

CBO REPORT

Sequestration Preview Report for Fiscal Year 2003

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

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Under the Balanced Budget and Emergency Deficit Control Act of 1985 (as amended), the Congressional Budget Office (CBO) issues a sequestration preview report before the President submits his annual budget to the Congress. This report, which fulfills that requirement, provides estimates of the discretionary spending caps for 2002 and 2003 and the pay-as-you-go (PAYGO) scorecard through January 31, 2002.

Although limits on certain types of discretionary spending continue after fiscal year 2002, the provisions of law that set and govern those limits (contained in section 251 of the Deficit Control Act) will expire on September 30, 2002. As a result, when section 251 expires, those caps become moot.

Nevertheless, for 2002, the limits on discretionary spending apply to four categories: overall discretionary, highway, mass transit, and conservation. Both CBO and the Office of Management and Budget (OMB) estimate that spending resulting from legislative action to date is within the limits for each category. Under current law, caps for the two transportation categories continue through 2003, and caps for conservation spending extend through 2006.

Under section 252 of the Deficit Control Act, the estimated budgetary effects of mandatory spending or revenue legislation will no longer be recorded on the PAYGO scorecard after fiscal year 2002, effectively

shutting down the PAYGO system for new laws. However, the possibility of a sequestration—or cancellation of budgetary resources—of certain mandatory programs will continue through 2006 as a result of PAYGO legislation enacted before the end of 2002. Although recently enacted legislation eliminated the PAYGO balance for 2002, a balance of \$110.7 billion remains for 2003.

Overview of Sequestration Procedures

The Deficit Control Act, as amended by the Budget Enforcement Act of 1990, has two mechanisms that govern federal spending, both enforced through sequestration. Section 251 set limits on the spending provided through the annual appropriation process. If estimated discretionary spending exceeds those limits, the act prescribes 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 affects mandatory spending or revenues. If such legislation is estimated to result in a net increase in the deficit (or reduction in the surplus), the act calls for reductions in mandatory programs (not otherwise exempt) sufficient to offset that change in the deficit (or surplus).

Discretionary Sequestration Report

In January 2002, CBO and OMB published their final sequestration reports for fiscal year 2002. In those reports, both agencies had the same estimates of the caps for the transportation and conservation categories.¹ For the overall discretionary category, however, OMB's estimates for both budget authority and outlays in 2002 were higher than CBO's were, by \$0.3 billion and \$3.4 billion, respectively (see Table 1). Because OMB's estimates are the official basis for determining whether a sequestration is required, CBO has changed the caps on overall discretionary spending in this report to match the figures in OMB's final report.

Changes to the Discretionary Spending Limits for 2002

The discrepancy between CBO's and OMB's estimates of the cap on budget authority mostly stems from OMB's use of a provision in the Department of Defense Appropriations Act, 2002 (Public Law 107-117). That provision allowed an increase of up to 0.12 percent in the cap if total discretionary budget authority surpassed its limit. OMB's estimate of budget authority exceeded the adjusted limit, so it invoked that provision and increased the cap by 0.04 percent. CBO had estimated in its final sequestration report that using the provision was unnecessary.

Relative to CBO, OMB estimates a quicker rate of spending of the second \$20 billion of emergency appropriations related to the September 11 attacks (P.L. 107-117); that difference accounted for the majority of the change in the limit on outlays for 2002. OMB estimated that outlays resulting from that act would total \$11.8 billion in 2002; CBO's estimate was

\$8.5 billion.² Varying estimates of spending for the Federal Emergency Management Agency's disaster relief program and the activities of the Department of Justice and the Department of Health and Human Services account for almost all of the difference.

Compliance with the Discretionary Spending Limits for 2002

In its final sequestration report for 2002, OMB estimated that budget authority in the overall discretionary category equals its adjusted cap, whereas outlays are \$3,340 million below their adjusted ceiling. Outlays for highways and conservation spending equal their respective limits (budget authority in the conservation category was \$2 million below its cap). For the mass transit category, outlays are \$3 million below their limit.³ If, before July 1, 2002, OMB determines that the caps for 2002 have been exceeded, the President will be required to order a sequestration.

Adjustments to the Transportation and Conservation Spending Limits for 2003

Caps currently exist beyond 2002 only for the highway, mass transit, and conservation categories of spending. The Deficit Control Act requires two types of adjustments to the 2003 outlay cap for the highway category. One adjustment stems from estimates of gasoline tax receipts credited to the Highway Trust Fund. Because current estimates of such receipts are lower than those written into the Transportation Equity Act for the 21st Century (P.L. 105-178), CBO has reduced the outlay ceiling by \$1.1 billion. The second adjustment, an increase of \$1.6 billion, arises primarily because CBO estimates a faster rate of spending (relative to OMB) for the Federal-Aid Highways program. Together, those two adjustments boost the outlay cap for the highway category to \$29.6 billion for 2003.

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.

2. For sequestration purposes, CBO and OMB are required to use their estimates of appropriation acts as cleared by the Congress, not the amounts of actual budget authority or outlays.

3. Office of Management and Budget, *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2002* (January 2002), Table 5.

Table 1.
CBO's Estimates of the Discretionary Spending Limits for Fiscal Years 2002 and 2003
(In millions of dollars)

	2002		2003	
	Budget Authority	Outlays	Budget Authority	Outlays
Total Discretionary Spending Limits in CBO's January Final Report	706,000	727,954	n.a.	n.a.
Overall Discretionary Category ^a				
Spending limits in CBO's January final report	704,240	692,717	n.a.	n.a.
Adjustments (Technical differences from OMB's January final report)	<u>308</u>	<u>3,375</u>	n.a.	n.a.
Spending limits as of January 31, 2002	704,548	696,092	n.a.	n.a.
Highway Category ^b				
Spending limits in CBO's January final report	n.a.	28,489	n.a.	n.a.
Adjustments				
Technical differences from OMB's January final report	n.a.	0	n.a.	n.a.
Spending limits in OMB's preview report for 2002	n.a.	n.a.	n.a.	29,100
Revised assumptions about trust fund revenues	n.a.	n.a.	n.a.	-1,095
Revised technical assumptions	n.a.	<u>n.a.</u>	n.a.	<u>1,629</u>
Spending limits as of January 31, 2002	n.a.	28,489	n.a.	29,634
Mass Transit Category ^b				
Spending limits in CBO's January final report	n.a.	5,275	n.a.	n.a.
Adjustments				
Technical differences from OMB's January final report	n.a.	0	n.a.	n.a.
Spending limits in OMB's preview report for 2002	n.a.	n.a.	n.a.	5,531
Revised technical assumptions	n.a.	<u>n.a.</u>	n.a.	<u>221</u>
Spending limits as of January 31, 2002	n.a.	5,275	n.a.	5,752
Conservation Category				
Spending limits in CBO's January final report	1,760	1,473	n.a.	n.a.
Adjustments				
Technical differences from OMB's January final report	0	0	n.a.	n.a.
Spending limits in OMB's preview report for 2002	n.a.	n.a.	1,920	1,872
Increase to comply with section 801(b)(H) of P.L. 106-291	<u>n.a.</u>	<u>n.a.</u>	<u>2</u>	<u>0</u>
Spending limits as of January 31, 2002	1,760	1,473	1,922	1,872
Total Discretionary Spending Limits as of January 31, 2002	706,308	731,329	n.a.	n.a.

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget; n.a. = not applicable; P.L. = public law.

- a. This category comprises defense, nondefense, and violent crime reduction spending in 2002. It ceases to exist in 2003.
- b. 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.

That second type of adjustment also explains the \$221 million increase (the maximum allowable amount) in the outlay limit for the mass transit category. The Deficit Control Act limits the amount of such an adjustment; without that provision, CBO

would have increased the outlay limit by \$1.7 billion.⁴ For 2003, the estimated outlay limit for the mass transit category is \$5.8 billion.

4. See section 251(b)(1)(C)(ii) of the Deficit Control Act.

Table 2.
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 January Final Report	0	110,694	129,857	130,571	134,698
Memorandum:					
Preliminary Estimates of Legislation Cleared by the Congress Since OMB's Final Report but Not Yet Signed into Law					
An act to require the valuation of nontribal interest ownership of subsurface rights within the boundaries of the Acoma Indian Reservation, and for other purposes (H.R. 1913)	2	0	0	0	0
An act to amend the Higher Education Act of 1965 to establish fixed interest rates for student and parent borrowers, to extend current law with respect to special allowances for lenders, and for other purposes (S. 1762)	-180	345	875	1,005	995
Total, Including Legislation Cleared by the Congress Since OMB's Final Report	-178	111,039	130,732	131,576	135,693

SOURCE: Congressional Budget Office.

NOTES: OMB = Office of Management and Budget.

The information in this table covers legislative action through January 31, 2002. Positive numbers indicate an increase in the deficit.

The Deficit Control Act, as amended by the Department of the Interior Appropriations Act, 2001 (P.L. 106-291), stipulates that if appropriations for conservation programs fall below the limits on spending in a given year, the difference should be added to the following year's limits. As discussed above, appropriated budget authority was below the conservation ceiling in 2002. As a result, CBO has raised the limit on budget authority for conservation spending in 2003 by \$2 million.

Although limits for transportation and conservation spending currently exist beyond 2002, in the absence of legislative action, those caps will become ineffective with the expiration of section 251 of the Deficit Control Act on September 30, 2002.

Pay-As-You-Go Sequestration Report

Both CBO and OMB estimate the annual budgetary effects that result from mandatory 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 PAYGO balances shown in OMB's sequestration preview report (see Table 2).

The Deficit Control Act requires that the PAYGO balances for 2001 and 2002 be combined to determine whether a PAYGO sequestration is necessary for 2002. OMB's estimate of the balance for those years totaled \$130.3 billion (CBO's estimate was higher, at \$136.7 billion). However, the defense appropriation act for 2002 instructed OMB to change the PAYGO balance for 2001 and 2002 to zero. For 2003, OMB estimates that past legislation has produced a balance of \$110.7 billion.

