

**SEQUESTRATION UPDATE 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**

**August 15, 1999**

---

# Sequestration Update Report for Fiscal Year 2000

**T**he Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act) requires the Congressional Budget Office (CBO) to issue a sequestration update report each year on August 15 reflecting laws enacted since the sequestration preview report published in January. This CBO update report reflects activity affecting the discretionary spending caps and the pay-as-you-go (PAYGO) scorecard through August 12, 1999.

Because only two appropriation bills had cleared the Congress by the time this report was completed, it is too early to predict the likelihood of a discretionary sequestration in fiscal year 2000. So far, newly enacted laws that affect mandatory spending and revenues should not trigger a pay-as-you-go sequestration. However, CBO estimates that a sequestration could be required if the Taxpayer Refund and Relief Act of 1999 becomes law and its PAYGO effects are not offset before the end of this Congressional session.

---

## Discretionary Sequestration Report

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 2002. By law, they are adjusted each year to account for

such things as the enactment of emergency appropriations and changes in budgetary concepts and definitions.

For 1999, the Deficit Control Act splits discretionary spending into five categories: defense, non-defense, violent crime reduction, highway, and mass transit. Separate limits apply to budget authority and outlays in the first three categories. The caps for the highway and mass transit categories apply only to outlays. For 2000, the act combines defense and non-defense spending into an overall discretionary category while retaining separate categories for violent crime reduction, highway, and mass transit spending. For 2001 and 2002, it 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.

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

The Office of Management and Budget (OMB) is responsible for determining whether a sequestration is required to eliminate a breach of the discretionary spending caps. CBO's estimates are merely advisory. To prepare its reports, CBO starts by adjusting the estimated caps in its most recent sequestration report (in this case, the January preview report) for differences from the equivalent OMB report. CBO then

**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 January Preview Report	566,948	576,322	536,278	572,370	541,183	571,521	550,255	567,350
Defense Discretionary Category <sup>a</sup>								
Spending limits in CBO's January preview report	276,617	270,657	*	*	*	*	*	*
Adjustments								
Technical differences from OMB's February preview report	-570	-237	*	*	*	*	*	*
Emergency 1999 appropriations enacted since OMB's preview report (P.L. 106-31)	9,249	2,525	*	*	*	*	*	*
Contingent emergency appropriations designated since OMB's preview report (P.L. 105-277)	<u>3,058</u>	<u>1,603</u>	*	*	*	*	*	*
Spending limits as of August 12, 1999	288,354	274,548	*	*	*	*	*	*
Nondefense Discretionary Category <sup>a</sup>								
Spending limits in CBO's January preview report	284,531	274,320	*	*	*	*	*	*
Adjustments								
Technical differences from OMB's February preview report	2	4	*	*	*	*	*	*
Emergency 1999 appropriations enacted since OMB's preview report (P.L. 106-31)	3,533	1,057	*	*	*	*	*	*
Contingent emergency appropriations designated since OMB's preview report (P.L. 105-277)	<u>1,886</u>	<u>549</u>	*	*	*	*	*	*
Spending limits as of August 12, 1999	289,952	275,930	*	*	*	*	*	*
Violent Crime Reduction Category <sup>b</sup>								
Spending limits in CBO's January preview 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 August 12, 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 <sup>c</sup>								
Spending limits in CBO's								
January preview report	*	*	531,778	536,858	541,183	539,380	550,255	534,360
Adjustments								
Technical differences								
from OMB's February								
preview report	*	*	-7	-158	141	560	127	612
Emergency 1999								
appropriations								
enacted since OMB's								
preview report	*	*	1,881	7,258	8	2,178	8	935
(P.L. 106-31)								
Contingent emergency								
appropriations								
designated since								
OMB's preview report	*	*	0	1,545	0	581	0	351
(P.L. 105-277)								
Spending limits as of								
August 12, 1999	*	*	533,652	545,503	541,332	542,699	550,390	536,258
Highway Category								
Spending limits in CBO's								
January preview report	d	21,991	d	25,325	d	27,176	d	27,448
Adjustments								
Technical differences								
from OMB's February								
preview report	d	0	d	-751	d	-957	d	-785
Spending limits as of								
August 12, 1999	d	21,991	d	24,574	d	26,219	d	26,663
Mass Transit Category								
Spending limits in CBO's								
January preview report	d	4,401	d	4,633	d	4,965	d	5,542
Adjustments								
Technical differences								
from OMB's February								
preview report	d	0	d	-516	d	-77	d	-158
Spending limits as of								
August 12, 1999	d	4,401	d	4,117	d	4,888	d	5,384
Total Discretionary Spending								
Limits as of August 12, 1999	584,106	581,823	538,152	579,748	541,332	573,806	550,390	568,305

SOURCE: Congressional Budget Office.

NOTE: \* = not applicable; OMB = Office of Management and Budget; P.L. 105-277 = Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999; P.L. 106-31 = 1999 Emergency Supplemental Appropriations Act.

- 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.

updates the OMB amounts for enacted legislation and other activity that affects the caps.

For 1999, the spending limits in CBO's preview report differed from those in OMB's preview report because CBO included a Presidential release of contingent emergency appropriations for national defense that OMB did not. (OMB's report included the amount as an anticipated, rather than an actual, release and therefore did not adjust the defense discretionary caps for it.) Consequently, CBO's estimate of the defense discretionary limits for 1999 was higher than OMB's by \$570 million in budget authority and \$237 million in outlays (see Table 1). In the non-defense discretionary category, CBO's estimate of the adjustment for 1999 was lower than OMB's by \$2 million in budget authority and \$4 million in outlays because CBO did not include some releases that OMB did.

The estimates in the two agencies' preview reports also differed for 2000 through 2002. Most of those differences occurred in estimates of how fiscal year 1998 appropriation acts will affect mandatory spending—particularly a provision in the 1998 Treasury and General Government Appropriations Act to allow federal employees, for a limited period of time, to switch from the Civil Service Retirement System to the Federal Employees Retirement System. As a result of such differences, CBO's estimates for the overall discretionary category were higher than OMB's for 2000 (by \$7 million in budget authority and \$158 million in outlays) but lower than OMB's for 2001 and 2002.

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

As required by law, OMB and CBO adjust the caps on discretionary spending to reflect emergency appropriations made available since the previous sequestration report. Such appropriations can take two forms. Regular emergency appropriations are designated as emergencies by the Congress and the President when they are enacted. In that case, OMB and CBO are required to adjust the discretionary spending caps as soon as the appropriations are enacted.

By contrast, appropriations that are designated as contingent emergency appropriations become available only when the President releases them. The limits on discretionary spending must also be adjusted to reflect those amounts, but CBO and OMB do so at different times. CBO includes such appropriations in its cap adjustments when they are enacted because no further action by the Congress is needed to make the funds available. OMB does not make its adjustments until the President has released the contingent emergency amounts. That timing difference is the reason that the two agencies often report different spending limits in their sequestration reports.

In this update report for fiscal year 2000, CBO has adjusted the caps included in OMB's preview report to account both for newly enacted emergency and contingent emergency appropriations and for releases of previously enacted contingent emergency funding.

**Newly Enacted Emergency Appropriations.** Since OMB issued its preview report in February, the Congress has enacted emergency and contingent emergency appropriations totaling \$12,782 million in budget authority for 1999 and \$1,881 million in budget authority for 2000. About three-fourths of the amount for 1999, or \$9,249 million, falls in the defense discretionary category, primarily to pay for operations in Kosovo. The rest of the 1999 amount (\$3,533 million) falls in the nondefense category. Some of those appropriations are contingent, so they will only become available when the President releases them. (Again, CBO has included those contingent emergency appropriations in its current estimates of the discretionary spending caps, but the estimates in OMB's update report will differ from CBO's because they will reflect only the amounts actually released.)

CBO estimates that those newly enacted emergency appropriations will result in outlays of \$3,582 million in fiscal year 1999, \$7,258 million in 2000, \$2,178 million in 2001, and \$935 million in 2002. Consequently, CBO has adjusted the caps on defense and nondefense outlays for 1999 and the caps on overall discretionary outlays for 2000 through 2002 to reflect those amounts.

**Newly Released Emergency Appropriations.** Since the publication of OMB's February preview report, the President has released \$4,944 million in 1999 contingent emergency appropriations. More than half (\$3,058 million) were for defense-related operations in Kosovo and for atomic energy defense activities. According to CBO's estimates, those releases will increase defense discretionary outlays by \$1,603 million in 1999. The remaining newly released contingent appropriations (\$1,886 million) were primarily for domestic disaster recovery efforts, Year 2000 compliance, and the Low Income Home Energy Assistance Program. CBO estimates that those releases will raise nondefense discretionary outlays by \$549 million in 1999.

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

As noted above, separate caps apply to outlays for specified highway and mass transit programs. The highway category does not have caps on budget authority because all of its spending is controlled by the obligation limitations set in appropriation bills, which do not count as budget authority. Spending for mass transit is controlled by a combination of appropriations and obligation limitations, but that category has no statutory limit on budget authority either. The estimates of the highway caps in CBO's preview report were higher than OMB's estimates by \$751 million for 2000, \$957 million for 2001, and \$785 million for 2002. Likewise, CBO's preview-report estimates of the mass transit caps were higher than OMB's by \$516 million for 2000, \$77 million for 2001, and \$158 million for 2002. Those differences resulted from technical estimating differences involving obligational levels and spendout rates.

---

## **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 reduce the surplus or increase the deficit. That mechanism is the PAYGO sequestration. If legislative changes enacted through the end of a session of Congress 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 negative effect on the surplus. The PAYGO discipline governs legislation enacted through 2002, but the sequestration procedure applies through 2006 to eliminate any projected increase in the deficit or decrease in the surplus caused by that legislation.

Both CBO and OMB must estimate net changes in annual surpluses or deficits that result from direct-spending or receipt legislation. But as with the discretionary spending limits, OMB's estimates determine whether a sequestration is necessary. CBO has therefore adopted the estimated effects of legislation from OMB's preview report as its 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 31, 1998, resulted in a \$2,927 million increase in the surplus for 2000. (That estimate excludes changes resulting from legislation enacted before the Budget Enforcement Act, because the act removed all available balances from the PAYGO scorecard.)

According to CBO's estimates, laws enacted between the publication of OMB's February report and August 12 (the closing date for this update report) have increased the surplus for 1999 by \$5 million and reduced the surplus for 2000 by \$49 million (see Table 2). When those amounts are added to the figures in OMB's preview report, the result is a favorable PAYGO balance of \$2,883 million for 2000. On the basis of that amount, no PAYGO sequestration would be necessary in 2000.

However, before the Congress adjourned in early August, it passed several bills that would reduce PAYGO balances. The most significant is the Taxpayer Refund and Relief Act of 1999. CBO estimates that a PAYGO sequestration could be triggered if that bill becomes law and its PAYGO effects are not offset before the end of the Congressional session.

**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 February 1999 Preview Report <sup>a</sup>	0	-2,927	-833	-164	-1,092	0
Laws Enacted Since OMB's Preview Report <sup>b</sup>						
Education Flexibility Partnership Act of 1999 (P.L. 106-25)	0	32	-11	-16	-5	0
Miscellaneous Trade and Technical Corrections Act of 1999 (P.L. 106-36) <sup>c</sup>	<u>-5</u>	<u>17</u>	<u>-3</u>	<u>-4</u>	<u>-6</u>	<u>-7</u>
Subtotal	-5	49	-14	-20	-11	-7
Legislation Cleared by the Congress Since OMB's Preview Report <sup>b</sup>						
Veterans Entrepreneurship and Small Business Development Act (H.R. 1568)	1	0	0	0	0	0
Taxpayer Refund and Relief Act of 1999 (H.R. 2488) <sup>c</sup>	0	5,223	960	34,527	52,843	61,628
Water Resources Development Act of 1999 (S. 507) <sup>d</sup>	0	n.a.	n.a.	n.a.	n.a.	n.a.
For the relief of Global Exploration and Development Corp., Kerr-McGee Corp., and Kerr-McGee Chemical, LLC (successor to Kerr-McGee Chemical Corp.), and for other purposes (S. 606)	<u>52</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	53	5,223	960	34,527	52,843	61,628
Net Deficit Increase	48	2,345	113	34,343	51,740	61,621

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 2004: an act to extend for six additional months the period for which chapter 12 of Title 11, United States Code, is reenacted (P.L. 106-5); Interim Federal Aviation Administration Authorization Act (P.L. 106-6); an act to protect producers of agricultural commodities who applied for a Crop Revenue Coverage PLUS supplemental endorsement for the 1999 crop year (P.L. 106-7); an act to extend the tax benefits available with respect to services performed in a combat zone to services performed in the Federal Republic of Yugoslavia (Serbia/Montenegro) and certain other areas, and for other purposes (P.L. 106-21); an act to authorize the President to award a gold medal on behalf of the Congress to Rosa Parks in recognition of her contributions to the Nation (P.L. 106-26); an act to declare a portion of the James River and Kanawha Canal in Richmond, Virginia, to be nonnavigable waters of the United States for purposes of Title 46, United States Code, and the other maritime laws of the United States (P.L. 106-32); Y2K Act (P.L. 106-37); Chemical Safety Information, Site Security and Fuels Regulatory Relief Act (P.L. 106-40); Lake Oconee Land Exchange Act (P.L. 106-41); Trade Amendments Act of 1999 (P.L. 106-43); an act to preserve the cultural resources of the Route 66 corridor and to authorize the Secretary of the Interior to provide assistance (P.L. 106-45); an act to clarify the quorum requirement for the Board of Directors of the Export-Import Bank of the United States (H.R. 2565); an act to amend the Agricultural Adjustment Act of 1938 to release and protect the release of tobacco production and marketing information (S. 1543).

OMB = Office of Management and Budget; P.L. = public law; n.a. = not available.

Negative numbers indicate an increase in the surplus or a reduction in the deficit.

- a. Section 254 of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, calls for a list of all bills that are included in the pay-as-you-go calculations. 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.
- b. Through August 12, 1999.
- c. Change in outlays and receipts.
- d. Estimates of budgetary effects were not available at time of publication.