

**SEQUESTRATION UPDATE REPORT  
FOR FISCAL YEAR 1995**

**A Congressional Budget Office  
Report to the Congress  
and the Office of Management and Budget**

**August 15, 1994**



---

## CONTENTS

### TRANSMITTAL LETTER

DISCRETIONARY SEQUESTRATION REPORT .....	2
PAY-AS-YOU-GO SEQUESTRATION REPORT .....	5
DEFICIT SEQUESTRATION REPORT .....	6

### TABLES

1. CBO Estimates of Discretionary Spending Limits for Fiscal Years 1994 Through 1998 .....	7
2. Budgetary Effects of Direct Spending or Receipt Legislation Enacted Since the Budget Enforcement Act .....	8
3. CBO Estimate of the Maximum Deficit Amount for Fiscal Year 1995 .....	9

---

## NOTES

All years referred to in this report are fiscal years, unless otherwise noted.

The source for all data in this report is the Congressional Budget Office, unless otherwise noted.





CONGRESSIONAL BUDGET OFFICE  
U.S. Congress  
Washington, DC 20515

---

Robert D. Reischauer  
*Director*

August 15, 1994

The Honorable Thomas S. Foley  
Speaker of the House of Representatives  
Washington, D.C. 20515

Dear Mr. Speaker:

Pursuant to section 254 (b) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the Congressional Budget Office hereby submits its Sequestration Update Report for Fiscal Year 1995 to the U.S. House of Representatives.

Sincerely,  


Robert D. Reischauer

**Enclosure**

CC: The Honorable Richard A. Gephardt  
House Majority Leader

The Honorable Robert H. Michel  
House Republican Leader

The Honorable Martin O. Sabo  
Chairman, House Committee on the Budget

The Honorable John R. Kasich  
Ranking Republican Member, House Committee on the Budget

IDENTICAL LETTER SENT TO: The Honorable Albert Gore, Jr.  
President of the Senate



**SEQUESTRATION UPDATE REPORT  
FOR FISCAL YEAR 1995**

**A CONGRESSIONAL BUDGET OFFICE  
REPORT TO THE CONGRESS  
AND THE OFFICE OF MANAGEMENT AND BUDGET**

August 15, 1994

The 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 (the Budget Act) 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 Balanced Budget Act and the Budget Act to extend the application of 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. These reports must contain estimates of the following items:

- o The discretionary spending limits and any adjustments to them;
- o The amount by which direct spending or receipt legislation enacted after the Budget Enforcement Act has increased or decreased the deficit; and
- o The maximum deficit amount.

This report to the Congress and the Office of Management and Budget (OMB) provides the required information for the August 15 update of CBO's *Sequestration Preview Report for Fiscal Year 1995* issued on January 27, 1994, and updated on February 1, 1994. In addition to updating the information required in this report, the final sequestration report that will be issued 10 days after the current session of Congress ends must also assess whether a sequestration is required. A sequestration will be triggered if enacted appropriations have exceeded the spending limits for fiscal year 1995 or direct spending or receipt legislation has increased the total deficit for 1994 and 1995. Based on the levels of spending allowed under the budget resolution adopted earlier this year and on legislative action to date, CBO does not anticipate that any discretionary spending or pay-as-you-go sequestration will be required in 1995.





## 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 left in place the existing discretionary spending limits for 1993 through 1995 and the existing enforcement procedures, including the requirements to adjust the discretionary limits.

The estimates of the limits on total discretionary spending for 1994 through 1998 shown in Table 1 differ from those in CBO's February 1994 preview report for two reasons. First, the estimates have been revised to reflect differences between the spending limits in CBO's preview report and those specified in OMB's preview report, which was included in the President's budget submission on February 7, 1994. Second, the limits have been increased to reflect emergency funds made available since OMB issued its preview report.

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

The Budget Enforcement Act (BEA) requires both CBO and OMB to calculate the changes in the discretionary spending limits specified in the act. OMB's estimates of the limits are controlling in determining whether enacted appropriations are within the limits or a sequestration is required to eliminate a breach of the limits. CBO's estimates are advisory. Acknowledging OMB's statutory role, CBO adjusts its previous estimates to conform to the spending limits contained in OMB's most recent sequestration report before making the additional adjustments required in the current report.

The spending limits in CBO's preview report exceeded those in OMB's February 1994 preview report by \$328 million in budget authority and \$172 million in outlays in 1994 and by \$35 million in outlays in 1995. The limits in OMB's preview report were \$168 million higher for budget authority in 1995 and more than \$1 billion higher for budget authority and for outlays in each year from 1996 through 1998.

The differences in the limits for 1994 resulted entirely from different estimates of the amount of contingent emergency appropriations designated as emergency funding. These appropriations were enacted before OMB's final sequestration report for 1994 but were available for obligation only if the President designated them as emergency spending. Because the President had not made such a designation at the time OMB issued its final sequestration report, these emergency funds were not reflected in OMB's adjustments to the limits in that report. Once emergency appropriations not included in OMB's previous report have been so designated by the President, both CBO and OMB adjust the limits to reflect them in their next reports.



Two such designations made shortly before OMB issued its preview report for 1995 were not included in that report, however, because the report had to be completed well in advance of the release date in order to be included in the President's budget. CBO's preview report reflected those two emergency designations; that preview report was completed after OMB's preview report even though CBO's report was issued before the President's budget was submitted.

The estimates of contingent emergencies had a relatively small effect on differences between the limits for 1995 through 1999 in CBO and OMB's preview reports, but several other factors came into play in estimating limits for those years. For instance, OMB increased the outlay limits by \$6 million in 1995 and about \$180 million in 1996 and 1997 because of a reestimate of the effects of emergency appropriations enacted last year. CBO, however, believes that the Balanced Budget Act does not allow adjustments for reestimates of the costs of legislation and so does not include any. The Balanced Budget Act, however, specifically required adjustments to reflect changes in estimates of subsidy rates for credit programs (this requirement applied only through the preview reports for fiscal year 1995). OMB's adjustments for credit reestimates increased the limits by about \$50 million a year; CBO, assuming lower subsidy rates on average, decreased the limits for each year by about \$100 million.

The disparate treatment given by CBO and OMB to three provisions of OBRA-93 accounted for as much as an \$800 million difference for a single year. CBO and OMB agreed that OBRA-93 should be credited with savings in mandatory spending from the provision that reduced prior year outlays for the discretionary Section 8 housing program of the Department of Housing and Urban Development (HUD). But OMB decided that the 1995-1998 savings from that provision should also be reflected in the estimate of discretionary outlays attributed to HUD's annual appropriation bill. Accordingly, OMB lowered the discretionary limits for those years to avoid double-counting the savings. At the time of the preview report, CBO assumed that the scoring of the appropriation bill would not reflect the savings in discretionary outlays and made no such adjustment.

CBO disagreed with OMB's contention that OBRA-93 should be credited with savings in mandatory spending from the other two provisions, which called for an increase in fees paid to the Nuclear Regulatory Commission and to the Patent and Trademark Office. Because the new fees are directly tied to the level of future appropriations for those agencies and will take effect only when those appropriations are enacted, CBO argued that savings from the fees should be attributed to future appropriation bills rather than to OBRA-93. OMB credited OBRA-93 with the savings and also plans to attribute the collections from the fees to future appropriation bills when they are enacted. To avoid double-counting the savings, therefore, OMB reduced the discretionary limits by the amount of the fees estimated for each year.



The biggest difference between CBO and OMB's adjustments in the preview reports stemmed from different applications of the inflation adjustment. Under the BEA, the limits in each preview report are adjusted to account for differences between actual inflation and the inflation anticipated at the time the BEA was enacted. In calculating the adjustments, CBO and OMB are required to determine the ratio of a price index reflecting actual inflation in the previous fiscal year to the same index reflecting the inflation in that year anticipated in 1990 (as specified in the act for fiscal years 1990 through 1993). They then have to calculate an adjusted baseline for discretionary spending using budget year inflators multiplied by that ratio. The inflation adjustment for each year is the difference between the baseline and the adjusted baseline for that year.

In previous sequestration preview reports, both CBO and OMB adjusted the limits for the budget year and any outyear covered by the limits to reflect the change in inflation. OBRA-93 established new limits for fiscal years 1996 through 1998 and specified the anticipated inflation (the rates for fiscal years 1994 through 1996 assumed by the budget resolution for 1994) to use in the inflation adjustments for the sequestration preview reports for fiscal years 1996 through 1998. The act, however, made no changes in the method used to calculate the adjustment. Therefore, CBO used the same method as in previous years to adjust the 1995-1998 limits in this year's preview report. OMB, however, adjusted only the 1995 limit. OMB asserts that because the limits for 1996 through 1998 were enacted in 1993, an adjustment based on inflation assumptions stated in the BEA in 1990 should not apply to the limits for those years. CBO believes that the Balanced Budget Act, as amended, requires any inflation adjustment to apply to the limits for all years. Because actual inflation in 1993 was lower than anticipated in the BEA, the adjustments in the preview reports lowered the limits. OMB's failure to apply the adjustment to the 1996-1998 limits, therefore, allows more discretionary spending--as much as \$2 billion by 1998 according to CBO's estimate.

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

In addition to the adjustments resulting from differences between the caps in CBO and OMB's preview reports, the discretionary spending limits are adjusted to reflect emergency appropriations made available since OMB's preview report. The largest adjustment is for the more than \$10 billion in 1994 emergency funding in the Emergency Supplemental Appropriations Act of 1994 (P.L. 103-211), enacted in February to provide relief for the victims of the earthquake in California and other disasters. In addition, the limits are adjusted to reflect more than \$1 billion in contingent emergency funding appropriated before this year but designated as emergency spending and made available for obligation in 1994 since OMB's preview



report. This amount includes the contingent emergency releases included in CBO's preview report but not in OMB's.

## 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 year 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 overage. The pay-as-you-go provisions of the Balanced Budget Act had applied through fiscal year 1995, but OBRA-93 extended them through 1998.

As is the case with the discretionary spending limits, the Budget Enforcement Act requires both CBO and OMB to estimate the net increase in the deficit resulting from direct spending or receipt legislation. OMB's estimates are controlling, however, in determining whether a sequestration is required. CBO therefore adopted OMB's estimates of the changes in the deficit at the end of the previous session of Congress as the starting point for this report. Table 2 shows CBO's estimates of changes in the deficit for 1994 through 1998 resulting from direct spending or receipt legislation enacted since the Budget Enforcement Act. These estimates reflect OMB's estimates of changes in the deficit resulting from legislation enacted through the end of the first session 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.

The pay-as-you-go totals exclude the effects of OBRA-93 on the deficit. Under section 14003(c) of that act, cuts in direct spending and increases in revenues achieved by the legislation should not affect the pay-as-you-go totals. Otherwise, subsequent legislation enacting spending increases or tax cuts that would completely offset the OBRA-93 savings would be allowed under the pay-as-you-go procedures. The pay-as-you-go totals also exclude spending for extended unemployment benefits enacted in March 1993 that was designated as emergency spending and is therefore exempt from the pay-as-you-go provisions.

The changes in direct spending and revenues since OMB's February 1994 preview report, added to the combined net deficit reduction of \$965 million for 1994 and 1995 that OMB estimated in that report, yield a net decrease in the combined 1994 and 1995 deficits of \$1,215 million (see Table 2).





## DEFICIT SEQUESTRATION REPORT

---

The Budget Enforcement Act established procedures to enforce annual deficit targets through 1995. These procedures were crafted in such a way that they have imposed no additional budgetary discipline beyond the constraints of the discretionary spending limits and the pay-as-you-go requirement. OBRA-93 did not extend the provisions for enforcing a deficit target beyond their scheduled expiration at the end of 1995.

The maximum deficit target for 1995 has no effect for two reasons. First, when the President submitted the budget for fiscal year 1995, he exercised the option provided by the Balanced Budget Act to adjust the deficit targets for revised economic and technical assumptions, in addition to making the required adjustments to account for changes in the discretionary caps and pay-as-you-go balances. Second, the assumptions used in preparing the President's budget must be used by OMB for all subsequent Balanced Budget Act calculations that year. Therefore, even if the budgetary outlook deteriorates after the President's budget is submitted, the deficit targets will be said to have been reached as long as the discretionary spending limits and pay-as-you-go requirements are met.

Under the Budget Enforcement Act, the estimated maximum deficit amount is equal to the projected on-budget baseline deficit (excluding net spending by the Postal Service and Social Security receipts and benefit payments)--assuming that discretionary spending is held to the adjusted limits--minus any net increases or decreases in the deficit resulting from direct spending or receipt legislation that appear on the pay-as-you-go scorecard. CBO's current estimate of the maximum deficit amount for 1995, based on the economic and technical estimating assumptions used for its winter 1994 baseline, is shown in Table 3. The figure excludes changes in the deficit resulting from enacted pay-as-you-go legislation, as well as assumed prospective adjustments to the 1995 discretionary spending limits for the special budget authority allowances. It includes Social Security's administrative costs that are off-budget but are covered by the Budget Enforcement Act's discretionary spending limits as a result of OMB's interpretation of the act.

Since the sequestration preview report for 1995, CBO's estimate of the maximum deficit amount for 1995 has increased by \$6 billion because of technical reestimates to the baseline and adjustments to the discretionary spending limits.



**Table 1.**  
**CBO Estimates of Discretionary Spending Limits for Fiscal Years 1994 Through 1998 (In millions of dollars)**

	1994		1995		1996		1997		1998	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Limits in CBO's February 1994 Preview Report	513,691	542,880	515,010	539,671	516,734	546,167	525,608	545,560	528,102	545,677
Adjustments										
Technical differences from OMB's February 1994 preview report	-328	-172	168	-35	1,897	1,151	1,947	1,319	1,990	1,378
Emergency 1994 appropriations enacted since OMB's preview report	10,024	2,706	0	3,696	0	1,927	0	719	0	365
Contingent emergency appropriations designated since OMB's preview report	1,105	547	0	259	0	135	0	74	0	87
Total	10,801	3,081	168	3,920	1,897	3,213	1,947	2,112	1,990	1,830
Limits as of August 15, 1994	524,492	545,961	515,178	543,591	518,631	549,380	527,555	547,672	530,092	547,507

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget.



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

Legislation	1994	1995	1996	1997	1998
Total from OMB's February 1994 Preview Report <sup>a</sup>	4	-969	-450	-469	-1,114
Legislation Enacted Since OMB's Preview Report					
Federal Workforce Restructuring Act (P.L. 103-226)	10	174	96	-120	-160
Multifamily Housing Property Disposition Reform Act (P.L. 103-233)	-410	0	0	0	0
Extend Ineligibility Exemption for Certain Colleges with High Default Rates (P.L. 103-235)	3	5	5	5	1
Foreign Relations Authorization Act (P.L. 103-236)	-2	-4	4	1	1
Marine Mammal Protection Act Amendments (P.L. 103-238)	4	3	-2	-1	-1
Independent Counsel Reauthorization Act (P.L. 103-270)	0	2	2	2	2
Disregard Certain Payments to Nazi Victims (P.L. 103-286)	0	0	1	1	1
Community Development Banking Act (H.R. 3474)	0	-25	-15	-13	-11
Social Security Administrative Reform Act (H.R. 4277) <sup>b</sup>	<u>0</u>	<u>-10</u>	<u>-23</u>	<u>-56</u>	<u>-330</u>
Total	-395	145	68	-181	-497
Change in the Deficit Since the Budget Enforcement Act	-391	-824	-382	-650	-1,611

SOURCE: Congressional Budget Office.

NOTES: OMB = Office of Management and Budget; P.L. = Public Law.

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 1998: Food Stamp Program Improvements Act (P.L. 103-225); National Fish and Wildlife Foundation Improvement Act (P.L. 103-232); Duty Suspension for Certain Athletic Games (P.L. 103-237); School-to-Work Opportunities Act (P.L. 103-239); Rio Grande Designation Act (P.L. 103-242); Clear Creek County, Colorado Public Lands Transfer Act (P.L. 103-253); Eagle & Pitkin Counties, Colorado Land Exchange Act (P.L. 103-255); Freedom of Access to Clinic Entrances Act (P.L. 103-259); Airport Improvement Program Temporary Extension Act (P.L. 103-260); Board of Veterans Appeals Administrative Procedures Improvement Act (P.L. 103-271); Impose Temporary Fees Under the Perishable Agricultural Commodities Act (P.L. 103-276); Twin Falls County Landfill Act (P.L. 103-281); Federal Trade Commission Act Amendments of 1994 (H.R. 2243); Naval Vessel Transfer (H.R. 4429). CBO was unable to estimate the deficit impact of the Goals 2000: Educate America Act (P.L. 103-227). In addition, two private relief bills affected direct spending by less than \$500,000. Entries without public law numbers had passed the Congress but had not been signed or vetoed by the President as of August 13, 1994.

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 aggregate change in the deficit resulting from bills enacted through the end of the first session of the 103rd Congress, readers are referred to the lists of those bills included in Tables 7 and 8 of the *OMB Final Sequestration Report to the President and Congress for Fiscal Year 1994* (December 10, 1993) and in previous sequestration reports issued by OMB.

b. Includes reductions in receipts and outlays.



---

**Table 3.**  
**CBO Estimate of the Maximum Deficit Amount for Fiscal Year 1995 (In billions of dollars)**

---

	1995
Estimate in CBO's February 1994 Preview Report	244
Adjustments	
Technical reestimates	2
Changes in discretionary spending limits	<u>4</u>
Total	6
Estimate as of August 15, 1994	250

---

SOURCE: Congressional Budget Office.

---

