

Sequestration Report Federal Reserve

Friday
October 16, 1987

Part VI

Congressional Budget Office

Sequestration Report for Fiscal Year
1988; Notice

CONGRESSIONAL BUDGET OFFICE**Sequestration Report for Fiscal Year
1988****AGENCY:** Congressional Budget Office.**ACTION:** Report transmittal.

SUMMARY: This notice transmits the Initial Sequestration Report for Fiscal Year 1988 to the Office of Management and Budget and the Congress in accordance with the new procedures of the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987, Public Law 100-119.**BILLING CODE 1450-01-M**



CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

October 15, 1987

Honorable James C. Miller III
Director
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Miller:

In accordance with the new procedures of the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987, Public Law 100-119, I herewith transmit to you my *Initial Sequestration Report for Fiscal Year 1988*.

Following the specifications set forth in the act, the report provides two sets of budget baseline estimates for 1988--one based on laws and regulations in effect on January 1, 1987, and the other for October 10, 1987. Because no full-year appropriations for 1988 have been enacted so far, both sets of budget baseline estimates use inflated 1987 appropriations as stipulated in the act.

Sequestration of budgetary resources will be necessary for 1988 if the amount of net deficit reduction since January 1 is less than \$23 billion. The Congressional Budget Office estimates that the budget baseline deficit for 1988 has increased by \$1.0 billion between January 1 and October 10, 1987. Therefore, the required amount of outlay reductions to be obtained through sequestration is \$23.0 billion, the maximum amount specified by law for 1988. The report calculates the amounts and percentages by which various budgetary resources must be sequestered, including a detailed listing by budget account.

We would be pleased to provide you with any assistance that you may require in preparing your own initial sequestration report.

With best wishes,

Sincerely yours,

Edward M. Gramlich
Acting Director



**CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515**

October 15, 1987

Honorable George Bush
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

In accordance with the new procedures of the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987, Public Law 100-119, I herewith submit to the Congress my *Initial Sequestration Report for Fiscal Year 1988*.

Following the specifications set forth in the act, the report provides two sets of budget baseline estimates for 1988--one based on laws and regulations in effect on January 1, 1987, and the other for October 10, 1987. Because no full-year appropriations for 1988 have been enacted so far, both sets of baseline budget estimates use inflated 1987 appropriations as stipulated in the act.

Sequestration of budgetary resources will be necessary for 1988 if the amount of net deficit reduction since January 1 is less than \$23 billion. The Congressional Budget Office estimates that the budget baseline deficit for 1988 has increased by \$1.0 billion between January 1 and October 10, 1987. Therefore, the required amount of outlay reductions to be obtained through sequestration is \$23.0 billion, the maximum amount specified by law for 1988. The report calculates the amounts and percentages by which various budgetary resources must be sequestered, including a detailed listing by budget account.

I would be pleased to provide the Congress with any assistance it may require in responding to this report, or to the initial report by the Director of the Office of Management and Budget to be issued on October 20, 1987.

With best wishes,

Sincerely yours,

Edward M. Gramlich
Acting Director



**CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515**

October 15, 1987

Honorable James C. Wright, Jr.
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

In accordance with the new procedures of the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987, Public Law 100-119, I herewith submit to the Congress my *Initial Sequestration Report for Fiscal Year 1988*.

Following the specifications set forth in the act, the report provides two sets of budget baseline estimates for 1988—one based on laws and regulations in effect on January 1, 1987, and the other for October 10, 1987. Because no full-year appropriations for 1988 have been enacted so far, both sets of baseline budget estimates use inflated 1987 appropriations as stipulated in the act.

Sequestration of budgetary resources will be necessary for 1988 if the amount of net deficit reduction since January 1 is less than \$23 billion. The Congressional Budget Office estimates that the budget baseline deficit for 1988 has increased by \$1.0 billion between January 1 and October 10, 1987. Therefore, the required amount of outlay reductions to be obtained through sequestration is \$23.0 billion, the maximum amount specified by law for 1988. The report calculates the amounts and percentages by which various budgetary resources must be sequestered, including a detailed listing by budget account.

I would be pleased to provide the Congress with any assistance it may require in responding to this report, or to the initial report by the Director of the Office of Management and Budget to be issued on October 20, 1987.

With best wishes,

Sincerely yours,

Edward M. Gramlich
Acting Director

**INITIAL SEQUESTRATION REPORT
FOR FISCAL YEAR 1988**

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

October 15, 1987

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NOTES

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

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

The Balanced Budget and Emergency Deficit Control Act of 1985 (popularly known as Gramm-Rudman-Hollings) is also referred to in this report more briefly as the Balanced Budget Act. The amendments to this act made by Public Law 100-119, the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987, are also referred to in this report more briefly as the Reaffirmation Act.

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

**INITIAL SEQUESTRATION REPORT
FOR FISCAL YEAR 1988**

**A CONGRESSIONAL BUDGET OFFICE
REPORT TO THE CONGRESS
AND THE OFFICE OF MANAGEMENT AND BUDGET**

October 15, 1987

INTRODUCTION

The Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (Public Law 100-119) provides a new set of deficit targets to be met over the next six years and reinstates an automatic sequestration procedure for achieving deficit reductions. The act also provides a \$10 billion margin-of-error amount for 1988 through 1992, but none for 1993. The new deficit targets specified by the act are:

<u>Fiscal Year</u>	<u>Maximum Deficit</u> (in billions of dollars)
1988	144
1989	136
1990	100
1991	64
1992	28
1993	0

The sequestration of budgetary resources would be triggered automatically under the following conditions:

- o For 1988 only, if the amount of net deficit reduction achieved through laws enacted and regulations promulgated between January 1, 1987, and November 20, 1987, is less than \$23 billion. The act sets a \$23 billion deficit reduction target for 1988 so that the deficit target of \$144 billion and the \$10 billion margin-of-error amount do not affect sequestration.
- o For 1989 only, if the estimated deficit on October 10, 1988, exceeds \$146 billion (\$136 billion deficit target plus the \$10 billion margin) and the amount of net deficit reduction achieved through laws enacted and regulations promulgated between January 1, 1988, and October 10, 1988, is less than \$36 billion.

- o For 1990 through 1992, if the estimated deficit at the beginning of each fiscal year exceeds the deficit target by more than \$10 billion.
- o For 1993 only, if there is any deficit estimated on October 15, 1992.

Sequestration involves the permanent cancellation of new budget authority and other authority to obligate and expend funds, except for special and trust funds where the sequestered amounts of spending authority remain in the funds. The sequestration of budgetary resources is designed to achieve outlay reductions sufficient to reach the deficit targets, except for 1988 and 1989 when the outlay reductions that can be achieved through sequestration are limited to \$23 billion and \$36 billion, respectively.

Under the Reaffirmation Act, the Director of the Office of Management and Budget (OMB) is to determine each year whether or not sequestration is necessary and the magnitude of sequestration. The role of the Congressional Budget Office (CBO) is advisory to OMB and the Congress. Each year, the two agencies are required to prepare independently two sets of sequestration reports. The CBO reports are transmitted to the Director of OMB and to the Congress, and they provide a benchmark against which the Congress and others may assess the OMB reports. The OMB reports are made to the President and to the Congress, and they provide the basis for sequestration orders to be issued by the President. The timetable for the agency reports and sequestration orders is shown in the box on the next page.

The initial CBO and OMB sequestration reports are to be based on laws enacted and regulations promulgated as final by a common "snapshot date" (October 10 for the 1988 reports). The revised reports, however, must be based on laws enacted and regulations promulgated by the latest possible date

before they are issued. Therefore, because the snapshot date may be different in the two final agency reports, some legislation and regulations reflected in one report may not be reflected in the other.

Unlike the original Balanced Budget Act of 1985, the amended law does not provide a role for the Comptroller General in the preparation and issuance of sequestration reports. His role under the amended Balanced Budget Act is threefold: preparing a report each year to the Congress and the President that certifies whether the final sequestration order issued by the President complies with the requirements of the Balanced Budget Act, as amended; assessing the compliance and accuracy of the OMB sequestration reports; and making recommendations for improving sequestration procedures. The Comptroller's first report for fiscal year 1988 is due December 15, 1987; in later years, it is due on November 15.

This document is the initial CBO report for 1988. The report:

- o Estimates budget baseline levels as of January 1, 1987, and October 10, 1987, the amount of net deficit change that has occurred between the two dates, and the outlay reductions required for 1988;
- o Provides CBO economic assumptions used for the two baseline estimates, including the estimated rate of real economic growth for fiscal year 1988 by quarter; and

- o Calculates the amounts and percentages by which various budgetary resources must be sequestered in order to achieve the required outlay reductions.

BUDGET BASELINE TOTALS

The CBO budget baseline estimates of total revenues, outlays, and the deficit for fiscal year 1988 are shown in Table 1. These estimates are made in accordance with the specifications set forth in the Balanced Budget Act, as amended by the Reaffirmation Act of 1987. Two sets of budget baseline estimates are provided--one for laws and regulations in effect on January 1, 1987, and the other for laws and regulations in effect on October 10, 1987. The economic and technical assumptions used for the October 10 budget baseline estimates are also used for the January 1 budget baseline estimates. The differences between the two sets of estimates, therefore, result only from laws enacted and final regulations promulgated since January 1 (except for federal pay raises).

The budget baseline specifications were altered by the Reaffirmation Act to approximate more closely the concepts that have been used by OMB in its current services estimates and by CBO in its baseline projections--primarily in the treatment of annual appropriations. When appropriations for the new fiscal year have not been enacted, the CBO and OMB budget baseline estimates under the act are to

	<u>For FY 1988</u>	<u>For FY 1989-1993</u>
Snapshot date for initial CBO and OMB reports	October 10	August 15
Initial CBO report	October 15	August 20
Initial OMB report	October 20	August 25
Initial sequestration order	October 20	August 25
Revised CBO report	November 16	October 10
Revised OMB report	November 20	October 15
Final sequestration order	November 20	October 15

Table 1. CBO ESTIMATES OF BUDGET
BASELINE TOTALS FOR 1988
(In billions of dollars)

Budget Aggregates	As of January 1	As of October 10	Difference
Revenues	897.0	897.0	a/
Outlays	1,075.3	1,076.3	1.0
Deficit	178.3	179.3	1.0

a. Less than \$50 million.

be based on the appropriations enacted for the previous year with an adjustment for inflation and increased pay costs. The act specifies that the inflator used for 1988 budget baseline estimates shall be 4.2 percent. The inflation factor for future years will be the estimated increase in the gross national product implicit price deflator. For federal personnel costs in 1988, and for 70 percent of personnel costs in 1989 through 1993, the inflator is reduced when pay raises would be in effect for only part of the fiscal year, and is also reduced to account for 22 percent historical pay absorption.

In addition, the Reaffirmation Act resolved a number of disagreements between CBO and OMB about budget baseline calculations under the original Balanced Budget Act regarding appropriated entitlements, federal pay raises, and farm price supports. According to the amended act, appropriated entitlements will be assumed to be fully funded, provision will be made for federal pay raises, and advanced farm deficiency and paid land diversion payments will be included in the budget baseline estimates unless otherwise required by law. The act did not resolve, however, the disagreement about how the new Federal Employees' Thrift Savings Fund should be handled for federal budget accounting. Following guidance in a recent opinion by the General Accounting Office, CBO has not included any amounts for the fund in its budget baseline estimates, in contrast to the President's budget and the Congressional budget resolution for 1988, which include the fund in the budget. This different treatment, however, does not affect the calculations of net deficit reductions in 1988.

For nonappropriated spending accounts and revenues, the baseline estimates assume that current laws and regulations will continue unchanged, except that expiring provisions of law will terminate as scheduled. The amended Balanced Budget Act, however, provides an exception to the general treatment of expiring provisions in the cases of excise taxes dedicated to a trust fund, Commodity

Credit Corporation agricultural price support programs, and contract authority for transportation trust funds. As required by the act, the budget baseline estimates include the receipts and outlays of the Social Security trust funds, even though they are legally off-budget.

The Reaffirmation Act provides that asset sales and loan prepayments shall neither be included in the budget baseline estimates nor contribute to any net deficit reduction. The act makes an exception for asset sales and loan prepayments that are routine and ongoing according to fiscal year 1986 practices and for asset sales mandated by law as of September 17, 1987. The budget baseline estimates may not, however, assume or reflect an acceleration of routine asset sales and loan prepayments. The act also prohibits the inclusion of savings resulting from the transfer of outlays, receipts, or revenues from one year to an adjacent year, except for certain types of transfers identified in law.

Under these specifications, CBO's estimate of the budget baseline deficit for 1988 as of October 10 is \$179.3 billion. This is \$9.4 billion higher than the \$169.9 billion deficit that CBO estimated as of August 15 in the joint CBO/OMB sequestration report of August 20, 1987. Almost all of the higher deficit amount can be attributed to inflating 1987 appropriations as required by the Reaffirmation Act.

Table 2 shows the estimated budget effect of laws enacted and final regulations promulgated since January 1, 1987, and the effect of the President's federal pay raise proposal submitted to the Congress at the end of August. The estimated net deficit change that has occurred since January 1 is an increase of \$1.0 billion. The increase results primarily from the supplemental appropriations for 1987 enacted in July, which add an estimated \$3.0 billion to the budget baseline for 1988. Partially offsetting this increase are other legislative actions and the President's proposal to limit federal pay raises for 1988 to 2 percent. As required by the Reaffirmation Act, the January 1 budget baseline estimates assume that the federal pay raises effective January 1, 1988, will be 4.2 percent, the same inflation factor that is assumed for other appropriated funds. Substituting a 2 percent pay raise proposed by the President reduces the budget baseline deficit by \$1.0 billion. Other laws enacted between January 1 and October 10, 1987, reduce the budget baseline deficit for 1988 by an estimated \$1.2 billion, as shown in Table 2.

Table 2. CBO ESTIMATES OF DEFICIT REDUCTIONS ACHIEVED FOR 1988

Budget Baseline Deficit as of January 1, 1987	178.3
Effect of New Laws and Regulations:	
Supplemental Appropriations, 1987 (P.L. 100-71)	3.0
Federal employee pay raises <u>a/</u>	-1.0
Surface Transportation and Relocation Act (P.L. 100-17)	-0.4
Competitive Equality Banking Act of 1987 (P.L. 100-86)	-0.6
Balanced Budget Reaffirmation Act of 1987 (P.L. 100-119)	-0.2
Other enacted laws (Public Laws 100-4, 6, 14, 20, 45, 72, 92, and 93) and regulations	0.1
Debt service costs <u>b/</u>	<u>0.2</u>
Net Deficit Change	1.0
Budget Baseline Deficit as of October 10, 1987	179.3

- a. Estimated savings from substitution of 2 percent pay raises for 4.2 percent pay raises assumed for January 1 baseline.
- b. Costs result largely from the supplemental appropriations for 1987.

ECONOMIC ASSUMPTIONS

The principal economic assumptions underlying the CBO budget baseline estimates for fiscal year 1988 are shown in Table 3. These assumptions are unchanged from those contained in the August 20 joint CBO/OMB sequestration report. CBO's technical assumptions also are unchanged except for Medicare supplementary medical insurance premium rates and the Medicare economic index, which incorporate the actual amounts announced recently by the Health Care Financing Administration.

The Balanced Budget Act requires the OMB and CBO Directors to estimate the rate of real economic growth for the fiscal year covered by their reports, for each quarter of the fiscal year, and for the last two quarters of the preceding fiscal year. If either OMB or CBO projects real economic growth to be less than zero for any two consecutive quarters, or if the Department of Commerce reports actual real growth to have been less than 1 percent for two consecutive quarters, the Congress can suspend many of the provisions of the act. Table 3 cites the CBO estimates for the rate of real economic growth for fiscal year 1988; Table 4 shows the quarterly estimates. CBO does not project real economic growth to be less than zero in any quarter during fiscal year 1988.

Table 3. CBO ECONOMIC ASSUMPTIONS FOR 1988

Gross National Product:	
Current dollars (in billions of dollars)	4,718
Percent change, year over year	7.0
Constant (1982) dollars (in billions of dollars)	
Constant (1982) dollars (in billions of dollars)	3,886
Percent change, year over year	2.8
GNP Implicit Price Deflator	
(percent change, year over year)	4.1
CPI-W	
(percent change, year over year)	5.1
Civilian Unemployment Rate	
(percent, fiscal year average)	6.1
Interest Rates (fiscal year average):	
91-day Treasury bills	6.6
10-year Treasury notes	8.5

REQUIRED OUTLAY REDUCTIONS

Sequestration of budgetary resources will be necessary for 1988 if the amount of net deficit reduction since January 1 is less than \$23 billion. The Congressional Budget Office estimates that the budget baseline deficit has increased by \$1.0 billion between January 1 and October 10, 1987. Therefore, the required amount of outlay reductions to be obtained through sequestration is \$23.0 billion, the maximum amount specified by law for 1988. One half of the required outlay reduction--(\$11.5 billion)--must be taken from defense programs (budget accounts in the national defense function, 050, excluding the Federal Emergency Management Agency) and the other half from nondefense programs.

All savings from eliminating automatic spending increases in three specific programs--the National Wool Act, the special milk program, and vocational rehabilitation--are applied to the required reduction in outlays for nondefense programs. According to CBO estimates, this would produce \$19 million in outlay savings in 1988. The outlay savings to be obtained by applying four special rules are also credited to the required spending reductions in nondefense programs. These special rules are for guaranteed student loans, foster care and adoption assistance, Medicare, and certain health programs, and are described in a later section of this report. Outlay savings for these programs under the special rules would be \$1.6 billion.

Table 4. REAL ECONOMIC GROWTH RATES FROM PREVIOUS QUARTER
(Percentage growth at annual rates)

Fiscal Year 1987						
Actual		Estimate	Fiscal Year 1988 Estimates			
Jan-Mar 1987 <u>a/</u>	Apr-Jun 1987 <u>a/</u>	Jul-Sep 1987	Oct-Dec 1987	Jan-Mar 1988	Apr-Jun 1988	Jul-Sep 1988
4.4	2.5	2.6	2.9	3.1	2.3	2.4

a. As reported by the Department of Commerce (September 18, 1987).

The \$11.5 billion in outlay reductions in defense programs and the remaining \$9.9 billion in outlay reductions in nondefense programs must be taken on a uniform percentage basis, computed separately for each category. The uniform reduction percentages are computed from outlay estimates. The required outlay savings to be achieved through across-the-board reductions are divided by the estimated outlays from sequesterable budgetary resources in each category. The resulting uniform reduction percentages are then applied to all of the sequesterable budgetary resources (budget authority, credit authority, and other spending authority) for defense and nondefense programs.

According to CBO estimates, the 1988 outlays associated with sequesterable budgetary resources for defense programs are \$110.5 billion. This amount excludes \$71.2 billion in 1988 outlays for military personnel accounts that the President has chosen to exempt from sequestration, which he is permitted to do under the Reaffirmation Act. The President notified the Congress of this exemption on October 10. Outlays from obligated defense balances in 1988 are also excluded by law from the sequesterable outlay base. The uniform percentage to be applied to sequesterable defense budgetary resources therefore is 10.4 percent, as shown in Table 5. The effect of the President's exemption for military personnel accounts is to increase the uniform percentage reduction made in all the remaining defense accounts by 4.1 percentage points since the total required defense outlay reduction of \$11.5 billion is unchanged by his action.

The 1988 outlays associated with sequesterable budgetary resources for nondefense programs subject to the uniform percentage reduction are estimated to be \$113.5 billion. A number of non-defense programs are exempted by law from the

sequestration process. The largest are Social Security benefits, net interest, certain low-income programs, most federal retirement and disability benefits, veterans compensation and pensions, and regular state unemployment insurance benefits. Outlays

Table 5. CBO SEQUESTRATION
CALCULATIONS FOR 1988
(Outlays in millions of dollars)

	Defense Programs	Nondefense Programs
Total Required Outlay Reductions	11,500	11,500
Savings from Eliminating Automatic Spending Increases ---		19
Savings from the Application of Special Rules:		
Guaranteed student loans ---		25
Foster care and adoption assistance ---		9
Medicare ---		1,390
Other health programs ---		178
Remaining Reductions Required	11,500	9,879
Estimated Sequestration Outlay Base <u>a/</u>	110,459	113,509
Uniform Reduction Percentage	10.4	8.7

a. Excludes \$71,177 million in estimated military personnel outlays that have been exempted from sequestration by the President. Includes \$7,490 million in estimated 1989 outlays for the Commodity Credit Corporation that can be affected by a 1988 sequestration (see discussion of special rule for the CCC). Also includes an estimated \$2,264 million in outlays from the spending of offsetting collections.

from prior-year appropriations for nondefense programs are also generally not subject to sequestration. Federal administrative expenses for most otherwise exempt programs and activities, however, are sequesterable. The estimated uniform percentage to be applied to sequesterable nondefense programs is 8.7 percent (see Table 5).

The calculations in this report generally assume that all nonexempt budgetary resources can be sequestered so as to produce outlay savings, including entitlement programs and other mandatory spending programs where the spending authority is not controlled through the annual appropriation process. An exception is made for the administrative expenses of the Postal Service. While more than \$1 billion of budgetary resources of the Postal Service are sequesterable under CBO estimates, no outlay savings are attributed by CBO to sequestration because the Administration appears to have no mechanism for enforcing a sequestration order on the Postal Service. The CBO calculations also exclude the 1988 federal payment of \$214 million to the Corporation for Public Broadcasting because the entire payment was made on October 1, 1987.

AUTOMATIC SPENDING INCREASES

The three programs with automatic spending increases currently subject to sequestration by the Balanced Budget Act, as amended, are listed in Table 6. (Automatic spending increases in federal retirement and disability programs were subject to sequestration under the original act, but have been exempted by subsequently enacted legislation.) The scheduled percentage increases are shown as well as the amount of estimated outlay savings to be gained by eliminating these increases.

SPECIAL RULES

The Balanced Budget Act provides special rules for the sequestration of budgetary resources for certain federal programs. This section describes these special rules and their application to the 1988 sequestration calculations. The estimated outlay savings derived from the first four rules are shown separately in Table 5. Any outlay savings resulting from the remaining special rules are included in the amount to be obtained from the uniform percentage reductions.

Table 6. AUTOMATIC SPENDING INCREASES FOR 1988 SUBJECT TO SEQUESTRATION
(Outlay estimates in millions of dollars)

Program	Scheduled Increase (percent)	Sequestration Outlay Reductions
National Wool Act <u>a/</u>	3.5	4
Special Milk Programs	<u>b/</u>	<u>b/</u>
Vocational Rehabilitation <u>c/</u>	1.6	15
Total		19

- a. Payment increases are based on changes in wool parity price.
 b. Benefits are indexed to the Producer Price Index for Fresh Processed Milk. This index is not projected to increase between May 1987 and May 1988.
 c. This program is indexed to the change in the Consumer Price Index from October of the previous year.

Guaranteed Student Loan Program

The Balanced Budget Act requires two changes in the guaranteed student loan (GSL) program to occur automatically under sequestration. First, the statutory factor for calculating the quarterly special allowance payments to lenders will be reduced by the lesser of 0.40 percentage points or the amount by which the statutory factor exceeds 3 percent for the first four quarters after the loan is made. Under the current program, the reduction will be 0.25 percentage points. Second, a student's origination fee will increase by 0.50 percentage points. In both cases, sequestration affects only GSL loans disbursed during the applicable fiscal year, but after the order is issued. For 1988, these changes are estimated by CBO to reduce outlays by \$25 million.

Foster Care and Adoption Assistance Programs

The Balanced Budget Act limits the amount to be sequestered in the foster care and adoption assistance programs to increases in foster care maintenance payment rates or adoption assistance payment rates taking effect during the current fiscal year. Moreover, the amounts are limited to the extent that the reductions can be made by reducing federal matching payments by a uniform percentage across states. The increases in payment rates for these programs are made by the states and localities. Any increases planned by the states for fiscal year

1988 were included in the CBO calculations for sequestration reductions. The estimated outlay savings in 1988 from sequestration are \$9 million.

Medicare

The sequestration reductions in the Medicare program are to be achieved by reducing payment amounts for covered services. No changes in coinsurance or deductible amounts are to be made, and covered services are unaffected under a sequestration order. Under such an order, each payment amount for services provided during the fiscal year would be reduced by a maximum of 2 percent relative to whatever level of payment would otherwise be made under Medicare law and regulation. For fiscal year 1988, however, sequestration reductions for Medicare will not go into effect until a final sequestration order is issued on November 20, 1987. In order to achieve a full-year reduction of 2 percent in Medicare outlays, a 2.3 percent reduction in payments will be necessary after November 20. Based on the need for a \$23.0 billion sequestration in 1988, a full-year reduction of 2 percent will be required. According to CBO estimates, the outlay savings to be achieved in 1988 by applying this special rule are \$1.4 billion.

Veterans Medical Care and Other Health Programs

The Balanced Budget Act limits reductions in budget authority for the nonadministrative expenditures for veterans medical care, community and migrant health centers, and Indian health services and facilities to 2 percent in 1988 and any subsequent year. The estimated outlay savings to be achieved in 1988 by applying this special rule in these programs are \$178 million.

Child Support Enforcement Program

In the child support enforcement (CSE) program, the Balanced Budget Act provides that sequestration of entitlement payments to states, including grants to states for interstate projects from the Family Support Administration's program administration account, is to be accomplished by reducing the federal matching rates for state administrative expenses. For 1988, the federal matching rate on most expenditures under CBO estimates would be reduced from 68 percent to 60.3 percent, and the rate for computer-related expenditures would be reduced from 90 percent to 79.8 percent. These reductions in the matching rates are necessary to achieve the same 8.7 percent reduction applied to other

nondefense programs, adjusted to allow also for the sequestration of spending on interstate grants.

If states increase their share of CSE spending to maintain total program spending at the expected 1988 level, this reduction in the federal matching rate will lower federal outlays by the same percentage as other nondefense programs. If states do not increase their 1988 budgeted amounts to compensate for lower matching rates, however, the lower federal matching rate would result in a larger percentage reduction in federal spending than the act requires. The estimated outlay savings that are to be achieved in 1988 by applying this special rule are \$87 million.

Unemployment Compensation Programs

The Balanced Budget Act provides that the following items are not to be sequestered: regular state unemployment benefits, the state share of extended unemployment benefits, unemployment benefits paid to former federal employees and former members of the armed services, and loans and advances to the state and federal unemployment accounts. The federal share of extended benefits, unemployment insurance for railroad employees, other federally paid benefits, and state and federal administrative expenses are to be sequestered.

Both the federal and state shares of extended unemployment benefits are paid from the unemployment trust fund--the federal share from a federal account and the state share from each state's account. State law sets the amount of each weekly extended benefit. The Balanced Budget Act permits any state to reduce the weekly extended benefit amount by a percentage equal to the percentage reduction in the federal share. If states do not change their laws to provide for such a reduction, weekly benefit payments will not be reduced; the state share will increase by the amount of the decrease in the federal share, and total budget outlays that include both federal and state benefits will not be changed by the sequestration. No states are currently paying extended benefits.

Commodity Credit Corporation

Under the Balanced Budget Act, payments and loan eligibility under any contract entered into by the Commodity Credit Corporation (CCC) after a sequestration order has been issued for a fiscal year are subject to a percentage reduction. The act requires that reductions for all farm commodities supported by the CCC be made in a uniform manner, including all noncontract programs, projects, and

activities within CCC's jurisdiction. The act further stipulates that outlay reductions in the post-sequestration year that are the result of contract adjustments in the sequestration year should be credited to the overall outlay reduction required in the sequestration year. The amount of outlay savings to be achieved by applying this special rule are estimated by CBO to be \$772 million in 1988, and \$652 million in 1989. The actual amount of savings realized in each year will depend upon how the sequestration is implemented for the various CCC programs. In accordance with the act, however, all \$1.4 billion of these estimated outlay savings are credited toward the \$11.5 billion nondefense spending reduction required for 1988.

Federal Pay

The Balanced Budget Act provides that rates of pay for civilian employees (and rates of basic pay, basic subsistence allowances, and basic quarter allowances for members of the uniformed services), or any scheduled pay increases, may not be reduced pursuant to a sequestration order. Budgetary resources available for federal pay, however, will be subject to sequestration as part of the reduction of administrative expenses, which include travel, printing, supplies, and other services. The total amount of governmentwide savings to be achieved in 1988 from employee compensation cannot be estimated because program managers are expected to be urged not to resort to personnel furloughs and reductions in force until other administrative expenses are reduced as much as possible.

SEQUESTRATION REDUCTIONS

A summary of the CBO calculations for the sequestration of budgetary resources and the estimated outlay savings for 1988 are provided for national defense programs in Table 7 and for nondefense programs by function in Table 8. The tables show CBO budget baseline estimates for new budget authority and outlays, the sequestration reductions, and the post-sequestration levels. Table 9 provides a similar summary of the 1988 sequestration reductions for credit programs. In most instances, additional outlay savings would be gained in 1989 and later years as a result of the cancellation of 1988 budget authority. The 1989 savings have not been estimated for this report. A detailed listing of the sequestration base and reductions by agency and budget account by type of spending authority is provided as an appendix to this report.

The CBO sequestration calculations and post-sequestration spending levels are advisory and do not necessarily represent the final outcome of fiscal year 1988. The actual sequestration amounts will be determined by the Office of Management and Budget. OMB's initial sequestration calculations will be issued on October 20, and an initial Presidential sequestration order will become effective that day. This order will result in temporary withholding of funds from obligation and expenditure until a final order is issued on November 20. Since no full-year appropriations for 1988 have been enacted yet, the sequestration for appropriated budget accounts will be applied to the short-term continuing resolution that is in effect through November 10.

The final sequestration reports and Presidential order will incorporate any new laws enacted and regulations promulgated after October 10. If the Congress acts to achieve net deficit reductions of \$23 billion from the January 1 budget baseline before November 20, there will be no sequestration of spending for 1988. If the net deficit reductions fall short of \$23 billion, sequestration of spending will be necessary to make up the difference and the sequestration calculations will be altered accordingly. Under CBO estimates, the Congress will have to achieve \$24 billion in net deficit reductions during the next five weeks to avoid sequestration because \$1 billion has been added to the budget baseline deficit since January 1, 1987.

The amended Balanced Budget Act allows the President to propose modifications to the sequestration order for defense programs as long as the total required outlay reductions are still met. This provision could result in changes in the amount of defense budgetary resources that would be sequestered. The Congress would have to approve such a proposal or its own version under expedited legislative procedures. The amended act also provides for an expedited procedure under which the Congress may enact a joint resolution requiring the President to modify his sequestration order, including modifications that effectively cancel it.

In addition, the amended act establishes a procedure for the sequestration of budget accounts in the event that a short-term continuing resolution is in effect when the final order is issued and full-year appropriations are enacted later. In this situation, the sequestration dollar amount will be applied to the full-year appropriation with credit given for any reductions below the budget baseline. Supplemental appropriations are not affected by this new procedure.

TABLE 7. DEFENSE PROGRAM SEQUESTRATIONS FOR 1988 (In billions of dollars)

Budget Function 050	October Baseline <u>a/</u>	CBO Estimated Seques- tration <u>b/</u>	Post- Seques- tration
Department of Defense-Military:			
Military personnel			
Budget authority	75.4	0 <u>c/</u>	75.4
Outlays	74.9	0	74.9
Operation and maintenance			
Budget authority	83.7	8.7	75.1
Outlays	81.3	6.6	74.7
Procurement			
Budget authority	89.1	9.3	79.9
Outlays	83.5	1.7	81.7
Research, development, test, and evaluation			
Budget authority	37.5	3.9	33.6
Outlays	34.7	2.2	32.5
Military construction and other			
Budget authority	8.8	1.0	7.8
Outlays	7.8	0.4	7.5
Subtotal, DoD--military			
Budget authority	294.6	22.8	271.8
Outlays	282.2	10.9	271.3
Atomic Energy Defense Activities			
Budget authority	7.8	0.8	7.0
Outlays	7.7	0.6	7.1
Other Defense-related Activities <u>d/</u>			
Budget authority	0.5	<u>e/</u>	0.5
Outlays	0.6	<u>e/</u>	0.5
Total			
Budget authority	302.9	23.7	279.3
Outlays	290.4	11.5	278.9

- a. Does not include an estimated \$47.7 billion in unobligated balances subject to sequestration.
- b. Does not include \$5.0 billion in unobligated balances that would be sequestered.
- c. The President has exempted the military personnel accounts from sequestration in 1988.
- d. Includes the function 050 portion of Federal Emergency Management Agency budget accounts, which are reduced at the same rate as nondefense programs.
- e. \$50 million or less.

TABLE 8. NONDEFENSE PROGRAM SEQUESTRATIONS FOR 1988 BY FUNCTION
(In billions of dollars)

Budget Function	October Budget Baseline	CBO Estimated Sequestration	Post-Sequestration
150 International Affairs			
Budget authority	17.5	1.6	15.9
Outlays	16.4	0.9	15.5
250 General Science, Space, and Technology			
Budget authority	13.1	1.1	12.0
Outlays	11.0	0.6	10.4
270 Energy			
Budget authority	3.8	0.5	3.3
Outlays	4.0	0.3	3.7
300 Natural Resources and Environment			
Budget authority	15.9	1.5	14.4
Outlays	14.8	1.0	13.8
350 Agriculture ^{a/}			
Budget authority	28.2	1.0	27.2
Outlays	27.4	1.1	26.3
370 Commerce and Housing Credit			
Budget authority	9.4	0.3	9.1
Outlays	6.0	0.3	5.7
400 Transportation			
Budget authority	28.0	2.4	25.6
Outlays	28.1	0.8	27.3
450 Community and Regional Development			
Budget authority	7.7	0.5	7.2
Outlays	6.6	0.2	6.5
500 Education, Training, Employment, and Social Services			
Budget authority	35.7	2.6	33.0
Outlays	33.5	0.9	32.6
550 Health			
Budget authority	44.5	1.2	42.3
Outlays	44.3	0.6	43.7
570 Medicare			
Budget authority	94.9	---	94.9
Outlays	82.3	1.5	80.8
600 Income Security			
Budget authority	169.8	1.3	167.6
Outlays	132.7	0.7	132.0
650 Social Security			
Budget authority	258.4	---	258.4
Outlays	220.7	0.2	220.5
700 Veterans Benefits and Services			
Budget authority	28.5	0.5	28.0
Outlays	28.0	0.4	27.6
750 Administration of Justice			
Budget authority	9.3	0.8	8.5
Outlays	9.1	0.7	8.5
800 General Government			
Budget authority	7.5	0.7	6.8
Outlays	7.1	0.6	6.5
850 General Purpose Fiscal Assistance			
Budget authority	1.9	0.1	1.8
Outlays	1.9	0.1	1.7
900 Net Interest ^{b/}			
Budget authority	150.0	0.9	149.1
Outlays	150.0	0.9	149.1
950 Undistributed Offsetting Receipts			
Budget authority	-38.0	---	-38.0
Outlays	-38.0	---	-38.0
Total			
Budget authority	885.1	16.9	868.2
Outlays	785.9	11.7	774.2

- a. Excludes \$0.7 billion in estimated 1989 outlay savings for programs of the Commodity Credit Corporation that are credited toward the 1988 sequestration (see discussion of special rule for CCC).
- b. Includes \$0.9 billion savings in debt service costs as result of 1988 outlay reductions through sequestration.

TABLE 9. CREDIT PROGRAM SEQUESTRATIONS FOR 1988 BY FUNCTION
(In billions of dollars)

Budget Function	October Budget Baseline	CBO Estimated Seques- tration	Post- Seques- tration
150 International Affairs			
Direct loans	6.2	0.5	5.6
Loan guarantees	12.2	1.1	11.1
270 Energy			
Direct loans	1.3	0.1	1.2
Loan guarantees	2.2	0.2	2.0
300 Natural Resources and Environment			
Direct loans	0.1	a/	0.1
350 Agriculture			
Direct loans	17.4	1.5	15.9
Loan guarantees	8.1	0.7	7.4
370 Commerce and Housing Credit			
Direct loans	2.8	0.2	2.6
Loan guarantees	255.0	22.2	232.8
400 Transportation			
Direct loans	0.1	a/	0.1
450 Community and Regional Development			
Direct loans	1.1	0.1	1.0
Loan guarantees	0.5	a/	0.5
500 Education, Training, Employment, and Social Services			
Direct loans	0.1	a/	0.1
550 Health			
Direct loans	a/	a/	a/
600 Income Security			
Direct loans	a/	a/	a/
700 Veterans Benefits and Services			
Direct loans	a/	a/	a/
Loan guarantees	31.6	2.8	28.9
Total			
Direct loans	29.0	2.5	26.5
Loan guarantees	309.6	26.9	282.7

NOTE: Direct loans include new direct loan obligations, commitments, and limitations. Loan guarantees include new loan guarantee commitments and limitations.

a. \$50 million or less.

APPENDIX
SEQUESTRATION REDUCTIONS
BY AGENCY AND BUDGET ACCOUNT
(Fiscal Year 1988, in thousands of dollars)

Percentages used:

Defense 10.4 percent

Nondefense 8.7 percent

AGENCY, BUREAU AND ACCOUNT TITLE	BASE	SEQUESTER
Legislative Branch		
Senate		
Mileage of the Vice President and Senators		
00 0101 0 1 801 Budget Authority	63	5
Outlays	50	4
Expense allowances of the Vice President, President Pro Tempore, Majorit		
00 0107 0 1 801 Budget Authority	58	5
Outlays	58	5
Representation allowances for the Majority and Minority Leaders		
00 0108 0 1 801 Budget Authority	21	2
Outlays	21	2
Salaries, officers and employees		
00 0110 0 1 801 Budget Authority	196,564	17,101
Outlays	184,770	16,075
Miscellaneous items		
00 0123 0 1 801 Budget Authority	12,102	1,053
Outlays	12,102	1,053
Secretary of the Senate		
00 0126 0 1 801 Budget Authority	697	61
Outlays	691	60
Sergeant at Arms and Doorkeeper of the Senate		
00 0127 0 1 801 Budget Authority	67,334	5,858
Outlays	60,601	5,272
Inquiries and investigations		
00 0128 0 1 801 Budget Authority	57,760	5,025
Outlays	54,872	4,774
Expenses of United States International Narcotics Control Commission		
00 0129 0 1 801 Budget Authority	349	30
Outlays	315	27
Stationery (revolving fund)		
00 0140 0 1 801 Budget Authority	14	1
Outlays	14	1
Office of Senate Legal Counsel		
00 0171 0 1 801 Budget Authority	637	55
Outlays	478	42
Expense allowances of the Secretary of the Senate, Sergeant at Arms, and		
00 0172 0 1 801 Budget Authority	13	1
Outlays	8	1
Senate policy committees		
00 0182 0 1 801 Budget Authority	2,156	188
Outlays	1,833	159
Office of the Legislative Counsel of the Senate		
00 0185 0 1 801 Budget Authority	1,617	141
Outlays	1,536	134
House of Representatives		
Mileage of Members		
00 0208 0 1 801 Budget Authority	219	19
Outlays	110	10
House leadership offices		
00 0408 0 1 801 Budget Authority	3,710	323
Outlays	3,298	287
Salaries, officers and employees		
00 0410 0 1 801 Budget Authority	56,961	4,956
Outlays	55,195	4,802
Members' clerk hire		
00 0415 0 1 801 Budget Authority	188,396	16,390
Outlays	185,570	16,145
Committee employees		
00 0416 0 1 801 Budget Authority	53,136	4,623
Outlays	52,605	4,577
Committee on Appropriations (studies and investigations)		
00 0418 0 1 801 Budget Authority	4,629	403
Outlays	4,398	383
Committee on the Budget (studies)		
00 0419 0 1 801 Budget Authority	343	30
Outlays	309	27
Special and select committees		
00 0433 0 1 801 Budget Authority	55,268	4,809
Outlays	53,058	4,616

AGENCY, BUREAU AND ACCOUNT TITLE	BASE	SEQUESTER
Allowances and expenses		
00 0438 0 1 801 Budget Authority	157,650	13,715
Outlays	132,426	11,521
Congressional use of foreign currency, House of Representatives		
00 0488 0 1 801 401(C) Authority	2,779	242
Outlays	2,779	242
Joint Items		
Capitol Guide Service		
00 0170 0 1 801 Budget Authority	1,089	95
Outlays	980	85
Joint Committee on Printing		
00 0180 0 1 801 Budget Authority	1,017	88
Outlays	915	80
Joint Economic Committee		
00 0181 0 1 801 Budget Authority	3,029	264
Outlays	2,876	250
Office of the Attending Physician		
00 0425 0 1 801 Budget Authority	1,353	118
Outlays	541	47
Joint Committee on Taxation		
00 0460 0 1 801 Budget Authority	4,555	396
Outlays	4,327	376
General expenses, Capitol police		
00 0476 0 1 801 Budget Authority	1,960	170
Outlays	1,665	145
Statements of appropriations, House of Representatives		
00 0499 0 1 801 Budget Authority	21	2
Official mail costs		
00 0825 0 1 801 Budget Authority	95,263	8,288
Outlays	95,263	8,288
Congressional Budget Office		
Salaries and expenses		
08 0100 0 1 801 Budget Authority	18,698	1,627
Outlays	16,828	1,464
Architect of the Capitol		
Office of the Architect of the Capitol: Salaries		
01 0100 0 1 801 Budget Authority	5,825	507
Outlays	5,301	461
Contingent expenses		
01 0102 0 1 801 Budget Authority	52	5
Outlays	52	5
Capitol buildings		
01 0105 0 1 801 Budget Authority	12,834	1,117
Outlays	11,474	998
Capitol grounds		
01 0108 0 1 801 Budget Authority	3,436	299
Outlays	3,027	263
Senate office buildings		
01 0123 0 1 801 Budget Authority	27,171	2,364
Outlays	26,193	2,279
House office buildings		
01 0127 0 1 801 Budget Authority	27,370	2,381
Outlays	24,469	2,129
Capitol Power Plant		
01 0133 0 1 801 Budget Authority	25,794	2,244
401(C) Authority - Off. Coll.	135	12
Outlays	22,318	1,942
Structural and mechanical care, Library buildings and grounds		
01 0155 0 1 801 Budget Authority	6,454	561
Outlays	5,983	521
Library of Congress		
Salaries and expenses		
03 0101 0 1 503 Budget Authority	144,409	12,564
401(C) Authority - Off. Coll.	5,000	435
Outlays	123,415	10,737
Salaries and expenses, Copyright Office		
03 0102 0 1 376 Budget Authority	10,867	945
401(C) Authority - Off. Coll.	6,992	608
Outlays	16,935	1,473
Congressional Research Service: Salaries and expenses		
03 0127 0 1 801 Budget Authority	43,554	3,789
Outlays	39,373	3,425
Books for the blind and physically handicapped: Salaries and expenses		
03 0141 0 1 503 Budget Authority	37,793	3,288
Outlays	18,897	1,644