

CBO REPORT

Final Sequestration Report for Fiscal Year 2003

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

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**CONGRESSIONAL BUDGET OFFICE
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Under the Balanced Budget and Emergency Deficit Control Act of 1985, the Congressional Budget Office (CBO) is required to issue a final sequestration report at the end of each session of Congress. However, the major enforcement procedures that have governed federal budgeting for more than a decade—the annual limits on appropriations (discretionary spending) and the pay-as-you-go (PAYGO) requirement for new legislation that affects mandatory spending or revenues—expired on September 30, 2002. This report provides estimates of discretionary spending and the limits on that spending for 2002 and 2003 and updates the PAYGO scorecard for legislation enacted through September 30, 2002. CBO estimates that a sequestration (cancellation of budgetary resources) will not be required for either discretionary or mandatory spending in fiscal year 2003.

The Deficit Control Act contained two mechanisms to govern federal spending, both enforced through sequestration. Section 251 set limits on the spending provided through the annual appropriation process. If such spending exceeded the limits, the act prescribed a sequestration to eliminate the excess. Section 252 established a PAYGO scorecard to record the projected five-year budgetary effects of each piece of legislation that affected mandatory spending or revenues. If such legislation was estimated to result in a net increase in the deficit or decrease in the surplus, the act called for

reductions in mandatory programs (that are not otherwise exempt) sufficient to offset that change. Legislation enacted after September 30 is no longer recorded on the scorecard, but a PAYGO sequestration could have occurred as a result of legislation enacted before that date.

The limits on discretionary spending applied to four categories for 2002: overall discretionary, highway, mass transit, and conservation (see Table 1). CBO and the Office of Management and Budget (OMB) estimate that such spending is within the caps. Limits for the two transportation categories are set through 2003, and caps for conservation spending are set through 2006 (see Table 2). However, with the expiration of section 251, those limits are moot.

Legislation affecting mandatory spending or revenues enacted between August 15 and September 30 has increased the projected deficits for 2002 and 2003 by \$0.4 billion and \$1.3 billion, respectively. The balances for 2002 and 2003 on the PAYGO scorecard—by CBO's calculations, a total of \$127.4 billion (mostly from legislation enacted in previous years)—are combined to determine the magnitude of a PAYGO sequestration for 2003. To avoid that type of sequestration, lawmakers enacted Public Law 107-312, which instructed OMB to change all PAYGO balances for all fiscal years to zero.

Table 1.
Discretionary Budget Authority and Outlays Compared with the Spending Limits for
Fiscal Year 2002 (In millions of dollars)

	Budget Authority	Outlays
Total Discretionary Spending Limits in CBO's August Update Report	730,995	738,146
Overall Discretionary Category		
Spending Limits in CBO's August Update Report	729,260	702,913
Adjustment for Technical Differences from OMB's August Update Report	0	641
Spending Limits as of December 2, 2002	729,260	703,554
Estimated spending ^a	728,320	699,734
Appropriations Over or Under (-) Limits	-940	-3,820
Highway Category		
Spending Limit as of December 2, 2002	n.a.	28,489
Estimated Spending ^a	n.a.	28,489
Appropriations Over or Under (-) Limit	n.a.	0
Mass Transit Category		
Spending Limit as of December 2, 2002	n.a.	5,275
Estimated Spending ^a	n.a.	5,272
Appropriations Over or Under (-) Limit	n.a.	-3
Conservation Category		
Spending Limit as of December 2, 2002	1,735	1,469
Estimated Spending ^a	1,733	1,469
Appropriations Over or Under (-) Limits	-2	0
Total Discretionary Spending Limits as of December 2, 2002	730,995	738,787
Total Estimated Discretionary Spending^a	730,053	734,964
Appropriations Over or Under (-) Limits	-942	-3,823

SOURCES: Office of Management and Budget (OMB); Congressional Budget Office.

NOTES: n.a. = not applicable.

The highway and mass transit categories do not have limits on budget authority. Obligation limitations, which are not counted as budget authority, control all of the spending in the highway category and most of the spending in the mass transit category.

a. These amounts represent OMB's estimates of the appropriations as signed by the President and include the 2002 appropriation bills, 2002 appropriations advanced in previous years, and outlays from prior year appropriations, including emergency appropriations.

Table 2.
CBO's Estimates of the Transportation and Conservation Spending Limits for Fiscal Year 2003 (In millions of dollars)

Category	Budget Authority	Outlays
Highways	n.a.	29,100
Mass Transit	n.a.	6,030
Conservation	1,922	1,872

SOURCE: Congressional Budget Office.

NOTES: n.a. = not applicable.

The highway and mass transit categories do not have limits on budget authority. Obligation limitations, which are not counted as budget authority, control all of the spending in the highway category and most of the spending in the mass transit category.

Discretionary Sequestration Report

On August 15, 2002, CBO published its sequestration update report for fiscal year 2003; shortly thereafter, OMB issued its equivalent report. Because OMB's estimates are the official basis for determining whether a sequestration is required, CBO begins by changing the caps in this report to match the figures in OMB's update report.

Changes Made to the Discretionary Spending Limits on the Basis of OMB's Report

For the transportation and conservation categories, both agencies had the same estimates of the caps for 2002 and 2003.¹ For the overall discretionary category, however, OMB's estimate of the limit on outlays for 2002 was higher than CBO's estimate by \$641 million. That

1. The caps for the overall discretionary and conservation categories cover both budget authority and outlays; limits on transportation spending apply only to outlays. Obligation limitations (which do not count as budget authority) that are set in appropriation acts control all of the spending in the highway category. A combination of appropriations and obligation limitations controls spending for mass transit.

difference occurred because CBO assumed a slower rate of spending from emergency appropriations enacted in the 2002 Supplemental Appropriations Act for Further Recovery From and Response To Terrorist Attacks on the United States (P.L. 107-206). For 2003, the overall discretionary category ceases to exist.

Compliance with the Discretionary Spending Limits for 2002

If appropriations were enacted between June 30 and September 30 that caused a breach of the spending limits for 2002, the limits for 2003 would be reduced by the amount of the breach. As estimated by OMB for purposes of the Deficit Control Act, spending for the overall discretionary category is \$940 million below the limit on budget authority and \$3,820 million below the limit on outlays. Spending in the other categories is equal to or slightly below their respective limits. Therefore, a discretionary sequestration will not be required.

Pay-As-You-Go Sequestration Report

Both CBO and OMB estimate the budgetary effects of legislation that affects mandatory spending or revenues. But as with the discretionary spending caps, OMB's estimates determine whether a sequestration is necessary. CBO has therefore adopted the PAYGO balances shown in OMB's sequestration update report as its starting point for this report (see Table 3). As of August 15, 2002, OMB estimated that the PAYGO balances were \$2.2 billion for 2002 and \$123.4 billion for 2003.

CBO estimates that mandatory spending or revenue legislation enacted between August 15 and September 30 produced a net cost of \$1.7 billion for 2002 and 2003 combined. Of that amount, an estimated \$0.4 billion in 2002 and \$1.0 billion in 2003 stems from the Trade Act of 2002 (P.L. 107-210). CBO had included that legislation on the PAYGO scorecard in its sequestration update report. OMB, however, only had preliminary estimates completed when it published its equivalent report and did not include that legislation on its scorecard. CBO has included the costs of the Trade Act in Table 3.

The Deficit Control Act requires that the PAYGO balances for 2002 and 2003 be combined to determine the magnitude of a PAYGO sequestration for 2003. Although the balances for those years total an estimated \$127.4 billion, P.L. 107-312 eliminated those balances, thereby avoiding a PAYGO sequestration for 2003. That legislation also eliminated the possibility of a

PAYGO sequestration in the future (as a result of legislation enacted before the end of fiscal year 2002) by eliminating an additional \$430.4 billion in balances through 2006. As of September 30, 2002, the budgetary effects of mandatory spending or revenue legislation are no longer recorded on the PAYGO scorecard.

Table 3.
Budgetary Effects of Mandatory Spending or Revenue Legislation Enacted Since the Budget Enforcement Act of 1997 (In millions of dollars)

	2002	2003	2004	2005	2006
Total Pay-As-You-Go Balances in OMB's August Update Report	2,206	123,385	145,333	138,739	141,765
Laws Enacted Since OMB's Update Report					
Sarbanes-Oxley Act of 2002 (P.L. 107-204)	0	-7	-5	0	0
Trade Act of 2002 (P.L. 107-210)	440	981	1,366	1,499	1,557
Foreign Relations Authorization Act, Fiscal Year 2003 (P.L. 107-228)	0	264	14	14	15
Making continuing appropriations for the fiscal year 2003, and for other purposes (P.L. 107-229) ^a	<u>0</u>	<u>94</u>	<u>31</u>	<u>22</u>	<u>8</u>
Total Pay-As-You-Go Balances as of September 30, 2002	2,646	124,717	146,739	140,274	143,345
Total Pay-As-You-Go Balances as of December 2, 2002 ^b	0	0	0	0	0

SOURCE: Congressional Budget Office.

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

CBO was unable to estimate the costs of P.L. 107-226, the Flight 93 Memorial Act.

Positive numbers indicate an increase in the deficit.

The information in this table covers legislative action through September 30, 2002. Legislation enacted between October 1 and December 2 increases the deficit by an estimated \$1.3 billion in 2003, \$2.3 billion in 2004, \$3.1 billion in 2005, and \$2.4 billion in 2006.

These laws, which were enacted since OMB published its update report, affect deficits by \$500,000 or less each year through 2006:

- James Peak Wilderness and Protection Area Act (P.L. 107-216)
- An act to authorize the Secretary of the Interior to issue right-of-way permits for natural gas pipelines within the boundary of Great Smoky Mountains National Park (P.L. 107-223)

a. These amounts represent the cost of the mandatory spending provisions contained in that law.

b. Although the PAYGO balances were positive through 2006, P.L. 107-312 instructed OMB to change the balances to zero for all years.