Appendix A

Sequestration Preview Report for Fiscal Year 2002

The Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act) requires the Congressional Budget Office (CBO) to issue a sequestration preview report before the President submits his annual budget to the Congress. This report provides CBO's estimates of the discretionary spending caps and the pay-as-you-go (PAYGO) balances at the beginning of the 107th Congress.

Compared with CBO's baseline estimate of discretionary spending for fiscal year 2002, budget authority would have to be reduced by $113 billion and outlays by $106 billion to comply with the 2002 caps. Although the Consolidated Appropriations Act, 2001 (Public Law 106-554) instructed the Office of Management and Budget (OMB) to change the $11 billion PAYGO balance for 2001 to zero, a $16 billion balance (resulting from previous legislation that will increase direct spending or reduce revenues) remains for 2002.

Discretionary Sequestration Report

The Deficit Control Act limits discretionary spending in 2002 and provides for sequestration (a cancellation of budgetary resources) if annual appropriations exceed those limits. For 2002, the last year for which section 251 of the Deficit Control Act is in effect, the caps apply to four categories of spending: overall discretionary (which comprises the spending categories previously separated as defense, nondefense, and violent crime reduction), overall conservation (which has six subcategories for programs related to conservation, preservation, and infrastructure), highway, and mass transit. The caps on highway and mass transit spending apply only to outlays; caps for the overall discretionary and the overall conservation categories cover both budget authority and outlays (see Table A-1).[1]

Adjustments to the Spending Limits

The discretionary spending limits in this report reflect four types of adjustments made since CBO's final sequestration report (published on December 29, 2000): adjustments for differences between CBO's and OMB's estimates, for releases of emergency funds, for changes in the classification of certain spending as mandatory or discretionary, and for updated assumptions about transportation spending.

Differences Between the Limits in CBO's and OMB's Final Reports. OMB is responsible for determining whether a sequestration is required to eliminate a breach of the discretionary spending caps; CBO's estimates are merely advisory. Therefore,

1. The highway category does not have caps on budget authority because obligation limitations (which do not count as budget authority) set in appropriation bills control all of its spending. A combination of appropriations and obligation limitations control spending for mass transit, so it also has no statutory limit on budget authority.

Table A-1.
CBO's Estimates of Discretionary Spending Limits for Fiscal Years 2001 and 2002
(In millions of dollars)

	2001		2002	
	Budget Authority	Outlays	Budget Authority	Outlays
Total Discretionary Spending Limits in CBO's December Final Report	640,800	644,785	552,324	576,009
Overall Discretionary Category[a]				
Spending limits in CBO's December final report	640,800	613,226	550,564	541,433
Adjustments				
Technical differences from OMB's January final report	3	21	-231	-1,920
Contingent emergency appropriations designated since OMB's January final report	0	636	0	722
Changes in mandatory spending contained in 2001 appropriation acts	n.a.	n.a.	-1,103	-486
Changes in appropriated spending contained in 2001 authorization acts	n.a.	n.a.	805	604
Spending limits as of January 25, 2001	640,803	613,883	550,035	540,353
Highway Category[b]				
Spending limits in CBO's December final report	n.a.	26,920	n.a.	27,925
Adjustments				
Technical differences from OMB's January final report	n.a.	0	n.a.	0
Revised trust fund revenue assumptions	n.a.	n.a.	n.a.	1,315
Revised technical assumptions	n.a.	n.a.	n.a.	-351
Spending limits as of January 25, 2001	n.a.	26,920	n.a.	28,889
Mass Transit Category[b]				
Spending limits in CBO's December final report	n.a.	4,639	n.a.	5,419
Adjustments				
Technical differences from OMB's January final report	n.a.	0	n.a.	0
Revised technical assumptions	n.a.	n.a.	n.a.	71
Spending limits as of January 25, 2001	n.a.	4,639	n.a.	5,490
Overall Conservation Category				
Spending limits in CBO's December final report	n.a.	n.a.	1,760	1,232
Adjustment (Technical differences from OMB's January final report)	n.a.	n.a.	0	0
Spending limits as of January 25, 2001	n.a.	n.a.	1,760	1,232
Total Discretionary Spending Limits as of January 25, 2001	640,803	645,442	551,795	575,964

SOURCE: Congressional Budget Office.

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

a. This category comprises defense, nondefense, and violent crime reduction spending.

b. The highway and mass transit categories do not have budget authority limits. 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.

before making other changes, CBO first adjusts the estimates of the caps that appeared in its most recent sequestration report to match the figures in the equivalent OMB report.

The Deficit Control Act prescribes that CBO and OMB adjust their estimates of the caps for appropriations that the Congress and the President have designated as emergencies. However, section 701(b)(1) of the Foreign Operations, Export Financing, and Related Appropriations Act, 2001 (P.L. 106-429) states that "with respect to fiscal year 2001," no adjustment to the caps for emergency funding is permitted in the final sequestration report. As a result, CBO in its December report made no adjustment in the caps for 2001 related to such funding, but it adjusted the limits in 2002. In contrast, OMB did not make any such adjustments for emergency funding for either 2001 or 2002. That difference causes the 2002 caps for the overall discretionary category in OMB's report to be lower than CBO's estimates of the limits by $231 million in budget authority and $1,920 million in outlays.

Recently Released Emergency Appropriations. CBO has also adjusted its outlay caps in this report for contingent emergency appropriations that the President released after the publication of OMB's final report.[2] For that reason, the outlay caps for the overall discretionary category have been increased by $636 million in 2001 and $722 million in 2002.[3] Three-quarters of the 2001 amount and more than one-third of the 2002 amount were for fighting wildfires, subsequent rehabilitation efforts, and other related activities.

Classification of Spending. Under scorekeeping rules, when changes in mandatory spending are made in an appropriation act, those changes are initially counted as discretionary spending for assessing the impact of appropriation action. Such spending remains subject to the caps in the current year—2001 in this report. But for subsequent years, the costs of such changes are moved back to the mandatory side of the budget (where they would normally be classified), and the discretionary caps are adjusted accordingly. As a result, the spending limits for the overall discretionary category have been reduced by $1,103 million in budget authority and $486 million in outlays for 2002, mostly reflecting additional funds for farmers and the Food Stamp program enacted in the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act for 2001 (P.L. 106-387).

Similarly, changes in discretionary programs are sometimes made in authorization acts. The first-year costs of those changes are counted as mandatory spending and governed by PAYGO procedures. In this report, such spending in subsequent years reverts to the discretionary side of the budget, and the caps are adjusted so that changes in appropriated spending made by the authorizing committees do not affect the appropriations committees. For that reason, the spending caps for 2002 for the overall discretionary category have been increased by $805 million in budget authority and $604 million in outlays. Additional funds for the Training and Employment Administration and the Ricky Ray Hemophilia Relief Fund triggered most of that increase.

Updated Assumptions About Transportation Spending. The Deficit Control Act requires that the outlay caps for the highway and mass transit categories be adjusted in this report to reflect changes in assumptions since those caps were established in 1998 by the Transportation Equity Act for the 21st Century (P.L. 105-178).

CBO made two adjustments to the 2002 outlay cap for the highway category. One change, an increase of $1,315 million, is from new revenue estimates for the Highway Trust Fund. The other adjustment, a reduction of $351 million, arises from changes in spendout rates and reestimates of outlays from prior year obligations. This second type of adjustment accounts for the $71 million increase in the 2002 outlay limit for the mass transit category.

2. CBO believes that the prohibition on adjustments for emergencies in section 701 of the Foreign Operations Appropriations Act applied only to the final sequestration report for 2001.

3. In accordance with section 251(b)(2)(A) of the Deficit Control Act, those amounts exclude $2,210 million in 2001 and $87 million in 2002, which was provided to cover agricultural crop disaster assistance.

Table A-2.
CBO's Estimates of Discretionary Spending Compared with the Statutory Caps for Fiscal Year 2002
(In billions of dollars)

	Budget Authority	Outlays
CBO's Estimate of the Total Discretionary Spending Limits as of January 25, 2001	552	576
CBO's Estimate of Discretionary Spending		
Baseline[a]	665	682
Freeze scenario[b]	641	669
Amounts by Which Discretionary Spending Exceeds the Limits		
Baseline[a]	113	106
Freeze scenario[b]	89	93

SOURCE: Congressional Budget Office.

a. Assumes that discretionary spending grows according to the inflators specified in the Deficit Control Act (the gross domestic product deflator and the employment cost index).

b. Assumes that discretionary budget authority is frozen at the level enacted for 2001.

Compliance with the Discretionary Spending Limits

For 2001, appropriations enacted thus far are below or equal to the limits. For the overall discretionary category, budget authority and outlays are $6,545 million and $2,464 million below their respective limits, according to OMB's estimates.[4] Outlays in the highway category are $23 million below their limit, whereas outlays in the mass transit category are at their limit.

Even assuming that discretionary budget authority is frozen at the level enacted for 2001, however, discretionary spending in 2002 would be far above the adjusted caps. Under CBO's freeze scenario, discretionary budget authority equals $641 billion and outlays total $669 billion in 2002. Those amounts are above their respective 2002 caps by $89 billion and $93 billion (see Table A-2).

4. Office of Management and Budget, *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2001* (January 2001), Table 4.

Pay-As-You-Go Sequestration Report

In addition to limiting discretionary spending, the Deficit Control Act contains a mechanism to ensure that any legislation affecting direct spending or receipts enacted through fiscal year 2002 does not result in a net cost. If legislative changes enacted through the end of a session of Congress produce a net cost, a PAYGO sequestration is required at the end of the session. Under that type of sequestration, budgetary resources available for nonexempt mandatory programs are cut sufficiently to eliminate the net cost. The PAYGO discipline governs legislation enacted through 2002, but the sequestration procedure applies through 2006 to eliminate any projected decrease in the surplus caused by such legislation.

Both CBO and OMB estimate the net cost in each year that results from direct spending or revenue legislation. But, as with the discretionary spending caps, OMB's estimates determine whether a sequestration is necessary. For this report, therefore, CBO has adopted as its starting point the estimated PAYGO effects of legislation from OMB's final sequestration report.

Table A-3.
Budgetary Effects of Direct Spending or Receipt Legislation Enacted Since the Budget Enforcement Act of 1997 (By fiscal year, in millions of dollars)

	2001	2002	2003	2004	2005	2006
Total PAYGO Balance in OMB's Final Sequestration Report	0	16,053	18,465	19,336	20,673	0

SOURCE: Congressional Budget Office.

NOTES: OMB = Office of Management and Budget.

Section 254 of the Deficit Control Act requires a list of all bills that are included in the PAYGO calculation. Since the data in this table begin with OMB's estimate of the total change in the surplus resulting from bills enacted through the date of its report, readers are referred to Tables 6 and 7 of *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2001*, issued on January 16, 2001.

The Consolidated Appropriations Act, 2001 (P.L. 106-554) instructed OMB to change the PAYGO balance for 2001 to zero; OMB's estimate of that balance before the change was $10,542 million.

Pursuant to the Deficit Control Act, the net costs for 2000 and 2001 were combined to determine the magnitude of a PAYGO sequestration for 2001. Although OMB estimated that legislative actions would reduce the surplus by approximately $10.5 billion, the Consolidated Appropriations Act instructed OMB to change the PAYGO balance for 2001 to zero, thereby avoiding a PAYGO sequestration.[5] For 2002, however, OMB estimates that a $16 billion balance remains outstanding, meaning that a PAYGO sequestration would be required in 2002 unless legislation is enacted to eliminate that balance (see Table A-3). Similarly, 2003 through 2005 also have positive PAYGO balances. Under the Deficit Control Act, estimates of the net cost of direct spending or revenue legislation must be provided for the year in which the legislation was enacted and the following four years (2001 through 2005 in this report); therefore, the PAYGO balance for 2006 is currently zero.

5. The $10,542 million balance, as estimated by OMB, is composed of net reductions in the surpluses for 2000 and 2001 of $42 million and $10,500 million, respectively.