

# **CBO REPORT**

## **Sequestration Preview Report for Fiscal Year 1996**

**Reprint of Appendix A in "The Economic and Budget Outlook:  
Fiscal Years 1996-2000," January 1995 (in CBO Publication #615)**

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# Sequestration Preview Report for Fiscal Year 1996

**T**he Budget Enforcement Act of 1990 amended the Balanced Budget and Emergency Deficit Control Act of 1985 (the Balanced Budget Act) and the Congressional Budget Act of 1974 to add new enforcement procedures for direct (mandatory) spending, receipts, and discretionary spending for fiscal years 1991 through 1995. The Omnibus Budget Reconciliation Act of 1993 further amended the two acts to apply the new procedures through 1998. The law requires the Congressional Budget Office (CBO) to issue a sequestration preview report five days before the President's budget submission in January or February, a sequestration update report on August 15, and a final sequestration report 10 days after the end of a session of Congress. The sequestration preview report must contain estimates of the following items:

- o The discretionary spending limits and any adjustments to them; and
- o The amount by which direct spending or receipt legislation enacted after the Budget Enforcement Act has increased or decreased the deficit and the amount of any required pay-as-you-go sequestration.

This report to the Congress and the Office of Management and Budget (OMB) provides the required information. In addition to the material presented here, reports in previous years were required to specify the amount of the adjusted maximum deficit for the coming fiscal year. That requirement is no

longer in effect because the Budget Enforcement Act specified maximum deficit amounts only through 1995. Thus, there is no maximum deficit amount set by law for fiscal year 1996 or any subsequent year.

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## Discretionary Sequestration Report

The Omnibus Budget Reconciliation Act of 1993 (OBRA-93) established new limits on total discretionary budget authority and outlays for fiscal years 1996 through 1998. But it left in place the existing discretionary spending limits for 1993 through 1995 and the existing enforcement procedures, including the specific requirements for adjusting the discretionary limits. The Violent Crime Control and Law Enforcement Act of 1994, enacted in September 1994, excluded spending from the Violent Crime Reduction Trust Fund (VCRTF) from the constraints of the existing caps. It also lowered those caps by the assumed amount of trust fund spending for each year that the caps would be in effect and established separate limits through 1998 on outlays resulting from VCRTF appropriations.

For several reasons, current estimates of the limits on total general-purpose (non-VCRTF) discretionary spending for 1995 through 1998 differ from those in CBO's December 1994 final sequestration report (see Table A-1). First, the estimates have been re-



**Table A-1.**  
**CBO Estimates of Discretionary Spending Limits for Fiscal Years 1995 Through 1998 (In millions of dollars)**

	1995		1996		1997		1998	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
General-Purpose Spending Limits in CBO's December 1994 Final Report	518,050	547,437	514,344	547,549	522,555	544,220	524,592	542,427
<b>Adjustments</b>								
Technical differences from OMB's December 1994 final report	-1,027	-1,005	0	-270	0	-73	0	-48
Contingent emergency appropriations designated since OMB's December 1994 final report	44	6	0	14	0	17	0	5
<b>Concepts and definitions</b>								
Wetlands reserve	0	0	-37	-4	-37	-29	-37	-37
Conservation reserve	0	0	-20	-20	118	118	-8	-6
Market promotion	0	0	0	12	0	0	0	0
Morrill-Nelson	0	0	3	3	3	3	3	3
Cottonseed and sunflower	0	0	-30	-27	0	-3	0	0
Emergency preparedness grants	0	0	-9	-5	0	-4	0	0
Pipeline safety fees	0	0	18	18	19	19	20	20
Members of Congress's pay	0	0	2	2	2	2	2	2
Judges' pay	0	0	6	6	6	6	6	6
FHA Mutual Mortgage Insurance	0	0	3	3	3	3	3	3
FHA nonjudicial disclosure	0	0	4	4	5	5	5	5
Subtotal	0	0	-80	-8	119	120	-4	-4
Change in 1994 inflation	0	0	-1,393	-571	-1,440	-1,008	-1,490	-1,252
<b>Total</b>	<b>-983</b>	<b>-999</b>	<b>-1,453</b>	<b>-835</b>	<b>-1,321</b>	<b>-944</b>	<b>-1,494</b>	<b>-1,299</b>
General-Purpose Spending Limits as of January 23, 1995	517,067	546,438	512,891	546,714	521,234	543,276	523,098	541,128
Violent Crime Reduction Trust Fund Spending Limits	2,423	703	4,287	2,334	5,000	3,936	5,500	4,904
<b>Total Discretionary Spending Limits<sup>a</sup></b>	<b>519,490</b>	<b>547,141</b>	<b>517,178</b>	<b>549,048</b>	<b>526,234</b>	<b>547,212</b>	<b>528,598</b>	<b>546,032</b>

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget; FHA = Federal Housing Administration.

a. The limits assumed in CBO's January 1995 baseline, discussed in Chapter 2, are higher than those shown here for 1997 and 1998 because the baseline caps include estimated adjustments that will be made in later sequestration reports.



vised to reflect differences between the spending limits in that report and those in OMB's final report. Second, the limits have been increased slightly to account for emergency funds made available since OMB issued its final report. Third, they have been adjusted to reflect changes in concepts and definitions. Finally, the limits for 1996 through 1998 have been reduced because inflation in 1994 was lower than had been anticipated when those limits were set by OBRA-93. CBO's estimates of the limits for this report do not include any prospective adjustments--changes that cannot legally be made until future sequestration reports. The limits on VCRTF outlays are not subject to any adjustment. (The CBO baseline for discretionary spending in 1996 through 1998 detailed in Chapter 2 equals the sum of the VCRTF limits and an estimate of the general-purpose limits. That estimate does include CBO's projections of prospective adjustments for differences between anticipated and actual inflation, which will be made in future preview reports. As a result, the estimated caps described in Chapter 2 are slightly higher than the caps depicted here. The baseline caps do not include the adjustment contained in this preview report for contingent emergency designations that the President made after the baseline had been completed.)

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

The Balanced Budget Act requires both CBO and OMB to calculate changes in the discretionary spending limits specified in the act. OMB's estimates of the limits are controlling, however, in determining whether enacted appropriations are within the limits or whether a sequestration is required to eliminate a breach of the limits. CBO's estimates are advisory. In acknowledgment of OMB's statutory role, when CBO calculates changes in the limits for a report, it first adjusts for the differences between the limits in its most recent report and the limits in OMB's most recent report--in effect, using OMB's official estimates as the starting point for the adjustments that CBO is required to make in the new report.

The differences between estimates of spending limits by the two agencies in their December 1994

final reports result almost entirely from different estimates of emergency spending that was made available after the agencies had issued their update reports in August 1994 (see Table A-1). The Balanced Budget Act requires that the discretionary spending limits be increased for appropriations that are classified as emergency spending by the law providing them and designated as such by the President. Most of the emergency spending reflected in the final reports comes from appropriations provided in seven of the regular appropriation acts for 1995. The remainder reflects the release of appropriations that had been enacted previously. Those contingent emergency appropriations (funding that becomes available for obligation only if and when the President designates it as emergency spending) were enacted before OMB issued its update report on August 19, but they were designated by the President after that report was released.

The discrepancy between the estimates of emergency budget authority in the two final reports largely results from the different ways in which CBO and OMB account for contingent emergency appropriations in their estimates of appropriation bills. OMB includes only the effects of the contingent emergency appropriations that the President designates as emergency spending when he signs the bill. CBO, however, includes the cost of all contingent emergency appropriations in its estimate of a bill, both because it must often issue its estimates before the President has signed the bill and in order to reflect the full amount of spending that could result from Congressional action.

Since OMB does not include the cost of undesignated contingent emergency appropriations in its estimates of bills, it adjusts the spending limits for all such appropriations subsequently designated by the President. Because CBO includes the effects of the undesignated contingent emergencies in its bill estimates, it makes a further adjustment only for designations that relate to contingent appropriations enacted before OMB's most recent sequestration report. That adjustment is necessary because the effects of those appropriations are included neither in the limits from that OMB report--which represent the starting point for CBO's adjustments--nor in CBO's adjustments for newly enacted emergency legislation.





As a result of the different treatment of contingent emergencies, CBO estimated almost \$1 billion more in 1995 emergency spending than OMB estimated and attributed more of the emergency spending to the appropriation acts and less to the release of contingent funds. The different estimates of 1995 emergency budget authority also produced differences in outlays for 1995 through 1998.

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

In addition to the adjustments resulting from differences between the caps in CBO's and OMB's final reports, changes are made in the discretionary spending limits to reflect emergency appropriations made available since OMB's final report. The only new emergency funds were made available by two new designations of previously appropriated funds: a December 27, 1994, designation of \$32 million of contingent emergency budget authority enacted in 1995 appropriation bills for community development grants and economic development assistance programs, and a January 9, 1995, designation of \$12 million appropriated to the President in a 1994 supplemental appropriation act for unanticipated needs related to natural disasters.

### **Changes in Concepts and Definitions**

The Balanced Budget Act provides for adjustments that reflect changes in budgetary concepts and definitions. All such adjustments in this report are of one kind: reclassifications of spending from one budget category to another. The category changes reported here derive from the practice of assigning certain legislated changes in mandatory spending to the discretionary spending side of the Balanced Budget Act ledger and certain legislated changes in discretionary programs to the pay-as-you-go (PAYGO) side, which is generally supposed to deal with mandatory spending and tax legislation. OMB and the budget committees have determined that any costs or savings that result from provisions in an appropriation act should be reflected in enforcing the discretionary spending limits, even if the costs or savings are in a mandatory spending program. Similarly, any appro-

priation for a discretionary program provided in authorizing legislation is included on the PAYGO scorecard.

Changes in current year or budget year mandatory spending that are made in appropriation acts are included in the estimate of discretionary spending for that year, but appropriations provided in authorizing legislation for those years are not. Estimates of discretionary spending attributed to future appropriation acts will include all such spending provided in previous years--whether in appropriation or authorization acts--and exclude mandatory spending provided in previous appropriation acts. Consequently, the discretionary spending limits for future years are adjusted to ensure that the appropriations committees are held responsible for the future effects of changes in mandatory programs included in their legislation but are not affected by appropriations for discretionary programs provided by other committees. Without compromising enforcement of the Balanced Budget Act, adjustments of that sort offer a simple alternative to permanently tracking all mandatory spending effects of appropriation actions and all discretionary spending enacted in authorizing legislation.

For example, the fiscal year 1995 Rural Development, Agriculture, and Related Agencies appropriation act (Public Law 103-330) contained a provision that reduced 1995 spending for the mandatory wetlands reserve program by \$186 million in budget authority and \$20 million in outlays. One result of that provision, however, is that in 1996, 1997, and 1998, budget authority in the program will increase by \$37 million a year; outlays for those later years will increase by \$4 million, \$29 million, and \$37 million, respectively. The 1995 savings were included in the estimate of the appropriation act, but rather than attribute the 1996-1998 costs to the appropriation acts for those years, the discretionary limits for 1996 through 1998 have been reduced by the appropriate amounts.

### **Change in 1994 Inflation**

The Balanced Budget Act requires that the discretionary spending limits for 1996 through 1998 be adjusted for the difference between the actual inflation rate in 1994 and the rate for that year anticipated



when the 1996-1998 limits were enacted in 1993. Because actual inflation (measured by the implicit gross domestic product deflator) was lower in 1994 than had been expected in 1993, the adjustment reduces the spending limits--for budget authority, by close to \$1.5 billion each year, and for outlays, from \$571 million in 1996 to \$1,252 million in 1998.

In estimating the adjustment for inflation, CBO used the method that OMB adopted in its 1993 sequestration preview report issued in January 1992. That method entails adjusting only nonpersonnel costs instead of adjusting all discretionary spending. Although CBO has consistently disagreed with OMB's interpretation of the inflation adjustment provision in the Balanced Budget Act, OMB's cap adjustments are controlling. Therefore, CBO follows its lead in order to avoid confusion.

## Pay-As-You-Go Sequestration Report

If changes in direct spending programs or governmental receipts enacted since the Budget Enforcement Act increase the combined current and budget year deficits, a pay-as-you-go sequestration is triggered at the end of the Congressional session, and nonexempt mandatory programs are cut enough to eliminate the increase. The pay-as-you-go provisions of the Balanced Budget Act had applied through fiscal year 1995, but OBRA-93 extended them through 1998.

The Budget Enforcement Act requires both CBO and OMB to estimate the net change in the deficit

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

	1995	1996	1997	1998
Total from OMB's December 1994 Final Report <sup>a</sup>	-2,009	-148	-357	-9
Adjustments Due to Legislation Enacted Since OMB's Final Report <sup>b</sup>	0	0	0	0
Total Change in the Deficit Since the Budget Enforcement Act	-2,009	-148	-357	-9

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget.

- a. Section 254 of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, 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 overall changes in the deficit resulting from bills enacted through the end of the 103rd Congress, readers are referred to the lists of those bills included in Table 6 of the *OMB Final Sequestration Report to the President and Congress for Fiscal Year 1995* (December 16, 1994) and in previous sequestration reports issued by OMB.
- b. The Congressional Accountability Act of 1995 (S. 2) passed the Congress on January 17, 1995, but had not been signed or vetoed by the President as of January 20, 1995. Since that bill affects direct spending by less than \$500,000 in any year through 1998, no adjustment to the effect on the deficit of direct spending or receipt legislation is made.



resulting from direct spending or receipt legislation. As is the case with the discretionary spending limits, however, OMB's estimates are controlling in determining whether a sequestration is required. CBO therefore adopts the estimates of the changes in the deficit specified in OMB's December final report as the starting point for this report. Table A-2 shows CBO's estimates of changes in the deficit for 1995 through 1998 that result from direct spending or receipt legislation enacted since the Budget Enforcement Act. Those figures reflect OMB's estimates of changes caused by legislation enacted through the end of the 103rd Congress. The estimates do not include any changes in the deficit for 1996 through 1998 resulting from legislation enacted before OBRA-93 because the pay-as-you-go procedures did not apply to those years until OBRA-93 was enacted. Because the only legislation affecting direct spending or revenues that has been enacted thus far in the 104th Congress—the Congressional Accountability Act of 1995 (S. 2)—increases spending by less than \$500,000 in any year, there is no adjustment to the estimates from OMB's final report.

The changes in direct spending and revenues reported by OMB in December 1994 yield a net de-

crease in the combined 1995 and 1996 deficits of more than \$2 billion and smaller decreases for each of the two subsequent two-year periods. According to OMB's estimates, if no further changes are made in laws governing direct spending or receipts, no sequestration would be required for 1996, 1997, or 1998. In its December final report, CBO also determined that legislation enacted thus far should not trigger a sequestration in 1996. That report concluded, however, that a pay-as-you-go sequestration would be required in 1997 and 1998 unless legislation was enacted to reduce direct spending or increase revenues. The difference between OMB's and CBO's conclusions is largely the result of different estimates of the costs resulting from enactment of the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (Public Law 103-354). OMB estimated that increased annual costs for the crop insurance program resulting from that legislation would be largely offset by savings from eliminating ad hoc disaster assistance. Because CBO did not include any costs for ad hoc disaster assistance in its baseline, it estimated that the legislation would increase the deficit by about \$350 million in 1995 and \$1 billion a year in 1996 through 1998.

