

**SEQUESTRATION UPDATE REPORT  
FOR FISCAL YEAR 1999**

**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**

**August 15, 1998**

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# Sequestration Update Report for Fiscal Year 1999

**T**he Congressional Budget Office (CBO) believes it is too early to predict the likelihood of a discretionary sequestration in fiscal year 1999. The legislation affecting mandatory spending and revenues that has been adopted through August 7, 1998, would not trigger a pay-as-you-go (PAYGO) sequestration.

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## 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.

Before enactment of the Transportation Equity Act for the 21st Century (TEA-21) in June, the Deficit Control Act split discretionary spending into three categories for fiscal years 1998 and 1999: defense, non-defense, and spending to reduce violent crime. Separate limits applied to budget authority and outlays in each category. For fiscal year 2000, the act combined defense and nondefense spending into a single discretionary category and retained a separate category for violent crime reduction. For fiscal years 2001 and 2002, the act folded all three types of spending into

one discretionary category, so the limits would apply to total discretionary spending. (The joint explanatory statement that accompanied the conference report on the Balanced Budget Act of 1997 specified which category each appropriation account fell into.)

TEA-21 altered that structure by establishing two new caps that apply to outlays for specified highway and mass transit programs (which had been included in the nondefense caps) beginning in 1999. TEA-21 also reduced the caps on nondefense spending in 1999 and the caps on overall discretionary spending in 2000, 2001, and 2002. Because the new caps on highway and mass transit spending exceed the reductions in the other caps, the amount of discretionary outlays allowed under the Deficit Control Act was increased by a total of \$15.4 billion from 1999 through 2002.

By law, the discretionary spending limits are adjusted each year to account for such things as the enactment of emergency appropriations and changes in budgetary concepts and definitions. TEA-21 added special adjustments for the transportation caps. It requires that the caps on highway spending be adjusted each year in the sequestration preview report to reflect differences between current and future estimates of the revenues that will be attributed to the Highway Trust Fund. The legislation also requires that both types of transportation caps be adjusted each year to reflect any changes in technical estimates of the outlays that will result from the TEA-21 funding levels.

Under section 1024(b) of the Line Item Veto Act, the discretionary spending caps would have been adjusted by the amount of any Presidential cancellations of discretionary budget authority and outlays that were not overturned by a Congressional disapproval bill. No line-item veto cancellations were ever reflected in the caps, however, because the Supreme Court ruled the Line Item Veto Act unconstitutional in June.

## Differences Between the Limits in CBO's and OMB's Preview Reports

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

The caps in the two agencies' preview reports differed because of differing estimates of required adjustments for changes in budgetary concepts and definitions. CBO's estimate of the adjustment in the defense discretionary category for fiscal year 1999 was lower than OMB's by \$68 million in budget authority and \$67 million in outlays (see Table 1). CBO's estimate of the adjustment in the nondefense discretionary category for 1999 was higher than OMB's by \$254 million in budget authority and \$297 million in outlays. For 2000 through 2002, CBO's estimates for the overall discretionary category were also slightly higher than OMB's.

Most of the differences resulted from different estimates of changes in mandatory spending contained in fiscal year 1998 appropriation acts—particularly the estimates of a provision in the 1998 Treasury and General Government Appropriations Act to permit federal employees, for a limited period of time, to switch from the Civil Service Retirement System to the Federal Employees Retirement System. Another difference occurred because OMB reestimated the cost of arrears that the United States owes to various multilateral development banks, whereas CBO did not. The two agencies also had different estimates of changes in

discretionary spending contained in authorizing legislation (primarily the Balanced Budget Act of 1997).

In addition, OMB adjusted the defense and non-defense caps for 1999 to reflect the reclassification of spending for the Formerly Utilized Sites Remedial Action Program from the natural resources and environment function in the budget to the national defense function. Since that reclassification did not affect total discretionary spending, the caps on overall discretionary spending for 2000 through 2002 were not adjusted.

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

As required by law, 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 totaling \$5,448 million in 1998 budget authority. More than half of that amount (\$2,832 million) was in the defense discretionary category, and the remainder (\$2,616 million) was in the nondefense discretionary category. The availability of some of those appropriations is contingent on their designation by the President as emergency requirements. CBO includes such appropriations in its cap adjustments because no further action by the Congress is needed to make them available.

Outlays from those emergency appropriations total \$1,012 million in fiscal year 1998, \$2,007 million in 1999, \$1,136 million in 2000, \$853 million in 2001, and \$412 million in 2002. The outlay caps for both the defense and nondefense categories for 1998 and 1999 are adjusted to reflect the emergency spending for programs in those categories. Estimated emergency outlays for those programs also result in an increase in the caps on overall discretionary spending for 2000 through 2002. In addition, an emergency appropriation for the federal-aid highway account triggers an increase in the caps on highway spending for 1999 through 2002.

CBO has also adjusted the limits on discretionary spending for contingent emergency appropriations that the President has 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 February, the President has released \$100 million in 1998 contingent emergency appropriations for the Low Income Home Energy Assistance Program, which CBO estimates will increase nondefense discretionary outlays by \$50 million in both 1998 and 1999.

## **Caps on Highway and Mass Transit Spending**

As noted above, TEA-21 established two new caps beginning in fiscal year 1999 that apply to outlays for specified highway and mass transit programs; it also reduced the existing caps on nondefense spending in 1999 and the caps on other discretionary spending in 2000, 2001, and 2002. The highway category does not have a cap on budget authority because all of the spending in that category is controlled by the obligation limitations set in appropriation bills, which do not count as budget authority. Although spending for mass transit is controlled by a combination of appropriations and obligation limitations (which likewise are not counted as budget authority), that category has no limit on budget authority either. In his budget for fiscal year 1999, the President proposed redefining transportation obligation limitations as budget authority for both highway and mass transit spending, but that proposal has not been carried out.

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## **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. That mechanism is the PAYGO sequestration. If legislative changes enacted through the end of a ses-

sion of Congress increase the deficit (or reduce a projected surplus), a PAYGO sequestration is required at the end of the session. Under the sequestration, mandatory programs (other than those specifically exempt) are cut by enough 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 preview report as the starting point for this report. In February, OMB estimated that the effect of legislation enacted between the time of the Budget Enforcement Act and December 16, 1997, resulted in an \$11 million increase in the deficit (actually, a reduction in the surplus) in 1999. That estimate excludes changes resulting from legislation enacted before the Budget Enforcement Act, because the act removed all available balances from the PAYGO scorecard. In addition, legislation enacted between the time of OMB's November final sequestration report and December 16, 1997, had a favorable effect of \$153 million in 1998. (The balance for 1998 in OMB's final report is not available to offset increases in mandatory spending or decreases in revenues in fiscal year 1999.)

Legislation enacted since OMB's February preview report has reduced the deficit by \$598 million in 1998 and \$1,114 million in 1999, according to CBO's estimates. When added to the amounts in OMB's report, the result is a favorable balance of \$751 million for 1998 and \$1,103 million for 1999 (see Table 2). Thus, the Congress could enact legislation increasing mandatory spending or decreasing revenues by a total of \$1,854 million in 1998 and 1999 without triggering a PAYGO sequestration. Those figures include the budget year effect of all legislation on which the Congress completed action before its August recess.

**Table 1.**  
**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 Discretionary Spending Limits in CBO's January Preview Report	528,006	557,643	533,006	561,115	537,156	564,794	541,989	564,198	551,023	560,478
Defense Discretionary Category <sup>a</sup>										
Spending limits in CBO's January preview report	269,000	267,124	271,502	266,568	*	*	*	*	*	*
Adjustments										
Technical differences from OMB's February preview report	0	0	68	67	*	*	*	*	*	*
Emergency 1998 appropriations enacted since OMB's preview report	2,832	612	0	1,644	*	*	*	*	*	*
Spending limits as of August 15, 1998	271,832	267,736	271,570	268,279	*	*	*	*	*	*
Nondefense Discretionary Category <sup>a</sup>										
Spending limits in CBO's January preview report	253,506	285,686	255,704	289,594	*	*	*	*	*	*
Adjustments										
Technical differences from OMB's February preview report	0	0	-254	-297	*	*	*	*	*	*
Emergency 1998 appropriations enacted since OMB's preview report	2,616	400	0	254	*	*	*	*	*	*
Contingent emergency appropriations designated since OMB's preview report	100	50	0	50	*	*	*	*	*	*
Reductions specified in TEA-21	*	*	-859	-25,144	*	*	*	*	*	*
Spending limits as of August 15, 1998	256,222	286,136	254,591	264,457	*	*	*	*	*	*
Violent Crime Reduction Category <sup>b</sup>										
Spending limits in CBO's January preview report	5,500	4,833	5,800	4,953	4,500	5,554	*	*	*	*
Adjustments	0	0	0	0	0	0				
Spending limits as of August 15, 1998	5,500	4,833	5,800	4,953	4,500	5,554	*	*	*	*

(Continued)

**Table 1.**  
**Continued**

	1998		1999		2000		2001		2002	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Overall Discretionary Category <sup>c</sup>										
Spending limits in CBO's January preview report	*	*	*	*	532,656	559,240	541,989	564,198	551,023	560,478
Adjustments										
Technical differences from OMB's February preview report	*	*	*	*	-171	-111	-179	-125	-183	-132
Emergency 1998 appropriations enacted since OMB's preview report	*	*	*	*	0	1,097	0	827	0	397
Reductions specified in TEA-21	*	*	*	*	-859	-26,009	-859	-26,329	-859	-26,675
Spending limits as of August 15, 1998	*	*	*	*	531,626	534,217	540,951	538,571	549,981	534,068
Highway Category										
Spending limits in TEA-21	*	*	d	21,885	d	24,436	d	26,204	d	26,977
Adjustments (Emergency 1998 appropriations enacted since OMB's preview report)	*	*	d	109	d	39	d	26	d	15
Spending limits as of August 15, 1998	*	*	d	21,994	d	24,475	d	26,230	d	26,992
Mass Transit Category										
Spending limits in TEA-21	*	*	d	4,401	d	4,761	d	5,190	d	5,709
Adjustments	*	*	d	0	d	0	d	0	d	0
Spending limits as of August 15, 1998	*	*	d	4,401	d	4,761	d	5,190	d	5,709
Total Discretionary Spending Limits as of August 15, 1998	533,554	558,705	531,961	564,084	536,126	569,007	540,951	569,991	549,981	566,769

SOURCE: Congressional Budget Office.

NOTE: \* = not applicable; OMB = Office of Management and Budget; TEA-21 = Transportation Equity Act for the 21st Century.

- 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.

**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)**

	1998	1999	2000	2001	2002	2003
Total for OMB's February 1998 Preview Report <sup>a</sup>	-153	11	16	14	10	9
Legislation Enacted Since OMB's Preview Report						
An act to authorize the Secretary of Agriculture to convey certain lands and improvements in the State of Virginia (P.L. 105-171)	0	-1	-1	0	0	0
Transportation Equity Act for the 21st Century (P.L. 105-178) <sup>b,c</sup>	-440	-392	249	320	194	133
Care for Police Survivors Act of 1998 (P.L. 105-180)	1	1	1	1	1	1
Agricultural Research, Extension, and Education Reform Act of 1998 (P.L. 105-185)	0	5	24	-50	-53	-33
Agricultural Export Relief Act of 1998 (P.L. 105-194)	7	24	11	0	0	0
Child Support Performance and Incentive Act of 1998 (P.L. 105-200)	0	-100	-55	-65	10	210
Internal Revenue Service Restructuring and Reform Act of 1998 (P.L. 105-206) <sup>b,d</sup>	-168	-659	-519	241	806	1,157
Homeowners Protection Act of 1997 (P.L. 105-216)	2	2	0	0	0	0
Credit Union Membership Access Act (P.L. 105-219) <sup>e</sup>	0	6	16	27	40	54
Increase or Reduction (-) in the Net Deficit	-751	-1,103	-258	488	1,008	1,531

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 2003: Environmental Policy and Conflict Resolution Act of 1997 (P.L. 105-156); an act to consolidate certain mineral interests in national grasslands in Billings County, North Dakota (P.L. 105-167); Wireless Telephone Protection Act (P.L. 105-172); an act to amend the Immigration and Nationality Act to modify and extend the visa waiver pilot program (P.L. 105-173); Telemarketing Fraud Prevention Act of 1997 (P.L. 105-184); U.S. Holocaust Assets Commission Act of 1998 (P.L. 105-186); Deadbeat Parents Punishment Act of 1998 (P.L. 105-187); an act to validate certain conveyances in the City of Tulare, Tulare County, California (P.L. 105-195); National Drought Policy Act of 1998 (P.L. 105-199); an act to make a minor adjustment in the exterior boundary of the Devils Backbone Wilderness in the Mark Twain National Forest, Missouri (P.L. 105-210); an act to award a Congressional gold medal to Nelson Rolihlahla Mandela (P.L. 105-215); Workforce Investment Act of 1998 (P.L. 105-220); an act to establish the United States Capitol Police Memorial Fund (P.L. 105-223); an act to provide for the conveyance of small parcels of land in the Carson National Forest and the Santa Fe National Forest, New Mexico, to the village of El Rito and the town of Jemez Springs, New Mexico (H.R. 434); Foreign Relations Authorization Act (H.R. 1757); Nazi War Crimes Disclosure Act (S. 1379); and Emergency Farm Financial Relief Act (S. 2344).

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 the 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 6 and 7 of the *OMB Final Sequestration Report to the President and Congress* issued on November 24, 1997, and in previous sequestration reports issued by OMB.
- b. Change in outlays and receipts.
- c. Pursuant to section 8102 of P.L. 105-178, the figures shown exclude direct spending and receipts from title VIII of this act.
- d. Pursuant to section 3309 of P.L. 105-206, the figures shown exclude the effects of receipts that were designated as an emergency requirement under section 252(e) of the Balanced Budget and Emergency Deficit Control Act.
- e. The direct spending effects of this bill are excluded because they are related to guarantee commitments for deposit insurance, which are exempt from the pay-as-you-go procedures under the Balanced Budget and Emergency Deficit Control Act.