

**FINAL SEQUESTRATION REPORT
FOR FISCAL YEAR 1997**

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

October 11, 1996

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Under current law, sequestration—the cancellation of budgetary resources—serves as the means 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 statutory limits and by making sure that the cumulative effect of legislation dealing with 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 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.

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

This final report to the Congress and the Office of Management and Budget (OMB) provides the required information. Because enacted appropriations have not exceeded the spending limits for fiscal years 1996 and 1997, and because direct spending and receipt legislation has not increased the total deficit for those two

1. 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.

years, CBO estimates that neither a discretionary spending nor a pay-as-you-go sequestration is required in 1997.

DISCRETIONARY SEQUESTRATION REPORT

The Budget Enforcement Act (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, including 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.

Discretionary Spending Limits for Fiscal Years 1996-1998

CBO's current estimates of the limits on general-purpose (non-VCRTF) discretionary spending, shown in Table 1, differ from those in its sequestration update report published in August, for three reasons. First, CBO revised the limits to reflect differences between the spending limits in its update report and those in OMB's update report, also published in August. Second, it increased the limits to account for emergency funds made available since OMB issued its update report. Third, it adjusted the caps to allow for increased spending for continuing disability reviews in the Social Security program, as required by law. The limits on VCRTF budget authority and outlays are not subject to any adjustment, so the amounts shown in Table 1 are the same as those CBO published in August.

Differences Between the Limits in CBO's and OMB's Update Reports. The Budget Enforcement Act requires both CBO and OMB to calculate changes to the limits on discretionary spending that result from such factors as 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 sequestration 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 limits in CBO's and OMB's August update reports differ for two reasons. First, when CBO calculates emergency spending it includes contingent emergency appropriations that must first be made available by the President as emergency requirements. 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. Second, the two agencies have different estimates of the rate at which funds authorized by those emergency appropriations will be spent.

CBO's estimate of enacted emergency appropriations was higher than OMB's by \$87 million in 1996 budget authority because of the agencies' different methods of accounting for contingent emergency appropriations. As a result, outlays were higher in CBO's estimates by \$7 million for 1996, \$35 million for 1997, and \$22 million for 1998. The remaining difference in the limits on discretionary outlays stemmed from varying estimated spending rates. The most significant disparity resulted from the rates the two agencies used to determine what effect the rescission of \$1 billion in 1996 emergency spending for the Federal Emergency Management Agency's disaster relief program would have on outlays. Based on an analysis of appropriations now available for the program, CBO estimated that the rescission of that spending authority would not affect outlays until 1998. OMB estimated that outlays for the disaster relief program would drop beginning in fiscal year 1996.

Emergency Funding Made Available Since OMB's Update Report. As required by the BEA, CBO has also adjusted the discretionary spending limits to reflect emergency appropriations enacted since OMB published its update report. Between August and October, the Congress enacted emergency appropriations totaling \$123 million in 1996 budget authority and \$1,914 million in 1997 budget authority (see Table 1). The availability of \$566 million of the 1997 appropriations is contingent on their release by the President as emergency requirements. As noted above, CBO includes such appropriations in its cap adjustment. Outlays from all of the new emergency appropriations require increasing the outlay limit for 1997 by \$1,452 million and the limit for 1998 by \$360 million. Of that amount, \$416 million of 1997 outlays and \$109 million of 1998 outlays are attributable to contingent emergency appropriations.

In addition, CBO has adjusted the limits on discretionary spending for contingent emergency appropriations that the President has released since OMB's update 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 such appropriations that have already been released by the President. Since OMB published its August report, the President has released \$134 million in 1996 contingent emergency appropriations, which will increase outlays by \$20 million

in 1996, \$39 million in 1997, and \$35 million in 1998 (see Table 1). Most of those appropriations are for spending related to severe weather and other natural disasters.

Additional Funding for Continuing Disability Reviews in Social Security. The Contract with America Advancement Act of 1996 added a new cap adjustment for a portion of the Social Security Administration's discretionary spending that is used to verify the continued eligibility of beneficiaries under the Supplemental Security Income or Disability Insurance programs. The Personal Responsibility and Work Opportunity Reconciliation Act modified that adjustment to include spending for additional eligibility reviews and redeterminations.

The spending caps are adjusted only if the Congress appropriates funds for additional continuing disability reviews, and only to the extent that the appropriations exceed \$100 million in new budget authority and \$200 million in outlays. The adjustment is the amount by which new budget authority and outlays exceed those amounts, subject to maximum adjustments set in statute. For 1997, the maximum applies. The caps shown in Table 1 reflect increases of \$175 million in the budget authority limit and \$310 million in the outlay limit.

Compliance with the Spending Limits

By CBO's estimate, discretionary new budget authority and total discretionary outlays for fiscal year 1996 fell well below their respective limits (see Table 2). Those totals are slightly changed from the August update reports because the President has released contingent emergency funds that affect 1996 spending, and the Congress and President have enacted changes to 1996 appropriations.

Section 251(a)(5) of the Balanced Budget and Emergency Deficit Control Act provides that if general-purpose appropriations for the current year enacted after June 30 cause that year's general-purpose spending limits to be breached, the budget year limits are reduced by the amount of the breach. Section 251A(c) of the act provides an analogous procedure for VCRTF appropriations. Because both general-purpose and VCRTF discretionary spending were below the limits for fiscal year 1996, no adjustments to the spending limits for 1997 are necessary.

For 1997, the Congress has enacted discretionary new budget authority and total outlays that are significantly below the levels allowed by the caps (see Table 3). CBO's estimates for 1997 include appropriations enacted in the second session of the 104th Congress as well as advance appropriations and outlays from appropriation acts for fiscal year 1996 and earlier. The estimates also include the budget authority and outlays that stem from emergency appropriations (both those reflected in OMB's August report and those released later). Based on the enacted

1997 appropriation measures, CBO estimates that a discretionary sequestration will not be necessary in 1997.

PAY-AS-YOU-GO SEQUESTRATION REPORT

A pay-as-you-go (PAYGO) sequestration is triggered at the end of a Congressional session if legislated changes in direct spending programs or governmental receipts 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 the estimates of changes in the deficit contained in OMB's update report as the starting point for this report.

OMB's August update report estimated that changes in direct spending and receipts enacted between the time of the Budget Enforcement Act and August 12 reduced the combined 1996 and 1997 deficits by \$3,459 million. That estimate excludes changes 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).

CBO's estimate of changes from legislation enacted since OMB's August report, when added to the amounts in that report, yields a decrease in the combined 1996 and 1997 deficits of \$7,433 million (see Table 4). That figure includes estimates for all legislation on which the Congress completed action before adjournment.

According to CBO's current calculation, a pay-as-you-go sequestration will not be required in 1997. That conclusion results because CBO uses the PAYGO balances in OMB's August update report as the basis for calculating the current balances. If CBO used the balances in OMB's March preview report, however, and its own estimates of the effects of legislation enacted since then, it would conclude that the combined 1996 and 1997 deficits had increased by \$2,867 million and that a sequestration would be required in 1997. Those different outcomes arise because CBO and OMB have different estimates of the PAYGO effects of the Federal Agriculture Improvement Act. As reported in CBO's August update

report, CBO estimates that the act will increase spending in 1996 and 1997, whereas OMB estimates that it will decrease spending in those years.

OMB's pay-as-you-go estimates for legislation enacted since its August update report also indicate that no sequestration will be necessary in 1997. But CBO's review of OMB's estimates reveals an inconsistency in OMB's treatment of additional spending authority provided to the Social Security Administration for continuing disability reviews. The Contract with America Advancement Act and the Personal Responsibility and Work Opportunity Reconciliation Act both provided additional discretionary spending authority for those reviews and an increase in the discretionary spending caps for that new spending.

Consistent with statute and long-standing practice, CBO did not include the allowed increase in the discretionary limits in its estimate of the pay-as-you-go effects of those bills. Section 250(c)(8) of the Balanced Budget Act explicitly defines direct spending as budget authority provided by law other than appropriation acts, entitlement authority, and the Food Stamp program. A cap adjustment does not involve direct spending, and in CBO's opinion it should not be included on the PAYGO scorecard. OMB did not include the potential cap adjustment for continuing disability reviews in its PAYGO estimate of the Contract with America Advancement Act, but it did include the adjustment in its estimate of the Personal Responsibility and Work Opportunity Reconciliation Act. In support of including the adjustment, OMB argues that the statute is silent on the issue and that its treatment is consistent with the presentation of similar proposals in the 1997 budget. That argument, however, does not explain the different treatment for similar legislative language during the same session of Congress.

The Omnibus Consolidated Appropriations Act requires an adjustment in the pay-as-you-go balances on the day after OMB issues its final sequestration report for fiscal year 1997. That adjustment will set the 1997 PAYGO balance at zero if the balance is not an increase in the deficit. The sequestration preview report that CBO will issue before submission of the President's 1998 budget will reflect that adjustment.

Table 1.
CBO's Estimates of Discretionary Spending Limits for Fiscal Years 1996 Through 1998 (In millions of dollars)

	1996		1997		1998	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
General-Purpose Spending Limits in CBO's August 1996 Sequestration Update Report	522,206	550,448	525,306	546,304	528,857	543,574
Adjustments						
Technical differences from OMB's August 1996 update report	-87	-84	0	-746	0	147
Emergency appropriations enacted since OMB's update report	123	0	1,914	1,452	0	360
Contingent emergency appropriations designated since OMB's update report	134	20	0	39	0	35
Continuing disability reviews	<u>a</u>	<u>a</u>	<u>175</u>	<u>310</u>	<u>0</u>	<u>0</u>
Total	170	-64	2,089	1,055	0	542
General-Purpose Spending Limits as of October 11, 1996	522,376	550,384	527,395	547,359	528,857	544,116
Violent Crime Reduction Trust Fund Spending Limits	<u>4,287</u>	<u>2,334</u>	<u>5,000</u>	<u>3,936</u>	<u>5,500</u>	<u>4,904</u>
Total Discretionary Spending Limits	526,663	552,718	532,395	551,295	534,357	549,020

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget.

a. Included in the general-purpose spending limits in CBO's August update report.

Table 2.
CBO's Estimates of Discretionary New Budget Authority and Total Discretionary Outlays for Fiscal Year 1996
(In millions of dollars)

	Budget Authority	Outlays
General-Purpose Appropriations		
Total from OMB's August 1996 Sequestration Update Report	488,533	536,098
Nonemergency Appropriations Enacted Since OMB's Update Report	-126	-3
Contingent Emergency Appropriations Designated Since OMB's Update Report	134	20
Total Appropriations	488,541	536,115
Spending Limits as of October 11, 1996	522,376	550,384
Appropriations Over or Under (-) Limits	-33,835	-14,269
Violent Crime Reduction Trust Fund Appropriations		
Total from OMB's August 1996 Sequestration Update Report	4,086	2,114
Nonemergency Appropriations Enacted Since OMB's Update Report	0	0
Contingent Emergency Appropriations Designated Since OMB's Update Report	0	0
Total Appropriations	4,086	2,114
Spending Limits as of October 11, 1996	4,287	2,334
Appropriations Over or Under (-) Limits	-201	-220

SOURCE: Congressional Budget Office.

NOTES: The amounts shown here represent the 1996 appropriation bills, 1996 appropriations advanced in previous years, and outlays from prior year appropriations, including emergency appropriations.

OMB = Office of Management and Budget.

Table 3.
CBO's Estimates of Discretionary New Budget Authority and Total Discretionary Outlays for Fiscal Year 1997,
by Appropriation Bill and Category (In millions of dollars)

	Budget Authority	Outlays
General-Purpose Appropriations		
Appropriation Bills		
Agriculture, Rural Development, Food and Drug Administration and Related Agencies (P.L. 104-180)	13,049	13,399
District of Columbia (P.L. 104-184)	719	719
Military Construction (P.L. 104-196)	9,982	10,344
Legislative Branch (P.L. 104-197)	2,170	2,132
Veterans Affairs and Housing and Urban Development, and Independent Agencies (P.L. 104-204)	64,522	79,196
Transportation and Related Agencies (P.L. 104-205)	12,369	35,617
Energy and Water Development (P.L. 104-206)	19,992	19,938
Omnibus Consolidated Appropriations Act (P.L. 104-208)	375,138	375,945
 OMB's Estimate of Emergency Appropriations Made Available in Calendar Year 1996 and Reflected in OMB's August 1996 Sequestration Update Report	 0	 134
 Contingent Emergency Appropriations Designated Since OMB's Update Report	 0	 39
 Total Appropriations	 497,941	 537,463
 Spending Limits as of October 11, 1996	 527,395	 547,359
 Appropriations Over or Under (-) Limits	 -29,454	 -9,896
Violent Crime Reduction Trust Fund Appropriations		
Appropriation Bills		
Omnibus Consolidated Appropriations Act (P.L. 104-208)	4,684	3,076
 Total Appropriations	 4,684	 3,076
 Spending Limits as of October 11, 1996	 5,000	 3,936
 Appropriations Over or Under (-) Limits	 -316	 -860

SOURCE: Congressional Budget Office.

NOTES: The amounts shown here represent 1997 regular appropriations, 1997 appropriations advanced in previous years, and outlays from prior year appropriations, including emergency appropriations.

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

Table 4.
Budgetary Effects of Direct Spending or Receipt Legislation
Enacted Since the Budget Enforcement Act (By fiscal year, in millions of dollars)

Legislation	1996	1997	1998
Total from OMB's August 1996 Sequestration Update Report ^a	-948	-2,511	4,187
Legislation Enacted Since OMB's Update Report			
Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (P.L. 104-185) ^b	0	-1	-1
Small Business Job Protection Act of 1996 (P.L. 104-188) ^b	-92	-579	279
Separation Incentive Payments for the Agency for International Development (P.L. 104-190)	0	-1	0
Health Insurance Portability and Accountability Act of 1996 (P.L. 104-191) ^b	-52	-275	79
Personal Responsibility and Work Opportunity Act of 1996 (P.L. 104-193) ^b	0	-2,994	-8,386
Land Claims of Pueblo of Isleta Indian Tribe (P.L. 104-198)	0	0	3
National Defense Authorization Act for Fiscal Year 1997 (P.L. 104-201)	0	-22	-37
An act to enhance fairness in compensating owners of patents used by the United States (H.R. 632)	0	3	1
United States Commemorative Coin Act of 1996 (H.R. 1776)	0	-6	-1
Central Utah Project Completion Act (H.R. 1823)	0	-72	-134
Railroad Unemployment Insurance Amendments Act of 1996 (H.R. 2594) ^b	0	12	10
National Securities Markets Improvement Act of 1996 (H.R. 3005) ^c	0	0	-60
Intelligence Authorization Act for Fiscal Year 1996 (H.R. 3259)	0	0	1
Federal Aviation Authorization Act of 1996 (H.R. 3539)	0	50	0
An act to repeal the requirement for annual resident review for nursing facilities under the Medicaid program (H.R. 3632)	0	-8	-8
Economic Espionage Act of 1996 (H.R. 3723) ^b	0	-5	0
Technical Corrections and Miscellaneous Amendments to Trade Laws (H.R. 3815) ^b	0	9	4
Emergency Drought Relief Act of 1996 (H.R. 3910)	0	7	7
Helium Privatization Act of 1996 (H.R. 4168)	0	0	-5
Sustainable Fisheries Act (S. 39) ^b	0	-2	-1
Coast Guard Authorization Act of 1996 (S. 1004)	0	3	3
Accountable Pipeline Safety and Partnership Act of 1996 (S. 1505)	0	3	2
Veterans' Benefits Improvements Act of 1996 (S. 1711)	0	0	-3
Navajo-Hopi Land Dispute Settlement Act of 1996 (S. 1973)	0	48	0
Change in the Deficit Since the Budget Enforcement Act	-1,092	-6,341	-4,060

SOURCE: Congressional Budget Office.

NOTES: 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: War Crimes Act of 1996 (P.L. 104-192); Federal Oil and Gas Royalty Management Act Technical Corrections (P.L. 104-200); Most-favored-nation treatment to the products of Cambodia (P.L. 104-203); Crow Creek Sioux Tribe Infrastructure Development Trust Fund Act of 1996 (P.L. 104-223); Antarctic Science, Tourism, and Conservation Act of 1996 (P.L. 104-227); A bill to amend the United States-Israel Free Trade Area Implementation Act of 1985 (P.L. 104-234); Pam Lychner Sexual Offender Tracking and Identification Act of 1996 (P.L. 104-236); Comprehensive Methamphetamine Control Act of 1996 (P.L. 104-237); An act to permit a county-operated health insuring organization to qualify as an organization exempt from certain requirements under the Medicaid program (P.L. 104-240); National Marine Sanctuaries Preservation Act (H.R. 543); Propane Education and Research Act of 1996 (H.R. 1514); National

(continued)

Table 4.
Continued

Film Preservation Act of 1996 (H.R. 1734); United States National Tourism Organization Act of 1996 (H.R. 2579); Savings in Construction Act of 1996 (H.R. 2779); An act to accept the request of the Prairie Island Indian Community to revoke their charter of incorporation (H.R. 3068); Veterans Health Care Eligibility Reform Act of 1996 (H.R. 3118); National Transportation Safety Board Amendments of 1996 (H.R. 3159); False Statements Accountability Act of 1996 (H.R. 3166); Presidential and Executive Office Accountability Act (H.R. 3452); Veterans' Compensation Cost-of-Living Adjustment Act of 1996 (H.R. 3458); Walhalla National Fish Hatchery Conveyance Act (H.R. 3546); An act to waive temporarily the Medicaid enrollment composition rule for certain health maintenance organizations (H.R. 3871); A bill to make available certain Voice of America and Radio Marti multilingual computer readable text and voice recordings (H.R. 3916); Drug-Induced Rape Prevention and Punishment Act of 1996 (H.R. 4137); Professional Boxing Safety Act of 1996 (H.R. 4167); Administrative Dispute Resolution Act of 1996 (H.R. 4194); Omnibus Parks and Public Lands Management Act of 1996 (H.R. 4236); National Invasive Species Act of 1996 (H.R. 4283); Cache La Poudre River Corridor Act (S. 342); Water Resources Development Act of 1996 (S. 640); Irrigation Project Contract Extension Act of 1996 (S. 1649); Federal Courts Improvement Act of 1996 (S. 1887); Wildlife Suppression Aircraft Transfer Act of 1996 (S. 2078); Technical Corrections to the Personal Responsibility and Work Opportunity Act (S. 2183).

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 most recent report, readers are referred to the list of those bills included in Table 6 of the *OMB Sequestration Update Report to the President and Congress* (August 20, 1996) and in previous sequestration reports issued by OMB.
 - b. Includes change in both outlays and receipts.
 - c. Change in receipts.
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