

FINAL SEQUESTRATION REPORT

FOR FISCAL YEAR 1996

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

January 11, 1996

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The Budget Enforcement Act of 1990 amended the Balanced Budget and Emergency Deficit Control Act of 1985 and the Congressional Budget Act of 1974 to add new enforcement procedures for discretionary spending, direct (mandatory) spending, and receipts for fiscal years 1991 through 1995. The Omnibus Budget Reconciliation Act of 1993 extended the application of those procedures through 1998. The law requires the Congressional Budget Office (CBO) each year to issue a sequestration preview report five days before the President submits a budget in January or February, a sequestration update report on August 15, and a final sequestration report 10 days after a session of Congress ends. The final sequestration report must contain estimates of the following items:

- o The current discretionary spending limits and any adjustments to them;
- o The amount of discretionary new budget authority and total outlays and the amount of any required discretionary sequestration; and
- o The amount by which legislation enacted since the Budget Enforcement Act that affects direct spending or receipts has increased or decreased the deficit, and the amount of any required pay-as-you-go sequestration.

This report to the Congress and the Office of Management and Budget (OMB) provides the required information for legislation presented to the President through the end of the first session of the 104th Congress. Because enacted appropriations have not exceeded the spending limits for fiscal years 1995 and 1996, and because direct spending and receipt legislation has not increased the total deficit for those two years, CBO estimates that neither a discretionary spending nor a pay-as-you-go sequestration will be required in 1996.

DISCRETIONARY SEQUESTRATION REPORT

The Omnibus Budget Reconciliation Act of 1993 (OBRA-93) set new limits on total discretionary budget authority and outlays for fiscal years 1996 through 1998. But it left in place the existing enforcement procedures, including specific instructions for adjusting the discretionary caps. Spending from the Violent Crime Reduction Trust Fund (VCRTF) was excluded from the caps by the Violent Crime Control and Law Enforcement Act of 1994. The act established separate limits through 1998 on outlays resulting from VCRTF appropriations and lowered the discretionary caps each year by that amount.

Discretionary Spending Limits for Fiscal Years 1995-1998

CBO's current estimates of the limits on general-purpose (non-VCRTF) discretionary spending for 1995 through 1998 differ from those it published in August 1995 in its sequestration update report (see Table 1 on page 6). Two changes account for the difference. First, CBO revised the estimates to reflect discrepancies between the spending limits in its update report and those in OMB's update report, which was released on August 21. Second, CBO raised the limits to reflect emergency funds made available since OMB issued its update report. The limits on the VCRTF are not subject to any adjustment, so they remain as shown in the August report.

Differences Between the Limits in CBO's and OMB's Update Reports. Amendments made by the Budget Enforcement Act (BEA) require both CBO and OMB to calculate changes to the discretionary spending limits specified in the act. OMB's estimates of the limits are controlling, however, in determining whether enacted appropriations fall within the limits or a sequestration is required to eliminate a breach of the limits. CBO's estimates are merely advisory. In acknowledgment of OMB's statutory role, when CBO calculates changes in the limits for a report, it first adjusts for the differences between the limits in its most recent report and those in OMB's most recent report. In effect, CBO uses OMB's official estimates as the starting point for the adjustments that it is required to make in the new report.

The spending limits for 1995 in CBO's August update were somewhat lower than those in OMB's. Specifically, CBO's estimate of the budget authority limit was \$302 million lower than OMB's because of different estimates of the savings that were achieved by the 1995 rescission bill (Public Law 104-19). CBO's estimate of the outlay limit was \$492 million lower because of that difference and different assumptions about the rate at which \$6.5 billion in emergency appropriations--both newly enacted budget authority and newly designated contingent emergency funds--will be spent.

For the years after 1995, CBO's estimates also differed from OMB's, with greater differences in the outlay limits than in the budget authority limits. CBO's estimates of the budget authority limits were \$71 million higher than OMB's for 1996, \$16 million higher for 1997, and the same as OMB's for 1998. In contrast, the outlay limits presented in CBO's August report were \$1,411 million lower than OMB's for 1996, \$856 million lower for 1997, and \$383 million higher than OMB's for 1998. The differences again reflect different estimates of the savings resulting from the rescission package enacted in July 1995 and different spendout rates for emergency appropriations.

Emergency Funding Made Available Since OMB's Update Report. CBO also adjusted the discretionary spending limits to reflect emergency appropriations made available since OMB's update report. Between August and December, no emergency appropriations were enacted. The President released contingent emergency appropriations relating to disaster relief, however, and the caps have been adjusted to reflect their release. That adjustment increases the budget authority limit by \$126 million in 1996 and increases the outlay limit by \$86 million in 1996, \$34 million in 1997, and \$5 million in 1998. (Those changes are reflected in the limits shown in Table 1.)

Compliance with the Spending Limits

By CBO's estimate, discretionary new budget authority and total outlays for fiscal year 1995 fell below their respective limits (see Table 2). Those totals are unchanged from the August update reports because the Congress and President have not approved any 1995 supplemental appropriations since then, and the releases of contingent emergency funds did not effect 1995 spending.

Section 251(a)(5) of the Balanced Budget Act provides that, if general-purpose appropriations for the current year enacted after June 30 cause that year's general-purpose spending limits to be breached, the budget year limits are reduced by the amount of the breach. Section 251A(c) of the act provides an analogous procedure for VCRTF appropriations. Because both general-purpose and VCRTF discretionary spending were below the limits for fiscal year 1995, no adjustments to the spending limits for fiscal year 1996 are necessary.

So far, the Congress has enacted only a fraction of the discretionary new budget authority and total outlays for 1996 allowed by the caps (see Table 3). CBO's estimates for 1996 include appropriations enacted in the first session of the 104th Congress as well as advance appropriations and outlays from appropriation acts for fiscal year 1995 and earlier. The estimates also include the budget authority and outlays that stem from emergency appropriations (both those reflected in OMB's August report and those released later).

As of the end of the first session of the 104th Congress, the President had signed only seven of the 13 regular appropriation bills. He vetoed three appropriation measures (funding the Departments of Commerce, Justice, State, Interior, Veterans Affairs, and Housing and Urban Development and the judiciary). The remaining three appropriation acts—covering the Departments of Labor, Health and Human Services, and Education; District of Columbia finances; and foreign operations—have not received final Congressional action.

Agencies not covered by the seven regular appropriation bills enacted in the first session are now functioning under a continuing resolution (P.L. 104-94), enacted on January 6, that provides limited spending authority for all operations through January 26. Two other bills enacted on the same day, P.L. 104-91 and P.L. 104-92, provide funding for certain activities for a longer period if relevant appropriation bills providing funding beyond January 26 have not been enacted. The funding provided by these three acts is not reflected in Table 3.

Based on the appropriation measures enacted to date and the appropriation levels called for in the Congressional budget resolution, CBO estimates that a discretionary sequestration will probably not be necessary in 1996.

PAY-AS-YOU-GO SEQUESTRATION REPORT

If legislated changes in direct spending programs or 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 increase. The pay-as-you-go provisions of the BEA applied through fiscal year 1995, and OBRA-93 extended them through 1998.

The Budget Enforcement Act requires both CBO and OMB to estimate the net change in the deficit resulting from direct spending or receipt legislation. As with the discretionary spending limits, however, OMB's estimates are controlling in determining whether a sequestration is required. CBO therefore adopts OMB's estimates of changes in the deficit at the end of the previous session of Congress as the starting point for this report.

The changes in direct spending and receipts since the Budget Enforcement Act lower the combined 1995 and 1996 deficits by \$1,013 million (see Table 4). That estimate includes \$996 million in 1995-1996 deficit reduction from legislation enacted before OMB's August update and CBO's estimate of changes from legislation enacted since then. It excludes changes in the deficit for 1996 through 1998 resulting from legislation enacted before OBRA-93 (the pay-as-you-go procedures did not apply to

those years until OBRA-93 was enacted) and deficit reduction contained in OBRA-93 (as required by law). According to that estimate, a pay-as-you-go sequestration is not required in 1996.

In 1997 and 1998, however, a pay-as-you-go sequestration will be required unless the Congress enacts legislation to reduce direct spending or increase revenues in 1996 through 1998. Based on the estimated increases in the deficit, \$1,653 million in mandatory spending cuts or tax increases will be needed in 1996 to avoid a sequestration in fiscal year 1997.

Table 1.
CBO's Estimates of Discretionary Spending Limits for Fiscal Years 1995 Through 1998 (In millions of dollars)

	1995		1996		1997		1998	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
General-Purpose Spending Limits in CBO's August 1995 Update Report	508,244	547,438	520,658	547,790	529,861	549,059	536,087	551,520
Adjustments								
Technical differences from OMB's August 1995 update report	302	492	-71	1,411	-16	856	0	-383
Emergency 1995 appropriations enacted since OMB's update report	0	0	0	0	0	0	0	0
Contingent emergency appropriations designated since OMB's update report	<u>0</u>	<u>0</u>	<u>126</u>	<u>86</u>	<u>0</u>	<u>34</u>	<u>0</u>	<u>5</u>
Total	302	492	55	1,497	-16	890	0	-378
General-Purpose Spending Limits as of January 3, 1996	508,546	547,930	520,713	549,287	529,845	549,949	536,087	551,142
Violent Crime Reduction Trust Fund Spending Limits	<u>2,423</u>	<u>703</u>	<u>4,287</u>	<u>2,334</u>	<u>5,000</u>	<u>3,936</u>	<u>5,500</u>	<u>4,904</u>
Total Discretionary Spending Limits	510,969	548,633	525,000	551,621	534,845	553,885	541,587	556,046

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget.

Table 2.
CBO's Estimates of Discretionary New Budget Authority and Total Outlays for Fiscal Year 1995
(In millions of dollars)

	Budget Authority	Outlays
General-Purpose Appropriations		
Total from OMB's August 1995 Sequestration Update Report	496,419	547,419
Adjustments	0	0
Total Appropriations	496,419	547,419
Limits as of January 3, 1996	508,546	547,930
Appropriations Over or Under (-) Limits	-12,127	-511
Violent Crime Reduction Trust Fund Appropriations		
Total from OMB's August 1995 Sequestration Update Report	2,378	691
Adjustments	0	0
Total Appropriations	2,378	691
Limits as of January 3, 1996	2,423	703
Appropriations Over or Under (-) Limits	-45	-12

SOURCE: Congressional Budget Office.

NOTES: The amounts shown here represent the 1995 appropriation bills, 1995 appropriations advanced in previous years, and outlays from prior year appropriations, including emergency appropriations.

OMB = Office of Management and Budget.

Table 3.
CBO's Estimates of Discretionary New Budget Authority and Total Outlays for Fiscal Year 1996,
by Appropriation Bill and Category (In millions of dollars)

Appropriation Bill	Budget Authority	Outlays
General-Purpose Appropriations		
Military Construction (P.L. 104-32)	11,177	9,597
Agriculture, Rural Development, Food and Drug Administration and Related Agencies (P.L. 104-37)	13,325	13,581
Energy and Water Development (P.L. 104-46)	19,336	19,712
Department of Transportation and Related Agencies (P.L. 104-50)	12,482	36,754
Treasury, Postal Service, and General Government (P.L. 104-52)	11,187	11,490
Legislative Branch (P.L. 104-53)	2,125	2,180
Department of Defense (P.L. 104-61)	243,037	242,727
OMB's Estimate of Emergency Appropriations Made Available in Calendar Year 1995 and Reflected in OMB's August 1995 Sequestration Update Report	3,275	3,295
Contingent Emergency Appropriations Designated Since OMB's Update Report	<u>126</u>	<u>86</u>
Total Appropriations	316,070	339,422
Limits on General-Purpose Spending as of January 3, 1996	520,713	549,287
Appropriations Over or Under (-) Limits	-204,643	-209,865
Violent Crime Reduction Trust Fund Appropriations		
Treasury, Postal Service, and General Government (P.L. 104-52)	<u>77</u>	<u>70</u>
Total Appropriations	77	70
Limits on Violent Crime Reduction Trust Fund Spending as of January 3, 1996	4,287	2,334
Appropriations Over or Under (-) Limits	-4,210	-2,264

SOURCE: Congressional Budget Office.

NOTES: The amounts shown here represent 1996 regular appropriations, 1996 appropriations advanced in previous years, and outlays from prior year appropriations, including emergency appropriations.

P.L. = public law; OMB = Office of Management and Budget.

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

Legislation	1995	1996	1997	1998
Total for OMB's August 1995 Update Report ^a	-1,822	826	882	1,622
Legislation Enacted Since OMB's Update Report				
Alaska Native Claims Settlement Act Amendments (P.L. 104-42)	0	1	0	0
Perishable Agricultural Commodities Act Amendments (P.L. 104-48) ^b	0	-1	-1	-1
Veterans' Compensation Cost-of-Living Adjustment Act (P.L. 104-57)	0	-15	-19	-20
Alaska Power Administration Asset Sale and Termination Act (P.L. 104-58)	0	-5	-14	-10
Dayton Health Care Plan Enrollment Mix Requirement Waiver Extension (P.L. 104-87)	0	0	-1	-1
Intelligence Authorization Act for Fiscal Year 1996 (P.L. 104-93) ^c	0	0	0	-1
Smithsonian Institution Sesquicentennial Commemorative Coin Act of 1995 (H.R. 2627)	0	3	-3	0
Change in the Deficit Since the Budget Enforcement Act	-1,822	809	844	1,589

SOURCE: Congressional Budget Office.

NOTES: The following bills affected direct spending but did not increase or decrease the deficit by as much as \$500,000 in any year through 1998: an act to disapprove certain sentencing guidelines (P.L. 104-38); Digital Performance Right in Sound Recordings Act of 1995 (P.L. 104-39); an act to authorize the collection of fees for triploid grass carp certification inspections (P.L. 104-40); Fisheries Act of 1995 (P.L. 104-43); Immigration and Nationality Act Amendments (P.L. 104-51); National Highway System Designation Act of 1995 (P.L. 104-59); commencement dates of certain federal judgeships (P.L. 104-60); Lobbying Disclosure Act of 1995 (P.L. 104-65); Securities Litigation Reform Act (P.L. 104-67); an act to amend the Doug Barnard, Jr.—1996 Atlanta Centennial Olympic Games Commemorative Coin Act (P.L. 104-74); ICC Termination Act of 1995 (P.L. 104-88).

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

- a. 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 total change in the deficit resulting from bills enacted through the date of its report, readers are referred to the list of those bills included in Table 6 of the *OMB Sequestration Update Report to the President and Congress* (August 21, 1995) and in previous sequestration reports issued by OMB.
- b. Increase in receipts.
- c. Includes increase in both outlays and receipts.

