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The President
The President of the Senate
The Speaker of the House of Representatives

As required by the Budget Enforcement Act of 1990 (BEA), which amended the Balanced Budget and Emergency Deficit Control Act of 1985, we hereby submit our compliance report covering reports issued by the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) during the session of the Congress ending October 9, 1992. GAO is required to issue this compliance report 45 days after the end of a session of the Congress.

In our opinion, the OMB and CBO reports substantially complied with the act except for OMB's inflation adjustment to the fiscal year 1993 discretionary spending limits, which was incomplete because it did not cover personnel costs. Since OMB's judgments are binding, the spending limit for discretionary budget authority was $2.5 billion higher than it should have been. This issue is discussed further in appendix II.

Appendix III discusses some implementation issues related to (1) classifying discretionary spending for domestic or defense purposes, (2) distinguishing between discretionary and mandatory spending, and (3) making cost estimates. Categorizing spending by such criteria is difficult and subject to interpretation, as evidenced by OMB and CBO disagreement in how they classified portions of 16 programs. This illustrates the difficulties in the formula approaches to budgeting represented by BEA or Gramm-Rudman-Hollings before it. In addition, OMB and CBO had significant differences in their cost estimates for three programs due to different technical and methodological assumptions.

To accomplish the objective of determining compliance with the Budget Enforcement Act, we reviewed OMB and CBO reports issued under the act to determine if they reflected all of the act's requirements. We interviewed cognizant OMB and CBO officials to obtain explanations for differences between reports. Background information on the various reports required by the act and details concerning our objectives, scope, and methodology are contained in appendix I.

Copies of this report are being provided to the Director of the Office of Management and Budget, the Director of the Congressional Budget Office, and Members of the Congress. Copies will also be made available to other interested parties on request.

This report was prepared under the direction of Paul L. Posner, Director, Budget Issues, who may be reached on (202) 275-9573 if you or your staffs have any questions. Major contributors to this report are listed in appendix IV.

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Abbreviations

BEA	Budget Enforcement Act of 1990
CBO	Congressional Budget Office
ECI	Employment Cost Index
FHA	Federal Housing Administration
GNMA	Government National Mortgage Association
HCFA	Health Care Financing Administration
GNP	gross national product
GSL	Guaranteed Student Loan
OMB	Office of Management and Budget
PAYGO	pay-as-you-go
VA	Department of Veterans Affairs

Background and Objectives, Scope, and Methodology

Background

The Budget Enforcement Act of 1990 (BEA) changed the deficit reduction process by establishing three major budgetary points of control—dollar limits on discretionary spending, a pay-as-you-go (PAYGO)[1] requirement for mandatory spending[2] and receipts legislation, and adjustable maximum deficit targets. Discretionary spending is divided into three categories—defense, domestic, and international—for fiscal years 1991 through 1993, but is consolidated into one category for fiscal years 1994 and 1995. The act established requirements for OMB and CBO to issue Preview, Update, and Final Sequestration reports at various times during the year. Each report is to include (1) a discretionary sequestration report, (2) a pay-as-you-go sequestration report, and (3) a deficit sequestration report. These reports correspond to the three major points of control established by the act.

OMB determines in its Final Sequestration Report whether any end of session sequestration is required. If OMB determines that a sequestration is required, the President must issue an order implementing it. For fiscal year 1993, neither OMB's report, issued October 23, 1992, nor CBO's report, issued October 19, 1992, called for a sequestration.

In addition, as soon as practicable after the Congress completes action on any appropriation involving discretionary spending, CBO is required to report to OMB the estimated amount of new budget authority and outlays provided by the legislation. Five days after an appropriation is enacted, OMB must report its estimates for these amounts, using the same economic and technical assumptions underlying the most recent budget submission. It must also include the CBO estimates and explain any differences between the two sets of estimates. Both OMB and CBO have similar requirements to report their estimates for any mandatory spending and receipts legislation.

Also, if an appropriation for a fiscal year in progress is enacted after the Congress adjourns to end a session for that budget year and before July 1 of that fiscal year and causes any of the spending limits for the year in progress to be exceeded, CBO and OMB must issue Within-Session Sequestration Reports 10 and 15 days, respectively, after its enactment. On the same day as the OMB report, the President must issue an order implementing any sequestrations set forth in the OMB report.

[1]Under the Budget Enforcement Act, PAYGO requires that any new legislation that increases direct (mandatory) spending or decreases receipts be deficit neutral (that is, not increase the deficit).

[2]Mandatory spending means budget authority provided by law other than in appropriation acts, entitlement authority, and the Food Stamp Program.

Objectives, Scope, and Methodology

The primary objective of our review was to determine whether the OMB and CBO reports complied with the requirements of BEA. A second objective was to identify and evaluate other issues, not necessarily related to compliance, which we believed would be of interest to the Congress. To accomplish these objectives, we reviewed the OMB and CBO Preview, Update, and Final Sequestration reports to determine if they appropriately reflected all of the requirements specified in the act, such as (1) estimates of the discretionary spending limits, (2) explanations of any adjustments to the limits, (3) estimates of the amount of net deficit increase or decrease, (4) estimates of the maximum deficit amounts, and (5) in the event of a sequester, the sequestration percentages necessary to achieve the required reduction.

We reviewed BEA and its accompanying Joint Statement of Managers. We also reviewed the pertinent appropriations acts and their related Conference Reports. We examined the OMB and CBO reports on the 13 regular appropriations acts, the 4 supplemental appropriations acts passed in 1992, the Dire Emergency Supplemental Appropriations Act passed in 1991 (which contained contingent emergency appropriations made available for obligation in September 1992), and the 51 PAYGO reports on mandatory spending and receipts legislation that were enacted by the Congress and signed by the President before the date of OMB's Final Sequestration Report. We compared each OMB and CBO report and obtained explanations for differences in total bill estimates of $100 million or more (for the appropriations and PAYGO reports) and for differences in the discretionary spending limits, the maximum deficit amounts, and the adjustments to the spending limits and maximum deficit amounts of $500 million or more (for the Preview, Update, and Final Sequestration Reports). We also examined categorization differences between OMB and CBO in relation to domestic, international, and defense discretionary spending and categorization differences between mandatory and discretionary spending.

During the course of our work, we interviewed cognizant OMB and CBO officials. Our work was conducted in Washington, D.C., from February 1992 through November 1992.

OMB's Inflation Adjustment to the Discretionary Spending Limits Was Incomplete

BEA established discretionary spending limits for fiscal years 1991 through 1995 based on assumed levels of inflation for fiscal years 1990 through 1993. If the actual rate of inflation for those years differs from the assumed rate, BEA requires OMB to adjust the spending limits to account for the difference when the President submits his budget for an upcoming fiscal year. In practice, this involves using the actual inflation rate for the most recently completed fiscal year, comparing that rate to the assumed rate in BEA, and making the appropriate adjustment.

When the President submitted his budget for fiscal year 1993, the most recently completed fiscal year was fiscal year 1991. The actual inflation rate for fiscal year 1991 was 3.9 percent. This was lower than the 5.2 percent inflation rate assumed for fiscal year 1991 in BEA. Accordingly, a downward adjustment to the fiscal year 1993 spending limits to account for the difference was required.

To determine the amount by which the discretionary spending limits are to be adjusted, OMB and CBO must first develop their budget year[1] baselines.[2] To develop the budget year baseline, section 257(c) of the act requires OMB and CBO to inflate (1) the personnel-related portion of the fiscal year 1992 discretionary appropriations using the Bureau of Labor Statistics Employment Cost Index (ECI) and (2) the nonpersonnel portion of the fiscal year 1992 discretionary appropriations using the estimated gross national product (GNP) fixed-weight price index. Under section 251(b)(1)(B), the entire discretionary portion of the budget year baseline is then adjusted by a ratio of actual fiscal year 1991 inflation to that assumed by BEA for fiscal year 1991. The difference between the original and the adjusted baseline is used to adjust the fiscal year 1993 discretionary spending limit assumed in BEA.

OMB constructed its budget year (fiscal year 1993) baseline in accordance with section 257 of BEA. However, when calculating its downward adjustment to the discretionary spending limits to account for the lower than anticipated inflation, OMB separated the personnel and nonpersonnel portions of the 1993 baseline and applied the inflation adjustment factor only to the nonpersonnel portion. As a result, the spending limits for

[1]The budget year, with respect to a session of the Congress, is the fiscal year that starts on October 1 of the calendar year in which that session begins.

[2]The baseline is the projection of current-year levels of new budget authority, outlays, revenues, and the surplus or deficit into the budget year and outyears based on laws enacted through the applicable date.

budget authority were $2.5 billion higher than they would have been if OMB had used the entire 1993 baseline, as specified of section 251 of the act.

According to an OMB official, OMB calculated the 1991 inflation adjustment in a way that would avoid double-counting inflation in personnel costs. Under the Federal Employees Pay Comparability Act of 1990 (Public Law 101-509), enacted on the same day as BEA, federal employees' pay increases for the budget year are calculated based on the ECI for the last quarter of the most recently completed fiscal year divided by the preceding fiscal year's last quarter. Thus, the amount of the increase is known well before the President's budget is submitted and appropriations for that fiscal year are enacted. Therefore, the Congress is aware of the increase in personnel costs for a fiscal year and, presumably, takes that into account when it decides the level of appropriations for that year. For this reason, the OMB official contended that OMB did not need to adjust the spending limits to account for lower or higher than anticipated personnel costs. Under OMB's rationale, the increase in personnel costs in the baseline for fiscal year 1993 was not "lower than anticipated" since it was ostensibly considered in appropriating personnel costs during the preceding year. Therefore, the discretionary spending limits did not need to be adjusted downward.

In evaluating this OMB rationale, it is important to recognize a difference between the baseline and spending limits. The baseline refers simply to current year levels of budget authority and outlays, plus estimated inflation. If the actual amount of inflation is known, as it is for the personnel portion, then the baseline will be more accurate. Thus, as OMB correctly stated, the increase in personnel costs in the baseline was not, in that sense, "lower than anticipated." However, whatever is in the baseline is separate from the amount included for inflation in the initial BEA spending limits, which was higher than actual. Spending limits in specific dollar amounts were established when the BEA was enacted. The spending limits assumed certain levels of inflation and must be adjusted to account for higher or lower actual inflation. The failure to adjust for lower than anticipated personnel costs in the fiscal year 1993 spending limits, pursuant to OMB's binding decision, allowed for the appropriation of $2.5 billion of additional discretionary spending simply because the BEA guessed wrong on fiscal year 1991 inflation.

OMB officials made a second argument for not adjusting spending limits for lower than anticipated personnel inflation. They suggested that the inflation adjustment to the spending limits under section 251 does not apply to personnel costs because the adjustment uses a different factor than the one used to adjust the personnel portion of the baseline. The spending limit adjustment uses the GNP implicit price deflator index, while the Employment Cost Index is used to adjust the personnel portion of the baseline. However, this same reasoning could be extended to the nonpersonnel costs. Under section 257 of BEA, the nonpersonnel portion of the baseline is inflated using the GNP fixed-weight price index, a different index than the one used to make spending limit inflation adjustments. Thus, both the personnel and nonpersonnel portions of the baseline are inflated using different factors than those used to calculate the spending limit adjustment. Therefore, we believe that the BEA requirement to use different factors to adjust the personnel portion of the baseline and the spending limits is not a valid reason to omit that portion when calculating the inflation adjustment to the discretionary spending limits.

Also, CBO, unlike OMB, followed the procedures in section 257 for calculating the budget year baseline and the procedures in section 251 for calculating the adjustment to the discretionary spending limits. Furthermore, OMB's current position differs from its position last year, when it did not distinguish personnel from nonpersonnel costs to make adjustments to the spending limits in accordance with the provisions of BEA.

Implementation Issues

We found several implementation issues related to difficulties in drawing clear boundaries between budget categories and in making cost estimates, as discussed below. The problems discussed here could provide useful lessons learned should the Congress revise or extend the BEA framework.

Boundaries Between Spending Categories Are Not Exact

As mentioned before, BEA established dollar limits on discretionary spending and a PAYGO requirement for mandatory spending. Discretionary spending is made up of those budgetary resources (except funding for direct spending programs) provided in appropriations acts. It is divided into three separate categories through fiscal year 1993—defense, international, and domestic. Discretionary spending is controlled by separate budget authority and outlay limits for each category through 1993. For fiscal years 1994 and 1995, budget authority and outlay limits are set for discretionary spending as a whole.

Mandatory spending, referred to in BEA as direct spending, is spending for entitlements and other mandatory programs provided by law other than appropriations acts and the Food Stamp Program. Under BEA, changes in revenues and most mandatory spending are required to be deficit-neutral in each year. For example, if spending for entitlement programs increases due to changes in the law, a reduction in other mandatory programs or an increase in taxes or fees is required. Similarly, a tax reduction must be offset by increased revenues or a decrease in mandatory spending.

The Joint Statement of Managers accompanying the Conference Report on BEA designated the appropriations accounts that comprise each of the three categories of discretionary spending and the list of accounts that are considered mandatory for purposes of scoring appropriations bills. Any new accounts are categorized by OMB in consultation with the Budget and Appropriations Committees.

Definitional issues arise whenever legislation mandates multiple categories of federal spending and different budget control mechanisms for each category. Although the lists of specific accounts for each category in the Joint Statement of Managers appear to clearly delineate the BEA boundaries of those categories, classifying every detail of federal spending with precision is not achievable, even under the best of circumstances. We found several instances where OMB and CBO interpreted boundaries between categories differently. They include

- boundaries between defense and domestic discretionary spending categories,
- boundaries between discretionary and mandatory spending, and
- situations where appropriation levels for discretionary programs affect estimates of mandatory spending.

OMB and CBO Categorized Discretionary Spending Differently Among the Defense and Domestic Categories

OMB and CBO allocated a total of $1 billion in budget authority, contained in six appropriations acts for portions of eight programs, differently among the defense and domestic spending categories. Table III.1 shows the portions of eight programs which OMB and CBO categorized differently. The $1 billion represent only a fraction of the $384 billion provided in the six appropriations acts in which they were contained. Therefore, this issue is significant not for the amount of dollars involved, but as an indication of the difficulties in drawing clear boundaries between categories.

Table III.1: Differences in Categorizing Discretionary Spending for Fiscal Year 1993

Dollars in millions

Appropriations act and program	Budget authority categorized differently	Discretionary category scored: OMB	Discretionary category scored: CBO
Energy and Water Development			
Office of Nuclear Safety	$ 26	Domestic	Defense
Defense			
Strategic Petroleum Reserve	126	Defense	Domestic
Breast Cancer Research	210	Domestic	Defense
Other Miscellaneous	11	Domestic	Defense
Transportation			
Coast Guard, Operating Expenses (including drug interdiction)	100	Domestic	Defense
Commerce, Justice, State			
Maritime Administration—Military Useful Vessel Obligation Guarantees	52	Defense	Domestic
Treasury, Postal Service			
U.S. Customs Service—P-3 Drug Interdiction	28	Defense	Domestic
Labor, Health and Human Services, Education			
Impact Aid	496	Defense	Domestic
Total	**$1,049**		

As shown in table III.1, the largest area of difference related to funding for part of the Impact Aid program provided in the Departments of Labor, Health and Human Services, and Education, and Related Agencies

Appropriations Act, 1993 (Public Law 102-394). For this program, OMB categorized $496 million in budget authority as defense discretionary spending while CBO categorized the same amount as domestic discretionary. The different categorizations resulted from conflicting guidance in the Joint Statement of Managers accompanying the Conference Report on BEA and in the appropriations act and its accompanying Conference Report.

According to an OMB official, OMB scored this portion of the Impact Aid program as defense spending because it interpreted the Conference Report, which included the appropriations act language, to specifically designate the funds as (1) under Department of Defense control and (2) available to be used for defense-related matters.

In contrast, a CBO official stated that CBO scored this program as domestic spending because it is specifically listed as a domestic program in the Joint Statement of Managers accompanying the Conference Report on BEA. The official further stated that if the Statement of Managers designated an account as a specific type of discretionary spending, CBO follows this designation unless, in its judgment, it is necessary to score the spending differently.

Our work confirms the existence of conflicting scoring guidance related to the Impact Aid program. It is listed as a domestic program under the Department of Education in the Joint Statement of Managers accompanying the Conference Report on BEA. However, the language in the appropriations act and the accompanying Conference Report could be construed differently. It states that funds provided for Impact Aid "shall be available for assistance in defraying the costs of the education of military dependents as a result of temporary dislocations caused by transfers, return of military families from overseas, and closures of foreign and domestic bases." The language in the appropriations act places control of the funds in the Department of Defense, further stating that the funds "shall be made available to the Department of Defense, provided that this entire amount may be transferred to the Secretary of Education."

Conflicting guidance also led OMB and CBO to score discretionary spending differently for drug interdiction activities provided in the Department of Transportation and Related Agencies Appropriations Act, 1993 (Public Law 102-388) and the Treasury, Postal Service and General Government Appropriations Act, 1993 (Public Law 102-393).

In the Transportation appropriations act, the Congress appropriated $100 million to assist the Coast Guard in its drug interdiction activities. OMB scored this spending as domestic discretionary while CBO scored it as defense discretionary. The Joint Statement of Managers accompanying the Conference Report on BEA does not designate a specific account for Coast Guard drug interdiction activities. An OMB official explained that OMB scored the spending as domestic because it was provided in a domestic agency appropriations act and Coast Guard activities listed in the Statement of Managers are generally classified as domestic.

In contrast, a CBO official told us that CBO scored this $100 million as defense spending for three reasons. First, a portion of Coast Guard activities has been functionally classified under the national defense subfunction for defense-related activities for several years. Second, the Statement of Managers designated primary drug interdiction activities under defense accounts. Finally, the Conference Report on the appropriations legislation stated that the funds were provided for defense-related activities including drug interdiction.

When scoring a second piece of legislation related to drug interdiction, OMB and CBO reversed their categorization—OMB scoring the spending as defense discretionary and CBO scoring it as domestic discretionary. In the Treasury, Postal Service, and General Government Appropriations Act, the Congress appropriated funds for drug interdiction activities of the Customs Service. According to an OMB official, OMB based this scoring, in part, on Conference Report language specifying that the funds were provided for operation and maintenance modifications to spare parts and equipment for Customs P-3 drug surveillance aircraft. CBO officials explained that they scored this spending as domestic because the Statement of Managers specifically designates the Customs Service drug interdiction activities under a domestic account.

OMB and CBO Differed in Categorizing Discretionary and Mandatory Programs

As shown in table III.2, OMB and CBO disagreed on the proper spending category of funding for portions of eight programs provided in the appropriations acts for fiscal year 1993. While they agreed that substantive changes to mandatory programs made in appropriations acts should be scored as discretionary spending, they did not have the same definition of what constituted a substantive change. This different interpretation resulted in OMB scoring the changes as discretionary while CBO scored the changes as mandatory spending. The agencies' agreement that substantive changes to mandatory programs should be scored as discretionary spending permits some mandatory spending to escape the discipline of pay-as-you-go financing and could result in increases to the deficit.

Table III.2: Differences in Categorizing Discretionary and Mandatory Programs for Fiscal Year 1993

Dollars in millions

Appropriations act and program	Budget authority categorized differently	Spending category scored: OMB	Spending category scored: CBO
Agriculture			
State Child Nutrition Payments	$ 6	Discretionary	Mandatory
Food Stamp Program	2	Discretionary	Mandatory
Commerce, Justice, State			
Fees and Expenses of Witnesses	1	Discretionary	Mandatory
Treasury, Postal Service			
Trading with the Enemy, Receipts	1	Discretionary	Mandatory
Labor, Health and Human Services, Education			
Rehabilitation Services and Disability Research	48	Discretionary	Mandatory
Health Professions Graduate Student Loan Insurance Program	10	Discretionary	Mandatory
Social Security Administration—Supplemental Security Income Program	4	Discretionary	Mandatory
Black Lung Disability Trust Fund—Administrative Expenses	1	Discretionary	Mandatory
Total	**$73**		

The BEA Joint Statement of Managers provides scorekeeping guidelines for OMB and CBO to use in calculating deficit estimates and making projections. Under scorekeeping guideline 3, which refers to direct (mandatory) spending programs, substantive changes to or restrictions on entitlement law or other mandatory spending law in appropriations bills are to be scored against the Appropriations Committees' section 302(b) allocations[1] in the House and the Senate. Under this guideline, if an Appropriations Committee includes language in an appropriations bill that changes a mandatory program, the cost or savings from the change is subtracted from or added to the Committee's 302(b) allocation.

As table III.2 illustrates, most of the differences in categorization occurred with respect to funding for four programs provided in the Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act. According to OMB officials, they scored spending for

[1]A section 302(b) allocation is the distribution of budget authority, outlays, and certain other resources to appropriation subcommittees. A point of order can be made against an appropriations bill if it exceeds a committee's 302(b) allocation.

the four programs in the Labor appropriations act as discretionary based on scorekeeping guideline 3. Citing the same guidance, CBO scored three of the programs as mandatory. For these three programs, the inconsistent categorization was attributable to differing opinions as to what constitutes a substantive change in a program. The fourth program was categorized as mandatory for other reasons. A CBO official stated that the appropriations language must change, in some manner, the content of a mandatory program—such as the way it operates or determines benefits—before CBO will consider the change substantive and accordingly score the change as discretionary. However, in these three programs, the Appropriations Committees only changed the level of funding. Thus, CBO scored the change as mandatory because it did not consider this a substantive change. An OMB official stated that any provision of law contained in an appropriations act which affects the cost of a mandatory program is considered to be substantive and is scored by OMB as discretionary spending.

Although OMB and CBO disagreed about what constituted a substantive change to a mandatory program, they agreed in interpreting scorekeeping guideline 3 to mean that substantive changes made by Appropriations Committees to mandatory programs are subject to the discretionary limits instead of the PAYGO requirements for mandatory programs. Assuming there is room under the discretionary spending limits, this interpretation in effect allows the Committees to increase spending for entitlement or other mandatory programs without scoring the changes as additional mandatory spending. This interpretation avoids the need for offsetting revenues or reductions in other mandatory programs under the PAYGO provisions.

Scorekeeping guideline 3 does not specifically require that changes to mandatory programs provided in appropriations acts be scored, for sequestration purposes, against the discretionary spending limits. It only refers to the Appropriations Committees' 302(b) allocations. As such, we believe that OMB's and CBO's interpretation of scorekeeping guideline 3 is too broad. It permits mandatory spending to be shifted into the discretionary category. This could result in a net increase in the deficit if there is room under the discretionary spending limits, since the additional spending would have to be deficit-neutral if categorized as mandatory, but not if it is categorized as discretionary.

OMB and CBO Used Different Assumptions About Discretionary Spending Programs That Affect Mandatory Spending Programs

For some programs, the level of funding provided for a discretionary program affects cost estimates of related mandatory programs. The mandatory Guaranteed Student Loan (GSL) program and the related discretionary Pell Grant program are examples of programs with this type of interaction. Estimates of the cost of GSLs are affected by the level of discretionary appropriations provided for the Pell Grant program. In theory, the higher the amount of the Pell Grant a student receives, the lower his or her need will be for a GSL. The Higher Education Amendments of 1992 (Public Law 102-325) raised the maximum authorized Pell Grant amount per individual for the academic year 1993-94 from $2,400 per year to $3,700 per year.

OMB and CBO differed in their estimates of the cost of the GSL program contained in the Higher Education Amendments of 1992. OMB estimated a net deficit decrease of $163 million for fiscal year 1993 and a total net deficit decrease for fiscal years 1992 through 1997 of $470 million. CBO estimated a net deficit decrease of $123 million for fiscal year 1993 and a total net deficit decrease of $317 million over the same 6-year period.

OMB and CBO differed in their estimates primarily because OMB assumed that appropriations for Pell Grants would be based on the full amount of the authorization ($3,700). CBO, on the other hand, based its estimate on the 1992 appropriated level of Pell Grants ($2,400) because no appropriation had been enacted altering this level. Also, according to a CBO official, the appropriated maximum annual level for a Pell Grant had only increased by about $300 over the previous 15 years.

The Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act—enacted after the deadline for scoring GSL program costs—set the actual maximum level of Pell Grants per individual for fiscal year 1993 at $2,300. While CBO's estimate proved to be closer to the actual level, OMB's could also be judged reasonable at the time it was made. Uncertainty concerning congressional action and the interactions between discretionary appropriations levels and mandatory cost estimates caused the differences in OMB and CBO estimates. As we reported last year, such estimating errors are inevitable in a process as complicated as BEA's.

Differences in OMB and CBO Estimates Are Driven by Technical and Methodological Assumptions

We found three instances in which the technical and methodological assumptions OMB and CBO used were largely responsible for significant differences in their estimates. The first involved two pieces of legislation passed in 1992 extending unemployment benefits. The second involved reestimates of federal Medicaid spending, and the third involved subsidy estimates for the Government National Mortgage Association program.

Estimates for Unemployment Legislation

Two pieces of PAYGO legislation extending unemployment compensation benefits were enacted during the session of the Congress ending October 9, 1992. The first, the Emergency Unemployment Compensation Extension (Public Law 102-244), enacted in February 1992, increased the number of weeks benefits are payable under the Emergency Unemployment Compensation Act of 1991 (Public Law 102-164). The second, Unemployment Compensation Amendments of 1992 (Public Law 102-318), enacted in July 1992, further extended the benefits payable under the Emergency Unemployment Compensation Program and amended several provisions of an earlier Extended Unemployment Compensation Program.

OMB and CBO differed in their estimates of how both bills would affect the deficit. Table III.3 summarizes the significant differences in those estimates.

Table III.3: Differences in Estimates of Unemployment Legislation's Net Deficit Effect

Dollars in millions

	Fiscal year 1993 estimate			Fiscal years 1992-1997 estimate		
Legislation	**OMB**	**CBO**	**Difference**	**OMB**	**CBO**	**Difference**
Emergency Unemployment Compensation Extension (Public Law 102-244)	$(270)	$ 100	$370	$2,830	$3,306	$476
Unemployment Compensation Amendments of 1992 (Public Law 102-318)	$(902)	$(154)	$748	$(1,617)	$(15)	$1,602

Note: The net deficit effect is calculated on the basis of outlay estimates minus revenue estimates in any fiscal year.

Different outlay and revenue estimates in fiscal year 1993, with the greatest difference in outlay estimates, caused this disparity. For example, for the second bill, OMB estimated outlays of approximately $2 billion and revenues of $2.9 billion for fiscal year 1993, while CBO estimated outlays of $3.4 billion and revenues of $3.5 billion for the same year.

Technical assumptions made by OMB and CBO—such as the size of the labor force, the number of insured unemployed persons, and the timing and length of unemployment (referred to as the survival rate[2])—account for the differences between the two agencies' estimates, with most of the differences attributable to different survival rates.

According to officials at OMB and CBO, CBO's estimated survival rate was higher than OMB's. A CBO official further stated that CBO's survival rate assumption accounted for approximately 50 percent of the outlay differences in both pieces of legislation.

According to CBO, the unemployment legislation could have caused a PAYGO sequester based on CBO's scoring. However, CBO did not indicate that a PAYGO sequester was needed for fiscal year 1993 because in its Final Sequestration Report it adopted OMB's estimates of all PAYGO legislation as reported in OMB's August 1992 Sequestration Update Report. Had CBO used its own estimates of the cost of unemployment legislation and the other PAYGO legislation enacted since BEA, it would have been obligated to call for a PAYGO sequestration of $1.4 billion for 1993. Since OMB scoring governs, there was no sequester.

OMB and CBO Differed in Medicaid Reestimates

BEA specifies maximum deficit amounts for fiscal years 1991 through 1995, which were based on the economic and technical assumptions when the BEA was enacted. The maximum deficit amounts reflect the current law levels for mandatory spending and receipts and the spending limits for discretionary programs. Through the submission of the fiscal year 1993 budget, OMB was required to adjust the maximum deficit amounts to reflect reestimates of mandatory spending, receipts, and discretionary spending limits based on up-to-date technical and economic assumptions and any changes in concepts or definitions. For example, up-to-date assumptions might include expected changes in the number of people eligible for a mandatory program. Thus, the maximum deficit amount adjustments ensure that no sequestration would be caused by economic or technical reestimates of costs.

The adjustments and new maximum deficit amounts are reported in the OMB and CBO sequestration reports issued throughout the year. Although adjustments must be made for fiscal years 1991 through 1993, adjustments to the maximum deficit amount for fiscal years 1994 and 1995 are at the

[2]The survival rate is the probability of a person who is unemployed in 1 week continuing to be unemployed in the following week or weeks.

President's discretion. He must notify the Congress of his decision for both years on January 21, 1993.

When adjusting the maximum deficit amounts for their fiscal year 1993 Sequestration Preview Reports, OMB and CBO differed significantly in their technical reestimates of outlays for Medicaid, a mandatory spending program. OMB's reestimate was $4.9 billion higher than CBO's for fiscal year 1993, $9.1 billion higher for fiscal year 1994, and $13.4 billion higher for fiscal year 1995.

Both OMB's and CBO's estimates for Medicaid were developed using the same starting point—Health Care Financing Administration (HCFA) reports based on quarterly estimates of state projections of Medicaid spending. However, OMB and CBO used different assumptions about the increase of health care costs, number of beneficiaries, and program utilization rates and intensity to inflate the HCFA data.

Furthermore, OMB and CBO assessed the accuracy of the state forecasts differently. According to a CBO official, CBO believed that the states' forecasts were the best indicators of what Medicaid spending would be. However, OMB asserted that state forecasts are generally too low. Therefore, to compensate for the perceived underestimates by the states, OMB directed HCFA to increase the states' Medicaid spending estimates contained in HCFA reports. This, in turn, caused OMB's fiscal years 1993 through 1995 Medicaid estimates to be higher. Both OMB and CBO agree that this higher estimate of state Medicaid spending caused most of the differences in their total Medicaid estimates.

Through fiscal year 1993, a deficit sequester is extremely unlikely if the discretionary spending limits and the PAYGO requirements for mandatory spending and receipts are met. However, if the President chooses not to adjust the maximum deficit amount to reflect up-to-date economic and technical assumptions in fiscal years 1994 or 1995, the maximum deficit amount for those years will be based in part upon OMB's current Medicaid adjustment, which also covered 1994 and 1995. If the fiscal year 1993 actual Medicaid spending indicates that OMB's estimate and adjustment to the maximum deficit amount is too high, the maximum deficit amounts for 1994 and 1995 will also be higher than they would have been if OMB's estimate had more closely reflected the actual spending. This would permit a higher deficit before a deficit sequester would be required.

OMB and CBO Estimates of Subsidy Costs for the Government National Mortgage Association Program Differed

OMB and CBO had very different estimates for the Government National Mortgage Association (GNMA) Program, a domestic discretionary program. These estimates were contained in OMB's scoring report on the Department of Veterans Affairs (VA) and Housing and Urban Development, and Independent Agencies Appropriations Act, 1993 (Public Law 102-389). The discrepancy is not in the estimates of costs computed on a cash basis; rather, it is related to the subsidy costs computed on a net present value[3] basis, as required by the Federal Credit Reform Act of 1990 (Public Law 101-508).

GNMA guarantees the timely payment of principal and interest to investors in mortgage-backed securities. GNMA mortgage-backed securities consist mostly of pools of VA and Federal Housing Administration (FHA) mortgages.

OMB estimated that the GNMA program would have no subsidy cost (scored as $0 budget authority) for fiscal year 1993 while CBO estimated a negative subsidy cost of $316 million (scored as negative budget authority) for fiscal year 1993. According to an OMB official, OMB expects user fees and collections received to offset program costs, thus eliminating the need for any subsidy appropriation. The official further stated that OMB believes that the GNMA program will break even. OMB said a risk analysis study of GNMA is underway to determine if the user fees and other collections will continue to offset the costs of the program.

CBO's estimate of a negative subsidy indicated that the GNMA program would generate a profit. In other words, the user fees and collections would more than cover the costs of the GNMA program. CBO estimates were derived from a model that incorporates estimates from the VA and FHA programs, including program volume levels, user fees, default rates, and other indicators. A CBO official stated that when all the data from the various programs were incorporated into the model, more money was estimated to be collected from user fees and other collections than costs incurred over the life of the guaranteed loans.

An OMB official said that OMB does not have a model such as CBO's. Instead, the official stated that OMB assumes that the GNMA program will break even and therefore they score it as such. Upon completion of the on-going risk analysis study, user fees may be adjusted in order for the program to operate on a break-even basis.

[3]Present value is the value now of a future sum or sums discounted, assuming compound interest.

We are assessing the agencies' ability to make credit subsidy cost estimates and will be reporting on this subject.

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