

**SEQUESTRATION PREVIEW REPORT
FOR FISCAL YEAR 2000**

**A Congressional Budget Office
Report to the Congress and
the Office of Management and Budget
Pursuant to Section 254 of the Balanced
Budget and Emergency Deficit Control Act**

January 27, 1999

Sequestration Preview Report for Fiscal Year 2000

The Congressional Budget Office (CBO) estimates that the statutory limits on discretionary spending detailed in this sequestration report would require the Congress and the President to enact lower levels of discretionary spending for fiscal year 2000 than they did for 1999. However, they could increase mandatory spending or reduce revenues by nearly \$3 billion in 2000 without triggering a pay-as-you-go sequestration.

Discretionary Sequestration Report

The Balanced Budget and Emergency Deficit Control Act (the Deficit Control Act) sets limits on discretionary spending and provides for across-the-board cuts—known as sequestration—if annual appropriations exceed those limits. The caps are in effect through fiscal year 2002.

For 1999, the act splits discretionary spending into five categories: defense, nondefense, violent crime reduction, highways, and mass transit. Separate limits apply to budget authority and outlays in the defense, nondefense, and violent crime reduction categories. The caps for the highway and mass transit categories apply only to outlays.

For 2000, the Deficit Control Act combines defense and nondefense spending into an overall discretionary category while retaining separate categories for violent crime reduction, highway, and mass transit spending. For 2001 and 2002, the act folds violent crime reduction spending into the overall discretionary category, so the limits for those years apply to highway spending, mass transit spending, and all other discretionary spending. By law, those limits are adjusted each year to account for such things as the enactment of emergency appropriations and changes in budgetary concepts and definitions.

Incorporation of the Caps from OMB's December Final Report

The Office of Management and Budget (OMB) estimates whether a sequestration is required to eliminate a breach of the discretionary spending caps. CBO's estimates are merely advisory. Consequently, CBO uses the estimated caps in OMB's most recent sequestration report—the final sequestration report for fiscal year 1999, published in December—as the starting point for the cap adjustments it is required to make in this sequestration preview report for fiscal year 2000.

The limits in CBO's final sequestration report for 1999 (published in October) differed from those in OMB's final report for three reasons—all related to

estimates of emergency spending. First, when CBO calculates emergency spending, it includes contingent emergency appropriations, which must first be designated by the President as emergency requirements before they can be made available. CBO counts those appropriations as emergency spending at the time they are enacted because the Congress does not need to take any further action to make them available. OMB, by contrast, does not include those appropriations until the President has released them as emergency requirements.

Because of that difference in treatment, CBO's estimate of emergency budget authority from the fiscal year 1999 Omnibus Consolidated and Emergency Supplemental Appropriations Act was more than \$7 billion higher than OMB's. Approximately \$4.2 billion of that difference was in the defense category (see Table 1). The other \$3 billion was in the nondefense category (largely monies for the Federal Emergency Management Agency and for the Executive Office of the President to address the anticipated Year 2000 computer problem). CBO's estimates of defense and nondefense outlays in 1999 and overall discretionary outlays in 2000 through 2002 were also higher than OMB's for the same reason.

Second, CBO and OMB have different estimates of the rate at which noncontingent emergency funds provided in that act will be spent. Most of the difference involves two accounts—one in the defense discretionary category and the other in the nondefense discretionary category. The disparity in the defense discretionary category resulted largely from the estimated spending rates for almost \$1.9 billion in funding for the Department of Defense's (DoD's) overseas contingency operations transfer account, whereas the difference in the nondefense discretionary category resulted largely from the outlay projections for \$748 million in funding for diplomatic and consular affairs.

Third, two contingent emergency appropriations that were released by the President before CBO's October final report were not included in that report. Budget authority of \$50 million for the Low Income Home Energy Assistance Program (LIHEAP) was released on August 14, 1998, and another \$50 million in budget authority for various purposes (\$10 million for LIHEAP, \$5 million for the Federal Emergency Management Agency, and \$35 million for the Federal

Highway Administration) was released on September 22, 1998. OMB estimated that a portion of the outlays from those releases would not be spent until fiscal year 1999 or beyond. The outlays from the release for the Federal Highway Administration represent the entire technical difference between CBO's and OMB's final sequestration reports in the highway category for 1999 through 2002.

Emergency Funding Made Available Since OMB's Final Report

As required by law, CBO has also adjusted the limits on discretionary spending to reflect emergency appropriations made available since the previous sequestration report. Since the release of OMB's final report in December, no new emergency appropriations have been enacted. However, the President has released \$1,407 million in contingent emergency spending since December. Of that amount, budget authority of \$966 million and outlays of \$451 million are reflected in the 1999 limits on defense spending. The remaining budget authority of \$441 million and outlays of \$321 million are reflected in the 1999 caps for nondefense discretionary spending. CBO must make those adjustments because it adopts OMB's estimates as its starting point, and as noted above, OMB's estimates do not include the effects of contingent emergency appropriations until they are released by the President. The outlays for 2000 through 2002 from the release of contingent emergency monies are reflected in the limits on overall discretionary spending (see Table 1).

Changes in Concepts and Definitions

The Deficit Control Act requires that the discretionary caps be adjusted to take account of changes in budgetary concepts and definitions. Those adjustments generally reflect a movement of spending from one budget category to another, such as from discretionary to mandatory, or vice versa.

CBO and OMB (after consultation with the Congressional budget committees) have agreed to change the classification of several programs for fiscal year 2000. Those reclassifications increase the budget authority and outlay caps for overall discretionary

Table 1.
CBO Estimates of Discretionary Spending Limits for Fiscal Years 1999-2002 (In millions of dollars)

	1999		2000		2001		2002	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Total Discretionary Spending Limits in CBO's October Final Report	572,798	577,686	536,126	573,518	540,951	571,310	549,981	567,461
Defense Discretionary Category ^a								
Spending limits in CBO's October final report	279,891	271,978	*	*	*	*	*	*
Adjustments								
Incorporation of the caps from OMB's December final report	-4,240	-1,772	*	*	*	*	*	*
Contingent emergency appropriations designated since OMB's December final report	<u>966</u>	<u>451</u>	*	*	*	*	*	*
Spending limits as of January 15, 1999	276,617	270,657	*	*	*	*	*	*
Nondefense Discretionary Category ^a								
Spending limits in CBO's October final report	287,107	274,377	*	*	*	*	*	*
Adjustments								
Incorporation of the caps from OMB's December final report	-3,017	-378	*	*	*	*	*	*
Contingent emergency appropriations designated since OMB's December final report	<u>441</u>	<u>321</u>	*	*	*	*	*	*
Spending limits as of January 15, 1999	284,531	274,320	*	*	*	*	*	*
Violent Crime Reduction Category ^b								
Spending limits in CBO's October final report	5,800	4,953	4,500	5,554	*	*	*	*
Adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	*	*	*	*
Spending limits as of January 15, 1999	5,800	4,953	4,500	5,554	*	*	*	*

Table 1.
Continued

	1999		2000		2001		2002	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Overall Discretionary Category ^c								
Spending limits in CBO's October final report	*	*	531,626	538,731	540,951	539,894	549,981	534,762
Adjustments								
Incorporation of the caps from OMB's December final report	*	*	68	-2,658	0	-924	0	-681
Contingent emergency appropriations designated since OMB's December final report	*	*	0	445	0	114	0	38
Reclassifications	*	*	661	660	680	678	699	697
Changes in mandatory spending contained in appropriation acts	*	*	-634	-395	-528	-469	-510	-541
Changes in appropriated spending contained in authorizing legislation	*	*	<u>57</u>	<u>75</u>	<u>80</u>	<u>87</u>	<u>85</u>	<u>85</u>
Spending limits as of January 15, 1999	*	*	531,778	536,858	541,183	539,380	550,255	534,360
Highway Category								
Spending limits in CBO's October final report	d	21,977	d	24,472	d	26,226	d	26,990
Adjustments								
Incorporation of the caps from OMB's December final report	d	14	d	6	d	4	d	2
Revised trust fund revenue assumptions	*	*	d	443	d	690	d	279
Revised technical assumptions	*	*	d	<u>404</u>	d	<u>256</u>	d	<u>177</u>
Spending limits as of January 15, 1999	d	21,991	d	25,325	d	27,176	d	27,448
Mass Transit Category								
Spending limits in CBO's October final report	d	4,401	d	4,761	d	5,190	d	5,709
Adjustment (Revised technical assumptions)	*	*	d	<u>-128</u>	d	<u>-225</u>	d	<u>-167</u>
Spending limits as of January 15, 1999	d	4,401	d	4,633	d	4,965	d	5,542
Total Discretionary Spending Limits as of January 15, 1999	566,948	576,322	536,278	572,370	541,183	571,521	550,255	567,350

SOURCE: Congressional Budget Office.

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

- This category is folded into the overall discretionary category after fiscal year 1999.
- This category is folded into the overall discretionary category after fiscal year 2000.
- This category comprises defense and nondefense spending in fiscal year 2000, plus violent crime reduction spending in 2001 and 2002.
- There are no limits on budget authority for the highway and mass transit categories. All of the spending in the highway category, and most of the spending in the mass transit category, is controlled by obligation limitations, which are not counted as budget authority.

spending by almost \$700 million a year in 2000 through 2002 (see Table 1). Three programs that had previously been classified as mandatory will be reclassified as discretionary beginning in 2000: the portion of the Department of Education's Rehabilitation Services and Disability Research program other than basic state grants, the Department of Health and Human Services' National Vaccine Injury Compensation Program, and small-airport customs fees. Of those reclassifications, the Rehabilitation Services and Disability Research program involves the largest sums of money (more than \$300 million a year in 2000 through 2002).

In addition, three programs that had previously been classified as discretionary will be reclassified as mandatory beginning in 2000: the National Oceanic and Atmospheric Administration's (NOAA's) damage assessment revolving fund for restoration of Prince William Sound, retirement benefits for officers in the NOAA corps, and receipts for the Federal Housing Administration's Mutual Mortgage Insurance program. The last of those three items is the largest (almost \$350 million a year in negative outlays in 2000 through 2002).

Under the scorekeeping rules that apply to the procedures of the Deficit Control Act, the effect of changes in mandatory spending that are made in an appropriation act is counted as discretionary spending. CBO, OMB, and the budget committees have determined that the effect in the current year or budget year of such legislation is counted as discretionary in the act's cost estimate, but beyond the budget year it is reflected as an adjustment to the discretionary caps. For example, an appropriation act containing a provision that decreases mandatory spending will be credited with the savings from that provision for the budget year; savings for future years will be reflected as increases in the discretionary caps. Similarly, when changes in discretionary spending result from a provision in authorizing legislation, they are shown on the pay-as-you-go scorecard for all years, with a corresponding adjustment to the discretionary caps in future years to account for the increase or decrease in amounts that will be counted as discretionary in those years.

The appropriation acts for fiscal year 1999 contained various changes that affect mandatory spending. Those changes require a net decrease of \$634 million in budget authority and \$395 million in outlays for the 2000 limits on overall discretionary spending (see Table 1). After 2000, they require net reductions of roughly \$500 million a year in both the budget authority and outlay limits for the overall discretionary category.

Among the largest changes to mandatory spending contained in appropriation acts are a number of emergency provisions for agriculture programs in the Omnibus Consolidated and Emergency Supplemental Appropriations Act. Those provisions were designated as emergencies (and contributed to the cap adjustments that CBO and OMB made in their final sequestration reports), so CBO has already accounted for them in its aforementioned incorporation of the caps from OMB's final report. As a result, the estimate of total changes in mandatory spending contained in appropriation acts that is shown in Table 1 includes OMB's estimates of budget authority and outlays for those programs.

Changes in appropriated spending contained in authorizing legislation require a net increase of \$57 million in the budget authority limit and \$75 million in the outlay limit on overall discretionary spending for fiscal year 2000 (see Table 1). After 2000, they require net increases of roughly \$80 million a year in both the budget authority and outlay caps for the overall discretionary category. The largest of those adjustments reflects changes to DoD's appropriations for military health programs.

Revised Assumptions in the Highway and Mass Transit Categories

The Deficit Control Act requires that adjustments be made to the caps on highway and mass transit spending in each year's sequestration preview report. Those adjustments are designed to reflect changes in assumptions since the caps were established (in the Transportation Equity Act for the 21st Century, or TEA-21).

The cap on highway spending is adjusted for changes in two types of assumptions: estimates of revenues and various technical assumptions. The adjustment to reflect revised revenue estimates is calculated by taking the difference between actual revenues for 1998 and the revenues estimated for 1998 in TEA-21, plus the difference between the current estimate of revenues for 2000 and the revenues estimated for 2000 in TEA-21; determining the outlays that would result from additional highway obligations in 2000 equal to that sum; and then adjusting the caps for 2000 through 2002 by the amount of the outlays estimated for each year. Those adjustments to the highway cap total \$443 million for 2000, \$690 million for 2001, and \$279 million for 2002 (see Table 1).

The second adjustment to the highway cap accounts for technical changes in spending rates and estimates of outlays from prior-year obligations that have occurred since the enactment of TEA-21. Those technical adjustments total \$404 million for 2000, \$256 million for 2001, and \$177 million for 2002.

The cap on mass transit spending must also be adjusted to account for technical changes in spending rates and estimates of outlays from prior-year obligations. Those adjustments total -\$128 million for 2000, -\$225 million for 2001, and -\$167 million for 2002.

How the 2000 Caps Compare with Projected Discretionary Spending

Complying with the caps in fiscal year 2000 will require holding appropriations below the dollar amount enacted for 1999. Even excluding the 1999 appropriation of \$18 billion for the International Monetary Fund, the level of budget authority provided this year is almost \$26 billion higher than the caps for 2000, and total outlays flowing from that level of funding in 2000 will be nearly \$20 billion higher. Even if this year's appropriation for emergencies (which is presumably for nonrecurring expenditures) is also excluded, budget authority and outlays are still almost \$10 billion and \$13 billion higher, respectively, than their 2000 caps.

Pay-As-You-Go Sequestration Report

The Deficit Control Act also contains a mechanism to ensure that any legislative changes in direct spending or receipts enacted since the Budget Enforcement Act of 1997 and before 2003 do not increase the deficit. If legislative changes enacted through the end of a session of Congress increase the deficit (or reduce a projected surplus), a pay-as-you-go, or PAYGO, sequestration is required at the end of the session. Under that sequestration, mandatory programs (other than those specifically exempt) are cut to eliminate the increase. The PAYGO discipline applies to legislation enacted through 2002, but the sequestration procedure applies through 2006 to eliminate any increase in the deficit or decrease in a projected surplus caused by that legislation.

Both CBO and OMB are required to estimate the net change in the deficit that results 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 estimated effects of legislation from OMB's December final sequestration report as the starting point for this report. OMB estimates that legislation enacted between the passage of the Budget Enforcement Act of 1997 and December 10, 1998, will have a favorable effect of \$2,927 million on the net deficit in 2000 (see Table 2). Smaller balances of -\$833 million and -\$164 million are estimated for 2001 and 2002, respectively. Consequently, the Congress could enact legislation that increases mandatory spending or decreases revenues by those amounts without triggering PAYGO sequestrations in those years.

OMB also estimated a favorable balance of \$872 million for fiscal year 1999. However, pursuant to the Deficit Control Act, that balance is no longer available to offset increases in mandatory spending. As a result, it is shown as zero in Table 2.

Table 2.
Budgetary Effects of Direct Spending or Receipt Legislation
Enacted Since the Budget Enforcement Act of 1997 (By fiscal year, in millions of dollars)

Legislation	1999	2000	2001	2002	2003	2004
Total for OMB's December Final Report ^a	0	-2,927	-833	-164	-1,092	0

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget.

- a. Under Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, only the effect on the deficit of legislation not reflected in the OMB final sequestration report is carried over to the pay-as-you-go (PAYGO) calculations for the following preview report. Thus, the 1999 balance of -\$872 million in OMB's December report is shown as zero here because it cannot be included in calculating the 2000 PAYGO balance. Section 254 of that act calls for a list of all bills 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 Tables 7 and 8 of the *OMB Final Sequestration Report to the President and Congress*, issued on December 10, 1998, and in previous sequestration reports issued by OMB.