

CBO REPORT

Sequestration Update Report for Fiscal Year 2003

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

August 15, 2002



**CONGRESSIONAL BUDGET OFFICE
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WASHINGTON, DC 20515**

Sequestration Update Report for Fiscal Year 2003

Under the Balanced Budget and Emergency Deficit Control Act of 1985 (as amended by the Budget Enforcement Act of 1997), the Congressional Budget Office (CBO) issues a sequestration update report each year on August 15. This report provides current estimates of discretionary spending and the limits on that spending for 2002 and 2003. It also updates the pay-as-you-go (PAYGO) scorecard for legislation enacted through August 14, 2002, that affects mandatory spending or revenues.

The Deficit Control Act has two mechanisms to govern federal spending, both enforced through sequestration (a cancellation of budgetary resources). Section 251, which expires on September 30, 2002, sets limits on the spending provided through the annual appropriations process. If estimated discretionary spending exceeds those limits, the act prescribes a sequestration to eliminate the excess. Section 252 established a PAYGO scorecard to record the projected five-year budgetary effects of each piece of legislation that affects mandatory spending or revenues. If such legislation is estimated to result in a net increase in the deficit or decrease in the surplus, the act calls for reductions in mandatory programs (that are not otherwise exempt) sufficient to offset that change. Although legislation enacted after September 30 will no longer be recorded on the PAYGO scorecard, the possibility of a PAYGO

sequestration will continue through 2006 as a result of legislation enacted before the end of fiscal year 2002.

The limits on discretionary spending apply to four categories for 2002: overall discretionary, highway, mass transit, and conservation. CBO estimates that spending from appropriations enacted to date is within the limits. Limits for the two transportation categories continue through 2003, and caps for conservation spending extend through 2006. However, when section 251 expires, those caps will become moot.

Legislation affecting mandatory spending or revenues enacted during the current session of Congress has increased the projected deficits for 2002 and 2003 by \$52.7 billion and \$53.5 billion, respectively. The largest contributor to those amounts is the Job Creation and Worker Assistance Act of 2002 (Public Law 107-147), which accounts for an estimated \$50.9 billion this year and \$42.9 billion next year. That law, also known as the economic stimulus package, was designated an emergency requirement, thereby excluding it from the PAYGO scorecard. To avoid a PAYGO sequestration, the Congress would need to eliminate or offset the balances for 2002 and 2003—a total of \$123.1 billion (mostly from legislation enacted in previous years)—before it adjourns this year.

Discretionary Sequestration Report

On February 1, 2002, CBO published its preview sequestration report for fiscal year 2003; shortly thereafter, the Office of Management and Budget (OMB) issued its equivalent report. Because OMB's estimates are the official basis for determining whether a sequestration is required, CBO has changed the caps in this report to match the figures

in OMB's preview report. In addition, CBO has raised certain caps for 2002 to include emergency funding enacted since January.

Changes Made to the Discretionary Spending Limits on the Basis of OMB's Report

For the overall discretionary and transportation categories, both agencies had the same estimates of the

Table 1.
CBO's Estimates of the Discretionary Spending Limits for Fiscal Year 2002 (In millions of dollars)

	2002	
	Budget Authority	Outlays
Total Discretionary Spending Limits in CBO's February Preview Report	706,308	731,329
Overall Discretionary Category^a		
Spending Limits in CBO's February Preview Report	704,548	696,092
Adjustments		
Technical differences from OMB's February preview report	0	0
Emergency appropriations enacted since OMB's February preview report	24,712	6,821
Spending Limits as of August 14, 2002	729,260	702,913
Highway Category^b		
Spending Limit in CBO's February Preview Report	n.a.	28,489
Adjustment (Technical differences from OMB's February preview report)	n.a.	0
Spending Limit as of August 14, 2002	n.a.	28,489
Mass Transit Category^b		
Spending Limit in CBO's February Preview Report	n.a.	5,275
Adjustment (Technical differences from OMB's February preview report)	n.a.	0
Spending Limit as of August 14, 2002	n.a.	5,275
Conservation Category		
Spending Limits in CBO's February Preview Report	1,760	1,473
Adjustment (Technical differences from OMB's February preview report)	-25	-4
Spending Limits as of August 14, 2002	1,735	1,469
Total Discretionary Spending Limits as of August 14, 2002	730,995	738,146

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget; n.a. = not applicable.

- a. This category comprises defense and nondefense spending in 2002. It ceases to exist in 2003.
- b. The highway and mass transit categories do not have limits on budget authority. Obligation limitations, which are not counted as budget authority, control all of the spending in the highway category and most of the spending in the mass transit category.

Table 2.
CBO's Estimates of the Spending Limits for the Transportation and Conservation Categories
for Fiscal Year 2003 (In millions of dollars)

	2003	
	Budget Authority	Outlays
Highway Category^a		
Spending Limit in CBO's February Preview Report	n.a.	29,634
Adjustments		
Technical differences from OMB's February preview report	n.a.	-2,053
Increase to comply with section 1402 of P.L. 107-206	n.a.	<u>1,519</u>
Spending Limit as of August 14, 2002	n.a.	29,100
Mass Transit Category^a		
Spending Limit in CBO's February Preview Report	n.a.	5,752
Adjustment (Technical differences from OMB's February preview report)	n.a.	<u>278</u>
Spending Limit as of August 14, 2002	n.a.	6,030
Conservation Category		
Spending Limits in CBO's February Preview Report	1,922	1,872
Adjustment (Technical differences from OMB's February preview report)	<u>0</u>	<u>0</u>
Spending Limits as of August 14, 2002	1,922	1,872

SOURCE: Congressional Budget Office.

NOTE: OMB = Office of Management and Budget; n.a. = not applicable.

a. The highway and mass transit categories do not have limits on budget authority. Obligation limitations, which are not counted as budget authority, control all of the spending in the highway category and most of the spending in the mass transit category.

caps for 2002.¹ For the conservation category, however, OMB's estimates of the limits on both budget authority and outlays were lower than CBO's were, by \$25 million and \$4 million, respectively (see Table 1).

For the highway category in 2003, OMB's estimate of the cap was \$2,053 million below CBO's (see Table 2). Almost all of that discrepancy stems from the slower rate of spending that OMB estimates for the Federal-Aid Highway program.

In its preview report, CBO increased the limit on mass transit spending by \$221 million. (CBO believes that amount is the maximum adjustment allowed under the Deficit Control Act.)² In its equivalent report, OMB estimated that adjustment to be \$499 million—\$278 million more than CBO's increase. Because OMB's estimates are binding for sequestration purposes, CBO has made the same adjustment.

Adjustments to Reflect Recent Legislation

The 2002 Supplemental Appropriations Act for Further Recovery From and Response to Terrorist

1. The caps for the overall discretionary and conservation categories cover both budget authority and outlays; limits on transportation spending apply only to outlays. Obligation limitations (which do not count as budget authority) that are set in appropriation acts control all of the spending in the highway category. A combination of appropriations and obligation limitations controls spending for mass transit.

2. See section 251(b)(1)(C)(ii) of the Deficit Control Act.

Attacks on the United States (P.L. 107-206) contains \$24.7 billion in emergency appropriations.³ Because the Deficit Control Act requires that the caps be increased to accommodate emergency spending, CBO has raised its estimate of the limit on budget authority for 2002 by that amount. About half of those appropriations is for defense; the other half is for homeland security, expenses in New York related to the September 11 attacks, and other purposes. CBO estimates that P.L. 107-206 will result in emergency outlays of \$6.8 billion in 2002 and has raised the outlay cap by that amount.⁴

Section 1402 of the supplemental appropriation act specified that certain adjustments that were made previously to the highway cap for 2003 should be removed. As a result, that limit has been boosted to \$29,100 million.

Compliance with the Discretionary Spending Limits for 2002

As estimated by CBO for purposes of the Deficit Control Act, spending for the overall discretionary category is \$495 million below the limit on budget authority and \$3,323 million below the limit on outlays (see Table 3). Spending in the other categories is equal to or slightly below their respective limits. Therefore, in the absence of further legislative action, no discretionary sequestration will be required for 2002.

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3. Public Law 107-206 included an additional \$5.1 billion in budget authority that was declared contingent emergency funding by the Congress. That funding would become available only if the President also declared that all of those appropriations were emergency requirements (otherwise, none of the funding would become available). On August 13, the President announced that he would not declare those appropriations an emergency requirement, thereby eliminating that \$5.1 billion in budget authority.
 4. The budget authority and outlays for P.L. 107-206 reflect CBO's estimate for purposes of the Deficit Control Act.

Table 3.
New Discretionary Budget Authority and Total Outlays Compared with the Spending Limits for Fiscal Year 2002 (In millions of dollars)

	Budget Authority	Outlays
Overall Discretionary Category		
Estimated Spending ^a	728,765	699,590
Limits as of August 14, 2002	729,260	702,913
Appropriations Over or Under (-) Limits	-495	-3,323
Highway Category^b		
Estimated Spending ^a	n.a.	28,489
Limit as of August 14, 2002	n.a.	28,489
Appropriations Over or Under (-) Limit	n.a.	0
Mass Transit Category^b		
Estimated Spending ^a	n.a.	5,272
Limit as of August 14, 2002	n.a.	5,275
Appropriations Over or Under (-) Limit	n.a.	-3
Conservation Category		
Estimated Spending ^a	1,733	1,469
Limits as of August 14, 2002	1,735	1,469
Appropriations Over or Under (-) Limits	-2	0

SOURCE: Congressional Budget Office.

NOTE: n.a. = not applicable.

- a. These amounts represent the Office of Management and Budget's January estimate of discretionary spending for purposes of the Deficit Control Act plus CBO's estimate of Public Law 107-206.
- b. The highway and mass transit categories do not have limits on budget authority. Obligation limitations, which are not counted as budget authority, control all of the spending in the highway category and most of the spending in the mass transit category.

Pay-As-You-Go Sequestration Report

Both CBO and OMB estimate the budgetary effects of legislation that affects mandatory spending or revenues. But as with the discretionary spending caps, OMB's estimates determine whether a sequestration is necessary. CBO has therefore adopted the PAYGO balances shown in OMB's sequestration preview report as its starting point for this report (see Table 4).

Legislation enacted at the end of the last session of Congress instructed OMB to change the PAYGO balance for 2002 to zero. For 2003, OMB estimated that past legislation has increased the deficit by \$110.7 billion. Of the legislation enacted during the current session of Congress, the largest impact on mandatory spending and revenues resulted from the economic stimulus package, which increased projected deficits through 2005. But lawmakers specified that the legislation was for emergency purposes and thus was not to be counted on the PAYGO scorecard. The Farm Security and Rural Investment Act (P.L. 107-171), which was not declared emergency legislation, has also increased projected

deficits—by an estimated \$1.6 billion this year and \$8.4 billion next year. Other legislation has affected the PAYGO balances to a lesser extent, adding \$0.3 billion and \$2.2 billion, respectively, to the balances for 2002 and 2003.

Under the Deficit Control Act, the net costs for 2002 and 2003 are combined to determine the magnitude of a PAYGO sequestration for 2003; by CBO's estimate, that total comes to \$123.1 billion. Unless lawmakers take action to eliminate or offset that balance, a PAYGO sequestration will be required at the end of this session of Congress. However, the Deficit Control Act exempts numerous programs from sequestration (including Social Security, Medicaid, and Supplemental Security Income) and limits the amount that may be sequestered from others (such as Medicare and the Commodity Credit Corporation). Consequently, the total amount of new outlays for mandatory programs that could be sequestered in 2003 is less than \$60 billion.⁵

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5. The three largest programs that could be fully sequestered are the refundable portion of the child tax credit (about \$5.6 billion), the Universal Service Fund (roughly \$5.6 billion), and the State Children's Health Insurance Program (approximately \$4.5 billion).

Table 4.
Budgetary Effects of Mandatory Spending or Revenue Legislation Enacted
Since the Budget Enforcement Act of 1997 (In millions of dollars)

	2002	2003	2004	2005	2006
Total Pay-As-You-Go Balances in OMB's February Preview Report	0	110,694	129,857	130,571	134,698
Laws Enacted Since OMB's Preview Report					
An act to require the valuation of nontribal interest ownership of subsurface rights within the boundaries of Acoma Indian Reservation, and for other purposes (P.L. 107-138)	0	2	0	0	0
An act to amend the Higher Education Act of 1965 to establish fixed interest rates for student and parent borrowers, to extend current law with respect to special allowances for lenders, and for other purposes (P.L. 107-139)	-180	345	875	1,005	995
Farm Security and Rural Investment Act of 2002 (P.L. 107-171)	1,613	8,406	9,854	10,212	9,867
Clergy Housing Allowance Clarification Act of 2002 (P.L. 107-181)	0	0	-1	-1	-2
Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (P.L. 107-188)	0	1	1	1	1
Auction Reform Act of 2002 (P.L. 107-195)	0	775	1,300	1,525	-2,200
Mychal Judge Police and Fire Chaplains Public Safety Officers' Benefits Act (P.L. 107-196)	2	0	0	0	0
Sarbanes-Oxley Act of 2002 (P.L. 107-204)	0	-7	-5	0	0
2002 Supplemental Appropriations Act for Further Recovery From and Response to Terrorist Attacks on the United States (P.L. 107-206)	0	60	60	70	70
Trade Act of 2002 (P.L. 107-210)	<u>440</u>	<u>981</u>	<u>1,366</u>	<u>1,499</u>	<u>1,557</u>
Total Pay-As-You-Go Balances as of August 14, 2002	1,875	121,257	143,307	144,882	144,986
Memorandum:					
Laws Enacted Since OMB's Preview Report That Change Mandatory Spending or Revenues but Are Exempt from the PAYGO Scorecard					
Job Creation and Worker Assistance Act of 2002 (P.L. 107-147) ^a	50,869	42,922	29,108	3,571	-16,115

SOURCE: Congressional Budget Office.

NOTES: The information in this table covers legislative action through August 14, 2002. Positive numbers indicate an increase in the deficit or decrease in the surplus.

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

CBO was unable to estimate the costs of P.L. 107-153, an act to encourage the negotiated settlement of tribal claims.

These laws enacted since OMB published its February preview report affect the surplus by \$500,000 or less each year through 2006:

- Family Sponsor Immigration Act of 2001 (P.L. 107-150);
- Bipartisan Campaign Reform Act of 2002 (P.L. 107-155);
- An act to extend for eight additional months the period for which chapter 12 of title 11 of the United States Code is reenacted (P.L. 107-170);
- Enhanced Border Security and Visa Entry Reform Act of 2002 (P.L. 107-173);
- Notification and Federal Employee Antidiscrimination and Retaliation Act of 2002 (P.L. 107-174);
- An act to extend the eligibility for refugee status of unmarried sons and daughters of certain Vietnamese refugees (P.L. 107-185);
- Terrorist Bombings Convention Implementation Act of 2002 (P.L. 107-197);
- Support of American Eagle Silver Bullion Program Act (P.L. 107-201);
- Benjamin Franklin Tercentenary Commission Act (P.L. 107-202);
- Nurse Reinvestment Act (P.L. 107-205);
- Born-Alive-Infants Protection Act of 2001 (P.L. 107-207);
- Child Status Protection Act (P.L. 107-208);
- James Peak Wilderness and Protection Area Act (H.R. 1576); and
- An act to authorize the Secretary of the Interior to issue right-of-way permits for natural gas pipelines within the boundary of Great Smoky Mountains National Park (H.R. 3380).

a. That law is designated an emergency requirement in accordance with section 252(e) of the Deficit Control Act, which makes it exempt from the PAYGO scorecard.

