

# **CBO REPORT**

## **Sequestration Preview Report for Fiscal Year 1997**

**Reprint of Appendix B in "The Economic and Budget Outlook:  
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# Sequestration Update Report for Fiscal Year 1997

**U**nder 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.<sup>1</sup> 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.

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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.

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.

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## 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 adjustments to the caps, 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. The act established separate limits through 1998 on budget authority and outlays for the VCRTF and lowered the discretionary caps each year by that amount.



CBO's current estimates of the limits on general-purpose (non-VCRTF) discretionary spending (shown in Table 1) differ from those in its sequestration preview report published in March, for two reasons. First, CBO revised the limits to reflect differences between the spending limits in its preview report and those in

OMB's preview report. Second, it increased the limits to account for emergency funds made available since OMB issued its preview report. 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 presented in March.

**Table B-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 March 1996 Preview Report	520,730	549,284	525,145	544,822	528,303	543,308
Adjustments						
Differences from OMB's March 1996 preview report						
Changes in budgetary concepts and definitions						
Reclassification of discretionary spending to mandatory spending	0	0	0	62	0	126
Changes to mandatory programs made in appropriation measures <sup>a</sup>	<u>0</u>	<u>0</u>	<u>161</u>	<u>375</u>	<u>33</u>	<u>4</u>
Subtotal	<u>0</u>	<u>0</u>	<u>161</u>	<u>437</u>	<u>33</u>	<u>130</u>
Inflation	0	0	0	0	520	312
Releases of contingent emergency spending	<u>0</u>	<u>5</u>	<u>0</u>	<u>-5</u>	<u>0</u>	<u>0</u>
Total Differences from OMB's March 1996 Preview Report	0	5	161	432	554	442
Emergency 1996 appropriations enacted since OMB's preview report	941	717	0	962	0	-206
Contingent emergency appropriations designated since OMB's preview report	521	382	0	87	0	30
Continuing disability reviews	<u>15</u>	<u>60</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Adjustments	1,476	1,164	161	1,482	554	266
General-Purpose Spending Limits as of August 15, 1996	522,206	550,448	525,306	546,304	528,857	543,574
Violent Crime Reduction Trust Fund Spending Limits	4,287	2,334	5,000	3,936	5,500	4,904
Total Discretionary Spending Limits	526,493	552,782	530,306	550,240	534,357	548,478

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget.

a. includes changes that resulted from sign errors in CBO's preview report.



## Differences Between the Limits in CBO's and OMB's Preview 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 changes in budgetary concepts or new projections of inflation. 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 spending 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 numbers in the CBO and OMB March preview reports differed because of differing estimates of required adjustments to the spending caps. The largest discrepancy occurred in the category of adjustments that result from changes in budgetary concepts and definitions (see Table 1). CBO's estimate of that required adjustment in discretionary budget authority was lower than OMB's by \$161 million for 1997 and \$33 million for 1998. The resulting outlay adjustment was lower by \$437 million for 1997 and \$130 million for 1998. Some of the difference in outlays (\$62 million for 1997 and \$126 million for 1998) was caused by CBO's lower estimates of spending from the Department of Transportation's federal-aid highways account, which is classified as mandatory beginning in 1997. The rest of the difference in outlays and all of the difference in budget authority occurred because the two agencies have different estimates of the effects of changes to mandatory programs made in appropriation acts. Correcting for sign errors that appeared in CBO's preview report for that category of adjustment, CBO's estimates of required increases to the budget authority caps were lower than OMB's by \$73 million for 1997 and \$139 million for 1998. CBO's outlay adjustment was lower than OMB's by \$47 million for 1997 and \$30 million for 1998. Most of that estimating difference occurred in the wetlands and conservation reserve programs. In those programs, CBO expects smaller savings than OMB from acreage limitations contained in the 1996 agriculture appropriation bill.

Both CBO and OMB expect the rate of inflation (as measured by the implicit gross domestic product deflator) to be 2.7 percent in 1997. Therefore, the agencies agree on the size of the adjustment to the budget authority cap required to reflect changes in inflation estimates for 1997. They also agree on the outlay adjustment because they assumed the same rate of spending of appropriations. For 1998, however, CBO's estimate of inflation is lower than OMB's. As a result, CBO reduced its budget authority cap for 1998 by \$520 million more than OMB did and the outlay limit by \$312 million more than OMB.

The final difference between the estimates in the two preview reports occurred in adjustments for the release of contingent emergency appropriations. CBO increased the 1997 outlay cap by \$5 million more than OMB as a result of different estimated spending rates.

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

As required by the Budget Enforcement Act, CBO has also adjusted the discretionary spending limits to reflect emergency appropriations enacted since OMB's preview report. Between March and August, the Congress enacted emergency appropriations and rescissions of emergency appropriations totaling a net of \$941 million in 1996 budget authority (see Table 1). The availability of a portion of those appropriations is contingent on their release by the President as emergency requirements. CBO includes the appropriations in its cap adjustment because no further action by the Congress is needed to make them available. Outlays from those emergency appropriations require increases of \$717 million and \$962 million in the outlay limits for 1996 and 1997, respectively, and a decrease of \$206 million in the limit for 1998.

In addition, CBO has adjusted the 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 such appropriations that have already been released by the President. Since OMB published its March report, the President has released \$521 mil-





lion in 1996 contingent emergency appropriations, which will increase outlays by \$382 million in 1996, \$87 million in 1997, and \$30 million in 1998 (see Table 1). Most of those appropriations are for spending that is related to severe weather and other natural disasters.

### **Additional Funding for Continuing Disability Reviews in the Social Security Program**

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 spending limits are adjusted only if annual appropriations are made for those 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 1996, the maximum applies. The increases of \$15 million in the limit on budget authority and \$60 million in the limit on outlays are reflected in the caps shown in Table 1.

### **Comparing Discretionary Spending Limits with the Congressional Budget Resolution**

The total discretionary spending limits shown in Table 1 are significantly higher than the levels permitted by the Congress's 1997 budget resolution. For fiscal year 1997, the statutory spending limits are almost \$33 billion higher in budget authority and \$12 billion higher in outlays than the levels anticipated by the budget resolution. For fiscal year 1998, the caps exceed the amounts in the budget resolution by about \$41 billion in budget authority and \$22 billion in outlays.

## **Pay-As-You-Go Sequestration Report**

A pay-as-you-go 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 by 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 legislation that affects direct spending or receipts. 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 sequestration preview report as the starting point for this report.

OMB's March preview report estimated that changes in direct spending and receipts enacted between the time of the Budget Enforcement Act and March 1 increased the combined 1996 and 1997 deficits by \$2,417 million. That estimate excludes 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) and the deficit reduction contained in OBRA-93 itself (as required by law).

CBO's estimate of changes from legislation enacted since OMB's March report, when added to the amounts in that report, yields an increase in the combined 1996 and 1997 deficits of \$2,847 million (see Table 2). That figure includes the effect on the current year and budget year of all legislation that the Congress completed action on before its August recess--including welfare reform. Although CBO estimates that the legislation revamping the welfare system will significantly reduce the deficit in future years, the near-term effect is insufficient to offset the effects of other legislation.



**Table B-2.**  
**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 for OMB's March 1996 Preview Report <sup>a</sup>	1,028	1,389	2,371
Legislation Enacted Since OMB's Preview Report			
Tax benefits for members of the armed forces performing peacekeeping functions (P.L. 104-117) <sup>b</sup>	38	45	0
Contract With America Advancement Act (P.L. 104-121) <sup>c</sup>	-6	-341	-491
Federal Agriculture Improvement and Reform Act (P.L. 104-127)	3,175	1,476	-691
Antiterrorism and Effective Death Penalty Act (P.L. 104-132) <sup>c</sup>	-2	-3	-1
Omnibus Consolidated Rescissions and Appropriations Act (P.L. 104-134) <sup>b</sup>	0	-4	-6
Relief of Benchmark Rail Group, Inc. (Private Law 104-1)	1	0	0
Taxpayer Bill of Rights II (P.L. 104-168) <sup>b</sup>	30	15	-7
Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (H.R. 1975) <sup>c</sup>	0	-1	-1
Health Insurance Portability and Accountability Act of 1996 (H.R. 3103) <sup>c</sup>	-52	-275	79
Small Business Job Protection Act of 1996 (H.R. 3448) <sup>c</sup>	-92	-579	279
Personal Responsibility and Work Opportunity Act of 1996 (H.R. 3734) <sup>c</sup>	0	-2,994	-8,386
Separation Incentive Payments for the Agency for International Development (H.R. 3870)	0	-1	0
Change in the Deficit Since the Budget Enforcement Act	4,120	-1,273	-6,854

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: the National Technology Transfer and Advancement Act (P.L. 104-113); the Cuban Liberty and Democratic Solidarity Act (P.L. 104-114); Greens Creek Land Exchange Act (P.L. 104-123); Federal Tea Tasters Repeal Act (P.L. 104-128); Mercury-Containing and Rechargeable Battery Management Act (P.L. 104-142); Trinity River Fish and Wildlife Management Reauthorization Act (P.L. 104-143); Amagansette National Wildlife Refuge Property Act (P.L. 104-148); Anticounterfeiting Consumer Protection Act (P.L. 104-153); Church Arson Prevention Act (P.L. 104-155); an act to exchange lands in Gilpin County, Colorado (P.L. 104-158); an act to extend most-favored-nation treatment to products from Bulgaria (P.L. 104-162); National Children's Island Act of 1995 (P.L. 104-163); an act to amend the Foreign Assistance Act of 1961 and the Arms Export Control Act (P.L. 104-164); an act to convey lands in Rolla, Missouri (P.L. 104-165); Relief of Nathan C. Vance (Private Law 104-2); Food Quality Protection Act of 1996 (P.L. 104-170); an act to extend most-favored-nation treatment to products from Romania (P.L. 104-171); an act to authorize minors to load materials into certain balers and compactors (P.L. 104-174); an act to repeal certain provisions relating to Federal employees contracting or trading with Indians (P.L. 104-178); Office of Government Ethics Authorization Act of 1996 (P.L. 104-179); Safe Drinking Water Amendments of 1996 (P.L. 104-182); War Crimes Act of 1996 (H.R. 3680).

- 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 12-5 of the Budget Enforcement Act Preview Report contained in the *Budget of the United States Government, Fiscal Year 1997: Analytical Perspectives* (March 19, 1996) and in previous sequestration reports issued by OMB.
- b. Change in receipts.
- c. Change in outlays and receipts.



The bulk of the increase in CBO's estimate of changes in the 1996 and 1997 deficits comes from passage of the Federal Agriculture Improvement and Reform Act. CBO estimates that the act will increase spending in those years, whereas OMB estimates that it will decrease spending. The difference arises because the two agencies use different baselines for the 1996 crop year as the starting point for their analysis. Most aspects of the system of crop price support established by the 1990 farm bill expired at the end of 1995, so OMB assumed that payments for the 1996 crop year would be governed by the provisions of 1938 and 1949 agricultural acts. Those laws provided greater support to farmers than the 1990 act. Following the longstand-

ing practice of both agencies, CBO's baseline simply assumed continuation of the 1990 act, which led it to estimate increased outlays.

According to CBO's calculation, if the Congress did not reduce mandatory spending or increase receipts by a total of \$2,847 million before the end of the 104th Congress, mandatory accounts that are subject to an across-the-board reduction would face sequestration in 1997. A sequestration will not be required under OMB's figures, however, largely because of its estimate of the effects of the Federal Agriculture Improvement and Reform Act.

