

SEQUESTRATION UPDATE REPORT

FOR FISCAL YEAR 1994

**A Congressional Budget Office
Report to the Congress
and the Office of Management and Budget**

August 13, 1993

CONTENTS

TRANSMITTAL LETTER

DISCRETIONARY SEQUESTRATION REPORT	1
PAY-AS-YOU-GO SEQUESTRATION REPORT	3
DEFICIT SEQUESTRATION REPORT	4

TABLES

1. CBO Estimates of Discretionary Spending Limits for Fiscal Year 1993	6
2. CBO Estimates of Discretionary Spending Limits for Fiscal Years 1994 and 1995	7
3. CBO Estimates of Discretionary Spending Limits for Fiscal Years 1996, 1997, and 1998	8
4. Budgetary Effects of Direct Spending and Receipt Legislation Enacted Since the Budget Enforcement Act	9
5. CBO Estimates of Maximum Deficit Amounts	10

NOTES

All years referred to in this report are fiscal years, unless otherwise noted.

Numbers in the text and tables of this report may not add to totals because of rounding.

The source for all data in this report is the Congressional Budget Office, unless otherwise noted.

SEQUESTRATION UPDATE REPORT
FOR FISCAL YEAR 1994

A CONGRESSIONAL BUDGET OFFICE
REPORT TO THE CONGRESS
AND THE OFFICE OF MANAGEMENT AND BUDGET

August 13, 1993

The Budget Enforcement Act of 1990 amended the Balanced Budget and Emergency Deficit Control Act of 1985 (Balanced Budget Act) and the Congressional Budget Act of 1974 (the Budget Act) to add new enforcement procedures for direct (mandatory) spending, receipts, and discretionary spending for fiscal years 1991 through 1995. The Omnibus Budget Reconciliation Act of 1993 (OBRA 1993), which was enacted on August 10, 1993, further amends the Balanced Budget Act and the Budget Act to extend the application of the new procedures through 1998. The law requires the Congressional Budget Office (CBO) to issue a sequestration preview report five days before the President's budget submission in January or February, a sequestration update report on August 15, and a final sequestration report 10 days after the end of a session of Congress. These reports must contain estimates of the following items:

- o The discretionary spending limits and any adjustments to them;
- o The amount by which direct spending or receipt legislation, enacted after the Budget Enforcement Act, has increased or decreased the deficit; and
- o The maximum deficit amount.

This report to the Congress and the Office of Management and Budget (OMB) provides the required information for the August 15 update of CBO's *Sequestration Preview Report for Fiscal Year 1994* issued on April 2, 1993.

DISCRETIONARY SEQUESTRATION REPORT

OBRA 1993 established new limits on total discretionary budget authority and outlays for fiscal years 1996 through 1998 but left the existing discretionary spending limits for 1993 through 1995 and the current enforcement procedures--including the requirements to adjust the discretionary limits--in place.

CBO's estimates of the limits on discretionary spending in the three categories--defense, international, and domestic--for fiscal year 1993 and changes to the limits since CBO's previous sequestration report are shown in Table 1. Table 2 gives CBO's estimates of the limits on total discretionary spending for fiscal years 1994 and 1995 and the changes to those limits since April. Table 3 shows the new total discretionary spending limits for 1996 through 1998 established by OBRA 1993; it also shows the changes to those limits resulting from emergency appropriations for flood relief enacted after the signing of OBRA 1993.

The estimates of the spending limits for 1993 through 1995 provided in this report differ from those in CBO's April 1993 preview report for two reasons. First, the estimates have been revised to reflect differences between the estimates in CBO's preview report and the spending limits specified in OMB's preview report included in the President's budget submission on April 8, 1993. Second, the limits have been increased to reflect emergency funds made available since OMB issued its report.

The Budget Enforcement Act requires both CBO and OMB to calculate the changes in the discretionary spending limits specified in the act. OMB's estimates of the limits are controlling in determining whether enacted appropriations are within the limits or a sequestration is required to eliminate a breach of the limits. CBO's estimates are advisory. Acknowledging OMB's statutory role, CBO adjusts its previous estimates to conform to the spending limits contained in the most recent OMB sequestration report before making the additional adjustments required in the current report.

The 1993 spending limits for the domestic discretionary category in the CBO preview report were above those in the subsequent OMB preview report by \$824 million in budget authority and \$75 million in outlays. These amounts represent adjustments made by CBO in its preview report to account for emergency appropriations made available since OMB issued its final sequestration report for fiscal year 1993 last October. Although these appropriations were enacted before OMB's final report, that report did not adjust the cap to account for them because the availability of the funds was contingent on the President's designating them as emergency appropriations--which he had not done at the time of the final sequestration report. The President, however, made that designation before CBO's sequestration preview report for fiscal year 1994. CBO adjusted the 1993 caps accordingly in that report and recognized a corresponding increase in 1993 discretionary spending. OMB chose instead to adjust neither the 1993 caps nor its estimate of 1993 discretionary spending to account for the release of the contingent emergency funds. Because the adjustments to the cap and to estimated spending offset each other, this decision does not affect any sequestration calculation or the

amount of discretionary spending allowed in 1993. It does, however, result in official discretionary spending limits that understate the full amount of spending allowed.

In addition to the adjustments to conform to the limits in OMB's preview report, the caps on 1993 domestic discretionary budget authority and outlays have been increased to reflect the enactment of two supplemental appropriation bills that provide nearly \$5 billion in 1993 emergency funding, primarily for flood relief in the Midwest, and the release of additional contingent emergency appropriations since the preview report (see Table 1). The additional emergency funding also triggers an increase in the adjustments for the special allowance for discretionary new budget authority in 1993.

The 1994 and 1995 spending limits have likewise been adjusted to account for differences between the CBO and OMB sequestration preview reports for fiscal year 1994. The total budget authority limits for 1994 and 1995 in OMB's 1994 preview report were each \$430 million higher than the estimated limits in CBO's preview report (see Table 2). OMB's outlay limits were also higher than CBO's--by \$14 million in 1994 and \$226 million in 1995. These differences are largely attributable to different estimates of the adjustments for changes in credit subsidy rates and for changes in mandatory spending resulting from provisions in 1993 appropriation acts. The caps on 1994 and 1995 total discretionary outlays have also been increased to account for the enactment of 1993 emergency supplemental appropriations, the release of additional contingent appropriations since OMB's preview report, and the outlay effects of the additional special allowance for discretionary new budget authority in 1993.

The new discretionary limits for 1996 through 1998 established in OBRA 1993 have been adjusted by the outlay effects of emergency appropriations for flood relief in the Midwest enacted after OBRA 1993 was signed into law (see Table 3). The limits need not be adjusted for the effects of emergency appropriations already available before the new limits were established.

PAY-AS-YOU-GO SEQUESTRATION REPORT

If changes in direct spending programs or in governmental receipts enacted since the Budget Enforcement Act increase the combined current and budget year deficits, a pay-as-you-go sequestration is triggered at the end of the Congressional session, and nonexempt mandatory programs are cut enough to eliminate the overage. The pay-as-you-go provisions of the Balanced Budget

Act had applied through fiscal year 1995, but OBRA 1993 extended them through 1998.

As in the case of the discretionary spending limits, the Budget Enforcement Act requires both CBO and OMB to estimate the net increase in the deficit resulting from direct spending or receipt legislation, but OMB's estimates are controlling in determining whether a sequestration is required. CBO therefore adopts OMB's estimate of the change in the deficit at the end of the previous session of Congress as the starting point for the CBO reports. Table 4 shows CBO's estimate of the change in the deficits for 1993 through 1995 resulting from direct spending and receipt legislation enacted since the Budget Enforcement Act but before OBRA 1993, assuming OMB's estimates of changes in the deficit resulting from legislation enacted through the end of the second session of the 102nd Congress. The extension of the pay-as-you-go provisions through 1998 requires CBO to estimate the effect on deficits for 1993 through 1998 of any direct spending or receipt legislation enacted after OBRA 1993. CBO estimates that no legislation that was passed by the Congress but not signed by the President before enactment of OBRA 1993 would increase or decrease the deficit by as much as \$500,000 in any year through 1998.

The pay-as-you-go totals exclude the deficit effects of OBRA 1993. Section 14003(c) of that act provides that any direct spending cuts and revenue increases achieved by the legislation should not affect the pay-as-you-go totals. Otherwise, subsequent legislation enacting spending increases and tax cuts that would completely offset the OBRA 1993 savings would be allowed under the pay-as-you-go procedures. The pay-as-you-go totals also exclude spending for extended unemployment benefits enacted in March 1993 that was designated as emergency spending and is therefore exempt from the pay-as-you-go provisions. The relatively small remaining changes in direct spending and revenues, added to the total 1993 and 1994 deficit reduction of \$3,586 million that OMB estimated in its April 1993 preview report, yield a net decrease in the combined 1993 and 1994 deficits of \$3,570 million (see Table 4).

DEFICIT SEQUESTRATION REPORT

The Budget Enforcement Act established procedures to enforce annual deficit targets through 1995 that were crafted in such a way that they have imposed no additional budgetary discipline beyond the constraints of the discretionary spending limits and the pay-as-you-go requirement. OBRA 1993 did not extend the deficit target enforcement provisions beyond their currently scheduled expiration at the end of 1995.

The 1994 maximum deficit target has no effect for two reasons. First, when the President submitted the budget for fiscal year 1994, he exercised the option provided by the Balanced Budget Act to adjust the deficit targets for revised economic and technical assumptions, in addition to making the required adjustments to account for changes in the discretionary caps and pay-as-you-go balances. Second, the assumptions used in preparing the President's budget must be used by OMB for all subsequent Balanced Budget Act calculations that year. Therefore, even if the budgetary outlook deteriorates after the President's budget is submitted, as long as the discretionary spending limits and pay-as-you-go requirements are met, the deficit targets will be said to have been reached. The President also has the option to adjust the maximum deficit amount for all economic and technical changes when he submits the fiscal year 1995 budget. If he chooses not to exercise that option, the 1995 maximum deficit amount could be exceeded, triggering a sequestration to eliminate the excess deficit.

The Budget Enforcement Act provides that the estimated maximum deficit amounts equal the projected on-budget baseline deficits (excluding net spending by the Postal Service and Social Security receipts and benefit payments), assuming that discretionary spending is held to the adjusted limits, minus any net deficit increases or decreases resulting from direct spending or receipt legislation that appear on the pay-as-you-go scorecard. CBO's current estimates of the maximum deficit amounts, based on CBO's March 1993 economic and technical estimating assumptions, are shown in Table 5. These figures exclude changes in the deficit resulting from enacted pay-as-you-go legislation, as well as assumed prospective adjustments to the 1994 discretionary spending limits for the special budget authority allowances and to the 1995 limits for the differences between anticipated and actual inflation in 1993. They include Social Security administrative costs that are off-budget but are covered by the Budget Enforcement Act discretionary spending limits as a result of OMB's interpretation of the act.

Since the April sequestration preview report, CBO's estimates of the maximum deficit amounts have decreased by \$30 billion in 1994 and \$54 billion in 1995, primarily because of OBRA 1993.

Table 1.
CBO Estimates of Discretionary Spending Limits for Fiscal Year 1993 (In millions of dollars)

	<u>Defense Discretionary</u>		<u>International Discretionary</u>		<u>Domestic Discretionary</u>	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Limits in CBO's April 1993 Preview Report	289,651	298,861	35,081	20,601	207,149	229,991
Adjustments						
Technical differences from OMB's April 1993 preview report	0	0	0	0	-824	-75
Emergency 1993 appropriations enacted since OMB's preview report	0	0	0	0	4,845	157
Contingent emergency appropriations designated since OMB's preview report	0	0	0	0	132	23
Additional 1993 special allowance for discretionary new budget authority	<u>0</u>	<u>0</u>	<u>4</u>	<u>2</u>	<u>5</u>	<u>3</u>
Total	0	0	4	2	4,158	108
Limits as of August 13, 1993	289,651	298,861	35,085	20,603	211,307	230,099

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget.

Table 2.
CBO Estimates of Discretionary Spending Limits for Fiscal Years 1994 and 1995 (In millions of dollars)

	1994		1995	
	Budget Authority	Outlays	Budget Authority	Outlays
Limits in CBO's April 1993 Preview Report	509,490	537,240	516,968	538,726
Adjustments				
Technical differences from OMB's April 1993 preview report	430	14	430	226
Emergency 1993 appropriations enacted since OMB's preview report	0	2,561	0	1,319
Contingent emergency appropriations designated since OMB's preview report	0	106	0	2
Additional 1993 special allowance for discretionary new budget authority	<u>0</u>	<u>3</u>	<u>0</u>	<u>2</u>
Total	430	2,684	430	1,549
Limits as of August 13, 1993	509,920	539,924	517,398	540,275

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget.

Table 3.
CBO Estimates of Discretionary Spending Limits for Fiscal Years 1996, 1997, and 1998 (In millions of dollars)

	1996		1997		1998	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Limits Set in OBRA 1993	519,142	547,263	528,079	547,346	530,639	547,870
Adjustments						
Emergency 1993 appropriations enacted after OBRA 1993 was signed	0	660	0	77	0	14
Limits as of August 13, 1993	519,142	547,923	528,079	547,423	530,639	547,884

SOURCE: Congressional Budget Office.

NOTE: OBRA 1993 = Omnibus Budget Reconciliation Act of 1993.

Table 4.
Budgetary Effects of Direct Spending and Receipt Legislation
Enacted Since the Budget Enforcement Act (By fiscal year, in millions of dollars)

Legislation	1993	1994	1995
Total from OMB's April 1993 Preview Report ^a	-2,676	-910	-803
Legislation Enacted Since OMB's Preview Report			
Emergency Unemployment Compensation Amendments (P.L. 103-6) ^b	0	-2	-3
World War II Memorial Construction (P.L. 103-32)	0	1	2
Central Intelligence Agency Voluntary Separation Incentive Act (P.L. 103-36)	1	7	2
Unclaimed Deposits Amendments (P.L. 103-44)	1	17	17
Transfer of Naval Vessels to Certain Countries (P.L. 103-54)	-8	-3	-3
Extend Period During Which Chapter 12, Title 11 U.S.C. Remains in Effect (P.L. 103-65) ^c	<u>1</u>	<u>1</u>	<u>1</u>
Total	-5	21	16
Total Change in the Deficit Since the Budget Enforcement Act	-2,681	-889	-787

SOURCE: Congressional Budget Office.

NOTES: OMB = Office of Management and Budget; P.L. = Public Law.

The following bills affected direct spending or receipts but did not increase or decrease the deficit by as much as \$500,000 in any year through 1995: Aircraft Equipment Settlement Leases Act (P.L. 103-6); Export Administration Act Extension (P.L. 103-10); Food Stamp Act Amendments (P.L. 103-11); Idaho Land Exchange Act (P.L. 103-17); Technical Corrections to the Veterans Health Care Act of 1992 (P.L. 103-18); Gateway National Recreation Area Rehabilitation (P.L. 103-26); Government Printing Office Electronic Access Enhancement Act (P.L. 103-40); Forest Resources Conservation and Shortage Relief Amendments (P.L. 103-45); Big Thicket National Preserve Addition Act (P.L. 103-46); Extend President's Authority to Conclude Uruguay Round Trade Negotiations (P.L. 103-49); Cave Creek Canyon Protection Act (P.L. 103-56); Colorado Wilderness Act (H.R. 631); Codify Rates of Disability Compensation for Veterans (H.R. 798); Small Business Guaranteed Credit Enhancement Act (S. 1274); Amendments to the Rehabilitation Act of 1973 (S. 1295). CBO was unable to estimate the deficit effect of the following bills: Family and Medical Leave Act (P.L. 103-3); National Voter Registration Act (P.L. 103-31); National Institutes of Health Revitalization Act (P.L. 103-43); Resolution of the Status of Certain Lands Relinquished to U.S. (P.L. 103-48). The Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66) also affects direct spending and receipts, but section 14003(c) of that act provides that the Director of OMB shall reduce the pay-as-you-go balance for each fiscal year by the amount of net deficit reduction achieved by this act. Thus, enactment of P.L. 103-66 has no effect on the amounts shown on the pay-as-you-go scorecard. Legislation without public law numbers had passed the Congress but had not been signed or vetoed by the President as of August 12, 1993.

- Section 254 of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by the Budget Enforcement Act of 1990, calls for a list of all bills enacted since the Budget Enforcement Act that are included in the pay-as-you-go calculation. Because the data in this table assume OMB's estimate of the aggregate changes in the deficit resulting from bills enacted through the end of the 102nd Congress, readers are referred to the list of those bills included in Table 4 and Appendix I of the *OMB Final Sequestration Report to the President and Congress for Fiscal Year 1993*.
- In accordance with the Balanced Budget Act, the following outlays for unemployment benefits that were designated as emergency spending are excluded from pay-as-you-go calculations: \$3,323 million in 1993 and \$2,340 million in 1994.
- Reductions in receipts are shown with a positive sign because they increase the deficit.

Table 5.
CBO Estimates of Maximum Deficit Amounts (By fiscal year, in billions of dollars)

	1994	1995
Estimate in CBO's April 1993 Preview Report	345	354
Changes	-30	-54
Estimate as of August 13, 1993	315	300

SOURCE: Congressional Budget Office.
