

**SEQUESTRATION UPDATE REPORT  
FOR FISCAL YEAR 1996**

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

**August 15, 1995**



# Sequestration Update Report for Fiscal Year 1996

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

The Budget Enforcement Act of 1990 amended the Balanced Budget and Emergency Deficit Control Act of 1985 and the Congressional Budget Act of 1974 to add new enforcement procedures for direct (mandatory) spending, receipts, and discretionary spending for fiscal years 1991 through 1995. The Omnibus Budget Reconciliation Act of 1993 extended the application of the new procedures through 1998. The law requires the Congressional Budget Office (CBO) to issue a sequestration preview report five days before the President's budget submission in January or February, a sequestration update report on August 15, and a final sequestration report 10 days after the end of a session of Congress. Those reports must contain estimates of the following items:

- o The discretionary spending limits and any adjustments to them;
- o The amount by which direct spending or receipt legislation enacted after the Budget Enforcement Act has increased or decreased the deficit; and
- o The amount of any required pay-as-you-go sequestration.

This report to the Congress and the Office of Management and Budget (OMB) provides the information required for the August 15 update of CBO's *Sequestration Preview Report for Fiscal Year 1996*. In addition to updating the information required in this report, the final report that CBO will issue 10 days after the current session of Congress ends must also assess whether a sequestration is required.

A sequestration will be triggered if enacted appropriations have exceeded the spending limits for 1996 or direct spending or receipt legislation has increased the total deficit for 1995 and 1996. Based on the levels of spending allowed under the budget resolution adopted earlier this year and on legislative action to date, CBO does not anticipate that any discretionary spending or pay-as-you-go sequestration will be required in 1996.

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## Discretionary Sequestration Report

The Omnibus Budget Reconciliation Act of 1993 (OBRA-93) established new limits on total discretionary budget authority and outlays for fiscal years 1996 through 1998. But it left in place the existing discretionary spending limits for 1993 through 1995 and the existing enforcement procedures, including specific instructions for adjusting the discretionary limits. The Violent Crime Control and Law Enforcement Act of 1994, enacted in September 1994, excluded spending from the Violent Crime Reduction Trust Fund (VCRTF) from the constraints of the existing caps. It also lowered those caps by the assumed amount of trust fund spending for each year that the caps would be in effect and established separate limits through 1998 on outlays resulting from VCRTF appropriations.

The estimates of the limits on total general-purpose (non-VCRTF) discretionary spending for 1995



through 1998 shown in Table 1 differ from those in CBO's January 1995 preview report for three reasons. First, the estimates have been revised to reflect differences between the spending limits in CBO's preview report and those specified in OMB's preview report, which was included in the President's budget submission. Second, the limits have been increased to reflect emergency funds made available since OMB issued its preview report. Third, as required by the package of supplemental appropriations and rescissions enacted on July 27 (Public Law 104-19), the limits have been decreased to reflect the effect of

that legislation on nonemergency discretionary spending. The limits on the VCRTF are not subject to any adjustment, so they remain as presented in the January report.

## Differences Between the Limits in CBO's and OMB's Preview Reports

Amendments made by the Budget Enforcement Act (BEA) require both CBO and OMB to calculate

**Table 1.**  
**CBO Estimates of Discretionary Spending Limits for Fiscal Years 1995 Through 1998 (In millions of dollars)**

|   | 1995             |                | 1996             |                | 1997             |                | 1998             |                |
|---|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
|   | Budget Authority | Outlays        | Budget Authority | Outlays        | Budget Authority | Outlays        | Budget Authority | Outlays        |
| General-Purpose Spending Limits in CBO's January 1995 Preview Report      | 517,067          | 546,438        | 512,891          | 546,714        | 521,234          | 543,276        | 523,098          | 541,128        |
| <b>Adjustments</b>  |                  |                |                  |                |                  |                |                  |                |
| Technical differences from OMB's February 1995 preview report             | 0                | 1              | 4,492            | 2,670          | 8,682            | 6,213          | 12,989           | 10,474         |
| Emergency 1995 appropriations enacted since OMB's preview report          | 5,930            | 1,401          | 3,275            | 1,387          | 0                | 2,131          | 0                | 2,032          |
| Contingent emergency appropriations designated since OMB's preview report | 542              | 197            | 0                | 168            | 0                | 98             | 0                | 54             |
| Reduction required by P.L. 104-19   | -15,295          | -599           | 0                | -3,149         | -55              | -2,659         | 0                | -2,188         |
| <b>Total</b>  | <b>-8,823</b>    | <b>1,000</b>   | <b>7,767</b>     | <b>1,076</b>   | <b>8,627</b>     | <b>5,783</b>   | <b>12,989</b>    | <b>10,392</b>  |
| General-Purpose Spending Limits as of August 15, 1995                     | 508,244          | 547,438        | 520,658          | 547,790        | 529,861          | 549,059        | 536,087          | 551,520        |
| Violent Crime Reduction Trust Fund Spending Limits                        | 2,423            | 703            | 4,287            | 2,334          | 5,000            | 3,936          | 5,500            | 4,904          |
| <b>Total Discretionary Spending Limits</b>                                | <b>510,667</b>   | <b>548,141</b> | <b>524,945</b>   | <b>550,124</b> | <b>534,861</b>   | <b>552,995</b> | <b>541,587</b>   | <b>556,424</b> |

SOURCE: Congressional Budget Office.

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



changes to the discretionary spending limits specified in the act. OMB's estimates of the limits are controlling, however, in determining whether enacted appropriations are within the limits or a sequestration is required to eliminate a breach of the limits. CBO's estimates are advisory. In acknowledgement 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 the limits in OMB's most recent report--in effect, using OMB's official estimates as the starting point for the adjustments that CBO is required to make in the new report.

The spending limits for 1995 in CBO's January 1995 preview report were essentially the same as those in OMB's February 1995 preview report: CBO's estimate of the budget authority limit was the same as OMB's, and CBO's estimate of the outlay limit was only \$1 million lower than OMB's. That difference merely reflects different assumptions about the rate at which \$44 million in emergency appropriations will be spent (the spendout rate); those appropriations were released by the President to fund economic development programs and assistance to victims of natural disasters.

CBO's estimates for the years after 1995, however, were dramatically lower than OMB's. In 1998, CBO's spending caps were lower than OMB's by \$13 billion in budget authority and \$10.5 billion in outlays.

The principal source of the dramatic difference between CBO's and OMB's projections of the discretionary spending caps is the agencies' different interpretation of the rules governing inflation adjustments. The BEA amendments required that both preview reports include adjustments to the limits to account for differences between actual inflation and inflation estimated at the time the BEA was enacted. For the years before 1995, CBO and OMB agreed that an adjustment equal to the ratio of actual inflation in the previous fiscal year to inflation projected for that year should be applied to the spending limits for all years in which they are in effect.

OMB changed its method of adjusting for inflation in its February 1995 preview report. It based that change on provisions in OBRA-93 that extended

the discretionary spending limits through 1998. OMB's adjustments in that report were based on the ratio of OMB's forecast of inflation in 1996, 1997, and 1998 (as reflected in the President's budget submission) to inflation projected for those years when OBRA-93 was enacted. Although CBO believes that OMB's change in method is not warranted by the provisions of OBRA-93 (the conference report on OBRA-93 stated that the legislation "retains, with minor technical and conforming changes, the current law's procedures for periodically adjusting the discretionary spending limits"), CBO will continue to use the OMB-adjusted limits as the starting point for its reports.

In comparison with CBO's adjustments, which reflect only changes that result from the difference between projected and actual inflation for the previous fiscal year (1994), OMB's prospective adjustments steadily increase the maximum budget authority and outlays allowed under the caps. For 1996, OMB's inflation adjustment increases the limits on outlays by \$1.8 billion relative to its estimate of the cap in its December 1994 final report, a figure that climbs to \$5.1 billion in 1997 and \$8.9 billion in 1998. CBO's adjustment, which results from an actual 1994 inflation rate that was lower than expected when the discretionary limits were established, decreases the limits by \$571 million in 1996. These reductions reach \$1 billion in 1997 and \$1.3 billion in 1998. The total effect of the opposite inflation adjustments on the limits in 1998 is approximately \$13 billion in budget authority and \$10.2 billion in outlays.

The second largest source of variance between the discretionary spending limits contained in CBO's and OMB's preview reports is also a difference in interpretation of the law. OMB's caps reflect outlay increases of \$171 million in 1996, \$62 million in 1997, and \$259 million in 1998 as a result of reestimates of enacted emergency legislation. CBO, however, believes that the Budget Enforcement Act does not allow adjustments for reestimates of the costs of legislation and so does not include any.

Other sources of difference between CBO's and OMB's estimates of the caps include changes in concepts and definitions and differing estimates for the spendout rate of emergency appropriations released





by the President. Approximately \$80 million of the \$152 million in cumulative changes in outlays categorized as changes in concepts and definitions is the result of different estimates of various provisions of 1995 appropriation acts; the remainder is attributable to a change in the calculation of the subsidy cost of loan guarantees from the Community Opportunity Funds program to conform with the provisions of the Credit Reform Act of 1990. Annual changes that result from differing estimates of spendout rates for emergency appropriations put CBO's estimates between \$2 million below and \$4 million above OMB's annual estimates, but they sum to zero over the 1995-1998 period.

### **Emergency Funding Made Available Since OMB's Preview Report**

The discretionary spending limits are also adjusted to reflect emergency appropriations made available since OMB's preview report. The largest adjustment is for the \$3.5 billion in 1995 emergency budget authority provided in the recently enacted supplemental appropriations and rescissions act (P.L. 104-19) for disaster assistance and antiterrorism activities (including recovery from the Oklahoma City bombing). Additional 1995 budget authority of \$2.5 billion was provided in the Emergency Supplemental Appropriations and Rescissions for the Department of Defense to Preserve and Enhance Military Readiness Act of 1995 (P.L. 104-6). The President's release of contingent emergency appropriations--largely relating to recovery from natural disasters--adds another \$542 million in 1995 budget authority to the totals in OMB's preview report. Those appropriations raise the outlay limits by \$1.6 billion in 1995 and 1996, \$2.2 billion in 1997, and \$2.1 billion in 1998.

### **Required Revision to Reflect Reduction in Nonemergency Spending**

Section 2003 of the supplemental appropriations and rescissions package (P.L. 104-19) required downward adjustments to the discretionary spending limits equal to the total effect of the legislation on non-emergency budget authority and outlays. CBO estimates that the discretionary nonemergency provi-

sions reduced 1995 budget authority by \$15.3 billion, with minor effects on budget authority in future years. The resulting outlay reductions are \$599 million in 1995, \$3.2 billion in 1996, \$2.7 billion in 1997, and \$2.2 billion in 1998. As required, CBO has adjusted the caps by those amounts.

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## **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 is the case with the discretionary spending limits, however, OMB's estimates are controlling in determining 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.

CBO's estimates of changes in the deficit for 1995 through 1998 resulting from direct spending or receipt legislation enacted since the Budget Enforcement Act are shown in Table 2. Those estimates include OMB's estimates of changes in the deficit resulting from legislation enacted through the end of the 103rd Congress but exclude 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). Deficit reduction contained in OBRA-93 is also excluded, as required by law.

The only significant change to the pay-as-you-go totals thus far in the 104th Congress results from the Self-Employed Health Insurance Act of 1995 (P.L. 104-7). That legislation, which affects receipts and



outlays, both extends and enriches a deduction available to self-employed individuals for the cost of health insurance and denies the earned income tax credit to otherwise-eligible individuals whose annual investment income exceeds \$2,350. The changes in direct spending and revenues attributable to the act, added to the combined net deficit reduction of \$2.2

billion for 1995 and 1996 that OMB estimated in its preview report, yield a net decrease in the combined 1995 and 1996 deficits of \$1.8 billion. The only other legislation enacted in 1995 tallied under the pay-as-you-go procedures--the District of Columbia Emergency Highway Relief Act (P.L. 104-21)--reduces outlays in 1997 and 1998.

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

| Legislation   | 1995   | 1996 | 1997 | 1998 |
|---|--------|------|------|------|
| Total for OMB's February 1995 Preview Report <sup>a</sup>       | -2,009 | -148 | -357 | -9   |
| Legislation Enacted Since OMB's Preview Report                  |        |      |      |      |
| Self-Employed Health Insurance Act (P.L. 104-7) <sup>b</sup>    | 248    | 83   | -67  | -68  |
| District of Columbia Emergency Highway Relief Act (P.L. 104-21) | 0      | 0    | -2   | -2   |
| Change in the Deficit Since the Budget Enforcement Act          | -1,761 | -65  | -426 | -79  |

SOURCE: Congressional Budget Office.

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

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: Congressional Accountability Act (P.L. 104-1); District of Columbia Financial Responsibility and Management Assistance Act (P.L. 104-8); Paperwork Reduction Act (P.L. 104-13); An Act to Permit Medicare Select Policies in All States (P.L. 104-18).

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 end of the 103rd Congress, readers are referred to the list of those bills included in Table 6 of the *OMB Final Sequestration Report to the President and Congress for Fiscal Year 1995* (December 16, 1994) and in previous sequestration reports issued by OMB.

b. Includes reductions in receipts and outlays.

