SEQUESTRATION PREVIEW REPORT
FOR FISCAL YEAR 1997

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

March 14, 1996

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Under current law, sequestration--the cancellation of budgetary resources--serves as the means to enforce the federal government's statutory limits on discretionary spending, direct (that is, mandatory) spending, and receipts.[1] The Congress can avoid sequestration by keeping discretionary spending within established limits and by making sure that the cumulative effect of legislation affecting direct spending or receipts is deficit neutral in the current year and the budget year combined.

Federal law requires the Congressional Budget Office (CBO) each year to issue a sequestration preview report five days before the President submits a budget, a sequestration update report on August 15, and a final sequestration report 10 days after a session of Congress ends. The sequestration preview report must contain estimates of the following items:

- The current discretionary spending limits and any adjustments to them; and

- 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 (PAYGO) sequestration.

This report to the Congress and the Office of Management and Budget (OMB) provides the required information.

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1. Current sequestration requirements were established by the Budget Enforcement Act of 1990, which amended the Balanced Budget and Emergency Deficit Control Act of 1985 and the Congressional Budget and Impoundment Control Act of 1974 to add new enforcement procedures for discretionary spending, direct 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 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.

CBO's current estimates of the limits on general-purpose (non-VCRTF) spending differ from those in its final sequestration report for fiscal year 1996, published in January (see Table 1). Several factors account for the change. First, CBO revised the limits to reflect differences between the spending limits in its final report and those in OMB's final report. Second, it increased the limits to account for emergency funds made available since OMB issued its final report. Third, CBO adjusted the caps to reflect changes in concepts and definitions. Finally, it revised the limits for 1997 and 1998 to reflect the difference between current projections of the inflation rate for 1996 through 1998 and the projections used to adjust the caps in the preview report that OMB issued in February 1995. The limits on VCRTF outlays are not subject to any adjustment, so the amounts shown in Table 1 are the same as those presented in CBO's final report.

Differences Between the Limits in CBO's and OMB's Final Reports

Amendments to earlier law 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 whether 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 budget authority limits for 1996, 1997, and 1998 in CBO's January final report were identical to those in OMB's. CBO's outlay limits, however, were lower than OMB's by $11 million for 1996 and higher than OMB's by $6 million for 1997 and $5 million for 1998. That difference results entirely from different estimates of the rate at which government agencies will spend contingent emer-

gency appropriations made available between CBO's August 1995 and January 1996 reports.

Emergency Funding Made Available Since OMB's Final Report

CBO also adjusted the discretionary spending limits to reflect emergency appropriations made available since OMB's final report, as required by the BEA. Between January and March 1996, no emergency appropriations were enacted. The President did release contingent emergency appropriations for the Forest Service's pest suppression fund, and the discretionary caps have been adjusted to reflect their release. That adjustment increases the budget authority limit by $17 million for 1996 and increases the outlay limit by $8 million for both 1996 and 1997. (Those changes are reflected in the limits shown in Table 1.)

Changes in Concepts and Definitions

The Balanced Budget and Emergency Deficit Control Act (the Balanced Budget Act) provides for cap adjustments that reflect changes in budgetary concepts and definitions. Those adjustments generally reflect reclassifications of spending from one budget category to another.

The budget committees and OMB have determined that any increases or decreases in direct spending that result from provisions in an appropriation act should be reflected in the enforcement of the discretionary spending limits. They have also determined that increases or decreases in discretionary spending that result from provisions in authorizing legislation should be reflected in the enforcement of the PAYGO scorecard. The current effect of such changes made in an appropriation measure is included in its scoring, whereas the future effect is reflected as an adjustment to the discretionary caps. This method ensures that the appropriations committees are held responsible for the future effects of changes in mandatory programs included in their legislation, but that they are not held responsible for appropriations for discretionary programs provided by other committees.

Changes made in fiscal year 1996 appropriation bills that affect mandatory spending require a reduction in the 1997 caps of $44 million in budget authority and $164 million in outlays (see Table 1). For 1998, those changes require an increase in the caps of $53 million in budget authority and $13 million in outlays.

The outlay caps have also been lowered by $2,183 million for 1997 and $1,986 million for 1998 to better account for mandatory outlays resulting from the

Department of Transportation's federal-aid highways account. In fiscal years before 1997, all spending from that account was categorized as discretionary, even though only a portion of it was controlled by the appropriations committees through obligation limitations. Beginning in 1997, spending from that account that is not subject to the control of the appropriations committees will be categorized as mandatory; the above reductions in the caps reflect the discretionary outlays that would have been included in the baseline if the category change had not occurred.

Changes in Projected Inflation Rates

The Balanced Budget Act also provides for an annual adjustment to reflect changes in inflation. OMB interprets language added by OBRA-93 to allow adjustments based on the difference between the latest projected inflation rates for 1996 through 1998 and the inflation rates forecast for those years at the time of its prior preview report. CBO does not agree with that interpretation of the law, but the General Accounting Office stated in its compliance report of February 1996 that OMB's inflation adjustment follows the literal language of the OBRA-93 amendment. In this preview report, therefore, CBO employs OMB's method of adjusting for inflation in deference to OMB's statutory role in enforcing the caps.

Adjusting for changes in inflation is complicated in this report because in December 1995 the Bureau of Economic Analysis switched to a chain-weighted presentation of its measures of gross domestic product (GDP). As a result, both CBO and OMB have begun forecasting GDP as a chain-weighted measure. The rate of change in inflation (measured by the implicit GDP deflator) that OMB used in its prior preview report was a fixed-weighted measure, so the inflation projections for 1996 through 1998 from that report need to be restated on a chain-weighted basis to be consistent with the new inflation forecasts of both OMB and CBO.

Restated on a chain-weighted basis, OMB's projected inflation rates in its February 1995 preview report were 3.1 percent for 1996 and 3.2 percent for both 1997 and 1998. CBO's current forecast for inflation is 2.7 percent for both 1996 and 1997, decreasing to 2.6 percent for 1998. The cumulative effect of lower inflation rates is a reduction in the caps on discretionary budget authority of $4,656 million for 1997 and $7,836 million for 1998. The decline in outlays resulting from the reduced budget authority is $2,794 million for 1997 and $5,866 for 1998. Those inflation adjustments are reflected in the caps shown in Table 1.

The general-purpose spending limits shown in that table are significantly higher than the levels permitted by the 1996 budget resolution. For the current fiscal year, the statutory spending caps are almost $36 billion higher in budget

authority and $18 billion higher in outlays than the levels anticipated by the budget resolution. For fiscal years 1997 and 1998, the caps exceed the corresponding amounts in the budget resolution by approximately $40 billion in budget authority and more than $25 billion in outlays.

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 deter-mining 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.

OMB's January final report estimated that changes in direct spending and receipts enacted since the Budget Enforcement Act through the end of the first session of the 104th Congress increased the combined 1996 and 1997 deficits by $1,495 million. That estimate 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 itself (as required by law).

CBO's estimate of changes from legislation enacted since OMB's final report, when added to the amounts in that report, yields an increase in the combined 1996 and 1997 deficits of $2,638 million (see Table 2). The bulk of the increase since OMB's final report results from a shift in the effective dates of cost-of-living adjustments for military retirement annuities in the defense authorization act. According to CBO's estimate, if the Congress does not either reduce mandatory spending or increase receipts by a total of $2,638 million, mandatory accounts subject to an across-the-board reduction will face a sequestration of approximately 1.1 percent in 1997.

Table 1.
CBO Estimates of Discretionary Spending Limits for Fiscal Years 1996 Through 1998 (In millions of dollars)

	1996		1997		1998	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
General-Purpose Spending Limits in CBO's January 1996 Final Report	520,713	549,287	529,845	549,949	536,087	551,142
Adjustments						
Technical differences from OMB's January 1996 final report	0	-11	0	6	0	5
Contingent emergency appropriations designated since OMB's final report	17	8	0	8	0	0
Changes in concepts and definitions						
Wetlands reserve acreage limitation	0	0	38	-98	38	-4
Conservation reserve acreage limitation	0	0	-77	-77	8	8
Honey price support elimination	0	0	-6	-6	0	0
Emergency preparedness grants	0	0	5	a	0	2
Pipeline safety fees	0	0	6	6	7	7
Timber receipts	0	0	-10	11	0	0
Highway programs exempt from obligation limitations	0	0	0	-2,183	0	-1,986
Subtotal	0	0	-44	-2,347	53	-1,973
Change in 1997 and 1998 inflation	0	0	-4,656	-2,794	-7,836	-5,866
Total	17	-3	-4,700	-5,127	-7,783	-7,834
General-Purpose Spending Limits as of March 11, 1996	520,730	549,284	525,145	544,822	528,303	543,308
Violent Crime Reduction Trust Fund Spending Limits	4,287	2,334	5,000	3,936	5,500	4,904
Total Discretionary Spending Limits	525,017	551,618	530,145	548,758	533,803	548,212

SOURCE: Congressional Budget Office.

NOTES: OMB = Office of Management and Budget. Numbers may not add up to totals because of rounding.

a. Less than $500,000.

Table 2.
Budgetary Effects of Direct Spending or Receipt Legislation Enacted Since the Budget Enforcement Act (By fiscal year, in millions of dollars)

Legislation	1996	1997	1998
Total for OMB's January 1996 Final Report[a]	717	778	1,515
Legislation Enacted Since OMB's Final Report			
Telecommunications Act of 1996 (P.L. 104-104)[b]	0	1	1
Farm Credit System Regulatory Relief Act (P.L. 104-105)	-1	-1	-1
Department of Defense Authorization Act (P.L. 104-106)	395	672	710
Extension of VA Medical and Housing Programs (P.L. 104-110)	-5	-1	0
Tax benefits for members of the armed forces performing peacekeeping functions (H.R. 2778)[c]	38	45	0
Change in the Deficit Since the Budget Enforcement Act	1,144	1,494	2,225

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 award a Congressional Gold Medal to Ruth and Billy Graham (P.L. 104-111); the National Technology Transfer and Advancement Act (P.L. 104-113); and the Cuban Liberty and Democratic Solidarity Act (P.L. 104-114).

OMB = Office of Management and Budget; P.L. = public law; VA = Department of Veterans Affairs.

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 Final Report to the President and Congress* (January 18, 1996) and in previous sequestration reports issued by OMB.

b. Includes increase in both outlays and receipts.

c. Reduction in receipts.