CBO REPORT

Sequestration Preview Report for Fiscal Year 1998

Reprint of Appendix C in *The Economic and Budget Outlook: Fiscal Years 1998-2007*, January 1977 (CBO Publication #636)

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

January 31, 1997

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Sequestration—the cancellation of budgetary resources—is an automatic procedure to control discretionary appropriations and legislative changes in direct (that is, mandatory) spending and receipts.[1] The Congress and the President can avoid sequestration by keeping discretionary appropriations within established limits and by making sure that the cumulative effect of legislation modifying 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 submission of the President's budget, a sequestration update report on August 15, and a final sequestration report 10 days after a session of Congress ends. Each sequestration 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 of 1990 that affects direct spending or receipts has increased or decreased the deficit, as well as the amount of any required pay-as-you-go (PAYGO) sequestration.

1. The 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 final sequestration report must also include the amount of discretionary new budget authority for the current fiscal year, estimated total discretionary outlays, and the amount of any required discretionary sequestration.

This preview report to the Congress and the Office of Management and Budget (OMB) provides the required information for fiscal year 1998. It concludes that the caps on discretionary spending for 1998 are constraining, and that the Congress will need to reduce 1998 budget authority below the 1997 level to achieve compliance. For mandatory spending, by contrast, a modest PAYGO balance will be available to offset the cost of legislation that increases such spending for 1998.

Discretionary Sequestration Report

The Budget Enforcement Act of 1990 (BEA) established discretionary spending limits for fiscal years 1991 through 1995 and provided for across-the-board cuts—known as sequestration—should annual appropriations breach the limits. The BEA also included specific instructions for adjusting those spending caps. The Omnibus Budget Reconciliation Act of 1993 (OBRA-93) set limits on total discretionary budget authority and outlays for fiscal years 1996 through 1998 and extended the existing enforcement procedures, in-

cluding cap adjustments, for that period. 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, which created the trust fund. That act established separate limits through 1998 on VCRTF outlays and lowered the discretionary caps each year by those amounts.

CBO's current estimates of the limits on general-purpose (non-VCRTF) discretionary spending, shown in Table 1, differ from those published last October in CBO's final sequestration report for fiscal year 1997. Four 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 (published in November). Second, CBO adjusted the caps to reflect changes in concepts and definitions. Third, it raised the limits to reflect emergency spending released by the President. Last, it revised the limits for 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 March 1996. 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 in October.

Table A-1.
CBO Estimates of Discretionary Spending Limits for Fiscal Years 1997 and 1998 (In millions of dollars)

	1997		1998	
	Budget Authority	Outlays	Budget Authority	Outlays
General-Purpose Spending Limits in CBO's October 1996 Final Sequestration Report	527,395	547,359	528,857	544,116
Adjustments				
Technical differences from OMB's November 1996 final report	-364	-304	0	-38
Emergency funding made available since OMB's final report	5	5	0	0
Changes in concepts and definitions (changes to mandatory programs made in appropriation acts)				
Omnibus Consolidated Appropriations Act, 1997	0	0	-214	-27
Agriculture Appropriation Act	0	0	29	52
VA-HUD-Independent Agencies Appropriation Act	0	0	-35	-34
Subtotal	0	0	-220	-9
Changes in projected inflation rates	0	0	-6,736	-4,042
Total	-359	-299	-6,956	-4,089
General-Purpose Spending Limits as of January 21, 1997	527,036	547,060	521,901	540,027
Violent Crime Reduction Trust Fund Spending Limits	5,000	3,936	5,500	4,904
Total Discretionary Spending Limits	532,036	550,996	527,401	544,931

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget; VA = Department of Veterans Affairs; HUD = Department of Housing and Urban Development.

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

The Budget Enforcement Act requires both CBO and OMB to calculate changes to the discretionary spending limits that result from such factors as the enactment of emergency appropriations. However, OMB's estimates of the limits are the ones that determine whether enacted appropriations fall within the caps or whether a sequestration is required to eliminate a breach of them. 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 estimates as the starting point for the adjustments that it is required to make in the new report.

The limit on budget authority for 1997 in CBO's October final report exceeded OMB's by $364 million; the budget authority limit for 1998 was identical in the two agencies' reports. The entire 1997 difference results from the fact that CBO includes enacted contingent emergency appropriations when it computes the caps. CBO counts those appropriations as emergency spending in its cap adjustment when they are enacted because the Congress does not need to take any further action to make them available. OMB, however, does not include those appropriations until the President has released them as an emergency requirement.

The limits on outlays for both 1997 and 1998 in CBO's final report were also higher than OMB's. CBO's estimate of the outlay limit was $304 million greater than OMB's for 1997 and $38 million greater for 1998. Most of the difference ($323 million for 1997 and $14 million for 1998) is the effect on outlays of CBO's inclusion of enacted but unreleased contingent emergency appropriations in its cap adjustment. The rest of the difference comes from different estimates of the rates at which spending will flow from other emergency appropriations that have been made available.

Emergency Funding Made Available Since OMB's Final Report

As required by the Budget Enforcement Act, CBO adjusts the discretionary spending limits to reflect emergency appropriations made available since OMB's final report. Between November 1996 and January 1997, the Congress did not enact any emergency appropriations, but the President did release contingent emergency appropriations totaling $5 million.

Changes in Concepts and Definitions

The Balanced Budget and Emergency Deficit Control Act of 1985 (the Balanced Budget Act) provides for adjusting the caps to take account of changes in budgetary concepts and definitions. Those adjustments generally reflect reclassifications of spending from one budget category to another.

The Congressional 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 rules.) When such changes are made in an appropriation act, the current effect is included in the estimate of the act, 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 that their legislation makes in mandatory programs, but they are not held responsible for appropriations for discretionary programs that other committees provide.

Fiscal year 1997 appropriation acts contained various changes that affect mandatory spending, requiring a net reduction in the 1998 caps of $220 million in budget authority and $9 million in outlays (see Table 1). Three appropriation acts contained all of those changes. The Omnibus Consolidated Appropriations Act in-

cluded provisions that provide for a net increase in mandatory spending of $214 million in budget authority and $27 million in outlays. Most of that amount comes from a provision that limits administrative spending in the student loan program for 1997. Although that restriction produced savings for 1997, it will increase spending in 1998 because administrative spending for student loan programs is funded under a five-year limit (ending in 1998) that the act did not reduce. Under the terms of the five-year limit, spending will only be deferred from 1997 to 1998. The 1998 effect, therefore, is recorded as a reduction in the discretionary spending caps.

Provisions in the Agriculture Appropriation Act, by contrast, provided for a net decrease in mandatory spending of $29 million in budget authority and $52 million in outlays in 1998. Two items in the act account for most of that change. The first limits export subsidies under the Export Enhancement Program to $100 million a year, which produces savings in 1998 relative to the levels previously enacted. Those savings cause increases in the caps. The second item limits new enrollment in the Wetlands Reserve Program for 1997 without reducing the program's overall statutory enrollment target of 975,000 acres. CBO assumes that enrollment will increase in 1998 as a result of the 1997 limitation. That increase in enrollment is recorded as a decrease in the budget authority cap, even though the 1998 effect of the 1997 action is sufficient to produce a net decrease in outlays and an increase in the outlay cap.

The Veterans Affairs and Housing and Urban Development Appropriation Act contained measures that increase mandatory spending in 1998 by $35 million in budget authority and $34 million in outlays. The measures in question relate to health benefits, including requiring insurers to provide a 48-hour hospital stay for new mothers and parity for mental health benefits. The effect of those provisions must be recorded as a decrease in the discretionary spending caps.

Changes in Projected Inflation Rates

The Balanced Budget Act also provides for an annual adjustment to the caps to reflect changes in inflation. OMB interprets language added by OBRA-93 as allowing 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 OMB's prior preview report. CBO employs OMB's method of adjusting for inflation in deference to the agency's statutory role in enforcing the caps.

In its March 1996 preview report, OMB projected an inflation rate, as measured by the chain-weighted gross domestic product price index, of 2.7 percent a year for 1996, 1997, and 1998. CBO's current forecast is for inflation (measured the same way) of 2.2 percent in both 1996 and 1997, increasing to 2.6 percent in 1998. The cumulative effect of inflation rates is a reduction in the 1998 caps on discretionary budget authority of $6,736 million. The decline in outlays resulting from the reduced budget authority is $4,042 million. Those inflation adjustments are reflected in the caps shown in Table 1.

How the Caps Compare with Projected Discretionary Spending

The general-purpose spending limits for 1998 shown in Table 1 constrain CBO's baseline projection of budget authority and outlays. The usual baseline concept calls for calculating 1998 budget authority by increasing 1997 general-purpose appropriations to account for the effects of inflation. However, that procedure would yield budget authority that is $3,726 million higher than the 1998 cap. The effect on outlays of that difference—plus the outlay effect of previously enacted appropriations—would exceed the cap on outlays by $15,494 million.

CBO estimates that holding 1998 appropriations at the 1997 level, although meeting the cap on budget authority, would still result in outlays that exceed their cap by $4,027 million. As a result, the Congress will need to reduce 1998 appropriations below the 1997 level or rescind previously enacted appropriations to comply with the 1998 cap on discretionary outlays.

Pay-As-You-Go Sequestration Report

A pay-as-you-go sequestration is triggered at the end of a Congressional session if legislated changes in direct spending programs or governmental receipts that were enacted since the Budget Enforcement Act increase the combined current and budget year deficits. In that case, 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 determine whether a sequestration is required. CBO has therefore adopted 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 November 1996 final report estimated that changes in direct spending and receipts enacted between the time of the Budget Enforcement Act and the end of the 104th Congress decreased the combined 1997 and 1998 deficits by $9,700 million. That estimate excludes changes in the deficit for 1996 through 1998 that resulted 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 (such an exclusion is required by law).

The Omnibus Consolidated Appropriations Act requires that 1997 PAYGO savings be earmarked for deficit reduction. Accordingly, $6,234 million in 1997 savings have been removed from the PAYGO figures shown in Table 2, leaving only $3,466 million available in 1998 to offset the cost of future legislation.

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

	1997	1998
Total for OMB's November 1996 Final Sequestration Report[a]	-6,234	-3,466
Adjustment Required by Section 4001 of the Omnibus Consolidated Appropriations Act, 1997	6,234	n.a.
Legislation Enacted Since OMB's Final Report	0	0
Change in the Deficit Since the Budget Enforcement Act	0	-3,466

SOURCE: Congressional Budget Office.

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

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 Final Sequestration Report to the President and Congress* (November 15, 1996) and in previous sequestration reports issued by OMB.

This table corrects the estimates in OMB's final report for one bill that had its deficit effect entered in the wrong years.