

CBO REPORT

Sequestration Update Report for Fiscal Year 1998

**Reprint of Appendix C in *The Economic and
Budget Outlook: An Update, September 1977*
(CBO Publication #648)**

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

August 15, 1997



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Sequestration—the cancellation of budgetary resources—is an automatic procedure to control discretionary appropriations and legislative changes in direct (mandatory) spending and receipts.¹ The Congress and the President can avoid a discretionary sequestration by keeping discretionary spending within established statutory limits, and a pay-as-you-go sequestration by making sure that the cumulative effect of legislation dealing with direct spending or receipts is deficit neutral in each fiscal year.

Federal law requires the Congressional Budget Office (CBO) each year to issue a sequestration preview report five days before the President submits a 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:

- o The current limits on discretionary spending and any adjustments to them; and
- o 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 sequestration.

1. Current sequestration procedures 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. The Omnibus Budget Reconciliation Act of 1993 extended the application of those procedures through 1998. The Budget Enforcement Act of 1997 further extended them, with modifications, through 2002 (or in some cases 2006).

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

This update report to the Congress and the Office of Management and Budget (OMB) provides the required information.

Discretionary Sequestration Report

The Budget Enforcement Act of 1990 (BEA-90) established discretionary spending limits for fiscal years 1991 through 1995 and provided for across-the-board cuts—known as sequestration—should annual appropriations breach those limits. BEA-90 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, including the 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 spending and lowered the discretionary caps each year by that amount.

The Budget Enforcement Act of 1997 (BEA-97), title X of the Balanced Budget Act of 1997, sets discretionary spending limits for fiscal years 1997 through 2002 and extends the existing enforcement procedures, but with some modifications. Those modifications create additional categories of discretionary spending that will be subject to sequestration after fiscal year 1997 and redefine the required adjustments to the caps. For fiscal years 1998 and 1999, the law splits discretionary spending into three categories: defense, nondefense, and VCRTF spending. For fiscal year 2000, it combines defense and nondefense spending into a single discretionary category, while retaining the violent crime reduction category. For fiscal years 2001 and 2002, the law folds all three into one discretionary category, so the limits apply to total discretionary spending.

BEA-97 also makes various changes to the instructions for adjusting those spending limits. It subjects the violent crime reduction category to adjustment for the first time (previously, caps on VCRTF spending were immutable). It eliminates the adjustment for differences between earlier estimates of future inflation and more recent estimates, and for technical differences between OMB's and CBO's estimates of enacted budget authority. BEA-97 also reinstates an adjustment for quota payments to the International Monetary Fund and allows the discretionary caps to be raised to cover U.S. payment of arrearages to international organizations (such as the United Nations) and the cost of ensuring compliance with the earned income tax credit. Those new adjustments—like the existing adjustments for emergency appropriations and for spending by the Social Security Administration on continuing-disability reviews—are made after budget authority for the specified purposes has been provided in appropriation acts.

Discretionary Spending Limits for Fiscal Year 1997

The Budget Enforcement Act of 1997 does not change the limits that apply to discretionary budget authority and outlays for 1997. OMB's estimates of those caps are the ones that determine whether enacted appropriations fall within the limits or whether a sequestration is required to eliminate a breach of them (CBO's estimates are merely advisory). Thus, CBO uses the estimates in OMB's most recent sequestration preview report—published with the President's budget in Feb-

ruary—as the starting point for the adjustments it is required to make in this sequestration update report. OMB's limits are identical to the ones that CBO published in January in its preview report. The limits on VCRTF budget authority and outlays do not require any adjustment and are therefore the same as those published in CBO's January preview report.

CBO's new estimates of the discretionary spending limits (shown in Table 1) differ from the estimates in its preview report solely because of emergency funds made available since OMB issued its preview report. Since February, only one piece of legislation containing emergency appropriations was enacted. That legislation provided emergency appropriations to help victims of natural disasters and to cover the costs of peacekeeping efforts in Bosnia and the Middle East. Those appropriations provide a total of \$7,464 million in budget authority for 1997, which will result in 1997 outlays of \$734 million. The availability of \$30 million of those

Table 1.
CBO Estimates of Discretionary Spending Limits for Fiscal Year 1997 (In millions of dollars)

	Budget Authority	Outlays
General-Purpose Spending Limits in OMB's February Preview Report	527,036	547,060
Adjustments		
Emergency 1997 appropriations enacted since OMB's preview report	7,464	734
Contingent emergency appropriations designated since OMB's preview report	<u>265</u>	<u>210</u>
Total	7,729	944
General-Purpose Spending Limits as of August 15, 1997	534,765	548,004
Violent Crime Reduction Trust Fund Spending Limits	5,000	3,936
Total Discretionary Spending Limits	539,765	551,940

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget.

appropriations for the National Park Service is contingent on their release by the President. CBO includes that appropriation in its cap adjustment because no further action by the Congress is necessary to make the funds available.

In addition, CBO has adjusted the 1997 limits on discretionary spending for contingent emergency appropriations that the President released since the publication of OMB's preview report. That adjustment is necessary because CBO starts with the limits in OMB's previous report, and those limits (unlike CBO's) include adjustments only for appropriations that have already been released by the President. Since OMB published its February report, the President has released \$267 million in contingent emergency appropriations, most of which (\$210 million) is for the Low Income Home Energy Assistance Program. Smaller amounts are for spending that is related to severe weather and other disasters. Outlays from those appropriations are expected to total \$210 million this year.

Discretionary Spending Limits for Fiscal Years 1998-2002

The discretionary spending limits that BEA-97 established for fiscal years 1998 through 2002 (shown in Table 2) are identical to the limits contained in the conference report on the Congressional budget resolution for 1998.² CBO made two adjustments to those limits: one to account for the effects that changes in the 1997 caps will have on outlays in later years, and another to incorporate \$266 million of emergency 1998 budget authority for the nondefense discretionary category that was included in the emergency appropriation bill mentioned above. Also, as the categories of discretionary spending change between now and 2002, CBO has reallocated its adjustments to reflect how the spending would be categorized in a particular year. For example, the emergency appropriation bill included \$1,846 million in additional budget authority for 1997 in the defense category, which will result in outlays of \$1,135 million for 1998, \$224 million for 1999, \$39 million for 2000, and smaller amounts thereafter. The extra

2. The limits for 1998 differ, however, from the ones in OMB's February preview report. The limit for budget authority set by BEA-97 is \$6,923 million lower than OMB's figure, and the outlay limit is \$6,863 million higher.

\$39 million in defense outlays for 2000 are included in the \$1,305 million in overall discretionary outlays for 2000 because there will be no separate defense category that year. Overall, total discretionary outlays are expected to hover around \$560 billion a year for the 1998-2002 period.

Pay-As-You-Go Sequestration Report

The Budget Enforcement Act of 1990 established the pay-as-you-go sequestration mechanism to ensure that any legislative changes in direct spending or receipts enacted after that act would not increase the combined deficits of the current fiscal year and the budget year. If legislative changes during a session of Congress did increase that measure of the deficit, a pay-as-you-go (PAYGO) sequestration would be required at the end of the session. Under the sequestration, mandatory programs (other than those specifically exempt) would be cut by enough to eliminate the increase. The PAYGO provisions of BEA-90 applied through fiscal year 1995, and OBRA-93 extended them through 1998.

The Budget Enforcement Act of 1997 extends PAYGO discipline to legislation enacted through 2002, but applies the sequestration procedure through 2006 to eliminate any deficit increase that might result from legislation enacted before 2003. Previously, PAYGO only ensured that legislation enacted before the end of fiscal year 1998 would not increase the deficit through that year. Now, the PAYGO scorecard must take into account the effects in the current year, the budget year, and the following four years of legislation enacted before the end of 2002. In other words, although legislation enacted between 2003 and 2006 is not subject to PAYGO discipline, the estimated effects of legislation enacted before then will be recorded on the PAYGO scorecard for any year through 2006 covered by the estimate. If a cumulative increase in the deficit is projected for any of those years, it will trigger a sequestration in that year.

The second PAYGO change that BEA-97 makes is to include the current year's deficit effects in the sequestration calculation only to the extent that they were not included in OMB's final sequestration report for that

Table 2.
CBO Estimates of Discretionary Spending Limits for Fiscal Years 1998-2002 (In millions of dollars)

	1998		1999		2000		2001		2002	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Total Limits on Discretionary Spending in BEA-97	526,857	553,268	532,999	559,321	537,193	564,265	542,032	564,396	551,074	560,799
Defense Discretionary Category^a										
Spending limits in BEA-97	269,000	266,823	271,500	266,518	*	*	*	*	*	*
Adjustment (Emergency 1997 appropriations enacted since OMB's preview report)	0	1,135	0	224	*	*	*	*	*	*
Spending limits as of August 15, 1997	269,000	267,958	271,500	266,742	*	*	*	*	*	*
Nondefense Discretionary Category^a										
Spending limits in BEA-97	252,357	282,853	255,699	287,850	*	*	*	*	*	*
Adjustments										
Emergency 1997 appropriations enacted since OMB's preview report	266	1,140	0	1,508	*	*	*	*	*	*
Contingent emergency appropriations designated since OMB's preview report	0	45	0	7	*	*	*	*	*	*
Spending limits as of August 15, 1997	252,623	284,038	255,699	289,365	*	*	*	*	*	*
Violent Crime Reduction Category^b										
Spending limits in BEA-97	5,500	3,592	5,800	4,953	4,500	5,554	*	*	*	*
Adjustments	0	0	0	0	0	0	*	*	*	*
Spending limits as of August 15, 1997	5,500	3,592	5,800	4,953	4,500	5,554	*	*	*	*
Overall Discretionary Category^c										
Spending limits in BEA-97	*	*	*	*	532,693	558,711	542,032	564,396	551,074	560,799
Adjustments										
Emergency 1997 appropriations enacted since OMB's preview report	*	*	*	*	0	1,305	0	941	0	526
Contingent emergency appropriations designated since OMB's preview report	*	*	*	*	0	2	0	2	0	1
Spending limits as of August 15, 1997	*	*	*	*	532,693	560,018	542,032	565,339	551,074	561,326
Total Limits on Discretionary Spending as of August 15, 1997	527,123	555,588	532,999	561,060	537,193	565,572	542,032	565,339	551,074	561,326

SOURCE: Congressional Budget Office.

NOTE: BEA-97 = Budget Enforcement Act of 1997; OMB = Office of Management and Budget; * = not applicable.

a. This category is folded into the overall discretionary category after fiscal year 1999.

b. This category is folded into the overall discretionary category after fiscal year 2000.

c. This category comprises defense and nondefense spending in fiscal year 2000, plus violent crime reduction spending in 2001 and 2002.

year. Previous law included the entire current year's effects, which resulted in double counting. (For example, the impacts in 1996, which were recorded as budget year effects in the final sequestration report for fiscal year 1996, became the current year effects in the following winter's sequestration preview report for fiscal year 1997.) Eliminating that double count means that an increase in mandatory spending or a decrease in receipts during a budget year must be largely offset in that same year by either the provisions of other legislation or the effects of a previous sequestration instead of by current year balances.

Both CBO and OMB are required 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 necessary. CBO has therefore adopted the estimates of changes in the deficit from OMB's February preview report as the starting point for this report. In February, OMB estimated that changes in direct spending and receipts enacted between the time of the Budget Enforcement Act of 1990 and December 31, 1996, reduced the 1998 deficit by

\$3,466 million. (The Omnibus Consolidated Appropriations Act of 1997 removed the balance for 1997 from the PAYGO scorecard.) That estimate excludes changes resulting from legislation that preceded 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 (as required by law).

Legislation enacted since OMB's February report has reduced the 1997 deficit by \$2,730 million and increased the 1998 deficit by \$54 million, according to CBO's estimates. When added to the amounts in OMB's report, the result is a surplus of \$2,730 for 1997 and \$3,412 million for 1998 (see Table 3). Those figures include the budget year effect of all legislation on which the Congress completed action before its August recess—except the Balanced Budget and Taxpayer Relief Acts of 1997, which BEA-97 specifically excluded from the PAYGO scorecard. Because BEA-97 also removed any available balance from the scorecard (shown as an adjustment in Table 3), the Congress will return from its August recess with no PAYGO balances.

Table 3.
Budgetary Effects of Direct Spending or Receipt Legislation
Enacted Since the Budget Enforcement Act of 1990 (By fiscal year, in millions of dollars)

Legislation	1997	1998	1999	2000	2001	2002
Total for OMB's February 1997 Preview Report ^a	0	-3,466	0	0	0	0
Legislation Enacted Since OMB's Preview Report						
Airport and Airway Trust Fund Tax Reinstatement Act (P.L. 105-2) ^b	-2,730	54	0	0	0	0
Total	-2,730	-3,412	0	0	0	0
Adjustment Required by the Budget Enforcement Act of 1997 (P.L. 105-33)	2,730	3,412	0	0	0	0
Change in the Deficit Since the Budget Enforcement Act of 1990	0	0	0	0	0	0

SOURCE: Congressional Budget Office.

NOTES: The following bills affected direct spending or receipts but did not increase or decrease the deficit by as much as \$500,000 in any year through 1998: Oroville-Tonasket Claim Settlement and Conveyance Act (P.L. 105-9); an act to award a Congressional gold medal on behalf of the Congress to Francis Albert Sinatra (P.L. 105-14); an act to authorize the President to award a gold medal on behalf of the Congress to Mother Teresa of Calcutta (P.L. 105-16); an act to amend the Federal Property and Administrative Services Act of 1949 to authorize the donation of surplus federal law enforcement canines (P.L. 105-27); an act to clarify that the protections of the Federal Tort Claims Act apply to members and personnel of the National Gambling Impact Study Commission (P.L. 105-30); an act to waive temporarily the Medicaid enrollment composition rule for the Better Health Plan of Amherst, New York (P.L. 105-31); Taxpayer Browsing Protection Act (P.L. 105-35); an act to amend the Immigration and Nationality Technical Corrections Act of 1994 to eliminate the special transition rule for the issuance of a certificate of citizenship for certain children born outside the United States (P.L. 105-38); Warner Canyon Sid Hill Land Exchange Act of 1997 (P.L. 105-40); International Dolphin Conservation Program Act (H.R. 408); an act for the relief of John Wesley Davis (H.R. 584); Stamp Out Breast Cancer Act (H.R. 1585).

OMB = Office of Management and Budget; P.L. = public law.

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 and Table 7 of the *OMB Final Sequestration Report to the President and Congress for Fiscal Year 1997* (November 15, 1996) and in previous sequestration reports issued by OMB. OMB's February preview report did not contain such a list because no legislation included in the pay-as-you-go calculation was enacted between the publication dates of the final sequestration report and the preview report.

b. Change in receipts.

