

**SEQUESTRATION PREVIEW REPORT  
FOR FISCAL YEAR 2001**

**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**

**February 4, 2000**

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# Sequestration Preview Report for Fiscal Year 2001

The Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act) requires the Congressional Budget Office (CBO) to issue three sequestration reports each year: a preview report before the President submits his budget to the Congress; an update report in mid-August; and a final report after each Congressional session. This preview report for 2001 fulfills the first of those requirements. It provides CBO's estimates of the discretionary spending caps and pay-as-you-go (PAY-GO) balances at the beginning of the second session of the 106th Congress.

The statutory caps on discretionary spending detailed in this report would require the Congress and the President to reduce discretionary budget authority for fiscal year 2001 by approximately 5 percent, and discretionary outlays by 4 percent, compared with the levels enacted for 2000, CBO estimates. In addition, any new legislation that increased direct (mandatory) spending or reduced receipts would have to be offset by changes in the opposite direction to avoid an across-the-board cut, or sequestration, in those parts of the budget. No balances are available on the PAYGO scorecard to offset the cost of such legislation because the Office of Management and Budget (OMB) has reset the scorecard to zero, as required by section 1001 of the Consolidated Appropriations Act for fiscal year 2000 (Public Law 106-113).

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## Discretionary Sequestration Report

The Deficit Control Act sets limits on discretionary spending and provides for a sequestration if annual

appropriations exceed those caps. The limits are in effect through 2002. By law, they are adjusted each year to account for the enactment of emergency appropriations, funding for certain specified activities, and reclassifications of spending.

Under the Deficit Control Act, discretionary spending is divided into categories, which change over the 2000-2002 period. For 2000, the act combines defense and most nondefense spending into an overall discretionary category and provides separate categories for violent crime reduction, highway, and mass transit spending.<sup>1</sup> For 2001 and 2002, violent crime reduction spending is folded into the overall discretionary category, so the limits for those years apply to highway spending, mass transit spending, and all other discretionary spending.

CBO's current estimates of the limits on discretionary spending differ from the ones it published on December 2 in the *Final Sequestration Report for Fiscal Year 2000* (see Table 1). In that report, CBO estimated that spending in the overall discretionary, highway, and mass transit categories exceeded the estimated caps. To eliminate the excess spending, CBO calculated, a sequestration of approximately 4 percent of budget authority in the overall discretionary category would be necessary. CBO's estimates are merely advisory, however. OMB determines whether a sequestration is required to eliminate a breach of the caps. In its final sequestration report for 2000, issued on January 25, OMB determined that a sequestration is not required.

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1. In 1998 and 1999, defense spending and nondefense spending (other than for the three areas mentioned above) were governed by separate caps rather than an overall discretionary cap.

**Table 1.**  
**CBO Estimates of Discretionary Spending Limits for Fiscal Years 2000-2002 (In millions of dollars)**

	2000		2001		2002	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Total Discretionary Spending Limits in CBO's December Final Report	568,214	596,674	541,751	579,411	550,473	569,973
Overall Discretionary Category <sup>a</sup>						
Spending limits in CBO's December final report	563,714	562,429	541,751	548,304	550,473	537,926
Adjustments						
Technical differences from OMB's January final report	-112	2,441	-427	-782	-91	-647
Contingent emergency appropriations designated since OMB's January final report	45	11	0	11	0	23
Changes in mandatory spending contained in 2000 appropriation acts	<u>n.a.</u>	<u>n.a.</u>	<u>-1,235</u>	<u>-1,638</u>	<u>-714</u>	<u>-797</u>
Spending limits as of February 2, 2000	563,647	564,881	540,089	545,895	549,668	536,505
Violent Crime Reduction Category <sup>b</sup>						
Spending limits in CBO's December final report	4,500	5,554	n.a.	n.a.	n.a.	n.a.
Adjustment (Technical differences from OMB's January final report)	<u>0</u>	<u>790</u>	n.a.	n.a.	n.a.	n.a.
Spending limits as of February 2, 2000	4,500	6,344	n.a.	n.a.	n.a.	n.a.
Highway Category <sup>c</sup>						
Spending limits in CBO's December final report	n.a.	24,574	n.a.	26,219	n.a.	26,663
Adjustments						
Revised trust fund revenue assumptions	n.a.	n.a.	n.a.	1,025	n.a.	1,594
Revised technical assumptions	n.a.	<u>n.a.</u>	n.a.	<u>-359</u>	n.a.	<u>-229</u>
Spending limits as of February 2, 2000	n.a.	24,574	n.a.	26,885	n.a.	28,028
Mass Transit Category <sup>c</sup>						
Spending limits in CBO's December final report	n.a.	4,117	n.a.	4,888	n.a.	5,384
Adjustment (Revised technical assumptions)	n.a.	<u>n.a.</u>	n.a.	<u>92</u>	n.a.	<u>68</u>
Spending limits as of February 2, 2000	n.a.	4,117	n.a.	4,980	n.a.	5,452
Total Discretionary Spending Limits as of February 2, 2000	568,147	599,916	540,089	577,760	549,668	569,985

SOURCE: Congressional Budget Office.

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

- This category comprises defense and nondefense spending in fiscal year 2000 plus violent crime reduction spending in 2001 and 2002.
- This category is folded into the overall discretionary category after fiscal year 2000.
- 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 are controlled by obligation limitations, which are not counted as budget authority.

The limits in this CBO report reflect two types of adjustments made since the December report. First, CBO has adjusted its estimates of the spending caps to eliminate differences from the caps in OMB's final report, reflecting the fact that OMB's determinations are controlling. Second, CBO has modified those estimates to reflect various other changes, including new releases of emergency funding, reclassification of certain spending as mandatory, and changes in the assumptions used to derive the caps on highway and mass transit spending.

## Adjustments to Incorporate OMB's Most Recent Estimates of the Caps

To prepare its sequestration reports, CBO starts by adjusting the estimated caps in its most recent report (in this case, the December final report) for differences from the equivalent OMB report (OMB's January final report). In this instance, the limits published in those final reports differed for the overall discretionary and violent crime categories.

**Overall Discretionary Spending.** The differences in CBO's and OMB's limits for the overall discretionary category related to emergency spending. CBO and OMB adjust the spending caps for emergency appropriations at different times. In addition, the two agencies made different estimates of the amount of emergency appropriations available for 2000. For the caps on outlays, further differences occurred because CBO and OMB estimate that emergency funds will be spent at different rates once they are available.

The Deficit Control Act requires both agencies to adjust their estimates of the discretionary caps to reflect appropriations that the Congress and the President agree meet emergency requirements. Emergency appropriations can be designated as either regular or contingent. Regular emergency appropriations are designated as emergencies by the Congress and the President when they are enacted. In their subsequent sequestration reports, OMB and CBO adjust the discretionary spending caps by the amount of such appropriations provided since the previous reports.

By contrast, contingent appropriations that the Congress designates in law as emergencies become

available only when the President also designates them as emergencies and releases the funds. The caps 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 in the next sequestration report 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 difference in timing is the primary reason that the two agencies often estimate different spending limits in their sequestration reports.

In its January report, OMB adjusted the discretionary caps to account for emergency funding and other provisions contained in the Miscellaneous Appropriations Act (H.R. 3425).<sup>2</sup> Those adjustments reflected \$554 million in emergency funds for agricultural disaster payments for fiscal year 2000 as well as a 0.38 percent across-the-board reduction to 2000 appropriations. (The across-the-board cut applied to emergency appropriations and thus affected OMB's adjustments to the spending limits.) CBO did not make similar adjustments in its December report because the Consolidated Appropriations Act—which enacted H.R. 3425 by reference—required those provisions to be treated as direct spending.<sup>3</sup>

Because of the various differences mentioned above, the estimated limit on overall discretionary budget authority for 2000 was \$112 million higher in CBO's final report than in OMB's, and the estimate of the outlay limit for 2000 was \$2,441 million lower (see Table 1). The estimates in the two agencies' final reports also differed for 2001 and 2002. CBO's estimates of the caps reflected contingent emergency funding provided in appropriation acts, as well as releases of other contingent emergency funding that were not included in OMB's estimates. As a result, CBO's estimates of the caps on overall discretionary spending for 2001 were higher than OMB's—by \$427 million in the

2. H.R. 3425, an act making miscellaneous appropriations for the fiscal year ending September 30, 2000, and for other purposes, was enacted by reference in Public Law 106-113, an act making consolidated appropriations for the fiscal year ending September 30, 2000, and for other purposes.

3. Without that specification, CBO would have treated those amounts as discretionary and adjusted the spending caps upward to reflect the additional emergency spending minus the across-the-board reduction to such appropriations.

case of budget authority and \$782 million in the case of outlays. CBO's estimates of the caps on budget authority and outlays for 2002 were also higher than OMB's for the same reasons.

**Outlays in the Violent Crime Category.** Another area of difference between the two agencies' final reports was the estimates of the caps on 2000 outlays in the violent crime reduction category. OMB estimated that budget authority enacted for 2000 in that category would fall within its limit but that outlays would exceed their cap. When budget authority for enacted appropriations falls within the statutory limit but estimated outlays do not, the Deficit Control Act provides for a "special outlay allowance." That provision allows OMB to adjust the outlay cap by the amount of the excess spending, up to 0.5 percent of the adjusted cap. In its January report, OMB raised the outlay limit for the violent crime category by \$790 million for 2000. Because CBO had not estimated that outlays would exceed their limit, it did not include a special outlay allowance in its December report.

## Other Adjustments to the Discretionary Caps

Besides differences from OMB's most recent estimates, other factors cause CBO to modify its estimates of the limits on discretionary budget authority and outlays. Those factors include emergency funding that has become available since OMB's final report, reclassifications of spending from discretionary to mandatory, and updated estimates of spending for highways and mass transit.

**Emergency Funding Made Available Since OMB's Final Report.** As required by law, CBO has adjusted its estimates of the discretionary spending caps for 2000 through 2002 to reflect emergency appropriations made available since the previous sequestration report. Since the release of OMB's final report on January 25, no new emergency funding has been enacted, but the President has released \$45 million in contingent emergency funding for the Low Income Home Energy Assistance Program. CBO estimates that the funding will result in outlays of \$11 million in 2000 and 2001 and \$23 million in 2002. (CBO must adjust its limits for those amounts because, as noted

above, it starts with OMB's limits, which do not include the effects of contingent emergency funds until they are released by the President.)

**Reclassifications.** Under the scorekeeping rules that apply to the procedures of the Deficit Control Act, when changes in mandatory spending are made in an appropriation act, the effect of those changes is initially counted as discretionary spending. CBO, OMB, and the budget committees have determined that the effect of such legislation in the current year or budget year is included as discretionary for the purposes of assessing the impact of appropriation action, but the effect beyond the budget year is reflected as an adjustment to the discretionary caps.

The appropriation acts for fiscal year 2000 contained various changes that affect mandatory spending. The largest of those changes provided additional assistance to farmers through the Commodity Credit Corporation and prohibited the federal government from recouping a share of tobacco companies' payments to the states to settle lawsuits.<sup>4</sup> Those changes will result in net increases in mandatory spending in 2001 and 2002. To offset those costs, the limits on overall discretionary spending for 2001 would have to be reduced by \$1,235 million in the case of budget authority and \$1,638 million in the case of outlays, CBO estimates. For 2002, the limits should be reduced by \$714 million and \$797 million, respectively.

**Revised Assumptions in the Highway and Mass Transit Categories.** The Deficit Control Act requires that the caps on highway and mass transit spending be adjusted in each year's sequestration preview report to reflect changes in assumptions since the caps were established by the Transportation Equity Act for the 21st Century (TEA-21) in 1998.

The cap on highway spending must be adjusted for changes in two types of assumptions: estimates of revenues to the Highway Trust Fund and various technical assumptions. The first adjustment reconciles the revenues projected at the time TEA-21 was enacted

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4. Those settlements partially reimbursed the states for higher health expenditures, including higher Medicaid costs, incurred through treating smoking-related illnesses. The Emergency Supplemental Appropriations and Rescission Act for 1999 (P.L. 106-31) prohibited the federal government from recouping the share of those payments that reflected federal Medicaid expenditures.

with the revenues actually collected and updates estimates of the cap to reflect current revenue projections. This preview report reflects an estimated increase in highway revenues of \$3,795 million, calculated by adding the difference between actual revenues for 1999 and the revenues estimated for 1999 in TEA-21 to the difference between the current estimate of 2001 revenues and the 2001 estimate in TEA-21. Accordingly, CBO has raised the highway outlay cap by \$1,025 million for 2001 and \$1,594 million for 2002 to reflect the increases in highway obligations that may result from those higher revenues. The second adjustment accounts for technical changes in spending rates and estimates of outlays from prior-year obligations that have occurred since the enactment of TEA-21. CBO estimates that those technical adjustments would reduce the highway cap by \$359 million for 2001 and \$229 million for 2002.

The cap on mass transit spending must also be adjusted to account for technical changes in spending rates and estimates of outlays from prior-year obligations. CBO estimates that adjustment would total \$92 million for 2001 and \$68 million for 2002.

## How the 2001 Caps Compare with Projected Discretionary Spending

The limits on discretionary spending in fiscal year 2001 are well below the dollar amounts enacted for 2000. The amount of budget authority provided this year (\$570 billion) is approximately \$30 billion higher than the cap on budget authority for 2001. CBO's current estimate of 2000 outlays is nearly \$25 billion higher than the estimated cap on outlays for 2001. However, those amounts are similar to the amounts that the Congress and the President designated as emergency requirements in 1999 and 2000.

## Pay-As-You-Go Sequestration Report

In addition to limiting discretionary spending, the Deficit Control Act contains a mechanism to ensure that any legislative changes in direct spending or receipts

**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)**

	2000	2001	2002	2003	2004
Total Pay-As-You-Go Balances in OMB's January Final Report	0	0	0	0	0

SOURCE: Congressional Budget Office.

NOTES: OMB = Office of Management and Budget.

Section 254 of the Balanced Budget and Emergency Deficit Control Act calls for a list of all bills that are included in the PAYGO calculation. Because the data in this table assume OMB's estimate of the total change in the surplus or deficit resulting from bills enacted through the date of its report, readers are referred to the list of those bills included in Tables 8 and 9 of *OMB Final Sequestration Report to the President and Congress*, issued on January 25, 2000, and in previous sequestration reports issued by OMB.

Section 1001(c) of P.L. 106-113 instructs the Director of OMB to change any PAYGO balances to zero on January 3, 2000. OMB's estimates of the balances removed are -\$3,072 million for 2000, \$4,055 million for 2001, \$7,384 million for 2002, \$1,762 for 2003, and \$2,562 million for 2004. (PAYGO balances appear as negative numbers on the scorecard when cumulative direct-spending reductions and revenue increases exceed cumulative spending increases and revenue reductions. Changes that increase PAYGO balances appear as negative numbers; changes that decrease balances appear as positive numbers.)

enacted since the Balanced Budget Act of 1997 and before 2003 do not reduce the surplus or increase the deficit. If changes enacted through the end of a session of Congress reduce the projected surplus (or increase the projected deficit), a PAYGO sequestration is required at the end of the session. Under that sequestration, mandatory programs (other than those specifically exempt) are cut to eliminate the difference. The PAYGO discipline applies to legislation enacted through 2002, but the sequestration procedure applies through 2006 to eliminate any decrease in the surplus or increase in the deficit caused by that legislation.

Section 1001 of the Consolidated Appropriations Act directed OMB to reset the PAYGO balances to zero on January 3, 2000; thus, CBO has also reset its estimates of PAYGO balances to zero (see Table 2). That Congressional action eliminated PAYGO balances for fiscal years 2000 through 2004 that, if not offset by savings from future legislation, would have necessitated a PAYGO sequestration. By CBO's estimates, the eliminated balances total more than \$11 billion for the five-year period. By OMB's estimates, which would have determined the need for a sequestration, the eliminated balances total almost \$13 billion.