



November 13, 2017

Honorable Steny H. Hoyer  
Democratic Whip  
U.S. House of Representatives  
Washington, DC 20515

Dear Congressman:

This letter responds to your request for information about the effects of legislation that would raise deficits by an estimated \$1.5 trillion over the 2018-2027 period, specifically with respect to a sequestration—or cancellation of budgetary resources—in accordance with the Statutory Pay-As-You-Go Act of 2010 (PAYGO; Public Law 111-139).

The PAYGO law requires that new legislation enacted during a term of Congress does not collectively increase estimated deficits. The Office of Management and Budget (OMB) is required to maintain two so-called PAYGO scorecards to report the cumulative changes generated by new legislation in estimated revenues and outlays over the next five years and ten years. If either scorecard indicates a net increase in the deficit, OMB is required to order a sequestration to eliminate the overage. The authority to determine whether a sequestration is required (and if so, exactly how to make the necessary cuts in budget authority) rests solely with OMB.

CBO has analyzed the implications of enacting a bill that would increase deficits by \$1.5 trillion over a 10-year window, without enacting any further legislation to offset that increase. In accordance with the PAYGO law, OMB would record the average annual deficit on its PAYGO scorecard, showing deficit increases of, in the example provided, \$150 billion per year. If the bill were enacted before the end of the calendar year, that amount would be added to the current balances on the PAYGO scorecard, which for 2018, show a positive balance of \$14 billion. (For years after 2018, the balances range from a \$14 billion credit to a \$1 billion debit.)

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Without enacting subsequent legislation to either offset that deficit increase, waive the recordation of the bill's impact on the scorecard, or otherwise mitigate or eliminate the requirements of the PAYGO law, OMB would be required to issue a sequestration order within 15 days of the end of the session of Congress to reduce spending in fiscal year 2018 by the resultant total of \$136 billion. However, the PAYGO law limits reductions to Medicare to four percentage points (or roughly \$25 billion for that year), leaving about \$111 billion to be sequestered from the remaining mandatory accounts. Because the law entirely exempts many large accounts including low-income programs and social security, the annual resources available from which OMB must draw is, in CBO's estimation, only between \$85 billion to \$90 billion, significantly less than the amount that would be required to be sequestered. (For a full list of accounts subject to automatic reductions, see *OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2018*, <https://go.usa.gov/xnZ3U>.)

Given that the required reduction in spending exceeds the estimated amount of available resources in each year over the next 10 years, in the absence of further legislation, OMB would be unable to implement the full extent of outlay reductions required by the PAYGO law.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,



Keith Hall  
Director

cc: Honorable Kevin Brady  
Chairman  
Committee on Ways and Means

Honorable Richard Neal  
Ranking Member