

SEQUESTRATION PREVIEW REPORT
FOR FISCAL YEAR 1994

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

April 2, 1993

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NOTES

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

Numbers in the text and tables of this report may not add to totals because of rounding.

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

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The Budget Enforcement Act of 1990 (BEA) amended the Balanced Budget and Emergency Deficit Control Act of 1985 to establish enforcement procedures for direct (mandatory) spending, receipts, and discretionary spending for fiscal years 1991 through 1995. The law requires the Congressional Budget Office (CBO) each year to issue a sequestration preview report five days before the President's budget submission. This year's preview report must contain estimates of the following items:

- o The discretionary spending limits for fiscal years 1993 through 1995 and any adjustments to those limits,
- o The amount by which direct spending or receipt legislation enacted after the Budget Enforcement Act has increased or decreased the deficit in fiscal years 1993 through 1995, and
- o The maximum deficit amount for fiscal year 1994.

This report provides the required information.

DISCRETIONARY SEQUESTRATION REPORT

The BEA established limits on discretionary budget authority and outlays in each fiscal year from 1991 through 1995. For 1991 through 1993, limits were imposed on each of three categories of discretionary spending: defense, international, and domestic. In 1994 and 1995, the limits apply to total discretionary spending.

Besides setting limits for each year, the BEA specified adjustments that should be made to those limits when the Office of Management and Budget (OMB) issues the various sequestration reports. CBO is also required to issue sequestration reports that include estimates of the adjustments. However, the BEA provides that CBO's reports are merely advisory and that OMB's reports are controlling in enforcing the act.

Some of the adjustments must be made in the sequestration preview report issued when the President submits his annual budget. Other adjustments are made in the sequestration update report issued each year on August 20. Still others are made only in final sequestration reports issued 15 days after the end of a Congressional session or in within-session sequestration reports that may follow enactment of supplemental appropriations.

Because the discretionary spending limits in OMB's sequestration reports are controlling, CBO's estimates of the limits are based on the limits specified in the *OMB Final Sequestration Report to the President and Congress for Fiscal Year 1993*, issued on October 23, 1992. These OMB limits have been modified by CBO's estimates of the required sequestration preview report adjustments. The limits for each of the three categories--defense, international, and domestic--for fiscal year 1993 are shown in Table 1. The limits for total discretionary spending in fiscal years 1994 and 1995 are shown in Table 2.

The adjusted limits reflect emergency appropriations (the only adjustments to the 1993 limits), changes in budgetary concepts and definitions, differences between anticipated and actual inflation in fiscal year 1992, and changes in the estimated cost of credit programs.

Emergency Appropriations

The BEA requires that OMB and CBO adjust the spending limits to reflect the enactment of appropriations that are designated as emergency expenditures both by the legislation providing the appropriations and by the President. Although no emergency appropriations have been enacted since OMB's last sequestration report, some have become available for obligation. In several instances, the ability to spend funds appropriated in 1992 was made contingent on the President's emergency designation. Some of these contingent appropriations were not designated as emergencies when the President signed the bills, were therefore not available for obligation, and were not included in the adjustments in OMB's final sequestration report. Since that report, however, the President has designated a number of these appropriations as emergencies. The adjustments to the 1993 budget authority and outlay limits and to the 1994 and 1995 outlay limits reflect the effects of the 1993 budget authority newly available as a result of these emergency designations.

Category Changes

The BEA provides for adjustments that reflect changes in budgetary concepts and definitions. Adjustments for changes in budgetary categories are made

under this authority. The category changes made in this report result from the practice of assigning certain legislated changes in mandatory spending to the discretionary spending side of the BEA 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.

The Office of Management and Budget and the budget committees have determined that any current- or budget-year costs or savings that result from provisions in an appropriation act should be included in the estimate of discretionary spending for that year, even if the costs or savings are in a mandatory spending program. Similarly, any appropriation for a discretionary program provided in authorizing legislation is included in the PAYGO scorecard.

Adjusting the discretionary spending limits for future years ensures that the appropriations committees are held responsible for any future effects of changes in mandatory programs included in their legislation, but are not affected by appropriations for discretionary programs provided by other committees. Those appropriations are reflected in the PAYGO scorecard and must be offset by cuts in mandatory spending or by increased revenues. Without compromising BEA enforcement, adjustments of this sort provide a simple alternative to keeping track of any mandatory spending effects caused by appropriation actions and any discretionary spending provided by authorizing legislation.

For example, the fiscal year 1993 appropriation act for the Departments of Labor, Health and Human Services, Education, and related agencies (Public Law 102-394) mandated a delay in paying fiscal year 1993 Medicare claims made by electronic means. This delay reduced Medicare costs by \$185 million in 1993, but 1994 costs will be increased by \$185 million when the delayed payments are made. The 1993 savings were included in the estimate of the 1993 appropriation act, but rather than attribute the 1994 cost to next year's appropriation act, the 1994 discretionary spending limit is reduced by \$185 million. Similarly, Public Law 102-334 (An Act to Partially Restore Authority Authorized in the Intermodal Surface Transportation Act of 1991), an authorizing act included in the PAYGO scorecard, increases 1994 and 1995 outlays for discretionary highway programs. Because these outlays will be attributed to the appropriation acts in those years, the discretionary outlay limits must be increased by \$82 million in 1994 and \$17 million in 1995 to make sure the appropriations committees are not adversely affected by the action of the authorizing committee.

Change in 1992 Inflation

The BEA requires that the discretionary limits for 1994 and 1995 be adjusted for the difference between the actual inflation rate in 1992 and the rate for that year anticipated when the BEA was enacted in 1990. Because actual inflation (measured by the implicit GNP deflator) was lower in 1992 than had been expected, the adjustment reduces the spending limits. CBO estimated the inflation adjustment using the method that OMB adopted in its 1993 sequestration preview report. This method entails adjusting only nonpersonnel costs instead of adjusting all discretionary spending. As a result, the reduction is smaller, and the resulting limits are higher, than if all spending were subject to the inflation adjustment.

CBO believes, however, that the BEA requires that all discretionary spending be adjusted--an interpretation endorsed by the General Accounting Office in its November 1992 report *Compliance with the Budget Enforcement Act of 1990*. Nevertheless, because OMB makes the final decision in BEA matters, and in order to reduce confusion over differences between CBO and OMB estimates of the spending limits, CBO has adopted OMB's method. If the inflation adjustment were applied to all discretionary spending, however, the 1994 spending limits would be lower than the levels shown in Table 2 by \$2.3 billion in budget authority and \$1.5 billion in outlays, and the 1995 limits would be lower by \$2.3 billion in budget authority and \$1.9 billion in outlays.

Credit Subsidy Reestimates

The BEA requires that the discretionary spending limits be adjusted to reflect changes in the estimated subsidy rate for discretionary credit programs. This provision was intended to hold the appropriations committees harmless for increases in the estimated subsidy cost of direct loans and loan guarantees, and to prevent a windfall if the subsidy estimates were reduced. Policymakers feared that the subsidy estimates, first required in 1992 when the Credit Reform Act of 1990 was implemented, could be quite volatile because the information required to make the estimates was incomplete at best. The reductions shown in Table 2 reflect CBO subsidy rates that are lower than the rates OMB used in fiscal year 1993. The largest adjustments result from different estimates of the subsidies involved in mortgage-backed guarantees of the Government National Mortgage Association; general and special risk guarantees and mutual mortgage insurance guarantees of the Federal Housing Administration; and direct loans of the Rural Housing Insurance Fund.

PAY-AS-YOU-GO SEQUESTRATION REPORT

As with the discretionary spending limits, the BEA requires both CBO and OMB to estimate the net increase in the deficit resulting from legislation enacted since the BEA that affects direct spending or receipts, but OMB's estimates determine whether a sequestration is required. CBO therefore adopts as its starting point the net change in the deficit for each fiscal year specified in OMB's most recent sequestration report--in this case, the *OMB Final Sequestration Report to the President and Congress for Fiscal Year 1993*, issued on October 23, 1992. In that report, OMB estimated that direct spending and receipt legislation enacted since the BEA had reduced the 1993 deficit by \$1,813 million, the 1994 deficit by \$182 million, and the 1995 deficit by \$507 million. CBO estimates that the same legislation has actually decreased the 1993 deficit by \$1,668 million and increased the 1994 and 1995 deficits by \$741 million and \$824 million, respectively. The difference results chiefly from differing estimates of the total cost of four bills providing additional benefits to unemployed workers.

Table 3 shows the budgetary effects of pay-as-you-go legislation enacted since the BEA, with OMB's estimate of the effects of legislation enacted before its final sequestration report for 1993 and CBO's estimate of legislation enacted subsequent to that report. Most of the legislation enacted since the OMB report was passed in the second session of the 102nd Congress, but was signed by the President after the OMB sequestration report was completed. The only law enacted in the current session of Congress that affects the deficit by as much as \$500,000 in any year is Public Law 103-6, the Emergency Unemployment Compensation Amendments of 1993. Because the President and the Congress declared that the unemployment benefits provided by that law are emergency expenditures for purposes of the BEA, the \$3.3 billion in 1994 costs and the \$2.3 billion in 1995 costs are not included in the pay-as-you-go calculations. However, a provision in the act restricting increases in pay for Members of Congress is counted for pay-as-you-go purposes and would reduce the deficit by \$2 million in 1994 and \$3 million in 1995.

DEFICIT SEQUESTRATION REPORT

The BEA set maximum deficit amounts or targets for fiscal years 1992 through 1995 and provided for adjustments to those amounts. In 1991 and 1992, the President was required to adjust the targets for all the economic and technical reestimates to the baseline. In 1993, the President has the option to make such an adjustment or to make adjustments only for changes in the discretionary spending limits. If he chooses to adjust the targets for all economic and technical reestimates in 1993, the President has the option to make such an

adjustment again in 1994. On January 21, 1993, President Clinton notified the Congress that he intends to adjust the maximum deficit amounts for all economic and technical reestimates when the OMB sequestration preview report for fiscal year 1994 is issued. The CBO maximum deficit amounts reported here therefore assume an adjustment for all economic and technical reestimates.

The adjusted maximum deficit amounts equal the projected on-budget baseline deficits (assuming that discretionary spending is held to the adjusted limits) minus any net deficit increases or decreases resulting from legislation that affects direct spending or receipts. CBO's current estimates of the maximum deficit amounts are shown in Table 4. The estimates are based on CBO's March 1993 revised baseline estimates (see CBO, "An Analysis of the President's February Budgetary Proposals," CBO Paper, March 1993).

The deficit figures exclude the special budget authority allowances for 1994 and 1995, adjustments for actual inflation affecting 1995, and other changes in the discretionary spending limits that will be made in later sequestration reports. As a result, they differ slightly from the CBO baseline on-budget deficits. They also exclude the costs associated with the extension of unemployment benefits provided in Public Law 103-6. Under the BEA, direct spending designated as an emergency is subtracted from the estimated deficit in determining whether the maximum deficit amount has been exceeded. Adjusting the maximum deficit amounts to include such spending, as well as subtracting the amounts from the deficit estimate, would constitute double-counting.

A very small part of the changes in the maximum deficit amounts since CBO's final sequestration report, issued in October 1992, results from changes in the discretionary spending limits caused by emergency spending made available since then. The remaining changes stem from economic and technical reestimates, which have a small net effect in 1994 but increase the maximum deficit amount by \$23 billion in 1995.

Table 1.
CBO Estimates of Discretionary Spending Limits for Fiscal Year 1993 (In millions of dollars)

	<u>Defense</u>		<u>International</u>		<u>Domestic</u>	
	Budget Authority	Outlays	Budget Authority	Outlays	Budget Authority	Outlays
Limits as of October 23, 1992	289,651	298,861	35,081	20,601	206,325	229,916
Adjustments						
Contingent 1992 emergencies designated since October 23, 1992	0	0	0	0	824	75
Limits as of April 2, 1993	289,651	298,861	35,081	20,601	207,149	229,991

SOURCE: Congressional Budget Office.

Table 2.
CBO Estimates of Discretionary Spending Limits for Fiscal Years 1994 and 1995 (In millions of dollars)

	1994		1995	
	Budget Authority	Outlays	Budget Authority	Outlays
Limits as of October 23, 1992	515,312	539,877	522,071	542,285
Adjustments				
Contingent 1992 emergencies designated since October 23, 1992	0	134	0	175
Category changes				
Wetlands reserve	-111	-51	-67	-35
Conservation reserve	7	7	29	29
Funds for strengthening markets	0	-27	-30	-3
Interior net receipt sharing	0	3	0	0
Forest Service permanent appropriations	0	-1	0	0
Interim assistance to states for legalization	-812	-344	0	-121
Hospital Insurance electronic media claims	0	-185	0	0
Other Hospital Insurance	0	7	0	0
Emergency preparedness grants	-7	0	0	-3
Discretionary highway programs	<u>0</u>	<u>82</u>	<u>0</u>	<u>17</u>
Subtotal	-923	-509	-68	-116
Change in 1992 inflation	-4,198	-1,682	-4,316	-2,960
Credit subsidy reestimates	<u>-701</u>	<u>-580</u>	<u>-719</u>	<u>-658</u>
Total	-5822	-2,637	-5,103	-3,559
Limits as of April 2, 1993 ^a	509,490	537,240	516,968	538,726

SOURCE: Congressional Budget Office.

- a. The limits assumed in CBO's revised baseline are different from those shown here because they use the limits in OMB's preliminary 1994 sequestration preview report as the starting point and they include estimated adjustments that will be made in later sequestration reports. The revised baseline appears in CBO, "An Analysis of the President's February Budgetary Proposals," CBO Paper (March 1993).

Table 3.
Budgetary Effects of Direct Spending and Receipt Legislation
Enacted Since the Budget Enforcement Act (By fiscal year, in millions of dollars)

Legislation	1993	1994	1995
Total from OMB's October 1992 Final Sequestration Report ^a	-1,813	-182	-507
Legislation Enacted Since OMB's Final Sequestration Report for 1992			
Cedar River Watershed Land Exchange Act (P.L. 102-453)	0	0	-2
National Defense Authorization Act, FY 1993 (P.L. 102-484) ^b	-41	-108	-102
Energy Policy Act (P.L. 102-486) ^b	-522	-282	-219
Intelligence Authorization Act, FY 1993 (P.L. 102-496) ^b	-1	0	0
Pipeline Safety Act (P.L. 102-508) ^b	0	0	1
Preventive Health Amendments (P.L. 102-531)	30	0	0
Telecommunications Authorization Act (P.L. 102-538) ^b	-2	0	0
Veterans' Home Loan Program Amendments (P.L. 102-547)	1	-2	-2
Housing and Community Development Act (P.L. 102-550)	-26	-15	-14
Audio Home Recording Act (P.L. 102-563)	-50	-2	-2
Veterans' Benefits Act (P.L. 102-568)	-14	-143	36
Federal Courts Administration Act (P.L. 102-572) ^b	8	8	8
Reclamation Projects Authorization Act (P.L. 102-575)	-38	8	8
Veterans' Radiation Exposure Amendments (P.L. 102-578)	2	3	3
High Seas Driftnet Fisheries Enforcement Act (P.L. 102-582)	4	-146	-224
Veterans' Health Care Act (P.L. 102-585)	1	1	1
Cash Management Improvement Act Amendments (P.L. 102-589)	37	-48	-3

(Continued)

Table 3.
Continued

Legislation	1993	1994	1995
Homeless Veterans Comprehensive Service Programs Act (P.L. 102-590)	4	0	0
Emergency Unemployment Compensation Amendments of 1993 (P.L. 103-6) ^e	<u>0</u>	<u>-2</u>	<u>-3</u>
Total	-607	-728	-514
Total Change in the Deficit Since the Budget Enforcement Act	-2,420	-910	-1,021

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 1995: Lower Merced River Designation (P.L. 102-432); Wild Bird Conservation Act (P.L. 102-440); Jicarilla Apache Tribe Water Rights Settlement Act (P.L. 102-441); Acceptance of Late Payment Maintenance Fees (P.L. 102-444); Additional Uses for Library of Congress Special Facilities Center (P.L. 102-451); Federal Reserve Bank Branch Modernization Act (P.L. 102-491); Technical Amendments to Certain Federal Indian Statutes (P.L. 102-497); Administrative Authorities Amendments (P.L. 102-499); Soviet Scientists Immigration Act (P.L. 102-509); Veterans' Compensation COLA Act (P.L. 102-510); Children's Nutrition Assistance Act (P.L. 102-512); Anti Car Theft Act (P.L. 102-519); Child Support Recovery Act (P.L. 102-521); International Dolphin Conservation Act (P.L. 102-523); Provide Equitable Treatment to Sugarcane Producers (P.L. 102-535); Futures Trading Practices Act (P.L. 102-546); Intermodal Safe Container Transportation Act (P.L. 102-548); Jobs Through Exports Act (P.L. 102-549); Farm Credit Banks Safety and Soundness Act (P.L. 102-552); Telephone Disclosure and Dispute Resolution Act (P.L. 102-556); NOAA Authorization Act (P.L. 102-567); Rehabilitation Act Amendments (P.L. 102-569); Water Resources Development Act (P.L. 102-580); Airport and Airway Safety, Improvement, and Intermodal Transportation Act (P.L. 102-581); Oceans Act of 1992 (P.L. 102-587); Family and Medical Leave Act (P.L. 103-3); Aircraft Equipment Settlement Leases Act (P.L. 103-7); and seven private relief bills. CBO was unable to estimate the deficit effect of the Mammography Quality Standards Act (P.L. 102-539) or the Criminal Penalties for Copyright Infringement (P.L. 102-561).

- 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 changes in the deficit resulting from bills enacted through October 21, 1992, readers are referred to the list of those bills included in Table 4 of the October 1992 *OMB Final Sequestration Report to the President and Congress for Fiscal Year 1993*.
- b. Increases in receipts are shown with a negative sign because they decrease the deficit.
- c. Excludes designated emergency spending.

Table 4.
CBO Estimates of Maximum Deficit Amounts (By fiscal year, in billions of dollars)

	1994	1995
CBO Estimate as of October 19, 1992	344	331
Changes		
Emergency appropriations	a	a
Economic and technical reestimates	1	23
CBO Estimate as of April 2, 1993	345	354

SOURCE: Congressional Budget Office.

a. Less than \$500 million.
