

5. Earmarking of receipts will bring in a greater income in relation to expenditures. Where general fund expenditures are based on carrying out a service at a level in excess of that for which those benefited are willing to pay, the substitution of earmarking for general fund appropriations may bring about a reduction in expenditures and a net saving.

6. It is important to demonstrate to a payer that his payment is being used for a particular purpose. This may be necessary if the Government is either acting as an agent or is engaged in a cooperative arrangement with States, etc.

Public enterprise funds

All revolving funds involve the earmarking of receipts; generally the receipts are available without further action by Congress. The primary characteristic of a public enterprise fund is that certain receipts from the public for products or services are used to finance the related costs of a commercial-type activity or some other cycle of operations. Proposals for new public enterprise revolving funds generally should provide for annual appropriation review, subject to such limitations and allowances for flexibility as are deemed appropriate. When the arguments for a public enterprise fund are stronger than the disadvantages of earmarking, and when all or part of the following criteria are applicable, the establishment of a public enterprise revolving fund may be advisable.

1. There is a continuing cycle of operations in which expenditures generate receipts.

2. The fund is substantially self-sustaining.

3. The program involves many transactions of a business nature. When this criterion is applicable, the enterprise may qualify for a revolving fund even though it is not self-sustaining. A program for loan guarantees may properly be handled as a revolving fund even if not self-sustaining, because it involves transactions such as the forfeiture of collateral, the management of properties, and sales of property.

4. A systematic disclosure of the relationship between revenue and expense and the subsidy, if any, supplied by the Government is desirable. This criterion is applicable only when revenues are substantial in relation to expenses. Where revenues generate expenses only incidentally or vice versa, there is usually no need for refined data on the relationship between revenues and expenses.

5. There is substantial need for flexibility to meet unforeseen requirements. A significant advantage of a revolving fund is its flexibility, since an unforeseen and necessary increase in expenses is related to business volume and the related revenue increase ordinarily can finance the increased workload without going back to Congress for a deficiency appropriation. The need for flexibility, however, is not a sufficient reason in itself to create a revolving fund.

Intragovernmental revolving funds

The criteria involved in determining the advisability of creating an intragovernmental revolving fund are quite different from those considered in the creation of a public enterprise revolving fund. An intragovernmental revolving fund, whether primarily for use within an agency or for use between agencies, has no receipts from the public or such receipts are only incidental; hence the question of earmarking receipts from the public is not pertinent. Rather, the questions are closely connected to problems of appropriation pattern and structure: To what agency should the appropriation be made to pay for a particular activity? What should be the scope of each appropriation item? How can the volume of an activity best be controlled through the budget process? The following primary criteria are considered:

1. Accurate distribution of the costs of a common operation among two or more appropriations is desirable and significant. Most intragovernmental revolving funds involve the joint use of inventory or common services that can be administered more economically and effectively by one unit for an entire department or several functions, with the costs charged to the respective benefiting appropriations or organization units. This criterion is not applicable where there is only one appropriation with which the fund will deal.

2. It is important to place responsibility for justifying costs on the officials who benefit therefrom. Consideration should be given to the respective responsibilities of the officials who conduct the operation and those who benefit from it, particularly with respect to justifying the proposed operating volume.

3. It is desirable to indicate clearly whether the pricing policies used for interagency charges are on a cost or profit basis. An intragovernmental revolving