

DEDICATED FEDERAL FINANCIAL RESOURCES

**Staff Working Paper
March 1987**

**The Congress of the United States
Congressional Budget Office**

This analysis was prepared at the request of the Senate Committee on Appropriations by James L. Blum, Assistant Director for Budget Analysis. Questions regarding this analysis may be addressed to the author at 226-2800.

INTRODUCTION

The federal government's financial resources include taxes, user fees, other charges for services provided, asset sales, interest receipts, and loan repayments. Taxes and other collections from the public that result from the government's sovereign or governmental powers are recorded in the budget as receipts. In Congressional budget resolutions, they are referred to as federal revenues. They are compared with outlays to determine the budget surplus or deficit. These receipts or revenues constitute the bulk of the government's financial resources.

All business-type income (interest, loan repayments, sale of property or services, and so forth) is offset against outlays rather than included in receipts or revenues. Similarly, any income to any federal government account arising from the spending from the account is also offset against outlays. Under this approach, which was adopted 20 years ago on the recommendation of the President's Commission on Budget Concepts, outlays measure the net payments to the public that must be financed by taxes or borrowing.

Most offsetting receipts and collections from the public are credited to the spending accounts that give rise to the income. These receipts are referred to as "offsetting collections from nonfederal sources." Other offsetting receipts--termed "proprietary receipts from the public"--are recorded in separate receipt accounts and appear in the budget as negative outlays. Table 1 shows the amount of taxes, proprietary receipts, and offsetting collections for fiscal years 1986-1988 as presented in the President's budget for 1988.

Payments from one government account to another spending account or to a receipt account also appear in the budget as offsetting receipts and collections. These intragovernmental transactions are not included in this analysis because they do not affect budget totals.

As shown in Table 1, nearly one-half of all federal financial resources received from the public is dedicated to a specific purpose or spending program. These resources include payroll taxes that are used to finance Social Security benefits, premiums and other charges that help finance Medicare, and the sale of stamps to finance postal services.

EARMARKED TAXES

About two-fifths of all federal taxes and other governmental receipts or revenues is dedicated to a specific purpose. The largest amount of dedicated taxes is for the Social Security and Medicare programs. Other dedicated taxes include gasoline taxes that finance highway construction grants, state payroll taxes that finance unemployment insurance benefits, and federal employee contributions that help finance federal employees' retirement benefits.

Most dedicated taxes are assigned to trust funds, which are established to account for the receipt and expenditure of monies by the federal government for carrying out specific purposes and programs in accordance with the terms of a statute or trust agreement. Some dedicated taxes are recorded in special fund receipt accounts when these collections are earmarked by law for a specific purpose. For example, 30 percent of all customs duties are earmarked for certain agriculture-related programs under a provision in the 1935 Agricultural Adjustment Act (so-called Section 32 program). Table 2 provides details on earmarked taxes and other governmental receipts that are assigned to trust funds and to special fund receipt accounts.

TABLE 1. Dedicated Federal Financial Resources (In billions of dollars)

Federal Financial Resources	Total Resources	Amount Dedicated	Percent Dedicated
Federal Taxes and Other Governmental Receipts			
FY 1986 actual	769.1	306.0	39.8
FY 1987 estimated	842.4	326.6	38.8
FY 1988 estimated	916.6	361.8	39.5
Proprietary Receipts from the Public			
FY 1986 actual	35.0	23.6	67.2
FY 1987 estimated	36.4	23.5	64.5
FY 1988 estimated	42.0	26.4	62.7
Offsetting Collections from Nonfederal Sources			
FY 1986 actual	105.8	105.8	100.0
FY 1987 estimated	126.2	126.2	100.0
FY 1988 estimated	131.3	131.3	100.0
Total Financial Resources from the Public			
FY 1986 actual	910.0	435.4	47.9
FY 1987 estimated	1,005.0	476.3	47.4
FY 1988 estimated	1,089.9	519.5	47.7

SOURCE: Office of Management and Budget.

TABLE 2. Earmarked Taxes and Other Governmental Receipts
(By fiscal year, in billions of dollars)

Trust Fund or Receipt Account	1986 Actual	1987 Estimate	1988 Estimate
Trust Funds			
Social Security (OASDI) <u>a/</u>	200.2	214.0	242.1 <u>b/</u>
Hospital Insurance	51.3	55.8	61.7 <u>b/</u>
Railroad Retirement	3.5	3.4	3.7 <u>b/</u>
Unemployment Insurance	24.1	23.8	22.2 <u>a/</u>
Federal employees' retirement	4.7	4.4	3.5 <u>b/</u>
Highway Trust Fund	13.4	13.7	15.1 <u>a/</u>
Airport and Airway	2.7	3.1	3.4
Aquatic resources	0.2	0.2	0.2
Black Lung Disability Insurance	0.5	0.6	1.0 <u>b/</u>
Hazardous Substances Response	<u>c/</u>	0.7	1.1 <u>b/</u>
Other trust funds	0.2	0.4	0.5
Subtotal	301.0	320.2	354.6
Special Funds			
Section 32—30% of customs duties	4.1	4.6	5.0
Internal revenue collections for Puerto Rico	0.2	0.2	0.2
Wildlife restoration fund	0.1	0.1	0.1
National Wool Act fund	0.1	0.1	0.1
U.S. Customs user fees	--	0.4 <u>b/</u>	0.6 <u>b/</u>
Puerto Rico duties and taxes	0.1	0.1	0.1
Immigration legalization	--	0.2	0.2
Immigration user fee	--	0.1	0.2
Coal mining reclamation fees	0.2	0.2	0.2
Assets forfeiture fund, Justice	--	0.1	0.1
Crime Victims Fund	0.1	0.1	0.1
Other special funds	0.1	0.2	0.2 <u>b/</u>
Subtotal	5.1	6.5	7.2
Total	306.0	326.6	361.8

SOURCE: Office of Management and Budget.

- a. Social Security (OASDI) trust funds are off-budget.
- b. Includes proposed legislation.
- c. Less than \$50 million.

EARMARKED PROPRIETARY RECEIPTS

About two-thirds of proprietary receipts is dedicated to a specific program or purpose. These receipts include premiums and other charges that help finance the Medicare programs, receipts from foreign governments for purchases of military equipment and services, and fees for the enrichment of uranium. The federal employee contributions to the thrift savings fund under the new federal employee retirement system also are recorded in the President's budget as a proprietary receipt because they belong to federal employees and cannot be used for any other governmental purpose. Table 3 provides more detail on earmarked proprietary receipts from the public.

OFFSETTING COLLECTIONS FROM NONFEDERAL SOURCES

These collections are received from the public, are of a business-type or market-oriented nature, and are credited to specific appropriation or fund accounts. Amounts treated in this manner are specifically authorized by

TABLE 3. Earmarked Proprietary Receipts from the Public
(By fiscal year, in billions of dollars)

Source of Receipts	1986 Actual	1987 Estimate	1988 Estimate
Medicare premiums and other charges	5.7	6.5	8.9 <u>a/</u>
Foreign military sales	10.7	8.9	8.9
Uranium enrichment revenues	1.4	1.3	1.3
Thrift savings fund, employee contributions	--	0.7	2.1
Rents and royalties	1.7	1.6	1.2
Sale of products	1.4	1.3	0.7 <u>a/</u>
Nuclear waste disposal revenues	0.4	0.4	0.5
Veterans life insurance	0.4	0.4	0.4
Panama Canal tolls and other revenues	0.4	0.4	-- <u>b/</u>
Other fees and charges for services	1.0	1.1	1.3 <u>a/</u>
Sale of land and other real property	0.1	0.3	0.4
Other	<u>0.4</u>	<u>0.5</u>	<u>0.6</u>
Total	23.6	23.5	26.4

SOURCE: Office of Management and Budget.

a. Includes proposed legislation.

b. The Administration proposes to reclassify Panama Canal tolls and other revenues as offsetting collections from nonfederal sources in a new revolving fund account.

law and are available, generally for the purposes of the account, without further action by the Congress. However, it is not unusual for the Congress to enact limitations on the obligations that can be financed by these collections. These collections are netted against gross obligations in the account when calculating outlays.

Offsetting collections from nonfederal sources cover a wide range of receipts, including loan repayments, premiums for deposit insurance from the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC) and the sale of Postal Service stamps. Table 4 provides a summary of offsetting collections from nonfederal sources by agency. All of these offsetting collections are dedicated to specific purposes.

TABLE 4. Offsetting Collections from Nonfederal Sources
(By fiscal year, in billions of dollars)

Agency	1986 Actual	1987 Estimate	1988 Estimate
Legislative Branch	0.1	0.1	0.1
Funds appropriated to the President	1.7	2.4	3.4
Agriculture	25.0	36.1	31.1
Commerce	0.3	0.3	0.3
Defense (Military)	6.5	6.7	6.8
Education	0.5	1.4	1.6
Energy	2.9	3.2	3.8
Health and Human Services	2.3	2.4	2.6
Housing and Urban Development	6.6	8.4	8.9
Interior	0.2	0.3	0.5
Justice	0.2	0.1	0.1
Labor	0.3	0.5	0.8
Transportation	0.3	0.2	0.5
Treasury	5.4	5.9	5.5
General Services Administration	0.2	0.2	0.4
National Aeronautics and Space Administration	0.1	0.1	0.2
Office of Personnel Management	4.0	3.1	3.8
Small Business Administration	1.5	1.7	2.0
Veterans Administration	3.5	3.6	3.9
Export-Import Bank	3.9	4.6	3.9
FDIC and FSLIC	5.9	7.7	10.0
Postal Service Fund	29.1	31.1	34.5
Tennessee Valley Authority	4.3	5.1	5.3
Other	<u>1.1</u>	<u>0.9</u>	<u>1.6</u>
Total	105.8	126.2	131.3

SOURCE: Office of Management and Budget.

CLASSIFICATION OF DEDICATED FINANCIAL RESOURCES

Questions occasionally arise about the appropriate classification of user charges or other dedicated resources. What determines whether a user charge should be classified as a governmental receipt or revenue, a proprietary receipt from the public, or an offsetting collection from a nonfederal source?

The rules governing whether particular forms of income are recorded as budget receipts or as offsetting collections--absent legislation specifically requiring a particular classification--were established in the 1967 Report of the President's Commission on Budget Concepts. Specifically, the commission recommended in Chapter 7 of its report that:

- o The main summary statement of budget receipts and expenditures should be prepared on a consistent and on a fairly net basis, treating like transactions alike and changing practices only when necessary.
- o For purposes of summary budget totals, receipts from activities which are essentially governmental in character, involving regulation or compulsion, should be reported as receipts. But, receipts associated with activities which are operated as business-type enterprises, or which are market-oriented in character, should be included as offsets to the expenditures to which they relate.
- o Additional summary information on gross enterprise transactions should also be included in the budget document--more prominently than now, but not as a measure competing with the main summary budget totals.

In the commission's view, the following categories of receipts that come to the federal government are basically "governmental" in character and should be treated as budget receipts or revenues:

- o Income, excise, franchise, and employment taxes
- o Customs duties
- o Social insurance premiums
- o Patent and copyright fees
- o Immigration, passport, and consular fees
- o Registration and filing fees associated with regulatory activities
- o Judiciary fees
- o Gifts and contributions
- o Payments of Federal Reserve System excess earnings to the Treasury

The commission recommended that the following types of receipts or income be recorded in the budget as offsets to expenditures:

- o Receipts of government enterprises and enterprise funds
- o Permits and fees
- o Hunting and grazing licenses and fees
- o Interest, dividends, rents, and royalties
- o Sales of products
- o Fees and charges for services and benefits of a voluntary character
- o Sales of government property
- o Repayments of loans and advances
- o Recoveries and refunds of earlier expenditures

The commission did not foresee any difficulties or ambiguities in trying to implement its recommendations. In any borderline cases, the critical factor is whether the primary purpose of the fee or levy or price charged is to channel the private demand for, and use of, valuable resources or materials that happen to be owned by the government. Receipts that are market-oriented or result from the operation of business-type enterprises, and therefore are not governmental in character, should be netted against related expenditures and should not be shown as receipts or revenues in the budget.

On the other hand, taxes designed to raise revenues for the government, or fees that are only incidental to government regulatory activities, are governmental in character and should be recorded as governmental receipts or revenues. Similarly, even though the government may charge a fee or excise payment in certain cases in which the proceeds are earmarked for specific purposes, a gross treatment of such receipts in the budget may nonetheless be appropriate if the government retains total allocative authority over the expenditures made from the earmarked collections.

Under these criteria, the commission believed it was clear, for example, that (1) selling stamps should be offset against the costs of providing postal services, (2) gasoline taxes dedicated to highway construction should not be offset against expenditures, but that (3) landing fees at federally owned airports should be netted against expenditures. In the first instance, each user of stamps determines how many he or she will buy and for what purpose, and the net cost to the government of providing postal services is an assessment of sorts on general taxpayers. In the second instance, the levying of gasoline taxes is an exercise of the government's sovereign tax powers, and the government retains complete allocative authority over their use. Furthermore, even though the taxpayer may regard such excise taxes as a price for providing highways, the individual taxpayer's contribution is not directly related to the particular highway services provided by the government. In the third instance, airport landing fees are market-oriented; their function is to reimburse costs, rather than to accomplish the broader purposes of regulation.

In any event, the issue of how to classify government income does not affect the budget surplus or deficit--only the level of both revenues and expenditures. It also does not affect any dedication of the use of

government receipts that may be specified by the law giving rise to the tax, user charge, or fee. For example, the Office of Management and Budget changed the classification of certain Medicare receipts in the 1983 budget from government revenues to proprietary receipts. The budget deficit was unaffected, but the level of both revenues and expenditures was lowered by about \$3 billion. The change was made to reflect the voluntary nature of certain premiums collected for Hospital Insurance and Supplementary Medical Insurance. It did not affect the dedication of these premiums to the Medicare trust funds.

COMMITTEE JURISDICTION

The use of dedicated federal financial resources is controlled mostly through authorizing legislation that governs various trust funds, revolving funds, and permanent appropriations. Only 11 percent of estimated dedicated income in the President's 1988 budget will be allocated through the annual appropriation process (see Table 5). The major dedicated taxes and proprietary

TABLE 5. Dedicated Federal Financial Resources for Fiscal Year 1988, by Senate Committee (In billions of dollars)

Senate Committee	Governmental Receipts	Proprietary Receipts	Offsetting Collections	Total
Appropriations	27.2	4.2	27.4	58.8
Agriculture, Nutrition, and Forestry	0.1	0.4	26.2	26.8
Banking, Housing, and Urban Affairs	a/	a/	27.5	27.5
Finance	327.2	8.9	0.8	336.9
Governmental Affairs	3.5	2.2	38.3	44.0
Other	<u>3.8</u>	<u>10.6</u>	<u>11.0</u>	<u>25.4</u>
Total	361.8	26.4	131.3	519.5

SOURCES: Office of Management and Budget; Congressional Budget Office.

Note: Receipts and collections have been allocated to committees that have direct spending jurisdiction over the use of dedicated income rather than to the committees that authorized the receipts or collections.

a. Less than \$50 million.

TABLE 6. Dedicated Federal Financial Resources for Fiscal Year 1988 Allocated by the Appropriations Committees (In billions of dollars)

Appropriation Subcommittee	Governmental Receipts	Proprietary Receipts	Offsetting Collections	Total
Agriculture, Rural Development	5.0	--	1.0	6.0
Commerce, State, Judiciary	0.3	a/	2.3	2.6
Defense	--	--	6.2	6.2
Energy and Water	0.2	2.7	0.8	3.8
Foreign Operations	--	--	7.4	7.4
Housing and Urban Development (Independent Agencies)	1.3	0.1	4.1	5.4
Interior	0.2	1.0	0.3	1.5
Labor, Health and Human Services	1.0	a/	3.4	4.4
Legislative Branch	--	--	0.1	0.1
Military Construction	--	--	0.2	0.2
Transportation	18.6	0.5	0.8	19.8
Treasury, Postal Service	0.6	a/	0.8	1.4
Total	27.2	4.2	27.4	58.8

SOURCES: Office of Management and Budget; Congressional Budget Office.

a. Less than \$50 million.

receipts that are allocated by the Appropriations Committees include Section 32 funds (30 percent of all customs duties), Highway Trust Fund receipts, Airport and Airway Trust Fund receipts, Hazardous Substance (Superfund) receipts, Black Lung Benefits Revenue Act taxes, and revenues for enrichment of uranium (see Table 6).

Learn how Capitol Hill really works

All of our programs and any combination of their topics can be tailored for on-site training for your organization.

For more than 40 years, TheCapitol.Net and its predecessor, Congressional Quarterly Executive Conferences, have been teaching professionals from government, military, business, and NGOs about the dynamics and operations of the legislative and executive branches and how to work with them.

Our custom, on-site training and publications include congressional operations, legislative and budget process, communication and advocacy, media and public relations, research, testifying before Congress, legislative drafting, critical thinking and writing, and more.

- **Diverse Client Base**—We have tailored hundreds of custom on-site training programs for Congress, numerous agencies in all federal departments, the military, law firms, lobbying firms, unions, think tanks and NGOs, foreign delegations, associations and corporations, delivering exceptional insight into how Washington works.™
- **Experienced Program Design and Delivery**—We have designed and delivered hundreds of custom programs covering congressional/legislative operations, budget process, media training, writing skills, legislative drafting, advocacy, research, testifying before Congress, grassroots, and more.
- **Professional Materials**—We provide training materials and publications that show how Washington works. Our publications are designed both as course materials and as invaluable reference tools.
- **Large Team of Experienced Faculty**—More than 150 faculty members provide independent subject matter expertise. Each program is designed using the best faculty member for each session.
- **Non-Partisan**—TheCapitol.Net is non-partisan.
- **GSA Schedule**—TheCapitol.Net is on the GSA Schedule, 874-4, for custom on-site training: GSA Contract GS02F0192X.

Please see our Capability Statement on our web site at TCNCS.com.

Custom training programs are designed to meet your educational and training goals, each led by independent subject-matter experts best qualified to help you reach your educational objectives and align with your audience.

As part of your custom program, we can also provide classroom space, breaks and meals, receptions, tours, and online registration and individual attendee billing services.

For more information about custom on-site training for your organization, please see our web site: TCNCustom.com or call us: 202-678-1600, ext 115.



Non-partisan training and publications that show how Washington works.™

PO Box 25706, Alexandria, VA 22313-5706
202-678-1600 • www.thecapitol.net



TheCapitol.Net is on the
GSA Schedule, 874-4,
for custom on-site training.
GSA Contract GS02F0192X

