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**SEQUESTRATION PREVIEW REPORT
FOR FISCAL YEAR 1999**

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

January 28, 1998

Sequestration Preview Report for Fiscal Year 1999

The Congressional Budget Office (CBO) estimates that the statutory limits on discretionary spending detailed in this sequestration report would allow the Congress and the President to increase appropriations slightly for 1999—although by less than the expected rate of inflation. For mandatory spending and revenues, the modest pay-as-you-go balance that is available in 1998 would allow a small increase in mandatory spending or reduction in revenues without triggering a sequestration.

Discretionary Sequestration Report

The Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act), as amended, 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. Separate limits apply to budget authority and outlays.

For fiscal years 1998 and 1999, the law splits discretionary spending into three categories: defense, nondefense, and spending to reduce violent crime. For fiscal year 2000, it combines defense and nondefense spending into a single discretionary category, while retaining the violent crime reduction category. For fiscal years 2001 and 2002, the law folds all

three types of spending into one discretionary category, so the limits apply to total discretionary spending. (The joint explanatory statement that accompanies the conference report on the Balanced Budget Act of 1997 specifies which category each appropriation account falls into.) By law, the discretionary spending limits can be adjusted each year to account for such things as the enactment of emergency appropriations and changes in budgetary concepts and definitions.

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 used the estimated limits in OMB's most recent sequestration report—the final sequestration report for fiscal year 1998, published in November—as the starting point for the adjustments it is required to make in this sequestration preview report for fiscal year 1999.

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

The estimated discretionary spending limits in CBO's final sequestration report for 1998 differed only slightly from those OMB published a few days later in its final report. For the defense category, CBO's and OMB's estimates of the limits for both budget authority and outlays were identical.

CBO's estimate of the nondefense budget authority limit for 1998 was \$307 million higher than OMB's (see Table 1). That occurred solely because CBO's report included \$307 million in contingent emergency appropriations—primarily \$300 million for the

Low Income Home Energy Assistance Program—that the President had not yet released. (As a rule, CBO's estimates include such appropriations, since no further action by the Congress is necessary to make the funds available. OMB, however, only includes contingent

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 November Final Report	528,307	556,478	532,999	561,372	537,193	565,093	542,032	564,565	551,074	560,877
Defense Discretionary Category ^a										
Spending limits in CBO's November final report	269,000	267,124	271,500	266,566	*	*	*	*	*	*
Adjustment (Changes in appropriated spending contained in authorizing legislation)	0	0	2	2	*	*	*	*	*	*
Spending limits as of January 26, 1998	269,000	267,124	271,502	266,568	*	*	*	*	*	*
Nondefense Discretionary Category ^a										
Spending limits in CBO's November final report	253,807	285,762	255,699	289,853	*	*	*	*	*	*
Adjustments										
Technical differences from OMB's November final report	-307	-82	0	-175	*	*	*	*	*	*
Contingent emergency appropriations designated since OMB's November final report	6	6	0	0	*	*	*	*	*	*
Changes in mandatory spending contained in appropriation acts	*	*	-19	7	*	*	*	*	*	*
Changes in appropriated spending contained in authorizing legislation	*	*	24	-91	*	*	*	*	*	*
Spending limits as of January 26, 1998	253,506	285,686	255,704	289,594	*	*	*	*	*	*

(Continued)

emergency appropriations actually released by the President.) Differences in the nondefense outlay caps stem from CBO's inclusion of that \$307 million, as well as from differences in the estimated rates of spending for appropriations to pay for continuing disability reviews,

U.S. arrearages to international organizations, and initiatives to ensure compliance with the earned income tax credit—all of which required adjustments to the spending caps in the final sequestration report.

Table 1.
Continued

	1998		1999		2000		2001		2002	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Violent Crime Reduction Category^a										
Spending limits in CBO's November final report	5,500	3,592	5,800	4,953	4,500	5,554	*	*	*	*
Adjustment (Technical differences from OMB's November final report)	0	1,241	0	0	0	0	*	*	*	*
Spending limits as of January 26, 1998	5,500	4,833	5,800	4,953	4,500	5,554	*	*	*	*
Overall Discretionary Category^b										
Spending limits in CBO's November report	*	*	*	*	532,693	559,539	542,032	564,565	551,074	560,877
Adjustments										
Technical differences from OMB's November final report	*	*	*	*	0	-1	0	0	0	2
Changes in mandatory spending contained in appropriation acts	*	*	*	*	-40	-60	-47	-50	-54	-54
Changes in appropriated spending contained in authorizing legislation	*	*	*	*	3	-238	4	-317	3	-347
Spending limits as of January 26, 1998	*	*	*	*	532,656	559,240	541,989	564,198	551,023	560,478
Total Discretionary Spending Limits as of January 26, 1998	528,006	557,643	533,006	561,115	537,156	564,794	541,989	564,198	551,023	560,478

SOURCE: Congressional Budget Office.

NOTES: The limits shown in this report do not reflect any adjustment for items canceled by the President under the Line Item VetAct. CBO will adjust the limits to account for those cancellations in later sequestration reports after the time for the Congress to enact disapproval bills has elapsed.

* = not applicable; OMB = Office of Management and Budget.

- a. This category is folded into the overall discretionary category after fiscal year 1999.
- b. This category is folded into the overall discretionary category after fiscal year 2000.
- c. This category comprises defense and nondefense spending in fiscal year 2000, plus violent crime reduction spending in 2001 and 2002.

For the violent crime reduction category, CBO and OMB made identical estimates of the budget authority limits but differed on the 1998 outlay limit. The large discrepancy in that limit results from OMB's use of the special outlay allowance to reconcile differences between the two agencies' estimates of how quickly appropriations for violent crime reduction will be spent.

Emergency Funding Made Available Since OMB's Final Report

As required by law, CBO adjusts the discretionary spending limits to reflect emergency appropriations made available since the previous sequestration report. Since the release of OMB's final report in November, no new emergency appropriations have been enacted. However, the President did release \$6 million in contingent emergency spending to indemnify farmers and ranchers for livestock losses resulting from natural disasters. That amount is reflected in the nondefense spending limits for 1998 shown in Table 1. CBO must include that adjustment because it adopts OMB's estimates as its starting point, and OMB's estimates do not include the effects of contingent emergency appropriations until they are released by the President.

Changes in Concepts and Definitions

The Deficit Control Act allows the discretionary caps to be adjusted to take account of changes in budgetary concepts and definitions. Those adjustments generally reflect reclassifications of spending from one budget category to another, such as from discretionary to mandatory, or vice versa.

The Congressional budget committees and OMB have determined that effects beyond the budget year of certain legislation should be reflected in the discretionary spending limits. When changes in mandatory spending are made in an appropriation act, the effect in the current year or budget year is included in the cost estimate of the act, and the future effect is reflected as an adjustment to the discretionary caps. For example, an appropriation act containing a provision that decreases mandatory spending will be credited with the savings from that provision for the budget year; savings for future years will be reflected as increases in the discretionary caps. When changes in discretionary spend-

ing result from a provision in authorizing legislation, they are shown on the pay-as-you-go scorecard for all years, with a corresponding adjustment to the discretionary caps in future sessions of Congress. For example, if authorizing legislation contains advance appropriations, their effect will be included as part of the cost of the legislation, and the discretionary spending limits will be increased to accommodate the appropriations themselves.

The appropriation acts for fiscal year 1998 contained various changes that affect mandatory spending. They require a net decrease of \$19 million in the 1999 nondefense budget authority limit and a net increase of \$7 million in the nondefense outlay limit (see Table 1). After 1999, they require net reductions of roughly \$50 million a year in both the budget authority and outlay limits for the overall discretionary category. Among the largest changes to mandatory spending contained in appropriation acts are a delay in carrying out certain policies of the 1996 welfare reform law regarding refugees (which was included in the foreign operations appropriation act), a freeze in the Export Enhancement Program (included in the Agriculture Department's appropriation act), and an increase in the spending of revenues from existing recreation fees (included in the Interior Department's appropriation act).

The adjustments for mandatory spending do not reflect a provision that the President canceled using the authority granted in the Line Item Veto Act. (The provision relates to the conveyance of lands in Montana.) CBO is not yet adjusting the caps to reflect the President's cancellation because the Line Item Veto Act gives the Congress an opportunity to enact a disapproval bill to override the cancellation, and the time allowed for enacting that bill has not yet elapsed.

The last type of adjustment—for changes in appropriated spending contained in legislation other than appropriation acts—on balance requires net increases in the budget authority limits and net decreases in the outlay limits in every year after 1998. For the defense category, the cap adjustment is an increase of \$2 million for both budget authority and outlays in 1999, with a spillover of similar magnitude into the overall discretionary category after that. For nondefense spending, the net adjustment is a \$24 million increase in the budget authority limit for 1999 and a \$91 million decrease in the outlay limit (see Table 1).

The largest adjustment for appropriated spending by other committees reflects changes to the Department of Housing and Urban Development's appropriations for contributions to assisted housing. The Balanced Budget Act of 1997 increased rents for certain housing units after 1998, reducing the need for appropriations for rent subsidies. That change requires a reduction in the outlay limit for every year after 1998, but it has no effect on the budget authority limits. Most of the rise in the budget authority limits results from the act reauthorizing the Small Business Administration, which included a \$22 million appropriation for the business loan program account for 1999.

How the 1999 Caps Compare with Projected Discretionary Spending

The 1999 limits on defense and nondefense discretionary spending shown in Table 1 constrain CBO's baseline projection of budget authority and outlays. If there were no caps, the baseline concept would call for calculating 1999 budget authority by adjusting enacted 1998 appropriations to account for the effects of inflation. That procedure, however, yields budget authority that is almost \$5.9 billion higher than the 1999 cap for the defense category and \$10.3 billion higher for the non-defense category. Likewise, if 1999 appropriations equaled 1998 budget authority adjusted for inflation, total outlays (including those from previously enacted appropriations) would exceed the cap on defense outlays by \$8.2 billion and the cap on nondefense outlays by almost the same amount.

Since the limits on budget authority for 1999 are not large enough to provide the same real (inflation-adjusted) level of defense or nondefense spending as in 1998, the Congress will need to increase 1999 appropriations by less than the rate of inflation to stay within the budget authority limits. Further, if the mix of such spending does not change, the defense and nondefense outlay caps would be constraining even if lawmakers held 1999 appropriations to the 1998 level with no increase for inflation. That result stems from differing assumptions about spending rates and the composition of 1998 appropriations between CBO's baseline and the Balanced Budget Act, which established the current caps. If spending for every program was frozen, the special outlay allowance available under section 251(b)(2)(B) of the Deficit Control Act would cover the excess over the caps. But that allowance might not

prove sufficient—particularly for the nondefense category—if the programmatic mix was changed to provide relatively more funding for programs that spend appropriations rapidly.

Pay-As-You-Go Sequestration Report

The Deficit Control Act, as amended, also contains a mechanism to ensure that any legislative changes in direct spending or receipts enacted since the Balanced Budget Act and before 2003 do not increase the deficit. That mechanism is the pay-as-you-go, or PAYGO, sequestration. If legislative changes enacted through the end of a session 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 changes in the deficit from OMB's November final report as the starting point for its estimates. In that report, OMB estimated PAYGO balances of up to \$6 million for each year between 1999 and 2002 because the net effect of legislation affecting mandatory spending or receipts enacted since the Balanced Budget Act was to increase the deficit for those years (see Table 2). OMB also estimated a -\$11 million balance for fiscal year 1998. CBO shows that amount as zero, however, because the balance is not available to offset increases in mandatory spending in fiscal year 1999.

OMB's estimates included legislation for which PAYGO reports had been issued before the statutory publication date of its final report (15 days after the end of a session of Congress). According to the Balanced Budget Act, the current year effects of legislation for

which OMB issues PAYGO reports after publication of the final report must be added to the balances for the following year to determine whether a sequestration is required. Accordingly, Table 2 includes the 1998 effect, as well as the effect for the following five years, of legislation passed in the first session of the 105th Congress that was not part of OMB's final report. In-

cluding those amounts (which total -\$156 million) plus the 1999 effect of PAYGO legislation enacted since the Balanced Budget Act (\$33 million) gives a PAYGO balance of -\$123 million. Thus, the Congress could enact legislation increasing mandatory spending or decreasing revenues in 1999 by a total of \$123 million without triggering a PAYGO sequestration.

Table 2.
Budgetary Effects of Direct Spending or Receipt Legislation
Enacted Since the Balanced Budget Act of 1997 (By fiscal year, in millions of dollars)

	1998	1999	2000	2001	2002	2003
Total for OMB's November Final Report ^a	0	6	6	3	1	0
Legislation Enacted Since OMB's Final Report						
National Defense Authorization Act for Fiscal Year 1998 (P.L. 105-85)	-159	9	17	19	-13	-35
Adoption and Safe Families Act of 1997 (P.L. 105-89)	-1	0	0	0	0	7
Veterans' Benefits Act of 1997 (P.L. 105-114)	1	1	1	0	0	0
Food and Drug Modernization Act of 1997 (P.L. 105-115) ^b	0	12	33	54	28	7
50 States Commemorative Coin Program Act (P.L. 105-124)	1	-5	-2	-4	-5	-5
Hispanic Cultural Center Act of 1997 (P.L. 105-127)	0	6	6	1	0	0
Surface Transportation Extension Act of 1997 (P.L. 105-130)	0	-2	-8	-19	-33	-47
Lower Brule Sioux Tribe Infrastructure Trust Development Fund (P.L. 105-132)	0	0	1	2	3	3
Small Business Reauthorization Act of 1997 (P.L. 105-135)	2	4	4	3	3	2
An act to authorize the acquisition of certain real property for the Library of Congress (P.L. 105-144) ^b	-2	2	0	0	0	0
An act to amend the Consolidated Omnibus Reconciliation Act of 1985 relating to Customs user fees (P.L. 105-150)	<u>-2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Change in the Deficit Since the Balanced Budget Act of 1997	-156	33	58	59	-16	-68

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 \$50000 in any year through 2003: Savings Are Vital to Everyone's Retirement Act of 1997 (P.L. 105-92); Asian Elephant Conservation Act of 1997 (P.L. 105-96); Veterans' Compensation Rate Amendments Act of 1997 (P.L. 105-98); Veterans' Cemetery Protection Act of 1997 (P.L. 105-101); an act to waive time limitations to allow the Medal of Honor to be awarded to Robert R. Ingram (P.L. 105-103); an act to grant the consent of Congress to the Apalachicola-Chattahoochee-Flint River Basin Compact (P.L. 105-104); an act to grant the consent of Congress to the Alabama-Coosa-Tallapoosa River Basin Compact (P.L. 105-105); an act to allow revision of veterans benefits decisions based on clear and unmistakable error (P.L. 105-111); an act to prohibit internment or memorialization in certain cemeteries of persons committing Federal or State capital offenses (P.L. 105-116); Aviation Insurance Reauthorization Act of 1997 (P.L. 105-137); Atlantic Striped Bass Conservation Act Amendments of 1997 (P.L. 105-146); No Electronic Theft (NET) Act (P.L. 105-147).

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

a. Under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, only the effect on the deficit of legislation not reflected in OMB's final sequestration report is carried over to the pay-as-you-go (PAYGO) calculations for the following review report. Thus, the 1998 balance of \$11 million in OMB's November report is shown as zero because it cannot be included in the calculation of the 1999 PAYGO balance. Section 254 of that act calls for a list of all 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, errors 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.