

**REPORT TO THE CONGRESS AND THE
OFFICE OF MANAGEMENT AND BUDGET**

Sequestration Update Report for Fiscal Year 2001

pursuant to

**Section 254 of the Balanced Budget
and Emergency Deficit Control Act**

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Sequestration Update Report for Fiscal Year 2001

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 published earlier in the year. This update report incorporates activity affecting the discretionary spending caps and the pay-as-you-go (PAYGO) scorecard through August 11, 2000.

For fiscal year 2000, budget authority is within its cap, but outlays appear to exceed their limit by \$7.6 billion, CBO estimates. However, preliminary information from the Office of Management and Budget (OMB) suggests that it will estimate spending in 2000 to be within its calculation of the caps. Since OMB's figures determine whether a sequestration is necessary, no discretionary sequestration is likely for this year.

Only two appropriation laws for 2001 had been enacted when this report was completed, but it is clear that adhering to the current spending caps for 2001 will be extremely challenging. CBO estimates that if discretionary spending grows at the rate of inflation after 2000, it will exceed the 2001 cap on budget authority by \$69 billion and the cap on outlays by \$52 billion (see Table 1). Even if discretionary spending is frozen at the level enacted for 2000, it will surpass the 2001 cap on budget authority by \$45 billion and the cap on outlays by \$39 billion. (Those figures do not include the effect of supplemental appropriations enacted since February, which added \$17 billion in budget authority for 2000.)

Newly enacted laws that affect mandatory (direct) spending or revenues could trigger a PAYGO sequestration. Legislation enacted during the current

session of Congress has decreased the projected surpluses for the current and next fiscal years by \$63 million and \$1,010 million, respectively. Under PAYGO requirements, that total of \$1,073 million would need to be offset before the Congress adjourns in order to avoid a PAYGO sequestration.

Table 1.
CBO's Estimates of Discretionary Spending for Fiscal Year 2001 Compared with the Statutory Caps (In billions of dollars)

	Budget Authority	Outlays
CBO's Estimate of the Total Discretionary Spending Limits as of August 11, 2000	541	586
Discretionary Spending Under CBO's Baseline ^a		
Inflated variation ^b	611	638
Freeze variation ^c	586	625
Amount by Which Discretionary Spending Under CBO's Baseline Exceeds Limits		
Inflated variation ^b	69	52
Freeze variation ^c	45	39

SOURCE: Congressional Budget Office.

- a. Does not include the effect of the supplemental appropriations enacted since February 2000.
 - b. Assumes that discretionary spending increases at the rate of inflation after 2000.
 - c. Assumes that discretionary spending is frozen at the level enacted for 2000.
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Discretionary Sequestration Report

The Deficit Control Act set caps on discretionary spending for each fiscal year through 2002. The caps for 2000 apply to four categories of spending: highway, mass transit, violent crime reduction, and overall discretionary. After 2000, the separate caps for violent crime reduction end, and that spending is folded into the overall discretionary category. The caps on highway and mass transit spending apply only to outlays; for the other categories, separate limits cover budget authority and outlays.¹

By law, the caps are adjusted periodically to account for the enactment of emergency appropriations, funding for specified activities, and reclassifications of spending. If annual appropriations exceed those adjusted caps, the Deficit Control Act requires a sequestration—a cancellation of budgetary resources—for that fiscal year. A sequestration reduces appropriations for each applicable category by enough to bring spending within that category's cap.

The discretionary spending limits in this report reflect three types of adjustments made since CBO's sequestration preview report (published on February 4, 2000): adjustments for differences from OMB's estimates, changes for recently enacted legislation, and adjustments for releases of emergency funding.

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 ap-

peared in its most recent sequestration report to make them consistent with the figures in the equivalent OMB report.

Overall Discretionary Category. CBO has raised its estimate of the cap on budget authority for 2000 by \$2.8 billion from the amount shown in its February preview report (see Table 2). That adjustment stems from a change in the way that OMB accounts for contingent emergency appropriations.

As prescribed in the Deficit Control Act, CBO and OMB adjust their estimates of the caps to reflect appropriations that the Congress and the President have designated as either regular or contingent emergencies. Regular emergency appropriations are defined as emergencies by the Congress and the President when they are enacted. (Such funding would still be available even if the President did not follow through with the emergency designation, but in that case, no adjustment to the caps would occur.) Contingent emergency appropriations are also designated in law by the Congress, but they become available only when the President also labels them as emergencies and releases the funds. In the past, CBO and OMB adjusted their estimates of the caps for contingent emergency appropriations at different times: CBO did so when the appropriations were enacted, because no further action by the Congress was needed to make the funds available, but OMB waited until the President released the contingent emergency amounts.

In February, OMB changed the timing of its adjustments for contingent emergency budget authority to match CBO's practice. Thus, it increased its estimate of the cap on budget authority for 2000 by \$2.8 billion to reflect the unreleased portion of contingent emergency appropriations.² To be consistent with OMB's previous practice, CBO had omitted that amount; now it has increased its estimate of the 2000 cap by \$2.8 billion.

CBO has also added about \$1 billion in budget authority and outlays to its estimates of the caps for 2001 and 2002 to be consistent with OMB's February figures. Those differences stemmed from divergent

1. The highway category does not have caps on budget authority because all of its spending is controlled by obligation limitations (which do not count as budget authority) set in appropriation bills. Spending for mass transit is controlled by a combination of appropriations and obligation limitations, so it has no statutory limit on budget authority either.

2. For the caps on outlays, however, OMB will continue to make adjustments when contingent emergency funds are released.

Table 2.
CBO's Estimates of Discretionary Spending Limits for Fiscal Years 2000-2002 (In millions of dollars)

	2000		2001		2002	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Total Discretionary Spending Limits in CBO's February Preview Report	568,147	599,916	540,089	577,760	549,668	569,985
Overall Discretionary Category ^a						
Spending limits in CBO's February preview report	563,647	564,881	540,089	545,895	549,668	536,505
Adjustments						
Technical differences from OMB's February preview report	2,825	32	1,006	1,384	665	726
Emergency appropriations enacted since OMB's February preview report	12,942	2,078	28	6,527	0	2,638
Contingent emergency appropriations designated since OMB's February preview report	<u>1,594</u>	<u>279</u>	<u>8</u>	<u>580</u>	<u>8</u>	<u>510</u>
Spending limits as of August 11, 2000	581,008	567,270	541,131	554,386	550,341	540,379
Violent Crime Reduction Category ^b						
Spending limits in CBO's February preview report	4,500	6,344	n.a.	n.a.	n.a.	n.a.
Adjustment (Technical differences from OMB's February preview report)	<u>0</u>	<u>0</u>	n.a.	n.a.	n.a.	n.a.
Spending limits as of August 11, 2000	4,500	6,344	n.a.	n.a.	n.a.	n.a.
Highway Category ^c						
Spending limits in CBO's February preview report	n.a.	24,574	n.a.	26,885	n.a.	28,028
Adjustment (Technical differences from OMB's February preview report)	n.a.	<u>0</u>	n.a.	<u>35</u>	n.a.	<u>-103</u>
Spending limits as of August 11, 2000	n.a.	24,574	n.a.	26,920	n.a.	27,925
Mass Transit Category ^c						
Spending limits in CBO's February preview report	n.a.	4,117	n.a.	4,980	n.a.	5,452
Adjustment (Technical differences from OMB's February preview report)	n.a.	<u>0</u>	n.a.	<u>-341</u>	n.a.	<u>-33</u>
Spending limits as of August 11, 2000	n.a.	4,117	n.a.	4,639	n.a.	5,419
Total Discretionary Spending Limits as of August 11, 2000	585,508	602,305	541,131	585,945	550,341	573,723

SOURCE: Congressional Budget Office.

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

- a. This category comprises defense and nondefense spending in fiscal year 2000, plus violent crime reduction spending in 2001 and 2002.
- b. This category is folded into the overall discretionary category after fiscal year 2000.
- c. There are no limits on budget authority for the highway and mass transit categories. All of the spending in the highway category, and most of the spending in the mass transit category, is controlled by obligation limitations, which are not counted as budget authority.

estimates of mandatory provisions contained in appropriations enacted in calendar year 1999.³

Highway and Mass Transit Categories. As noted above, specified highway and mass transit programs have separate caps for outlays. The estimates of those caps in CBO's February preview report were virtually identical to OMB's estimates for 2000 through 2002. The largest discrepancy was \$341 million in the mass transit cap for 2001, which resulted from technical estimating differences involving obligation levels and rates of spending.

Recently Enacted Legislation

Since OMB published its February preview report, two appropriation laws have been enacted. The Military Construction Appropriations Act for Fiscal Year 2001 (Public Law 106-246) contains both regular and contingent emergency appropriations totaling \$11 billion in budget authority for 2000.⁴ The Department of Defense Appropriations Act for Fiscal Year 2001 (P.L. 106-259) contains \$2 billion in contingent emergency appropriations. CBO has therefore raised its estimate of the cap on budget authority for 2000 by those amounts. Most of the appropriations pay for operations in Kosovo and other national security activities, with smaller amounts for domestic disaster assistance and counternarcotics efforts.

CBO estimates that those emergency appropriations will result in outlays of \$2.1 billion in 2000, \$6.5 billion in 2001, and \$2.6 billion in 2002; it has adjusted the caps on outlays by those amounts. For the reasons outlined above, CBO is including the total outlay estimates from the contingent emergency appropriations in its caps, regardless of whether the funds have been released by the President.

P.L. 106-246 also repeals some obligation and payment delays. For example, the last payday of fiscal year 2000, which had previously been pushed into the next fiscal year for certain federal employees, will now occur in 2000. CBO estimates that the repeals in that law will shift \$10.5 billion in outlays from 2001 back to 2000. Such actions could have triggered a sequestration for 2000—which, under the “look-back” provision of the Deficit Control Act, would have resulted in a reduction in the caps for 2001—but section 5107 of P.L. 106-246 specifically prohibits that result.⁵ Even without that amount, however, CBO estimates that discretionary outlays in 2000 would exceed their cap by \$7.6 billion.⁶ (Budget authority in 2000 is about \$2.8 billion below its estimated cap.) But preliminary information from OMB suggests that its estimates of both budget authority and outlays in 2000 will be within its calculation of the caps. Since OMB's figures officially determine whether a sequestration is required, there is unlikely to be one this year.

Newly Released Emergency Appropriations

CBO and OMB also adjust the caps on discretionary spending to reflect previously enacted contingent emergency appropriations that have been made available since the prior sequestration report. (From now on, such adjustments will no longer be necessary for budget authority.) Since OMB's February preview report, the President has released \$1,594 million in budget authority for 2000. Most of that amount (\$1,336 million) went to the Federal Emergency Management Agency for disaster relief efforts in the United States. The Low Income Home Energy Assistance Program also received \$250 million. Those releases, combined with funds released for military readiness, will increase outlays in 2000 by \$279 million, and CBO has adjusted its estimate of the limit on outlays accordingly.

3. When changes to mandatory spending are made in an appropriation act, the effect of those changes is initially counted as discretionary spending. Later, that spending is reclassified as mandatory, and the discretionary caps are adjusted accordingly to ensure a net effect of zero.

4. The law designates \$11.2 billion as emergency appropriations, which increase the cap; another \$4.0 billion in nonemergency appropriations in P.L. 106-246 are exempt from the cap.

5. Section 5107 of the conference report for that act (H. Rept. 106-710) states that “there shall be no sequestration . . . to eliminate a fiscal year 2000 breach or no reductions in discretionary spending limits for fiscal year 2001 that might be caused by the appropriations or other provisions of this Act.”

6. Under the “Special Outlay Allowance” section of the Deficit Control Act (section 251), approximately \$3 billion of the \$7.6 billion in excess outlays could be accommodated under the cap.

Pay-As-You-Go Sequestration Report

Besides capping discretionary spending, the Deficit Control Act contains a mechanism to ensure that any legislation affecting direct spending or receipts that is enacted before fiscal year 2003 does not reduce the surplus. If legislative changes enacted through the end of a session of Congress reduce a projected surplus, a PAYGO sequestration is required at the end of the session. Under that type of sequestration, mandatory programs (other than those specifically exempt) are to be cut sufficiently to eliminate the negative effect on the surplus. 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 that legislation.

Both CBO and OMB estimate the net changes in annual surpluses that result 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 the estimated effects of legislation from OMB's preview report as its starting point. On January 3, 2000, OMB complied with a provision in the Consolidated Appropriations Act for Fiscal Year 2000 and set its PAYGO scorecard to zero for all years.

Direct spending or revenue legislation enacted between February 7 and August 11, 2000, that is subject to PAYGO procedures has decreased the projected surpluses for the current and next fiscal years by \$63 million and \$1,010 million, respectively, CBO estimates (see Table 3). Those amounts stem mostly from title I of the Agricultural Risk Protection Act of 2000 (P.L. 106-224), which increased the cost of the federal crop insurance program, and from the Trade and Development Act of 2000 (P.L. 106-200), which allowed duty-free treatment for certain products. Unless that \$1,073 million is offset before the Congress adjourns for the end of the session, a PAYGO sequestration could be triggered.

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

	2000	2001	2002	2003	2004	2005
Total Pay-As-You-Go Balances in OMB's February Preview Report ^a	0	0	0	0	0	0
Laws Enacted Since OMB's Preview Report ^b						
Electronic Benefit Transfer Interoperability and Portability Act of 2000 (P.L. 106-171)	0	1	1	1	1	1
Omnibus Parks Technical Corrections Act of 2000 (P.L. 106-176)	3	6	4	2	0	0
Open-Market Reorganization for the Betterment of International Telecommunications Act (P.L. 106-180)	0	0	0	5	5	5
Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181)	0	2	5	7	9	11
Civil Asset Forfeiture Reform Act of 2000 (P.L. 106-185)	0	40	8	1	1	1
Trade and Development Act of 2000 (P.L. 106-200)	60	395	512	546	578	561
Wellton-Mohawk Transfer Act (P.L. 106-221)	0	0	-2	0	0	0
Agricultural Risk Protection Act of 2000 (Title I) (P.L. 106-224) ^c	0	672	1,489	1,606	1,682	1,770
An act to authorize the acquisition of the Valles Caldera, to provide for an effective land and wildlife management program for this resource within the Department of Agriculture, and for other purposes (P.L. 106-248)	0	-1	-2	1	0	1
Griffith Project Prepayment and Conveyance Act (P.L. 106-249)	0	-103	9	9	9	9
Semipostal Authorization Act (P.L. 106-253)	<u>0</u>	<u>-2</u>	<u>-2</u>	<u>1</u>	<u>2</u>	<u>1</u>
Pay-As-You-Go Balances as of August 11, 2000	63	1,010	2,022	2,179	2,287	2,360

(Continued)

**Table 3.
Continued**

	2000	2001	2002	2003	2004	2005
Memorandum:						
Laws Enacted Since OMB's Preview Report That Affect Direct Spending or Receipts but Are Exempt from PAYGO Procedures						
Senior Citizens' Freedom to Work Act of 2000 (P.L. 106-182) ^d	4	4	4	3	3	2
Agricultural Risk Protection Act of 2000 (Title II) (P.L. 106-224) ^c	<u>5,500</u>	<u>1,493</u>	<u>65</u>	<u>31</u>	<u>20</u>	<u>4</u>
Total	5,504	1,497	69	34	23	6
Net Change in the Surplus Since OMB's Preview Report	5,567	2,507	2,091	2,213	2,310	2,366
Legislation Passed by the Congress Since OMB's Preview Report						
Death Tax Elimination Act of 2000 (H.R. 8)	0	8	5,068	6,720	7,689	8,841
Long-Term Care Security Act (H.R. 4040)	<u>0</u>	<u>3</u>	<u>23</u>	<u>-16</u>	<u>5</u>	<u>5</u>
Total	0	11	5,091	6,704	7,694	8,846

SOURCE: Congressional Budget Office.

NOTES: The information in this table covers legislative action through August 11, 2000. Positive numbers indicate a decrease in the surplus.

OMB = Office of Management and Budget; P.L. = Public Law; PAYGO = pay-as-you-go.

- a. Section 1001(c) of P.L. 106-113 instructed OMB to change any PAYGO balances to zero on January 3, 2000.
- b. The following laws enacted since OMB's preview report affected the surplus by \$500,000 or less each year through 2005:
 - Hillary J. Farias and Samantha Reid Date-Rape Drug Prohibition Act of 2000 (P.L. 106-172)
 - An act to authorize the President to award a gold medal on behalf of the Congress to John Cardinal O'Connor, Archbishop of New York, in recognition of his accomplishments as a priest, a chaplain, and a humanitarian (P.L. 106-175)
 - Child Abuse Prevention and Enforcement Act (P.L. 106-177)
 - Worker Economic Opportunity Act (P.L. 106-202)
 - An act to provide for the collection of fees for the making of motion pictures, television productions, and sound tracks in National Park System and National Wildlife Refuge System units, and for other purposes (P.L. 106-206)
 - Hmong Veterans' Naturalization Act of 2000 (P.L. 106-207)
 - Muhammad Ali Boxing Reform Act (P.L. 106-210)
 - An act to amend the law that authorized the Vietnam Veterans Memorial to authorize the placement within the site of the memorial of a plaque to honor those Vietnam veterans who died after their service in the Vietnam war, but as a direct result of that service (P.L. 106-214)
 - Carlsbad Irrigation Project Acquired Land Transfer Act (P.L. 106-220)
 - An act to authorize the President to award posthumously a gold medal on behalf of the Congress to Charles M. Schulz in recognition of his lasting artistic contributions to the nation and the world, and for other purposes (P.L. 106-225)
 - Electronic Signatures in Global and National Commerce Act (P.L. 106-229)
 - An act to amend the Internal Revenue Code of 1986 to require 527 organizations to disclose their political activities (P.L. 106-230)
 - Neotropical Migratory Bird Conservation Act (P.L. 106-247)
 - Pope John Paul II Congressional Gold Medal Act (P.L. 106-250)
 - An act to provide for the award of a gold medal on behalf of the Congress to former President Ronald Reagan and his wife Nancy Reagan in recognition of their service to the nation (P.L. 106-251)
 - Mobile Telecommunications Sourcing Act (P.L. 106-252)
 - Federal Law Enforcement Animal Protection Act of 2000 (P.L. 106-254)
 - Cross-Border Cooperation and Environmental Safety in Northern Europe Act of 2000 (P.L. 106-255)
 - Oregon Land Exchange Act of 2000 (P.L. 106-257)
 - An act for the relief of Belinda McGregor (Private Law 106-4)
- c. Section 264 of P.L. 106-224 exempted the costs of title II of the act from being included in the PAYGO scorecard.
- d. This act has no PAYGO impact because laws that affect the Social Security trust funds are exempt from PAYGO procedures.