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 SEQUESTRATION RESULTS
 

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The required reductions in spending authority of various types, which are summarized in Tables III-6 and III-7, assume a 1987 sequestration of 6.2 percent for defense programs and 8.4 percent for nondefense programs. For defense programs in budget function 050, the required reduction in spending authority (new budget authority and unobligated balances) would amount to \$21.1 billion to achieve outlay savings of \$10.7 billion. This defense outlay reduction is lower than one-half of the \$22.6 billion required because the savings from eliminating automatic spending increases for federal retirement programs--including military retirement--are counted in the income security function and are shown in the nondefense savings table.

For nondefense programs, the required reduction in spending authority would amount to \$35.8 billion to produce \$11.9 billion in outlay savings. The spending authority includes new budget authority, new direct loan obligations, new loan guarantee commitments, obligation limitations, and other spending authority for 1987. The outlay savings include \$0.8 billion in estimated 1988 outlay reductions for Commodity Credit Corporation farm

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TABLE III-5. SEQUESTRATION PERCENTAGE REDUCTIONS UNDER ALTERNATIVE BASE LEVEL DEFICIT ESTIMATES FOR 1987 (In billions of dollars)

| Base Level<br>Deficit | Excess<br>Deficit | Sequestration Percentage <sup>a/</sup> |                        |
|-----------------------|-------------------|----------------------------------------|------------------------|
|                       |                   | Defense<br>Programs                    | Nondefense<br>Programs |
| 194                   | 50                | 14.2                                   | 20.9                   |
| 184                   | 40                | 11.3                                   | 16.3                   |
| 174                   | 30                | 8.4                                    | 11.8                   |
| 164                   | 20                | 5.5                                    | 7.2                    |
| 154                   | 10                | 2.6                                    | 2.6                    |

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SOURCE: Congressional Budget Office.

- a. Assumes no changes in the sequestration outlay base for defense and nondefense programs from those shown in Table III-4, and no changes in the savings from eliminating automatic spending increases and from applying special rules for Medicare and other programs.



price-support programs, which would be credited toward a 1987 sequestration. In most instances, additional outlay savings will be gained in 1987 and later fiscal years as the result of eliminating the 1987 cost-of-living adjustments and canceling 1987 budget authority. These savings, however, have not been calculated for this report.

TABLE III-6. ILLUSTRATIVE SEQUESTRATION FOR DEFENSE PROGRAMS FOR 1987 (In billions of dollars)

| Budget Function 050                            | Spending Authority <u>a/</u> | Estimated Outlays |
|------------------------------------------------|------------------------------|-------------------|
| Department of Defense--Military                |                              |                   |
| Military personnel                             | 4.3                          | 4.2               |
| Operation and maintenance                      | 4.7                          | 3.7               |
| Procurement                                    | 8.5                          | 1.1               |
| Research, development, test,<br>and evaluation | 2.2                          | 1.2               |
| Military construction                          | 0.5                          | 0.1               |
| Family housing and other                       | <u>0.3</u>                   | <u>0.2</u>        |
| Subtotal, DoD                                  | 20.5                         | 10.4              |
| Atomic Energy Defense Activities               | 0.5                          | 0.3               |
| Other Defense-related Activities <u>b/</u>     | <u>0.1</u>                   | <u>c/</u>         |
| Total                                          | 21.1                         | 10.7              |

SOURCE: Congressional Budget Office.

NOTE: Calculated using the CBO February economic forecast for 1987.

- a. Includes new budget authority for 1987 and unobligated balances from budget authority provided in previous years.
- b. Includes the budget function 050 portion of Federal Emergency Management Agency budget accounts, which are reduced at the same rate as nondefense programs.
- c. Less than \$50 million.

TABLE III-7. ILLUSTRATIVE SEQUESTRATION FOR NONDEFENSE PROGRAMS FOR 1987 (In billions of dollars)

| Budget Function                                          | Spending Authority <u>a/</u> | Estimated Outlays |
|----------------------------------------------------------|------------------------------|-------------------|
| 150 International Affairs                                | 3.3                          | 0.8               |
| 250 General Science, Space and Technology                | 0.8                          | 0.5               |
| 270 Energy                                               | 1.2                          | 0.3               |
| 300 Natural Resources and Environment                    | 1.3                          | 0.8               |
| 350 Agriculture                                          | 3.4                          | 1.8 <u>b/</u>     |
| 370 Commerce and Housing Credit                          | 11.4 <u>c/</u>               | 0.4               |
| 400 Transportation                                       | 3.5                          | 0.8               |
| 450 Community and Regional Development                   | 0.6                          | 0.1               |
| 500 Education, Training, Employment, and Social Services | 2.2                          | 0.8               |
| 550 Health                                               | 0.9                          | 0.6               |
| 570 Medicare                                             | 1.4                          | 1.4               |
| 600 Income Security                                      | 2.7                          | 1.8               |
| 650 Social Security                                      | 0.2                          | 0.2               |
| 700 Veterans' Benefits and Services                      | 1.4                          | 0.4               |
| 750 Administration of Justice                            | 0.6                          | 0.5               |
| 800 General Government                                   | 0.5                          | 0.5               |
| 850 General Purpose Fiscal Assistance                    | 0.2                          | 0.2               |
| 920 Allowances                                           | <u>0.1</u>                   | <u>0.1</u>        |
| Total                                                    | 35.8                         | 11.9              |

SOURCE: Congressional Budget Office.

NOTE: Calculated using the CBO February economic forecast for 1987.

- a. Includes new budget authority, new direct loan obligations, new loan guarantee commitments, obligation limitations, and other spending authority for 1987.
- b. Includes \$0.8 billion in estimated 1988 outlay savings for programs of the Commodity Credit Corporation.
- c. Most of the sequestration is for new loan guarantee commitments for mortgage credit programs.

A sequestration of 6.2 percent for defense programs and 8.4 percent for nondefense programs for 1987 would be much more severe than these percentages imply. This is because calculations for the 1987 sequestration are based on 1986 postsequestration budget levels, with no adjustments for inflation or other factors. Combined with the 1986 sequestration percentage, the possible 1987 sequestration implies reductions from 1986 appropriation levels of 10.8 percent for defense programs and 12.3 percent for nondefense programs. The reduction in real terms would be even greater because of the loss of any adjustments for inflation in 1987.

The effect of sequestration on budget outlays for 1986 and 1987 is shown in Table III-8. The 1986 sequestration would lower total 1986 outlays

TABLE III-8. EFFECT OF SEQUESTRATION ON BUDGET OUTLAYS FOR 1986 AND 1987 (By fiscal year, in billions of dollars)

| Category                                                        | 1986  | 1987    |
|-----------------------------------------------------------------|-------|---------|
| National Defense <u>a/</u>                                      |       |         |
| CBO baseline excluding 1986 sequestration                       | 275.0 | 293.1   |
| CBO baseline including 1986 sequestration                       | 269.5 | 284.0   |
| 1987 sequestration base level                                   | 269.5 | 276.5   |
| 1987 postsequestration level                                    | 269.5 | 265.9   |
| Nondefense Programs <u>b/</u>                                   |       |         |
| CBO baseline excluding 1986 sequestration                       | 618.1 | 639.4   |
| CBO baseline including 1986 sequestration                       | 612.2 | 632.2   |
| 1986 sequestration base level                                   | 612.2 | 626.3   |
| 1987 postsequestration level                                    | 612.2 | 615.2   |
| Net Interest and Undistributed<br>Offsetting Receipts <u>c/</u> |       |         |
| CBO baseline excluding 1986 sequestration                       | 104.8 | 110.8   |
| CBO baseline including 1986 sequestration                       | 104.5 | 109.1   |
| 1987 sequestration base level                                   | 104.5 | 108.4   |
| 1987 postsequestration level                                    | 104.5 | 107.5   |
| Total Outlays                                                   |       |         |
| CBO baseline excluding 1986 sequestration                       | 997.9 | 1,043.3 |
| CBO baseline including 1986 sequestration                       | 986.1 | 1,025.3 |
| 1987 sequestration base level                                   | 986.1 | 1,011.2 |
| 1987 postsequestration level                                    | 986.1 | 988.6   |

SOURCE: Congressional Budget Office.

- a. Budget function 050.
- b. Budget functions 150 through 850 and 920.
- c. Budget functions 900 and 950.

by \$11.8 billion, from \$997.9 billion to \$986.1 billion. The 1986 sequestration also reduces CBO baseline outlays for 1987 by \$18.0 billion, from \$1,043.3 billion to \$1,025.3 billion, because the sequestration of most budgetary resources is assumed to persist in later years. Another sequestration in 1987 of the size calculated by CBO would lower 1987 outlays by an additional \$36.7 billion, to \$988.6 billion. About \$14.1 billion of this additional reduction represents eliminating the inflation and other adjustments to 1986 postsequestration levels made by CBO for its baseline projections. The remaining \$22.6 billion is the size of the estimated excess deficit in 1987 using the Balanced Budget Act's specifications for estimating budget base levels. The effect of the possible 1987 sequestration would be to hold total outlays in that year to approximately the 1986 level.

The effects of sequestration on defense and nondefense program outlays are also shown in Table III-8. The 1986 sequestration reduces CBO baseline outlays for defense programs by \$5.5 billion in 1986 and by \$9.1 billion in 1987. Another sequestration of 6.2 percent in 1987 would reduce defense outlays by an additional \$18.1 billion, bringing 1987 outlays \$3.6 billion below the 1986 estimated level of \$269.5 billion.

The reductions in new budget authority for defense programs are even more striking. The 1986 sequestration reduced new budget authority for the national defense function by \$11.4 billion in 1986 and by \$11.7 billion in 1987 from CBO baseline levels. A second sequestration of 6.2 percent would reduce new budget authority by another \$30 billion in 1987, from \$301 billion in CBO's baseline projections to \$271 billion. This postsequestration level for 1987 defense budget authority is \$49 billion below the Administration's request.

The reductions in outlays for nondefense programs are of similar magnitude as those for defense programs but are relatively smaller in percentage terms because of the exemptions for Social Security benefits and other nondefense programs. The 1986 sequestration has the effect of reducing CBO baseline outlays by \$5.9 billion in 1986 and by \$7.2 billion in 1987. A second sequestration of 8.4 percent in 1987 would reduce nondefense outlays by another \$17.0 billion, bringing total nondefense outlays to within \$3 billion of the 1986 level.



## APPENDIXES

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## APPENDIX A

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# BASELINE CONCEPTS AND ASSUMPTIONS

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Baseline budget projections are designed to show what federal government revenues and spending would be in future years if current policies were continued without change. This appendix details the assumptions used in preparing the baseline projections for this volume. The first section describes the revenue baseline and identifies tax provisions that are scheduled to expire during the 1986-1991 projection period. The other two sections explain the baseline projections for budget authority and outlays.

## BASELINE REVENUES

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Baseline revenues are, with four exceptions, revenues generated under existing tax law. In three of these instances, excise taxes dedicated to trust funds are assumed to be continued beyond their scheduled expiration:

- o Taxes for the Hazardous Substance Response Trust Fund (Superfund) are assumed to be extended at the rates in effect when the taxes expired on September 30, 1985.
- o Airport and Airway Trust Fund taxes are assumed to be extended at current rates beyond December 31, 1987.
- o Highway Trust Fund taxes are assumed to be continued at current rates beyond September 30, 1988.

The Congressional Budget Office has also assumed, at the request of the House and Senate Budget Committees, that the reduction in the federal Civil Service Retirement contribution rate for recently hired workers is extended beyond April 30, 1986.

All other tax provisions that are scheduled to expire between 1986 and 1991 are assumed to do so as specified in law. Among the expiring provisions are the temporary cigarette tax increase enacted in the Tax Equity and Fiscal Responsibility Act of 1982 and subsequently extended through March 14, 1986, and the income tax deduction for charitable contributions by nonitemizers, which is scheduled to expire at the end of 1986. The expiring tax provisions with significant revenue effects, and their expiration dates, are listed in Table A-1.

TABLE A-1. TAX PROVISIONS THAT HAVE SIGNIFICANT REVENUE EFFECTS AND EXPIRE DURING THE 1986-1991 PERIOD

| Provision | Date of Expiration |
|-----------|--------------------|
|-----------|--------------------|

**Revenue-Raising Provisions**  
(Expiration of Provision Causes Revenues to Decline)

| Excise Taxes <u>a/</u>                                           |                   |             |             |             |             |             |             |
|------------------------------------------------------------------|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                                                  |                   | <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>1989</u> | <u>1990</u> | <u>1991</u> |
| Cigarettes                                                       | March 14, 1986    |             |             |             |             |             |             |
| Telephone                                                        | December 31, 1987 |             |             |             |             |             |             |
| Approximate Revenue Effect<br>(in billions of dollars) <u>b/</u> |                   | -1          | -2          | -3          | -4          | -4          | -4          |

**Revenue-Losing Provisions**  
(Expiration of Provision Causes Revenues to Increase)

|                                                                                                                                                            |                   |  |  |  |  |  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--|--|--|--|--|
| Energy Tax Expenditures                                                                                                                                    |                   |  |  |  |  |  |
| Carryover provision for the residential energy tax credit                                                                                                  | December 31, 1987 |  |  |  |  |  |
| Credit for small-scale hydroelectric facilities for which application has been docketed by the Federal Energy Regulatory Commission before January 1, 1986 | December 31, 1988 |  |  |  |  |  |
| Decrease in excise tax on newly discovered oil                                                                                                             | December 31, 1988 |  |  |  |  |  |
| Credit for certain long-term energy projects                                                                                                               | December 31, 1990 |  |  |  |  |  |

a. The CBO baseline assumes extension of Hazardous Substance Response, Airport and Airway, and Highway Trust Fund taxes. Therefore, the revenue loss from their expiration is not included here.

b. Excise tax estimates are net of offsetting income tax effects.

TABLE A-1. (Continued)

| Provision                                                                                                             | Date of Expiration |             |             |             |             |             |
|-----------------------------------------------------------------------------------------------------------------------|--------------------|-------------|-------------|-------------|-------------|-------------|
| Other Tax Expenditures <sup>c/</sup>                                                                                  |                    |             |             |             |             |             |
| Deduction for charitable contributions<br>for nonitemizers                                                            | December 31, 1986  |             |             |             |             |             |
| Exclusion of interest on state and local<br>small-issue industrial development bonds<br>for nonmanufacturing purposes | December 31, 1986  |             |             |             |             |             |
| Five-year depreciation of rehabilitation<br>costs on low-income housing                                               | December 31, 1986  |             |             |             |             |             |
| Credit for employee stock ownership plans (ESOPs)                                                                     | December 31, 1987  |             |             |             |             |             |
| Tax credit for orphan drug research                                                                                   | December 31, 1987  |             |             |             |             |             |
| ACRS for mass transit vehicles                                                                                        | December 31, 1987  |             |             |             |             |             |
| Exclusion of interest on qualified mortgage bonds                                                                     | December 31, 1987  |             |             |             |             |             |
| Exclusion of interest on mortgage subsidy bonds<br>and credit for mortgage certificates                               | December 31, 1987  |             |             |             |             |             |
| Six-month holding period<br>for long-term capital gains                                                               | December 31, 1987  |             |             |             |             |             |
| Exclusion of interest on state and local<br>small-issue industrial development bonds<br>for manufacturing purposes    | December 31, 1988  |             |             |             |             |             |
|                                                                                                                       | <u>1986</u>        | <u>1987</u> | <u>1988</u> | <u>1989</u> | <u>1990</u> | <u>1991</u> |
| Approximate Revenue Effect<br>(in billions of dollars)                                                                | 0                  | 1           | 6           | 8           | 8           | 9           |
| Net Revenue Effect of<br>All Expiring Provisions<br>(in billions of dollars)                                          | -1                 | -1          | 3           | 4           | 4           | 5           |

SOURCE: Congressional Budget Office.

- c. The CBO baseline assumes continuation of the reduction in the federal Civil Service Retirement contribution rate beyond April 30, 1986. Therefore, the revenue gain from its expiration is not shown here.

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## OVERVIEW OF BASELINE SPENDING CONCEPTS

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Baseline spending projections are designed to show what federal government budget authority and outlays would be in future years if current policies were continued without change. The basic methodology for projecting the different types of spending--direct spending programs and discretionary appropriations--is summarized in this section of the appendix. The final section discusses assumptions that differ from the basic methodology.

Federal spending can be divided into two categories. A large part of federal spending is mandated by existing law and is referred to as direct spending. The remainder is subject to annual review through the appropriation process.

### Direct Spending

The term direct spending refers to four types of spending that are, in effect, mandatory under existing law: permanent appropriations and trust funds; appropriated entitlements; permanent revolving funds; and offsetting receipts. To affect spending in these programs, the basic substantive law usually must be changed. The baseline spending projections for these programs assume that existing law will continue unchanged, and that future spending will respond to assumed economic and population changes, in essentially the same way as in the past.

The baseline projections for direct spending programs reflect the sequestering of 1986 spending authority as required by the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177). For programs with cost-of-living adjustments (COLAs), sequestering the 1986 COLA reduces outlays throughout the projection period. For revolving loan funds with an appropriated loan limit, the reduction of the 1986 loan level also reduces the loan levels projected for 1987 to 1991. For other direct spending programs, 1987 spending authority is assumed to return to pre-sequestration levels, and there is no long-run reduction in outlays.

When programs are jointly administered by the federal and state governments (for example, unemployment compensation and Aid to Families with Dependent Children), the projections assume that the states will set eligibility rules and benefit levels in the future in the same manner as they have in the past. In some direct spending programs, the law gives the Administration some freedom of action. For example, the Administra-

tion has some discretion in setting hospital reimbursement rates in Medicare, in determining the amount of loan assets sold to the Federal Financing Bank, and in scheduling the auction of leases for lands on the Outer Continental Shelf. In such cases, the baseline generally assumes that the Administration will carry out its most recently announced intentions.

Permanent Appropriations and Trust Funds. In some instances, authority to spend may be provided directly in the legislation that authorizes a program, without the need for subsequent annual appropriations. Examples of such direct spending programs include Medicare, Social Security, and interest on the public debt.

Appropriated Entitlements and Other Mandatory Appropriations. Some benefit programs, called appropriated entitlements, have their budget authority provided in annual appropriations. Examples of appropriated entitlements include Medicaid, Supplemental Security Income, Aid to Families with Dependent Children, and the veterans' compensation and pension programs. The basic legislation for these programs requires the payment of benefits to any person or government meeting the eligibility requirements. The level of spending is mandated in these cases by existing law and cannot be effectively controlled through the appropriation process.

In addition, certain appropriated accounts are treated as mandatory for projections purposes, even though the House and the Senate Budget Committees do not both consider them entitlements. The list of mandatory items is that used in the so-called bipartisan baseline, which served as the basis for developing the 1983 budget resolution. The projections for the Food Stamp program, for example, are computed as if the program were mandatory, since the Congress has always appropriated enough money to cover all benefit payments to eligible recipients. Other programs treated as mandatory include child nutrition, unemployment trust fund outlays for training and employment services and for administrative expenses, payments to air carriers, Maritime Administration operating differential subsidies, rehabilitation services, government payments for annuitants' health benefits, payments in lieu of taxes, and certain miscellaneous trust funds. Some federal payments to Civil Service Retirement and other trust funds, while considered mandatory, are exactly offset by corresponding intragovernmental receipts and have no effect on total outlays.

Revolving Loan Funds. The federal government administers many lending programs through revolving funds. Such funds disburse loans and accept

repayments of principal and interest. CBO calculates a baseline for such programs by first developing a lending level for each year of the projections. For fiscal years in which the Congress has set a lending limit, CBO uses that limit (reduced in accordance with the Balanced Budget Act) as a base for projections. If no limit has been set, CBO estimates the base-year lending level to be equal to average program experience over the past few years, adjusted for inflation. For subsequent years in which the Congress has yet to set a ceiling, CBO projects a baseline lending level by inflating the base-year level. Net budget authority and outlays are estimated using these lending levels, projected loan repayments, and established government accounting practices for revolving funds.

Offsetting Receipts. Certain receipts from the public resulting from the federal government's business-type activities and certain intragovernmental receipts are automatically credited to special receipt accounts and are treated as negative spending. They are deducted from other budget authority and outlays in computing budget totals rather than being counted as revenues. Examples of such receipts include those from premiums for Supplementary Medical Insurance, from the sale of timber in national forests, and from rents and royalties from Outer Continental Shelf lands. In the baseline projections, the amount of these receipts is estimated on the assumption that current government policies regarding the extent of timber sales, the scope and timing of offshore leasing activities, and so forth, will be continued, and that actual receipts will respond to underlying economic and demographic conditions, such as the prices of lumber and oil and the number of Medicare enrollees.

### Annual Appropriations

The rest of federal spending is controlled by and requires annual action through the appropriation process. The fiscal year 1986 spending level assumed for these programs is that enacted by the Congress through December 1985 and reduced according to the provisions of the Balanced Budget Act. Because the sequestration of budgetary resources permanently cancels budget authority, the 1986 appropriation is the postsequestration amount. The 1987-1991 projections for the appropriated accounts represent a continuation of the program levels embodied in the 1986 appropriation, which is taken as the most current indication of Congressional policy.

For most appropriated accounts, future budget authority is assumed to stay constant in real terms--that is, to keep pace with a measure of inflation appropriate to the particular budget account. In a few instances, the

baseline budget authority is the estimated amount required to achieve specified program objectives--for example, a fill rate for the Strategic Petroleum Reserve. Where the 1986 appropriation reflects the availability of unobligated balances, the 1986 projection base is assumed to be the 1986 program level--that is, 1986 budget authority plus activity financed by available balances. Where 1986 funds have been deferred until 1987, the 1987 baseline budget authority is reduced to reflect the availability of the deferred funds.

Although statutory authority for most discretionary programs will expire during the five-year projection period, authorizations are assumed to be routinely renewed except for programs that are clearly of a one-time nature, such as temporary study commissions. The projected growth in budget authority is limited by any authorization limit that may have been set by the Congress; if the limit ceases to apply in some future year, budget authority is assumed to rise with inflation thereafter. If the base-year appropriation exceeds the authorization, the projections also ignore the authorization limit, which is considered to have been rendered moot by the subsequent appropriation. It is further assumed that budget authority will result in outlays according to the observed historical pattern for the particular account.

#### SPECIAL ASSUMPTIONS FOR SPENDING

Most spending is projected using the baseline concepts and approaches described in the previous section of this appendix. This section provides further information for those budget accounts requiring special assumptions or methodology. Accounts projected using the standard techniques are not discussed.

##### National Defense (Function 050)

The defense baseline assumes that budget authority keeps pace with inflation--the same approach used generally for nondefense discretionary programs. Outlays in each year are CBO estimates of spending resulting from the assumed budget authority. The outlay estimates in 1986 for the military personnel accounts reflect the expected transfer of prior-year appropriations to fund pay raise and retirement costs. The budget authority and outlay projections for 1987-1991 assume that new funding is provided to

maintain the 1986 military manpower levels. Also, the projection assumes no additional funding for defense-related loans of the Federal Financing Bank not resulting from current programs.

The two major components of the defense budget are federal employee pay and benefits (about one-third of 1986 budget authority) and purchases of goods and services (the remaining two-thirds). The inflation factor for federal employee pay and benefits is the assumed rate of pay increase; in the baseline, CBO assumes that federal employee wages are increased at the same rate as those in the private economy. The inflation factors for the other components of the defense budget are derived by projecting price changes in specific defense industries consistent with the baseline economic assumptions.

Baseline inflation rates for these two major components of defense spending and a composite rate for defense spending as a whole are shown in Table A-2. Because there is often a long lag between the obligation of

TABLE A-2. DEFENSE INFLATION RATES UNDER CBO BASELINE ASSUMPTIONS (By fiscal year, in percent)

| Component             | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|-----------------------|------|------|------|------|------|------|
| Budget Authority      |      |      |      |      |      |      |
| Inflation Rate        |      |      |      |      |      |      |
| Pay and Benefits      | 2.0  | 3.2  | 5.7  | 5.9  | 5.9  | 6.1  |
| Purchases             | 3.1  | 3.6  | 4.0  | 4.1  | 4.1  | 4.1  |
| Composite             | 2.8  | 3.4  | 4.6  | 4.7  | 4.7  | 4.8  |
| Outlay Inflation Rate |      |      |      |      |      |      |
| Pay and Benefits      | 2.0  | 3.2  | 5.7  | 5.9  | 5.9  | 6.1  |
| Purchases             | 3.1  | 3.1  | 3.8  | 4.1  | 4.1  | 4.1  |
| Composite             | 2.7  | 3.1  | 4.5  | 4.7  | 4.7  | 4.8  |

Source: Congressional Budget Office.

defense funds and the actual production of the defense goods, different inflation rates are computed for budget authority and outlays. For those procurement accounts whose budget authority will result in outlays over many years, the inflation rate for budget authority reflects projected changes in prices over the period during which the budget authority will be spent. The outlay inflation rate, on the other hand, reflects only price changes in the current year.

The defense baseline assumes that the number of people in active and reserve military service remains constant. For 1986 the Congress provided \$67.7 billion in budget authority and \$4.8 billion in transfer authority to fund the manpower program. The transfers would come from unobligated balances in other accounts to the extent necessary to fund the costs of the military pay raise that became effective October 1, 1985, and to fund the accrued costs of military retirement. The Defense Department has been paying these costs as if it will invoke the transfer authority, and CBO estimates 1986 outlays for the military personnel accounts on this assumption. The baseline projections assume that sufficient new budget authority will be provided in 1987 and thereafter to continue current manpower levels.

While CBO's defense baseline assumes no real growth in defense program levels, the Administration's current services projections assume the figures for defense budget authority in the 1986 Congressional budget resolution. This conceptual issue is discussed in Chapter II of this volume. CBO and the Administration also differ in their estimates of the amount of outlays resulting from a given level of defense budget authority. These technical estimating differences will be discussed in detail in CBO's forthcoming report, *An Analysis of the President's Budgetary Proposals for Fiscal Year 1987*.

#### International Affairs (Function 150)

Contributions to Multilateral Development Banks. The United States and other donor countries periodically enter into agreements providing additional resources for the multilateral development banks. The replenishment agreement, as it is called, can extend over a number of years, with annual appropriations as partial payments. Once signed, the agreement is treated

as binding. If one year's appropriation is less than the scheduled contribution, the difference is included in subsequent budget requests until the full amount is provided. Arrearages, or the difference between the requested amount and the postsequestration amount provided in the continuing resolution (Public Law 99-190), are assumed to be provided in fiscal year 1987. The projections assume that future replenishments of paid-in capital and contributions to the concessional lending windows of the regional banks will be negotiated with the same terms and conditions that are in the most recent replenishments, but with no real growth in funding levels.

Public Law 480 Food Assistance Program. The Public Law 480 food assistance program is projected using the postsequestration obligation levels contained in the continuing resolution as the base. Budget authority equals the new appropriations required to finance the program, and outlays equal gross disbursements less receipts credited to the account.

International Monetary Fund. The United States has been a member of the International Monetary Fund (IMF) since the Bretton Woods Agreement in 1944 and has participated in every increase in IMF resources since then. Quota subscriptions have been raised roughly every five years, with the most recent increase in fiscal year 1984. The baseline assumes another increase in fiscal year 1989 equal to an amount sufficient to maintain the real level of the current U.S. quota subscription. No increase in the General Arrangement to Borrow is projected. Dollar transfers with the IMF are treated by the Treasury as an exchange of international reserve assets and are not counted as net budget outlays, although they do affect the Treasury's cash position and borrowing requirements.

Guarantee Reserve Fund. In fiscal year 1981, the Congress ceased appropriating an amount equal to a portion of guaranteed foreign military credits as a reserve for problem loans. Funds appropriated as reserves in earlier years were consolidated in a revolving fund to make payments on rescheduled loans and defaults. By 1984 the fund had been reduced to a point requiring replenishment. The Administration requested appropriations sufficient to maintain a reserve of 2 percent of the contingent liability, but the Congress provided less than the requested amount. The projections assume appropriations will be required to meet the estimated outlays from the fund after fiscal year 1987.

Special Defense Acquisition Fund. Net outlays are estimated by projecting the limits on new obligations contained in appropriation acts.

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Export-Import Bank. Direct loan obligations are estimated to equal the direct loan limits throughout the projections period. Budget authority measures potential borrowing requirements resulting from bank activity. It equals direct loan obligations less direct loan cancellations, loan repayments, and bank net income, plus redemption of debt and any change in the balance of unobligated borrowing authority available to the bank. Outlays equal gross disbursements less collections.

General Science, Space, and Technology (Function 250)

Spending in this function is projected using the general baseline concepts previously described.

Energy (Function 270)

Tennessee Valley Authority and Bonneville Power Administration. These two accounts are funded by permanent indefinite borrowing authority subject to a cap. The baseline projection of budget authority for these accounts is an estimate of the borrowing authority required to finance their capital investments. The outlay projections are CBO's best estimate of capital spending net of receipts. All operating expenses are assumed to be covered by revenues from ratepayers.

Uranium Enrichment. The baseline projection for this account reflects the difference between the program's spending and receipts. CBO's projection of budget authority assumes that the Congress will continue to appropriate an amount equal to the program's estimated receipts in each year. Receipts from civilian customers are projected on the basis of current prices and anticipated sales. The projection of intragovernmental receipts from the defense atomic energy program is based on the amount appropriated in 1986, adjusted for inflation in future years.

Sale of Minerals and Mineral Products. This is an offsetting receipt account, to which are credited the receipts from the sale of oil and other petroleum products from the Naval Petroleum Reserves. The estimate of receipts is based on the estimated price of oil, the rate of production from the reserves, and an estimate of receipts generated from the sale of other petroleum products. For 1986, the estimate includes the effect of transferring 30 percent of net receipts to the national defense budget function, as required by the Defense Authorization Act of 1985.

Nuclear Waste Fee. This account represents CBO's estimate of receipts collected from the fee imposed by the Nuclear Waste Policy Act of 1982. That law levies a fee of 0.1 cent per kilowatt hour on electricity generated by nuclear power plants. CBO bases its estimate on the output of completed units and on plants scheduled to be in operation in each year. The estimate assumes that the fee remains constant through 1991.

Nuclear Waste Program. This account reflects spending by the Department of Energy to develop repositories for the disposal of high-level radioactive waste. CBO's projection of budget authority includes the amount that the department estimates will be needed each year to develop repositories in compliance with the procedural and scheduling requirements in the Nuclear Waste Policy Act of 1982. Funding for general support activities is projected to continue at the 1986 level, adjusted for inflation in future years.

Clean Coal Technology Reserve. The Congress established a \$400 million Clean Coal Technology program in the 1986 continuing resolution. The funds for this program were made available by transfer from the Energy Security Reserve: \$100 million in 1986, \$150 million in 1987, and \$150 million in 1988. The baseline projection assumes that the Congress will continue to fund the Clean Coal program at the 1988 level, adjusted for inflation, in fiscal years 1989-1991. The baseline projection also assumes that the relation between outlays and budget authority will be similar to that for comparable federal research programs.

Strategic Petroleum Reserve. The Congress has created two accounts for the Strategic Petroleum Reserve: one that funds operation and construction of the reserve and one that funds oil acquisition. The baseline estimate for operation and construction assumes that the planned reserve of 750 million barrels is completed and maintained. The baseline projection for oil acquisition assumes purchasing and filling the reserve at a rate of 29,300 barrels per day throughout the 1986-1991 period. The fill rate for 1986 was determined by the Supplemental Appropriations Act of 1985 (Public Law 99-88), which specified that the reserve be filled to a level of 500 million barrels by the end of 1986. Assuming continued fill at the 1986 rate, the reserve will contain approximately 553 million barrels by the end of 1991. Projections for budget authority and outlays are derived using CBO's oil price assumptions.