy	Nonrevolving trust	0	2	5
Airport and Airway Trust Fund	Nonrevolving trust	11,121	8,089	12,446
American Battle Monuments Commission Gift Fund	Nonrevolving trust	27	14	41
Aquatic Resources Trust Fund	Nonrevolving trust	462	348	1,276
Architect of the Capitol Gift Fund	Nonrevolving trust	0	0	0
Armed Forces Retirement Home Trust Fund	Nonrevolving trust	53	73	197
Barry Goldwater Scholarship and Excellence in Education Foundation	Nonrevolving trust	3	3	61
Bequests and Gifts, Federal Emergency Management Agency	Nonrevolving trust	0	0	2
Black Lung Disability Trust Fund	Nonrevolving trust	599	1,000	-6,239[b]
Cheyenne River Sioux Tribe Terrestrial Wildlife Restoration Trust Fund	Nonrevolving trust	4	0	4
Christopher Columbus Scholarship Foundation	Nonrevolving trust	1	0	7
Civil Service Retirement and Disability Fund	Nonrevolving trust	74,522	43,932	481,273
Claims Court Judges Retirement Fund	Nonrevolving trust	2	1	7
Coast Guard Gift Fund	Nonrevolving trust	0	0	2
Cooperative Fund (Papago)	Nonrevolving trust	2	0	31
Corporation for National Community Service Gift Fund	Nonrevolving trust	96	56	399
Court of Veterans Appeals Retirement Fund	Nonrevolving trust	0	0	3
Department of State Conditional Gift Fund	Nonrevolving trust	1	0	17
Department of State Unconditional Gift Fund	Nonrevolving trust	1	0	0

Fund name	Fund type	Revenues	Gross outlays	Balance
Departmental Administration Gift Fund, Agriculture	Nonrevolving trust	1	1	2
District of Columbia Federal Pension Liability Trust Fund	Nonrevolving trust	3,357	140	3217
District of Columbia Judicial Retirement and Survivors Annuity Fund	Nonrevolving trust	71	2	75
Education Benefits Fund, Department of Defense	Nonrevolving trust	237	178	676
Federal Judicial Center Foundation Gift Fund	Nonrevolving trust	0	1	1
Financial Assistance Corporation Trust Fund	Nonrevolving trust	7	0	106
Fish and Wildlife Service Contributed Funds	Nonrevolving trust	6	4	8
Foreign Military Sales Trust Fund	Nonrevolving trust	11,624	12,159	5,509
Foreign National Employees Separation Pay Trust Fund	Nonrevolving trust	15	27	304
Foreign Service National Separation Liability Trust Fund, Agency for International Development	Nonrevolving trust	2	1	12
Foreign Service National Separation Liability Trust Fund, Broadcasting Board of Governors	Nonrevolving trust	0	0	0
Foreign Service National Separation Liability Trust Fund, Department of State	Nonrevolving trust	8	6	76
Foreign Service National Separation Liability Trust Fund, International Trade Administration	Nonrevolving trust	0	11	0
Foreign Service National Separation Liability Trust Fund, U.S. Information Agency	Nonrevolving trust	0	0	8
Foreign Service Retirement and Disability Fund	Nonrevolving trust	1,120	538	10,132
Forest Service Trust Funds [a]	Nonrevolving trust	193	133	408
General Post Fund, National Homes, Department of Veterans Affairs	Nonrevolving trust	33	29	52
Geological Survey Contributed Funds	Nonrevolving trust	0	2	2
Gifts and Bequests Trust Fund, Department of Commerce	Nonrevolving trust	1	1	1
Harbor Maintenance Trust Fund	Nonrevolving trust	607	295	1,736
Harry S. Truman Memorial Scholarship Fund	Nonrevolving trust	4	5	57
Hazardous Substance Superfund	Nonrevolving trust	1,017	1,717	4,443
Highway Trust Fund	Nonrevolving trust	39,427	29,036	28,979
Host Nation Support Fund for Relocation	Nonrevolving trust	0	0	0
Indian Tribal Funds [a]	Nonrevolving trust	438	322	304
Inland Waterways Trust Fund	Nonrevolving trust	118	88	361
Inspection and Grading of Farm Products, Agricultural Marketing Service	Nonrevolving trust	116	105	15
Inspection and Grading of Farm Products, Food Safety Inspection Service	Nonrevolving trust	4	4	0

Fund name	Fund type	Revenues	Gross outlays	Balance
Interest, Miscellaneous Trust Fund, Department of Treasury	Nonrevolving trust	1	0	0
Israeli Arab and Eisenhower Exchange Fellowship Program Trust Fund	Nonrevolving trust	0	1	21
James Madison Memorial Fellowship Trust Fund	Nonrevolving trust	3	2	43
Japan-United States Friendship Trust Fund	Nonrevolving trust	28	2	42
John C. Stennis Center for Public Service Development Trust Fund	Nonrevolving trust	1	1	9
Judicial Officers Retirement Fund	Nonrevolving trust	33	14	120
Judicial Survivors Annuities Fund	Nonrevolving trust	37	11	318
Kuwait Civil Reconstruction Trust Fund	Nonrevolving trust	0	0	2
Leaking Underground Storage Tank Trust Fund	Nonrevolving trust	268	65	1,389
Library of Congress Gift and Trust Funds[a]	Nonrevolving trust	31	26	52
Lower Bruel Sioux Tribe Terrestrial Wildlife Restoration Trust Fund	Nonrevolving trust	1	0	0
Medicare, Part A (Federal Hospital Insurance Trust Fund)	Nonrevolving trust	153,018	131,503	138,421
Medicare, Part B (Federal Supplementary Medical Insurance Trust Fund)	Nonrevolving trust	85,457	80,697	45,649
Military Retirement Fund	Nonrevolving trust	38,227	31,889	151,853
Miscellaneous Contributed Funds, Agricultural Research Service	Nonrevolving trust	22	18	22
Miscellaneous Contributed Funds, Department of Agriculture	Nonrevolving trust	5	0	0
Miscellaneous Trust Funds,[a] Administration of Foreign Affairs	Nonrevolving trust	2	2	10
Miscellaneous Trust Funds, Agency for International Development	Nonrevolving trust	0	0	2
Miscellaneous Trust Funds, Animal and Plant Health Inspection Service	Nonrevolving trust	13	13	6
Miscellaneous Trust Funds, Appalachian Regional Commission	Nonrevolving trust	6	5	2
Miscellaneous Trust Funds, Bureau of Land Management	Nonrevolving trust	13	12	15
Miscellaneous Trust Funds,[a] Federal Highway Administration	Nonrevolving trust	50	26	71
Miscellaneous Trust Funds, Health Services Administration	Nonrevolving trust	52	60	115
Morris K. Udall Scholarship Fund	Nonrevolving trust	1	1	23

Fund name	Fund type	Revenues	Gross outlays	Balance
National Archives Gift Fund	Nonrevolving trust	1	1	7
National Botanic Garden Gift Fund	Nonrevolving trust	0	0	0
National Endowment for the Arts Gift Fund	Nonrevolving trust	1	0	0
National Endowment for the Humanities Gift Fund	Nonrevolving trust	1	0	0
National Park Service Miscellaneous Trust Fund	Nonrevolving trust	15	15	25
National Science Foundation Gift Fund	Nonrevolving trust	37	42	27
National Security Education Trust Fund	Nonrevolving trust	3	6	52
National Service Life Insurance Fund	Nonrevolving trust	1,677	1,732	11,962
Natural Resources Conservation Service Miscellaneous Contributed Funds	Nonrevolving trust	5	2	25
Office of International Cooperation and Development Miscellaneous Contributed Fund	Nonrevolving trust	2	1	7
Oil Spill Liability Fund	Nonrevolving trust	75	141	1,017
Other Commissions and Boards	Nonrevolving trust	0	0	0
Other Department of Defense Trust Funds [a]	Nonrevolving trust	37	39	26
Peace Corps Miscellaneous Trust Funds	Nonrevolving trust	1	1	2
Post-Vietnam Era Veterans Education Account	Nonrevolving trust	6	20	108
Proprietary Receipts, Miscellaneous Trust Funds, Department of Transportation	Nonrevolving trust	0	0	0
Radiation Exposure Compensation Trust Fund	Nonrevolving trust	0	13	9
Rail Industry Pension Fund	Nonrevolving trust	3,193	3,000	15,255
Railroad Social Security Equivalent Benefit Account	Nonrevolving trust	5,482	5,318	-1,058[b]
Reclamation Trust Funds	Nonrevolving trust	23	13	42
Ricky Ray Hemophilia Relief Fund	Nonrevolving trust	0	0	0
Rivers and Harbors Contributed Funds	Nonrevolving trust	350	252	394
Sales of Unclaimed Abandoned and Seized Goods, Customs Service	Nonrevolving trust	4	7	1
Science, Space, and Technology Education Trust Fund	Nonrevolving trust	2	1	15
Social Security (Federal Disability Insurance Trust Fund)	Nonrevolving trust	67,791	52,142	92,628
Social Security (Federal Old-Age Survivors Trust Fund)	Nonrevolving trust	449,489	340,427	762,374
South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund	Nonrevolving trust	10	0	10
Special Workers' Compensation Funds [a]	Nonrevolving trust	145	143	57
Supplemental Annuity Pension Fund, Railroad Retirement Board	Nonrevolving trust	94	75	56
Tax Court Judges Survivors Annuity Fund	Nonrevolving trust	0	0	7
Tribal Trust Fund	Nonrevolving trust	0	0	0
U.S. Capitol Preservation Commission Trust Fund	Nonrevolving trust	1	0	28

Fund name	Fund type	Revenues	Gross outlays	Balance
U.S. Government Life Insurance Fund, Department of Veterans Affairs	Nonrevolving trust	7	12	80
Unemployment Trust Fund	Nonrevolving trust	31,681	24,938	77,699
United Mine Workers Combined Benefits Fund	Nonrevolving trust	230	230	0
Vaccine Injury Compensation Trust Fund	Nonrevolving trust	194	60	1,400
Voluntary Separation Incentive Fund	Nonrevolving trust	172	156	893
Assessment Funds (Comptroller of the Currency)	Revolving trust	394	402	304
Coast Guard Miscellaneous Trust Revolving Funds	Revolving trust	7	7	0
Commissary Funds (Federal Prison System)	Revolving trust	192	192	108
Employees and Retired Employees Health Benefits Fund	Revolving trust	18,039	18,463	5,813
Employees Life Insurance Fund	Revolving trust	2,945	1,561	20,486
Milk Market Assessment Fund	Revolving trust	36	62	0
National Archives Trust Fund	Revolving trust	15	15	15
Other Department of Defense Trust Revolving Funds	Revolving trust	17	17	0
Surcharge Collections, Sales of Commissary Stores	Revolving trust	284	350	216
Veterans Special Life Insurance Fund	Revolving trust	239	201	1,668
Abandoned Mine Reclamation Fund	Special	360	267	1,736
Allied Contributions and Cooperation Account, Department of Defense	Special	208	126	17
Alternative Fuels Production	Special	1	0	13
Assets Forfeiture Fund	Special	613	502	728
Aviation User Fees	Special	0	0	0
Central Valley Project Restoration Fund	Special	49	38	47
Colorado River Dam Fund, Boulder Canyon Project	Special	65	58	12
Construction, Rehabilitation, Operation and Maintenance, WAPA	Special	63	268	168
Continuing Fund, Southeastern Power Administration	Special	2	0	2
Continuing Fund, Southwestern Power Administration	Special	2	2	0
Cooperative Endangered Species Conservation Fund	Special	29	38	191
Crime Victims Fund	Special	985	348	1,629
Customs Services at Small Airports	Special	3	3	3
Department of the Treasury Forfeiture Fund	Special	347	300	413
Disease Control, Research, and Training	Special	2	0	0

Fund name	Fund type	Revenues	Gross outlays	Balance
Disposal of Surplus Real and Related Personal Property	Special	9	4	87
Diversion Control Fee Account	Special	54	63	77
Elk Hills School Lands Fund	Special	0	36	262
Emergency Preparedness Grants	Special	8	7	17
Environmental Dispute Resolution Fund	Special	0	3	3
Environmental Services	Special	10	0	63
Essential Air Service and Rural Airport Improvement Fund	Special	48	42	13
Everglades Restoration Account	Special	4	0	4
Expenses of Transportation Audit Contracts and Contract Administration	Special	8	9	25
Exxon Valdez Settlement Fund	Special	0	1	2
Falcon and Amistad Operating and Maintenance Fund	Special	1	1	2
Federal Aid in Wildlife Restoration	Special	226	213	436
FHA—Mutual Mortgage Insurance Program Account	Special	3,559	0	0
Fishermen's Contingency Fund	Special	0	0	3
Fishermen's Guaranty Fund	Special	0	0	3
Fishermen's Protective Fund	Special	0	0	1
Forest Products Program	Special	0	0	3
Forest Service Permanent Appropriations [a]	Special	228	366	580
Funds for Strengthening Markets, Income, and Supply (Section 32)	Special	5,681	833	486
Gifts to the United States for Reduction of the Public Debt	Special	1	0	0
Guarantees of Mortgate-Backed Securities Loan Guarantee Program Account	Special	355	0	701
H-1B Nonimmigrant Petitioner Account	Special	74	2	1
Historic Preservation Fund	Special	-150	37	2,154
Immigration Support [a]	Special	1,142	1,182	152
Indian Health Facilities	Special	5	0	0
Informant Payments	Special	8	8	0
Internal Revenue Collections for Puerto Rico	Special	235	235	0
Internal Revenue Service Miscellaneous Retained Fees	Special	88	88	0
International Center, Washington, D.C.	Special	3	3	3
International Litigation Fund	Special	2	1	8
Interstate Land Sales Fund	Special	0	0	0
Judiciary Filing Fees	Special	107	115	286
Judiciary Information Technology Fund	Special	228	233	176

Fund name	Fund type	Revenues	Gross outlays	Balance
Land Acquisition Accounts	Special	1	93	173
Land and Water Conservation Fund	Special	1,293	1,087	12,936
Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes	Special	1	1	0
Management of Lands and Resources, Bureau of Land Management	Special	1	0	0
Manufactured Home Inspection and Monitoring	Special	15	15	10
Medical Care, Department of Veterans Affairs	Special	574	0	51
Migratory Bird Conservation Account	Special	65	55	38
Mineral Leasing and Associated Payments	Special	478	478	0
Miscellaneous Permanent Appropriations, Bureau of Indian Affairs [a]	Special	72	72	83
Miscellaneous Permanent Appropriations, Office of Special Trustee for American Indians	Special	23	9	47
Miscellaneous Permanent Payment Accounts, Bureau of Land Management [a]	Special	34	118	90
Miscellaneous Permanent Appropriations, Fish and Wildlife Service	Special	2	4	3
Miscellaneous Special Funds, Department of Defense [a]	Special	76	68	253
National Forest System	Special	4	0	78
National Forests Fund, Payment to States	Special	3	3	0
National Indian Gaming Commission, Gaming Activity Fees	Special	5	0	5
National Institutes of Health Miscellaneous Accounts	Special	13	0	0
National Wildlife Refuge Fund	Special	8	19	6
Natural Resource Damage Assessment Fund	Special	61	17	72
North American Wetlands Conservation Fund	Special	1	14	41
Nuclear Waste Fund	Special	768	188	7,927
Office of Federal Housing Enterprise Oversight	Special	16	16	4
Operation and Maintenance of Quarters, Bureau of Indian Affairs	Special	5	4	4
Operation and Maintenance, General, Corps of Engineers	Special	33	0	33
Operation of the National Park System	Special	7	0	7
Other Permanent Appropriations, National Park Service [a]	Special	50	30	71
Overseas Military Facility Investment Recovery	Special	4	29	48
Panama Canal Commission Compensation Fund	Special	7	6	79
Payments to Copyright Owners	Special	243	174	772
Payments to States Under Federal Power Act	Special	3	3	3
Perishable Agricultural Commodities Act Fund	Special	8	9	10

Fund name	Fund type	Revenues	Gross outlays	Balance
Permanent Appropriations, Corps of Engineers[a]	Special	14	19	14
Permanent Operating Funds, Bureau of Land Management[a]	Special	17	24	47
Pipeline Safety	Special	34	34	33
Presidential Election Campaign Fund	Special	61	26	0
Program Expenses, Federal Retirement Thrift Investment Board	Special	75	59	39
Promote and Develop Fishery Products and Research Pertaining to American Fisheries	Special	0	5	7
Radiological Emergency Preparedness Fund	Special	13	10	3
Range Betterment Fund	Special	3	3	4
Range Improvements	Special	8	10	6
Reclamation Fund	Special	1,050	317	2,245
Recreation Fee Permanent Appropriations[a]	Special	145	68	216
Recreational Fee Demonstration Program	Special	3	2	4
Refunds, Transfers, and Expenses of Operation, Puerto Rico	Special	104	100	18
Registry Administration	Special	3	3	0
Registry Fees	Special	2	1	4
Research and Education Activities, Native American Institutions Endowment Fund	Special	5	0	19
Salaries and Expenses, Animal and Plant Health Inspection Service	Special	172	0	117
Salaries and Expenses, Food and Drug Administration	Special	1	0	0
Salaries and Expenses, Financial Management Service	Special	13	0	0
Salaries and Expenses, Nuclear Regulatory Commission	Special	442	0	0
Salaries and Expenses, Patent and Trademark Office	Special	0	0	0
Salaries and Expenses, U.S. Customs Service	Special	1,208	0	0
Service Charges, Deposits, and Forfeitures, Bureau of Land Management	Special	12	11	11
Spectrum Auction Program Account	Special	290	1,411	0
Supplemental Security Income Program	Special	2	0	2
United States Capitol Police Memorial Fund	Special	1	1	0
United States Trustee System Fund	Special	116	138	123
Universal Service Fund	Special	3,752	3,293	1,479
Uranium Enrichment Decontamination and Decommissioning Fund	Special	608	228	1,651
Utah Reclamation Mitigation and Conservation Account	Special	21	20	121
Wildlife Conservation	Special	-1	2	4

Fund name	Fund type	Revenues	Gross outlays	Balance
Wildlife Conservation and Appreciation Fund	Special	0	1	3
Agricultural Credit Insurance Fund Liquidating Account	Public Enterprise	1,060	30	61
Alternative Agricultural Research and Commercialization Corporation Revolving Fund	Public Enterprise	5	5	3
Assistance for the Independent States of the Former Soviet Union: Ukraine Export Credit Insurance	Public Enterprise	2	0	30
Aviation Insurance Revolving Fund	Public Enterprise	4	0	76
Bank Insurance Fund	Public Enterprise	3,022	1,987	28,111
Board of Governors of the Federal Reserve System	Public Enterprise	189	189	0
Bonneville Power Administration Fund	Public Enterprise	2,629	2,426	997
Business Loan Fund Liquidating Account	Public Enterprise	313	0	779
Canteen Service Revolving Fund	Public Enterprise	218	218	39
Central Liquidity Facility	Public Enterprise	155	155	0
Check Forgery Insurance Fund	Public Enterprise	0	3	4
Coastal Zone Management Fund	Public Enterprise	4	7	3
Colorado River Basins Power Marketing Fund, Western Area Power Administration	Public Enterprise	104	75	67
Commodity Credit Corporation Fund	Public Enterprise	9,882	29,182	1,402
Commodity Credit Corporation Guaranteed Loans Liquidating Account	Public Enterprise	234	0	59
Community Development Credit Union Revolving Loan Fund	Public Enterprise	4	2	3
Community Development Loan Guarantees Liquidating Account	Public Enterprise	24	4	134
Cooperative Acquisitions Program Revolving Fund	Public Enterprise	2	2	3
Credit Union Share Insurance Fund	Public Enterprise	527	268	4,121
Damage Assessment and Restoration Revolving Fund	Public Enterprise	13	0	16
Disaster Assistance Direct Loan Liquidating Account	Public Enterprise	4	0	0
Disaster Loan Fund Liquidating Account	Public Enterprise	229	63	67
Economic Assistance Loans—Liquidating Account	Public Enterprise	1,075	0	67
Economic Development Revolving Fund Liquidating Account	Public Enterprise	11	5	9
Economics and Statistics Administration Revolving Fund	Public Enterprise	5	6	2
Equal Employment Opportunity Commission Education, Technical Assistance and Training Revolving Fund	Public Enterprise	2	1	3
Exchange Stabilization Fund	Public Enterprise	1,385	0	39,916
Export-Import Bank of the United States Liquidating Account	Public Enterprise	1,150	258	1,308

Fund name	Fund type	Revenues	Gross outlays	Balance
Farm Credit System Insurance Fund	Public Enterprise	122	59	1,370
Federal Consumer Information Center Fund	Public Enterprise	7	6	3
Federal Crop Insurance Corporation Fund	Public Enterprise	622	2,299	2,262
Federal Housing Finance Board	Public Enterprise	18	18	5
Federal Ship Financing Fund Liquidating Account	Public Enterprise	11	6	0
Federal Ship Financing Fund, Fishing Vessels Liquidating Account	Public Enterprise	8	2	17
Federal Tax Lien Revolving Fund	Public Enterprise	6	6	6
FHA—General and Special Risk Insurance Funds Liquidating Account	Public Enterprise	559	1,057	899
FHA—Mutual Mortgage and Cooperative Housing Insurance Funds Liquidating Account	Public Enterprise	4,939	4,620	15,417
Financial Assistance Corporation Assistance Fund, Liquidating Account	Public Enterprise	194	499	1,562
Flexible Subsidy Fund	Public Enterprise	48	17	292
Foreign Military Loan Liquidating Account	Public Enterprise	229	43	0
Federal Savings and Loan Insurance Corporation Resolution Fund	Public Enterprise	3,922	339	2,870
Guarantees of Mortgage-Backed Securities Liquidating Account	Public Enterprise	428	93	5,769
Health Education Assistance Loans Liquidating Account	Public Enterprise	20	20	13
Health Maintenance Organization Loan and Loan Guarantee Fund	Public Enterprise	2	0	11
Helium Fund	Public Enterprise	16	6	31
Homeowners Assistance Fund, Department of Defense	Public Enterprise	44	127	36
Homeownership Assistance Fund	Public Enterprise	1	0	23
House Revolving Funds	Public Enterprise	0	0	8
Housing and Other Credit Guaranty Programs Liquidating Account	Public Enterprise	84	62	14
Housing for the Elderly or Handicapped Fund Liquidating Account	Public Enterprise	772	382	1,114
Indian Loan Guaranty and Insurance Fund Liquidating Account	Public Enterprise	2	2	0
Inspection and Weighing Services	Public Enterprise	37	35	8
Interior Franchise Fund	Public Enterprise	51	39	17
Investment in Securities Investor Protection Corporation	Public Enterprise	0	0	1,000
Isotope Production and Distribution Program Fund	Public Enterprise	31	31	11
Lower Colorado River Basin Development Fund	Public Enterprise	163	201	53
Low-Rent Public Housing—Loans and Other Expenses	Public Enterprise	83	116	886

Fund name	Fund type	Revenues	Gross outlays	Balance
Medical Center Research Organizations	Public Enterprise	105	105	18
Medical Facilities Guarantee and Loan Fund	Public Enterprise	6	3	63
Medical Facilities Revolving Fund	Public Enterprise	3	3	6
National Defense Stockpile Transaction Fund	Public Enterprise	449	240	960
National Flood Insurance Fund	Public Enterprise	1,416	1,350	611
National Flood Mitigation Fund	Public Enterprise	0	8	42
Nehemiah Housing Opportunity Fund	Public Enterprise	0	2	24
Nonprofit Sponsor Assistance Liquidating Account	Public Enterprise	0	0	6
National Technical Information Service Revolving Fund	Public Enterprise	34	36	39
Office of Thrift Supervision	Public Enterprise	143	142	156
Oklahoma City National Memorial Trust	Public Enterprise	0	2	3
Operating Fund, National Credit Union Administration	Public Enterprise	106	104	28
Overseas Private Investment Corporation Liquidating Account	Public Enterprise	11	1	26
Overseas Private Investment Corporation Noncredit Account	Public Enterprise	328	55	3,038
Panama Canal Commission Dissolution Fund	Public Enterprise	1	0	7
Panama Canal Revolving Fund	Public Enterprise	756	683	374
Parking Revolving Fund	Public Enterprise	3	15	30
Pension Benefit Guaranty Corporation Fund	Public Enterprise	1,866	1,201	9,369
Perkins Loan Revolving Fund	Public Enterprise	0	1	0
Pershing Hall Revolving Fund	Public Enterprise	0	0	1
Pollution Control Equipment Fund Liquidating Account	Public Enterprise	0	3	0
Postal Service Fund	Public Enterprise	62,943	63,964	22,107
Presidio Trust	Public Enterprise	54	35	43
Property Management Fund, Agency for International Development	Public Enterprise	0	0	3
Railroad Rehabilitation and Improvement Liquidating Account	Public Enterprise	7	3	0
Rental Housing Assistance Fund	Public Enterprise	34	34	8
Reregistration and Expedited Processing Revolving Fund	Public Enterprise	18	22	11
Reserve Mobilization Income Insurance Fund	Public Enterprise	1	5	17
Resolution Trust Corporation Revolving Fund	Public Enterprise	0	0	4
Revolving Fund (Liquidating Programs)	Public Enterprise	53	7	102
Revolving Fund for Administrative Expenses	Public Enterprise	34	34	15
Revolving Fund for Certification and Other Services	Public Enterprise	4	7	4
Revolving Fund for Loans Liquidating Account	Public Enterprise	6	0	0
Rural Communication Development Fund Liquidating Account	Public Enterprise	1	3	1

Fund name	Fund type	Revenues	Gross outlays	Balance
Rural Development Insurance Fund Liquidating Account	Public Enterprise	541	627	229
Rural Development Loan Fund Liquidating Account	Public Enterprise	4	1	2
Rural Electrification and Telecommunications Liquidating Account	Public Enterprise	2,788	2,143	517
Rural Housing Insurance Fund Liquidating Account	Public Enterprise	2,172	1,068	483
Rural Telephone Bank Liquidating Account	Public Enterprise	318	32	657
Saint Lawrence Seaway Development Corporation	Public Enterprise	13	13	16
Savings Association Insurance Fund	Public Enterprise	693	257	10,224
Senate Revolving Funds	Public Enterprise	0	0	8
Service-Disabled Veterans Insurance Fund	Public Enterprise	71	61	41
Servicemembers' Group Life Insurance Fund	Public Enterprise	402	402	5
Special Defense Acquisition Fund	Public Enterprise	8	6	83
Special Therapeutic and Rehabilitation Activities Fund	Public Enterprise	40	38	15
Surety Bond Guarantees Revolving Fund	Public Enterprise	7	8	41
Tennessee Valley Authority Fund	Public Enterprise	6,588	6,906	644
United States Enrichment Corporation Fund	Public Enterprise	0	5	478
United States Mint Public Enterprise Fund	Public Enterprise	1,399	1,419	183
Upper Colorado River Basin Fund	Public Enterprise	180	81	140
Vessel Operations Revolving Fund	Public Enterprise	533	477	55
Veterans Housing Benefit Program Fund Liquidating Account	Public Enterprise	700	330	159
Veterans Reopened Insurance Fund	Public Enterprise	62	68	510
War Risk Insurance Revolving Fund	Public Enterprise	2	1	31
Working Capital Fund, Federal Emergency Management Agency	Public Enterprise	23	20	14

Notes: [a] indicates that, for presentation purposes, funds were grouped. [b] indicates that the negative balances shown are a result of outstanding debts to Treasury that exceed the funds' assets.

Table III.2: Top 10 Funds in Each Earmarked Fund Type, by Total Revenues

(Dollars in millions)

Trust Funds		Special Funds		Public Enterprise Funds	
Top 10 Funds	Total Revenues	Top 10 Funds	Total Revenues	Top 10 Funds	Total Revenues
Federal Old-Age Survivors Insurance Trust Fund	$449,489	Funds for Strengthening Markets, Income, and Supply (Section 32)	$5,681	Postal Service Fund	$62,943
Federal Hospital Insurance Fund	153,018	Universal Service Fund	3,752	Commodity Credit Corporation Fund	9,882
Federal Supplementary Medical Insurance Trust Fund	85,457	FHA—Mutual Mortgage Insurance Program Account	3,559	Tennessee Valley Authority Fund	6,904
Civil Service Retirement and Disability Fund	74,522	Salaries and Expenses, U.S. Customs Service	1,208	FHA—Mutual Mortgage and Cooperative Housing Insurance Funds Liquidating Account	4,939
Federal Disability Insurance Trust Fund	67,791	Immigration Support	1,142	FSLIC Resolution Fund	3,922
Highway Trust Fund	39,427	Reclamation Fund	1,050	Bank Insurance Fund	3,022
Military Retirement Fund	38,227	Land and Water Conservation Fund	1,293	Rural Electrification and Telecommunications Liquidating Account	2,788
Unemployment Trust Fund	31,681	Crime Victims Fund	985	Bonneville Power Administration Fund	2,629
Employees and Retired Employees Health Benefits Fund	18,039	Nuclear Waste Fund	768	Rural Housing Insurance Fund Liquidating Account	2,172
Military Sales Program	11,624	Assets Forfeiture Fund	613	Pension Benefit Guaranty Corporation Fund	1,866

Glossary

Budget caps

Adjustable dollar limits under the Deficit Control Act that specify maximum amounts of budget authority and outlays for each fiscal year provided by the regular appropriations process. If appropriations are enacted that cause discretionary spending to exceed the limits, a sequestration will occur to eliminate the amount of the excess.

Budget function

Groups of accounts that present budget authority, outlays, receipts, and tax expenditures according to the national needs being addressed. Each budget account is generally placed in the single budget function (e.g., transportation or health) that best reflects its major purpose, an important national need. There are 19 major functions, most of which are divided into subfunctions.

Debt held by government accounts

That part of gross federal debt held by earmarked funds and invested in special, nonmarketable U.S. Treasury securities or in agency debt. Essentially, these securities represent debt owed by one part of the federal government to another.

Debt held by the public

That part of gross federal debt held outside of the federal government. This includes any federal debt held by individuals, corporations, state or local governments, the Federal Reserve System, and foreign governments and central banks.

Deficit Control Act (DCA)

Legislation that established statutory limits on federal government spending. The actual title of this act is the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. However, for simplicity, we refer to it as DCA. It also is often referred to as the Budget Enforcement Act (BEA) because that act added the current sequestration process and designated accounts as either mandatory or discretionary.

Discretionary

A term that usually modifies either “spending,” “appropriations,” or “amount.” Discretionary spending refers to outlays controllable through the regular congressional appropriations process.

Earmarked receipts

Collections dedicated by law for a specific purpose or program. Earmarked receipts comprise the receipts of trust, special, and public enterprise fund accounts, as well as offsetting collections credited to appropriations accounts.

Exchange revenue

An accounting term, exchange revenue includes most user charges (i.e., revenue resulting from the government's business-type activities). Also known as earned revenue, it arises when a government entity provides goods and services to the public or to another government entity for a price.

Fund balance

The cumulative net effect of a fund's total receipts and outlays.

Fund surplus/deficit

The difference between a fund's receipts and outlays over a given period, usually a fiscal year. When receipts are greater than outlays, a surplus results. When receipts are less than outlays, a deficit results.

Gross Domestic Product

An economic term referring to the value of all final goods and services produced within the borders of the United States in a given period of time, whether produced by residents or nonresidents.

Mandatory

A term that usually modifies either "spending," "appropriations," or "amount." Mandatory spending refers to outlays for entitlement programs such as food stamps, Medicare, veterans' pensions, payment of interest on the public debt, and nonentitlements such as payments to states from Forest Service receipts. By defining eligibility and setting the benefit or payment rules, the Congress controls spending for these programs indirectly rather than directly through the appropriations process.

Nonexchange revenue

An accounting term, nonexchange revenue includes inflows of resources arising from the government's sovereign power to tax, as well as voluntary donations.

Nonrevolving trust funds	Accounts designated as trust funds by law and used to track receipts and spending for programs that have specific taxes or other revenues dedicated by law for their use.
Offsetting collections	Collections that are deducted from gross budget authority and outlays rather than added to receipts and, by law, are credited directly to expenditure accounts. Usually, they may be spent for the purposes of the account without further action by the Congress. They result from business-type or market-oriented activities with the public and other government accounts.
Outlays	The issuance of checks, disbursement of cash, or electronic transfer of funds made to liquidate a federal obligation. Outlays during a fiscal year may be for payment of obligations incurred in prior years or in the same year. They flow in part from unexpended balances of prior-year budgetary resources and in part from budgetary resources provided for the year in which the money is spent.
Pay-as-you-go (PAYGO)	A requirement, established by the Deficit Control Act, as amended, that the aggregate effect of new legislation that increases direct spending or decreases receipts be neutral (that is, not increase the deficit or decrease the surplus).
Program sustainability	The nation's ability to finance promised benefits over the long-run.
Public enterprise fund	An account authorized to be credited with offsetting collections, primarily from the public, that are generated by, and are earmarked to finance a continuing cycle of business-type operations in accordance with statute.
Revolving trust fund	An account designated as a "trust fund" by law and authorized to be credited with offsetting collections that are used to carry out a cycle of business-type operations in accordance with statute.

Special fund

One or more accounts used to track receipts and spending for programs that have specific taxes or other revenues dedicated by law for their use but which are not designated in law as "trust funds."

Unified budget

Under budget concepts set forth in the 1967 *Report of the President's Commission on Budget Concepts*, a comprehensive budget in which receipts and outlays from federal and trust funds are consolidated. When these fund groups are consolidated to display budget totals, transactions that are outlays of one fund group for payment to the other fund group (that is, interfund transactions) are deducted to avoid double counting. The unified budget should, as conceived by the President's Commission, be comprehensive of the full range of federal activities. By law, budget authority, outlays, and receipts of off-budget programs (currently only the U.S. Postal Service and Social Security) are excluded from the budget, but data relating to off-budget programs are displayed in the budget documents.

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