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FEDERAL TRUST AND OTHER EARMARKED FUNDS

Answers to Frequently Asked Questions

Accountability * Integrity * Reliability

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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

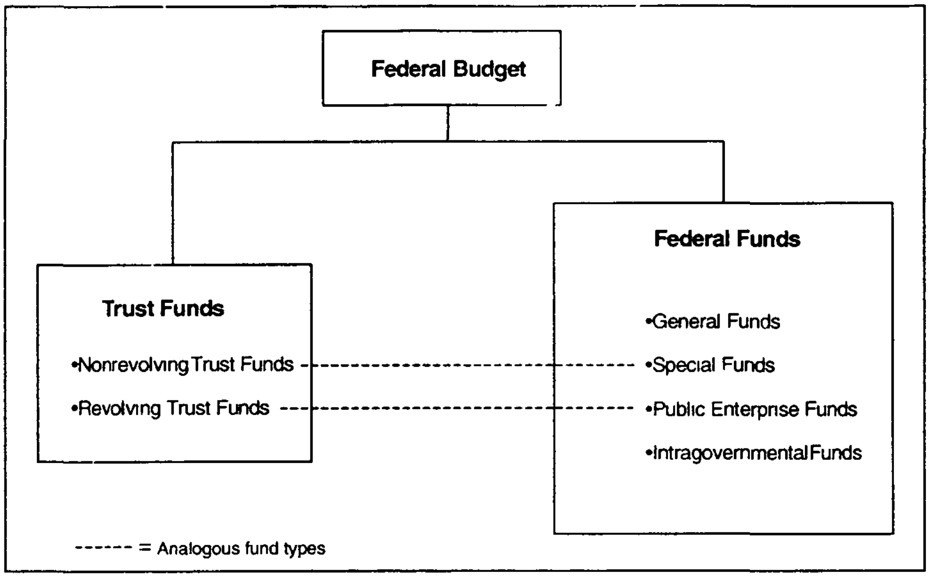
Q1.3 How Do Federal Trust Funds Fit Within the Unified Budget Concept?

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

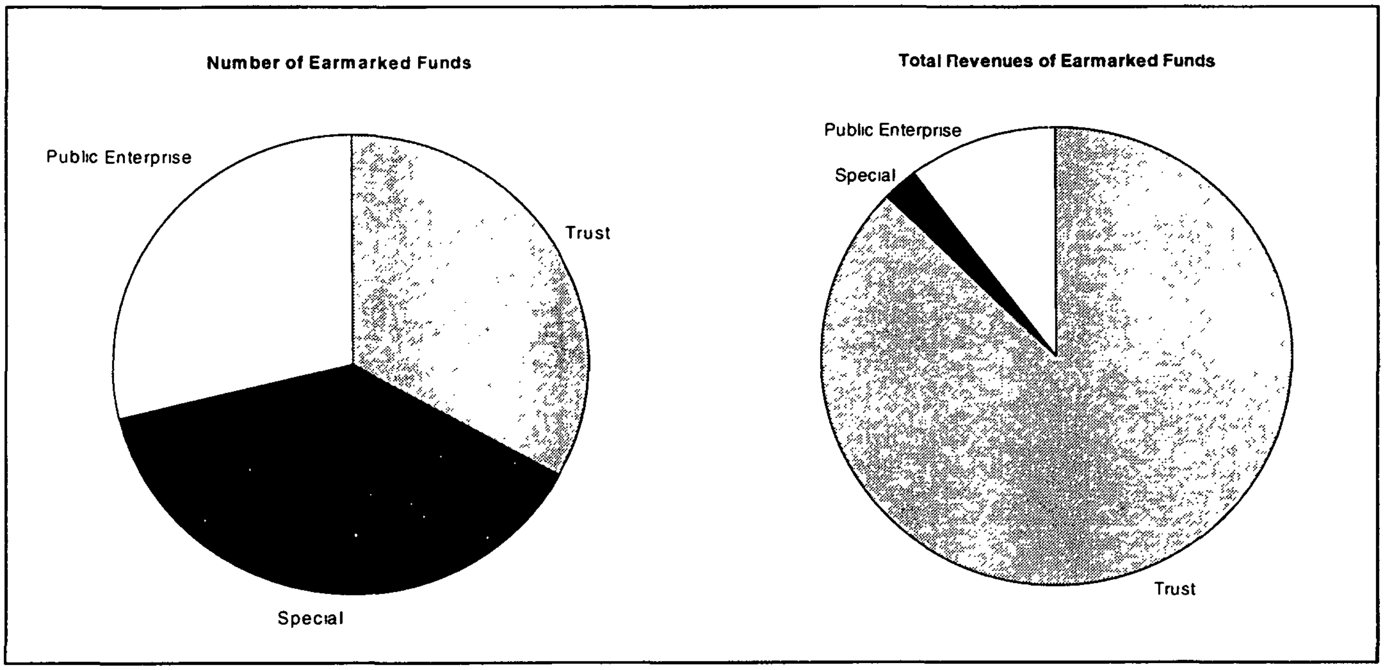
Federal accounting standards classify revenue to the government as part of either an exchange or a nonexchange transaction [8] Exchange revenue is revenue resulting from the government's business-type activities, hence it includes most user charges The standards require that financial statements recognize 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 [11] 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.

[11] 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.