

# **CBO REPORT**

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## **Sequestration Update Report for Fiscal Year 2002**

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

August 15, 2001



**CONGRESSIONAL BUDGET OFFICE  
SECOND AND D STREETS, SW  
WASHINGTON, DC 20515**



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# Sequestration Update Report for Fiscal Year 2002

**S**ection 254 of the Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act) requires the Congressional Budget Office (CBO) to issue a sequestration update report each year on August 15 that reflects laws enacted since the sequestration preview report was published earlier in the year. This report incorporates activity affecting the discretionary spending caps and the pay-as-you-go (PAYGO) scorecard through August 14, 2001.

In the absence of further legislative action, spending for fiscal year 2001 will remain within the limits for the overall discretionary category, CBO estimates. For both the highway and mass transit categories, however, outlays will exceed their respective caps (those categories have no limits on budget authority). The Deficit Control Act requires that outlays in excess of the caps for the two transportation categories be assigned to the overall discretionary category. Because that excess (\$535 million) can be accommodated under the overall cap, no discretionary sequestration (defined as a cancellation of budgetary resources) is required for 2001.

Although no appropriation laws for 2002 had been enacted when this report was completed, adhering to the statutory spending caps for 2002 will be extremely challenging for lawmakers. For example, if discretionary budget authority increases by 4.4 percent from 2001 to 2002 (as it does in CBO's baseline), it will exceed its 2002 cap by \$120 billion and outlays will be above their cap by \$117 billion, CBO

estimates (see Table 1). The Congress has adopted a budget resolution (H. Con. Res. 83) that calls for discretionary spending in 2002 to be higher than the current caps by \$111 billion in budget authority and \$110 billion in outlays.

Legislation affecting mandatory (direct) spending or revenues that was enacted during the current session of Congress has decreased the projected surpluses for 2001 and 2002 by \$79.3 billion and \$53.6 billion, respectively. Under the Deficit Control Act, that total of \$132.9 billion would need to be eliminated before the Congress adjourns in order to avoid a PAYGO sequestration. However, the Deficit Control Act limits the amount of mandatory spending available for sequestration, which CBO estimates to be less than \$50 billion in 2002. Unless legislation is enacted to avoid such a sequestration, the entire available amount would be automatically canceled.

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## Discretionary Sequestration Report

Section 251 of the Deficit Control Act sets limits on discretionary spending and provides for sequestration if annual appropriations exceed those limits. For 2002, the last year for which section 251 is currently in effect, the caps apply to four categories of spending: overall discretionary, overall conservation, high-

**Table 1.**  
**Discretionary Spending Compared with**  
**the Statutory Caps for Fiscal Year 2002**  
**(In billions of dollars)**

	Budget Authority	Outlays
<b>Total Discretionary Spending Limits</b>		
CBO's Estimate as of August 14, 2001	549	572
<b>Discretionary Spending Under Alternative Budget Plans<sup>a</sup></b>		
CBO's Baseline	669	689
Congressional Budget Resolution	660	683
Spending Frozen at the Level Enacted for 2001	644	675
<b>Amount by Which Alternative Budget Plans Exceed Discretionary Spending Limits</b>		
CBO's Baseline	120	117
Congressional Budget Resolution	111	110
Spending Frozen at the Level Enacted for 2001	95	102

SOURCE: Congressional Budget Office.

NOTE: Numbers may not add up to totals because of rounding.

a. Excludes budget authority for the mass transit category, which is not subject to caps.

way, and mass transit.<sup>1</sup> The caps on spending for highway and mass transit programs apply only to outlays; caps for the overall discretionary and the overall conservation categories cover both budget authority and outlays (see Table 2).<sup>2</sup>

1. The caps applied to three categories of spending in 2001: overall discretionary, highway, and mass transit.

2. The highway category does not have caps on budget authority because obligation limitations (which do not count as budget authority) set in appropriation bills control all of its spending. A combination of appropriations and obligation limitations controls spending for mass transit, so that category also has no statutory limit on budget authority.

## Adjustments to the Spending Limits

The discretionary spending limits in this report reflect two types of changes made since CBO's sequestration preview report was published in January 2001: adjustments for differences between the estimates in that report and in the Office of Management and Budget's (OMB's) preview report and adjustments for releases of emergency funds.

**Differences Between the Limits in CBO's and OMB's Preview Reports.** OMB is responsible for determining whether a sequestration is required to eliminate a breach of the discretionary spending caps; CBO's estimates are merely advisory. Therefore, before making other changes, CBO first adjusts the estimates of the caps that appeared in its most recent sequestration report to match the figures in the equivalent OMB report (issued in April 2001). As a result, CBO has raised its estimate of the caps for 2001 and lowered them for 2002 from the amounts shown in its January preview report (see Table 2).

Two factors account for CBO's \$3.6 billion upward adjustment to the outlay cap for 2001. In April, OMB increased the cap by \$2.6 billion for funds provided to cover agricultural crop disaster assistance; CBO believes that the Deficit Control Act precludes such an adjustment.<sup>3</sup> Nevertheless, because OMB's determinations are binding for sequestration purposes, CBO has made the same adjustment. CBO has increased its estimate of the outlay cap by another \$1.0 billion, mostly to adjust for technical estimating differences regarding when certain emergency appropriations will be spent.

For the overall discretionary category in 2002, CBO lowered its estimate of the cap on budget authority by \$3.1 billion and of the cap on outlays by \$3.3 billion. Approximately three-quarters of those adjustments result from changes in budgetary classifications agreed to by CBO, OMB, and the House and Senate Budget Committees after CBO issued its preview report. The largest change shifts \$2.4 billion in net subsidy receipts from loan guarantees made

3. Section 251(b)(2)(A) of the Deficit Control Act allows cap increases for emergency appropriations, except for emergency "appropriations to cover agricultural crop disaster assistance." OMB's interpretation is that the emergency designation overrides the clause that excludes agricultural crop disaster assistance.

under the Federal Housing Administration's Mutual Mortgage Insurance program from the mandatory to the discretionary side of the budget.

In their sequestration preview reports, both CBO and OMB increased the 2002 outlay cap for the highway category to reflect new revenue estimates for the Highway Trust Fund. Because CBO projects a quicker rate of spending for that revenue than OMB

does, CBO's previous increase in the cap was greater than OMB's. CBO has therefore lowered its estimate of the outlay cap by \$400 million.

**Recently Released Emergency Appropriations.** CBO has raised its outlay cap for the overall discretionary category in 2002 as a result of contingent emergency appropriations that the President has released since the publication of OMB's preview re-

**Table 2.**  
**CBO's Estimates of Discretionary Spending Limits for Fiscal Years 2001 and 2002**  
**(In millions of dollars)**

	2001		2002	
	Budget Authority	Outlays	Budget Authority	Outlays
Total Discretionary Spending Limits in CBO's January Preview Report	640,803	645,442	551,795	575,964
Overall Discretionary Category <sup>a</sup>				
Spending limits in CBO's January preview report	640,803	613,883	550,035	540,353
Adjustments				
Technical differences from OMB's April preview report	0	3,624	-3,090	-3,262
Contingent emergency appropriations designated since OMB's April preview report	0	0	0	271
Spending limits as of August 14, 2001	640,803	617,507	546,945	537,362
Highway Category <sup>b</sup>				
Spending limits in CBO's January preview report	n.a.	26,920	n.a.	28,889
Adjustment (Technical differences from OMB's April preview report)	n.a.	0	n.a.	-400
Spending limits as of August 14, 2001	n.a.	26,920	n.a.	28,489
Mass Transit Category <sup>b</sup>				
Spending limits in CBO's January preview report	n.a.	4,639	n.a.	5,490
Adjustment (Technical differences from OMB's April preview report)	n.a.	0	n.a.	-215
Spending limits as of August 14, 2001	n.a.	4,639	n.a.	5,275
Overall Conservation Category				
Spending limits in CBO's January preview report	n.a.	n.a.	1,760	1,232
Adjustment (Technical differences from OMB's April preview report)	n.a.	n.a.	0	0
Spending limits as of August 14, 2001	n.a.	n.a.	1,760	1,232
Total Discretionary Spending Limits as of August 14, 2001	640,803	649,066	548,705	572,358

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget; n.a. = not applicable.

- a. Spending for conservation programs was included in this category in 2001.
- b. The highway and mass transit categories do not have limits on budget authority. Obligation limitations, which are not counted as budget authority, control all of the spending in the highway category and most of the spending in the mass transit category.

port. The increase of \$271 million is for the disaster relief program of the Federal Emergency Management Agency.

## Compliance with the Discretionary Spending Limits for 2001

Spending for the overall discretionary category, as estimated by CBO for purposes of the Deficit Control Act, is approximately \$400 million below the budget authority limit and a few billion dollars below the outlay limit. However, outlays recorded in the highway and mass transit categories are \$91 million and \$444 million above their respective caps. The Deficit Control Act assigns outlays above the caps for the two transportation categories to the overall discretionary category. Adding that \$535 million to outlays in the overall discretionary category does not result in a breach of the limit. Therefore, in the absence of further legislative action, no discretionary sequestration will be required for 2001.

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## Pay-As-You-Go Sequestration Report

Section 252 of the Deficit Control Act contains a mechanism to ensure that any legislation affecting direct spending or receipts enacted through fiscal year 2002 does not result in a net cost. If legislative changes enacted through the end of a session of Congress are estimated to produce a net cost in the current year, a PAYGO sequestration is required at the end of the session. Under that type of sequestration, budgetary resources available for mandatory programs that are not otherwise exempt are to be cut sufficiently to eliminate the net cost. The Deficit Control Act does not specify how to eliminate a net cost when that cost exceeds the amount of nonexempt resources available for sequestration. The PAYGO

discipline governs legislation enacted through 2002, but the sequestration procedure applies through 2006 to eliminate any projected decrease in the surplus caused by such legislation.

Both CBO and OMB estimate the annual net cost that results from direct spending or revenue legislation. But, as with the discretionary spending caps, OMB's estimates determine whether a sequestration is necessary. For this report, therefore, CBO has adopted as its starting point the estimated PAYGO effects of legislation from OMB's sequestration preview report. The Consolidated Appropriations Act, 2001 (Public Law 106-554) instructed OMB to change the PAYGO balance for 2001 to zero; however, that law did not eliminate the balances for 2002 through 2005. As of April 9, 2001, OMB's estimate of the 2002 balance was \$16.1 billion.

During this session of Congress, tax cuts enacted in the Economic Growth and Tax Relief Reconciliation Act (P.L. 107-16) have decreased the surplus by an estimated \$79.3 billion this year and \$37.6 billion next year (see Table 3). Therefore, unless legislation is enacted—for example, eliminating the balance—a PAYGO sequestration will be required at the end of this Congressional session.

Under the Deficit Control Act, the net costs for 2001 and 2002 should be combined to determine the magnitude of a PAYGO sequestration for 2002; that total comes to \$132.9 billion. However, the Deficit Control Act exempts numerous programs from sequestration (including Social Security, Medicaid, and Supplemental Security Income) and limits the amount that may be sequestered from others (such as Medicare and the Commodity Credit Corporation fund). Consequently, the total amount of new outlays for mandatory programs that could be sequestered in 2002 is less than \$50 billion.<sup>4</sup>

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4. The three largest programs that can be sequestered are the refundable portion of the child tax credit, the Universal Service Fund, and the State Children's Health Insurance Program.

**Table 3.**  
**Budgetary Effects of Direct Spending or Receipt Legislation Enacted Since**  
**the Balanced Budget Act of 1997 (By fiscal year, in millions of dollars)**

	2001	2002	2003	2004	2005	2006
Total Pay-As-You-Go Balances in OMB's April Preview Report <sup>a</sup>	0	16,053	18,465	19,336	20,673	0
Laws Enacted Since OMB's Preview Report <sup>b</sup>						
An act to authorize the Secretary of the Interior and the Secretary of Agriculture to use funds appropriated for wildland fire management in the Department of the Interior and Related Agencies Appropriations Act, 2001, to reimburse the United States Fish and Wildlife Service and the National Marine Fisheries Service to facilitate the interagency cooperation required under the Endangered Species Act of 1973 in connection with wildland fire management (P.L. 107-13)	3	-3	0	0	0	0
Fallen Hero Survivor Benefit Fairness Act of 2001 (P.L. 107-15)	1	7	5	5	5	4
Economic Growth and Tax Relief Reconciliation Act (P.L. 107-16)	73,808	37,570	90,335	107,421	107,102	134,887
An act to clarify the authority of the Department of Housing and Urban Development with respect to the use of fees during fiscal year 2001 for the manufactured housing program (P.L. 107-18)	2	1	0	0	0	0
An act to authorize funding for the National 4-H Program Centennial Initiative (P.L. 107-19)	0	2	-1	-1	0	0
An act to respond to the continuing economic crisis adversely affecting American agricultural producers (H.R. 2213)	<u>5,500</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Pay-As-You-Go Balances as of August 14, 2001	79,314	53,630	108,804	126,761	127,780	134,891
<b>Memorandum:</b>						
Legislation Cleared by the Congress Since OMB's Preview Report						
Federal Firefighters Retirement Age Fairness Act (H.R. 93)	0	0	-1	-1	-1	-1
An act to provide further protections for the watershed of the Little Sandy River as part of the Bull Run Watershed Management Unit, Oregon, and for other purposes (H.R. 427)	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
<b>Total</b>	<b>79,314</b>	<b>53,630</b>	<b>108,803</b>	<b>126,760</b>	<b>127,779</b>	<b>134,890</b>

SOURCE: Congressional Budget Office.

NOTES: The information in this table covers legislative action through August 14, 2001. Positive numbers indicate a decrease in the surplus.  
 OMB = Office of Management and Budget; P.L. = Public Law; \* = \$500,000 or less.

- a. The Consolidated Appropriations Act, 2001 (P.L. 106-554) instructed OMB to change the PAYGO balance for 2001 to zero; OMB's estimate of that balance before the change was \$10,542 million.
- b. The following laws enacted since OMB's preview report affected the surplus by \$500,000 or less each year through 2006:
- An act for the relief of Rita Mirembe Revell (a.k.a. Margaret Rita Mirembe) (Pvt. L. 107-1)
  - An act providing for Congressional disapproval of the rule submitted by the Department of Labor under chapter 8 of title 5, United States Code, relating to ergonomics (P.L. 107-5)
  - An act to extend for 11 additional months the period for which chapter 12 of title 11 of the United States Code is reenacted (P.L. 107-8)
  - Veterans' Survivor Benefits Improvement Act of 2001 (P.L. 107-14)
  - An act to extend for four additional months the period for which chapter 12 of title 11 of the United States Code is reenacted (P.L. 107-17)













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