
August 1995

BUDGET ISSUES

Earmarking in the Federal Government





United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-262146

August 1, 1995

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

This fact sheet responds to your request that we identify the extent to which federal receipts have been earmarked in fiscal year 1994. In our analysis, we considered receipts to be earmarked when they were designated for particular uses by authorizing legislation or permanent law. To provide information on how extensive earmarking is in the budget, you asked us to determine what percent of total receipts from the public are earmarked and the level of earmarking by fund type. You also asked us to obtain information on the extent of earmarking at the state government level.

In summary, we found extensive earmarking in numerous accounts, such as those financing the Land and Water Conservation Fund, the Medicare trust funds, as well as the transportation trust funds. Our analysis showed that in fiscal year 1994 roughly \$690 billion, or 47 percent, of total receipts from the public¹ were earmarked in the federal budget. This percentage is about the same as what we found during our last review of earmarking for fiscal year 1988 when about 48 percent of total receipts from the public were earmarked.²

There are six types of budget accounts—nonrevolving trust, public enterprise, special, intragovernmental, general, and revolving trust. Of these types, only “general fund” accounts are used to account for collections that are not earmarked by law for a specific purpose. However, some general fund accounts also receive earmarked receipts in the form of offsetting collections—either from the public or from federal sources—which are credited directly to the account and are available for use, often without further legislative action. The remaining five types of accounts are designed for programs primarily financed by earmarked receipts.

¹We define total receipts from the public to include total receipts, total proprietary receipts from the public, total offsetting governmental receipts, and total collections from the public credited to expenditure accounts. To determine the percentage of total receipts from the public that were earmarked, we removed intrafund and interfund transactions and offsetting collections from federal sources from our earmarked total.

²Budget Issues: Earmarking in the Federal Government (GAO/AFMD-90-8FS, Jan. 19, 1990).

All budget accounts are classified as either expenditure or receipt accounts. Receipt accounts record income while expenditure accounts record outlays. Some offsetting collections are credited directly to expenditure accounts. The fiscal year 1994 federal budget had 574 special and trust fund receipt accounts that received some earmarked receipts. In addition, 567 expenditure accounts received offsetting collections.

Nonrevolving trust funds accounted for about \$520 billion, or roughly 75 percent, of all earmarked receipts from the public. Nonrevolving trust funds finance large entitlement programs (such as Social Security and Medicare) and transportation infrastructure construction and maintenance through the transportation trust funds. Public enterprise revolving funds accounted for about \$126 billion, or roughly 18 percent, of all earmarked receipts from the public. This fund type receives amounts generated in a continuing cycle of business-type activity. Examples include the Postal Service and the Export Import Bank. The other four fund types—special, intragovernmental, general, and nonrevolving trust—accounted for roughly \$44 billion, or about 7 percent, of earmarked receipts from the public. The tables in appendix I describe each fund type and summarize earmarked receipts by fund type.

On average, states earmark less of their revenues than the federal government. According to a recent report by the National Conference of State Legislatures (NCSL), states earmark about 24 percent of their collections. However, this average masks a great variation among states in the extent of earmarking. For instance, Alabama earmarks roughly 87 percent of its collections, while Kentucky earmarks only about 4 percent. NCSL reports that while the earmarked share of state tax collections has remained near 23 percent since 1979, state legislatures appear to be turning more readily to earmarking taxes than they did in the recent past. As it has in previous reports, NCSL points out that earmarking is more likely to hamper than assist state budgetary design and management. Appendix II details the NCSL report findings and lists the proportion of tax revenue earmarked by state for fiscal year 1993.

Scope and Methodology

To determine the extent of earmarking of federal revenues for fiscal year 1994, we used an Office of Management and Budget budget information system—the MAX budget system—to sort earmarked receipt accounts by fund type. We also used this database to identify accounts with offsetting collections. We did not independently verify this information.

The information on earmarked receipts by fund type includes offsetting collections from the public and from federal sources as well as intrafund and interfund transactions in the earmarked receipts category.

To determine the percentage of total receipts from the public that were earmarked, we removed from our earmarked total intrafund and interfund transactions and offsetting collections from federal sources. We did this in order to avoid double counting these collections. We divided this adjusted total by the \$1,463 billion of fiscal year 1994 receipts from the public to determine the percentage of receipts from the public that were earmarked.

Finally, we summarized the findings of a recent NCSL report to provide information on the extent of earmarking at the state level.

We performed our work in July 1995 in Washington, D.C. We discussed our summary of the NCSL report with NCSL officials.

We will send copies of this report to the Chairman, Senate Budget Committee, and the Ranking Members of both House and Senate Budget Committees. We will make copies available to others on request.

Major contributors to this fact sheet were Christine Bonham, Assistant Director; Timothy L. Minelli, Evaluator-in-Charge; and John W. Mingus, Evaluator. Please contact me on (202) 512-9573 if you or your staff have any questions.

Sincerely yours,

A handwritten signature in cursive script that reads "Paul L. Posner".

Paul L. Posner
Director, Budget Issues

Earmarking by Fund Type

The following sections and tables describe the different kinds of accounts and identify earmarked receipts by receipt type within each. Account types are presented according to the dollar size of earmarked receipts.

Nonrevolving Trust Fund Accounts

Nonrevolving trust fund accounts record revenues collected for a specific purpose or programs designated in law as trust funds. Nonrevolving trust fund accounts finance programs such as Social Security, Medicare, and Superfund. Other nonrevolving trust funds include the Unemployment Trust Fund, the Highway Trust Fund, the Airport and Airway Trust Fund, the Inland Waterways Trust Fund, and the Harbor Maintenance Trust Fund. Excluding receipts received from intrafund and interfund transactions and offsetting collections from federal sources, nonrevolving trust funds accounted for roughly \$520 billion, or about 75 percent, of total earmarked receipts from the public in fiscal year 1994. Including these receipts adds another \$212 billion to the nonrevolving trust fund total. Interfund transactions, which include Department of the Treasury interest payments to nonrevolving trust funds, accounted for over \$206 billion of this additional total.

Table I.1 shows nonrevolving trust fund receipts by receipt type. These totals for types of receipts were drawn from the 330 nonrevolving trust fund receipt accounts, as well as the 14 nonrevolving trust fund expenditure accounts credited with offsetting collections, in the fiscal year 1994 budget.

Table I.1: Nonrevolving Trust Fund Earmarked Receipts

Dollars in thousands	
Receipt type	Fiscal year 1994 actual
Receipts from the public	
Social insurance	\$461,475,337
Proprietary receipts ^a	32,285,248
Excise taxes	23,998,744
Customs duties	677,106
Corporate income taxes	652,695
Miscellaneous receipts ^b	578,074
Offsetting collections from the public	510,325
Subtotal	\$520,177,529
Interfund transactions ^c	206,635,037
Intrafund transactions ^d	3,526,608
Offsetting collections from federal sources	1,959,422
Total	\$732,298,596

^aProprietary receipts are collections from the public that arise as a result of the government's business-type or market-oriented activities. Among these are interest received, proceeds from the sale of property and products, and rents and royalties.

^bMiscellaneous receipts include, among other things, proceeds from the sale of seized goods, and gifts and donations.

^cInterfund transactions are payments from one fund group, either federal or trust, to a receipt account in the other fund group. Such transactions include Department of the Treasury interest payments to trust funds.

^dIntrafund transactions are those in which both the payment and receipt occur within the same fund group.

Public Enterprise Revolving Fund Accounts

Public enterprise revolving fund accounts receive amounts generated in a continuing cycle of business-type operations. Examples include the Postal Service and the Export Import Bank, which are both government organizations originally established to be substantially self-financed through the sale of their goods or services. Excluding offsetting collections from federal sources, public enterprise trust funds accounted for about \$126 billion, or 18 percent, of all earmarked receipts from the public in fiscal year 1994.

Table I.2 identifies offsetting collections credited to public enterprise fund accounts. These totals were drawn from the 115 public enterprise

revolving fund accounts that received offsetting collections in the fiscal year 1994 budget.

Table I.2: Offsetting Collections Credited to Public Enterprise Fund Earmarked Accounts

Dollars in thousands	
Receipt type	Fiscal year 1994 actual
Offsetting collections from the public	\$125,822,415
Offsetting collections from federal sources	8,353,263
Total	\$134,175,678

Special Fund Accounts

Special fund accounts are established to record receipts collected from a specific source and earmarked by law for a specific purpose or program. Special funds operate like trust funds, the only difference is that they are not designated as trust funds in authorizing legislation. The Nuclear Waste Fund is an example of a special fund account. This fund provides facilities for the disposal of civilian and defense high-level nuclear waste and is funded, in part, through a fee on the commercial generation of nuclear power. Other examples include the Historic Preservation Fund, administered by the National Park Service, and the Presidential Election Campaign Fund. Excluding intrafund transactions and offsetting collections from federal sources, special funds accounted for roughly \$16 billion, or about 2 percent, of total earmarked receipts from the public in fiscal year 1994. Including these receipts adds another \$762 million to the special funds total.

Table I.3 shows special fund earmarked receipts by receipt type. These totals for type of receipt were drawn from the 244 special fund receipt accounts, as well as the 11 special fund expenditure accounts that were credited with offsetting collections, in the fiscal year 1994 budget.

Table I.3: Special Fund Earmarked Receipts

Dollars in thousands	
Receipt type	Fiscal year 1994 actual
Receipts from the public	
Customs duties	\$6,309,746
Proprietary receipts	5,484,578
Offsetting governmental receipts ^a	2,047,920
Miscellaneous receipts	1,984,031
Excise taxes	425,322
Individual income taxes	69,755
Offsetting collections from public	60,518
Subtotal	\$16,381,870
Intrafund transactions	676,018
Offsetting collections from federal sources	85,523
Total	\$17,143,411

^aOffsetting governmental receipts are based on the government's sovereign powers but, unlike other tax receipts, are required by law to be treated as offsets to outlays. They include some receipts designated as user fees, such as customs user fees.

General Fund Accounts

General fund accounts are composed of all federal moneys not allocated to any other account and are generally credited with all collections not earmarked by law for a specific purpose. However, some general fund accounts also receive earmarked revenue in the form of offsetting collections. For example, the Federal Family Education Loan Liquidating Account administered by the Department of Education receives offsetting collections from the public upon the recovery of defaulted student loans. Excluding offsetting collections from federal sources, general funds accounted for roughly \$15 billion, or about 2 percent, of total earmarked receipts from the public in fiscal year 1994.

Table I.4 identifies offsetting collections credited to general fund accounts. These totals were drawn from the 368 general fund accounts that received offsetting collections in the fiscal year 1994 budget.

Table I.4: Offsetting Collections Credited to General Fund Accounts

Dollars in thousands	
Receipt type	Fiscal year 1994 actual
Offsetting collections from the public	\$14,843,743
Offsetting collections from federal sources	49,356,992
Total	\$64,200,735

Intragovernmental Fund Accounts

Intragovernmental fund accounts are specifically authorized by law to facilitate financing transactions within and between federal agencies. An example is the General Services Administration's Federal Buildings Fund, whose primary purpose is to build, operate, maintain, and protect federally owned and leased buildings. This account receives rent from other government agencies. Excluding offsetting collections from federal sources, intragovernmental funds accounted for about \$7 billion, or roughly 1 percent, of total earmarked receipts from the public in fiscal year 1994.

Table I.5 identifies offsetting collections credited to intragovernmental fund accounts. These totals were drawn from the 45 intragovernmental fund accounts that received offsetting collections in the fiscal year 1994 budget.

Table I.5: Offsetting Collections Credited to Intragovernmental Fund Accounts

Dollars in thousands	
Receipt type	Fiscal year 1994 actual
Offsetting collections from the public	\$7,074,699
Offsetting collections from federal sources	101,574,675
Total	\$108,649,374

Revolving Trust Fund Accounts

Revolving trust fund accounts receive revenues generated in business-type operations and are designated as trust funds by statute. An example is the Federal Deposit Insurance Corporation, which receives insurance premiums paid by the financial institutions it insures. Excluding offsetting collections from federal sources, revolving trust funds accounted for about \$6 billion, or roughly 1 percent, of total earmarked receipts from the public in fiscal year 1994.

Table I.6 identifies offsetting collections credited to revolving trust fund accounts. These totals were drawn from the 14 revolving trust fund accounts credited with offsetting collections in the fiscal year 1994 budget.

**Table I.6: Offsetting Collections
Credited to Revolving Trust Fund
Accounts**

Dollars in thousands	
Receipt type	Fiscal year 1994 actual
Offsetting collections from the public	\$6,112,229
Offsetting collections from federal sources	13,722,190
Total	\$19,834,419

Earmarking Among State Governments

According to an April 1995 report by the National Conference of State Legislatures (NCSL),¹ although earmarking may offer strategic advantages in assuring funding for specific projects or services and tying program benefits to program payers, it is more likely, on balance, to hamper than assist state budgetary design and management. NCSL notes that earmarking removes revenues and expenditures from the review that occurs in the appropriations process and reduces the flexibility of the revenue structure, increasing the difficulty of adapting budgets to changing economic conditions. As a result, earmarking makes comprehensive budgeting more difficult.

NCSL reports that the average earmarked share of state tax collections has remained near 23 percent since 1979. NCSL adds, however, that state legislatures appear to be turning more readily to earmarking taxes than they did in the recent past.

The report offers documentation for these observations. Because earmarked taxes often do not grow as fast as total state tax collections, earmarking as a percent of total revenue tends to decline in the absence of any policy actions to increase earmarking. NCSL reports that in most states where earmarking has decreased since its September 1990 review of state earmarking, no policy changes were made with regard to earmarking. For example, NCSL reports that in New Hampshire, the percent of earmarked revenues fell from 24 percent in fiscal year 1988 to 14.2 percent in fiscal year 1993. This happened because New Hampshire's motor fuel tax, which is the only tax New Hampshire earmarks, did not grow in proportion to total state tax collections in the period. The NCSL report identified several examples of states reporting greater earmarking of sales and income taxes to support funding for education, health, and social service programs. Also, 23 states now earmark some revenue sources for environmental programs.

NCSL reports that all 50 states earmark motor fuel taxes, generally for state highway and other transportation purposes, such as mass transit. NCSL also reports that 33 states earmark a portion of their general sales tax, and roughly half of the states earmark a portion of their tobacco, alcoholic beverage, severance, and insurance taxes.

¹Earmarking State Taxes, National Conference of State Legislatures (April 1995).

Appendix II
Earmarking Among State Governments

Table II.1: Proportion of Tax Revenue Earmarked by State for Fiscal Year 1993

Region/State	Percent	Region/State	Percent
New England		Plains	
Connecticut	10	Iowa	22
Maine	12	Kansas	25
Massachusetts	39	Minnesota	16
New Hampshire	14	Missouri	27
Rhode Island	5	Nebraska	21
Vermont	13	North Dakota	22
		South Dakota	47
Mid-Atlantic		Southwest	
Delaware	6	Arizona	30
Maryland	17	New Mexico	40
New Jersey	39	Oklahoma	21
New York	8	Texas	21
Pennsylvania	11		
Great Lakes		Rocky Mountain	
Illinois	32	Colorado	20
Indiana	26	Idaho	21
Michigan	39	Montana	64
Ohio	17	Utah	55
Wisconsin	9	Wyoming	17
Southeast		Far West	
Alabama	87	Alaska	8
Arkansas	13	California	19
Florida	28	Hawaii	5
Georgia	6	Nevada	57
Kentucky	4	Oregon	21
Louisiana	15	Washington	30
Mississippi	26		
North Carolina	19	Average	24 ^a
South Carolina	17		
Tennessee	60		
Virginia	25		
West Virginia	19		

Source: National Conference of State Legislatures.

^aThis figure is a weighted average. It is the average of the earmarked share of total state tax collections, not the average of individual state percentages.

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