# BUDGET ENFORCEMENT ACT PREVIEW REPORT

# 12. PREVIEW REPORT

The Budget Enforcement Act of 1990 (BEA) contains procedures designed to enforce the deficit reduction agreement of the Omnibus Budget Reconciliation Act of 1990. For 1991 through 1995, the BEA limited discretionary spending and established a "pay-as-you-go" requirement that legislation changing direct spending and receipts must, in total, be at least deficit neutral. These provisions were extended through 1998 by the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993), which became law on August 10, 1993. The Administration will propose to extend the BEA again, through the year 2002, and make other amendments to the BEA requirements. (See "Proposals to Extend and Amend the BEA and Other Reforms to Strengthen the Budget Process" below.)

This Preview Report discusses the status of discretionary appropriations and pay-as-you-go legislation based on laws enacted as of March 1, 1996. In addition, it explains the differences between the OMB and CBO estimates of the discretionary caps.

The OMB estimates use the economic and technical assumptions underlying the President's budget submission, as required by the BEA. The OMB Update Report that will be issued in August, and the Final Report that will be issued after the end of the Congressional session, must also use these economic and technical assumptions. Estimates in the Update Report and the Final Report will only be revised to reflect laws enacted after the Preview Report.

## Discretionary Sequestration Report

Discretionary programs are, in general, those that have their program levels established annually through the appropriations process. The scorekeeping guidelines accompanying the BEA identify accounts with discretionary resources. The BEA, as amended, limits budget authority and outlays available for discretionary programs each year through 1998. Appropriations that cause either the budget authority or outlay limits to be exceeded will trigger a sequester to eliminate any such breach.

*Adjustments to the limits.*—The BEA permits certain adjustments to the discretionary limits—also known as caps. On January 18, 1996, the Office of Management and Budget submitted the Final Sequestration Report for 1996 required by the BEA. This report described adjustments permitted by the BEA as of the time the report was issued. The caps resulting from these adjustments are the starting points for this Preview Report. Included in this report are cap adjustments for differences between current and previous estimates of inflation, changes in concepts and definitions, and estimates of emergency spending. Table 12–1 is a summary of all changes to the 1991 through 1998 caps originally enacted in law. Table 12–2 shows the impact on the caps of adjustments being made in this Preview Report. Table 12–2 displays both the General Purpose Discretionary Spending caps and the Violent Crime Reduction Trust Fund caps established by Public Law 103–322, the Violent Crime Control and Law Enforcement Act of 1994.

OBRA 1993 extended the original discretionary caps through 1998 and it also requires OMB to adjust these caps for differences between the inflation estimates contained in the House Conference Report on the 1994 Budget Resolution and those that are assumed in the President's Budget. The inflation estimates in the 1997 Budget are lower than those contained in the 1996 Budget and are computed on a different basis. Consistent with the new approach adopted by the Bureau of Economic Analysis this year (and followed by the Congressional Budget Office) for measuring inflation and real growth in the Gross Domestic Product (GDP), the inflation measure used to adjust the discretionary caps is on a chain-weighted rather than fixed-weighted basis.

Because of this shift in measurement method, the inflation estimates in the economic assumptions for the 1996 Budget were, first, restated to a chain-weighted basis. Then, the difference between the restated 1996 Budget inflation estimates and the comparable estimates for the 1997 Budget were compared to produce the necessary inflation adjustment to the discretionary caps. The restated 1996 Budget inflation estimates for 1996, 1997, and 1998 are 3.1 percent, 3.2 percent, and 3.3 percent, respectively. For the 1997 Budget, the comparable inflation estimates are 2.7 percent a year for 1996 through 1998. Thus, inflation estimates are lower in 1996, 1997, and 1998 by 0.4 percent, 0.5 percent, and 0.5 percent, respectively. Adjusting the caps for these changes in inflation estimates reduces budget authority by $2.0 billion in 1996, $4.7 billion in 1997, and $7.3 billion in 1998. The estimated spendout of these reductions in budget authority reduces the outlays by $1.2 billion in 1996, $3.3 billion in 1997, and $5.7 billion in 1998.

Several cap adjustments represent changes in concepts and definitions resulting from legislative action that reclassified certain programs. These actions shifted programs between the mandatory (i.e., direct spending) category and the discretionary category. For instance, several 1996 appropriations bills included provisions that modified mandatory programs. Since funding controlled by appropriations action is considered discretionary, the effects of these provisions are recorded as adjustments to the caps. The caps were also adjusted to reflect the proper classification of the National Service Trust Fund account under current law.

**TABLE 12–1. SUMMARY OF CHANGES TO DISCRETIONARY SPENDING LIMITS**

(In billions of dollars

| | | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1991–98 |
|---|---|---|---|---|---|---|---|---|---|---|
| **TOTAL DISCRETIONARY** | | | | | | | | | | |
| Statutory Caps as set in OBRA 1990 and OBRA 1993 | BA | 491.7 | 503.4 | 511.5 | 510.8 | 517.7 | 519.1 | 528.1 | 530.6 | 4,113.0 |
| | OL | 514.4 | 524.9 | 534.0 | 534.8 | 540.8 | 547.3 | 547.3 | 547.9 | 4,291.4 |
| Adjustments for changes in concepts and definitions | BA | .......... | 7.7 | 8.2 | 8.2 | 8.8 | –0.6 | –0.4 | –0.5 | 31.4 |
| | OL | .......... | 1.0 | 2.4 | 0.6 | 1.0 | –2.9 | –2.6 | –2.7 | –3.1 |
| Adjustments for changes in inflation | BA | .......... | –0.5 | –5.1 | –9.5 | –11.8 | 1.0 | 2.6 | 4.2 | –19.1 |
| | OL | .......... | –0.3 | –2.5 | –5.8 | –8.8 | 0.6 | 1.8 | 3.2 | –11.6 |
| Adjustments for credit reestimates, IRS funding, debt forgiveness, and IMF | BA | 0.2 | 0.2 | 13.0 | 0.6 | 0.7 | 0.1 | 0.1 | 0.1 | 14.8 |
| | OL | 0.3 | 0.3 | 0.8 | 0.8 | 0.9 | 0.0 | 0.0 | 0.1 | 3.3 |
| Adjustments for emergency requirements | BA | 0.9 | 8.3 | 4.6 | 12.2 | 7.7 | 3.4 | .......... | .......... | 37.2 |
| | OL | 1.1 | 1.8 | 5.4 | 9.0 | 10.1 | 5.4 | 3.9 | 1.4 | 38.0 |
| Adjustment pursuant to Sec. 2003 of P.L. 104–19 [1] | BA | .......... | .......... | .......... | .......... | –15.0 | –0.1 | –0.1 | .......... | –15.1 |
| | OL | .......... | .......... | .......... | .......... | –1.1 | –3.5 | –2.4 | –1.5 | –8.5 |
| Adjustments for special allowances: | | | | | | | | | | |
| Discretionary new budget authority | BA | .......... | 3.5 | 2.9 | 2.9 | 2.9 | .......... | .......... | .......... | 12.1 |
| | OL | .......... | 1.4 | 2.2 | 2.6 | 2.7 | 1.1 | 0.5 | 0.1 | 10.7 |
| Outlay allowance | BA | .......... | .......... | .......... | .......... | .......... | .......... | .......... | .......... | .............. |
| | OL | 2.6 | 1.7 | 0.5 | 1.0 | .......... | .......... | .......... | .......... | 5.7 |
| Subtotal, adjustments excluding Desert Shield/Desert Storm | BA | 1.1 | 19.2 | 23.6 | 14.3 | –6.7 | 3.8 | 2.2 | 3.7 | 61.3 |
| | OL | 3.9 | 5.9 | 8.8 | 8.3 | 4.8 | 0.8 | 1.3 | 0.6 | 34.5 |
| Adjustments for Operation Desert Shield/Desert Storm | BA | 44.2 | 14.0 | 0.6 | * | * | .......... | .......... | .......... | 58.8 |
| | OL | 33.3 | 14.9 | 7.6 | 2.8 | 1.1 | .......... | .......... | .......... | 59.6 |
| Total adjustments | BA | 45.4 | 33.2 | 24.2 | 14.3 | –6.7 | 3.8 | 2.2 | 3.7 | 135.3 |
| | OL | 37.2 | 20.8 | 16.4 | 11.1 | 5.9 | 0.8 | 1.3 | 0.6 | 102.5 |
| Preview Report spending limits [2] | BA | 537.1 | 536.6 | 535.7 | 525.1 | 511.0 | 523.0 | 530.3 | 534.4 | 4,233.2 |
| | OL | 551.6 | 545.7 | 550.4 | 545.9 | 546.7 | 548.0 | 548.7 | 548.5 | 4,385.4 |

AAALess than $50 million.

[1] P.L. 104–19, Emergency Supplemental Appropriations for Additional Disaster Assistance, for Anti-Terrorism Initiatives, for Assistance in the Recovery from the Tragedy that Occurred at Oklahoma City, and Rescissions Act, 1995, was signed into law on July 27, 1995. Section 2003 of that bill directed the Director of OMB to make a downward adjustment in the discretionary spending limits for FYs 1995–1998 by the aggregate amount of the estimated reductions in new budget authority and outlays for discretionary programs resulting from the provisions of the bill, other than emergencies appropriations.

[2] Reflects combined General Purpose Discretionary and Violent Crime Reduction Trust Fund Discretionary spending limits. For 1996–1998 Statutory limits, see footnote 2 in Table 12–2.

Another adjustment is for certain programs in the Department of Transportation's Federal-aid highways account. Some Federal-aid highways programs are not subject to the obligation limitation imposed by the Appropriations Committee and, therefore, are not controllable through the annual appropriations process. The budget authority for these programs was already classified as mandatory. Outlays for programs that are exempt from obligation limitation are reclassified as mandatory. Adjustments are shown for 1994 through 1998 to provide a comparable basis for consideration of highway programs that are exempt from Appropriations Committee control.

*Other adjustments to the limits.*—The BEA identifies other adjustments to the discretionary caps that can be made only after legislation has been enacted. For example, spending that is designated as emergency requirements by the President and Congress will result in adjustments to the caps. On February 21, 1996, the President submitted a 1996 supplemental request for $620 million for Department of Defense operations associated with the NATO-led Bosnia Peace Implementation Force (IFOR) and Operation Deny Flight, and $200 million for civilian implementation of the Dayton Peace Accords. Table 12–2 displays estimated adjustments for these emergency appropriations. The actual adjustments to the discretionary caps to be included in the final sequestration report at the end of the current session of Congress cannot be determined until appropriations have been enacted.

The Administration proposes to shift funding for the prevention of Medicare fraud and abuse from discretionary spending for this purpose in the Department of Health and Human Services and in the Justice Department to mandatory spending. The discretionary caps and baseline would be adjusted consistent with this shift.

Table 12–2 also displays proposed adjustments to the caps to reflect the President's proposals to amend the BEA to reduce allowable discretionary spending. From 1996 through 1998, these adjustments reduce total budget authority by $79.3 billion and total outlays by $22.6 billion. The President will also propose to extend the discretionary caps through 2002. The extended caps are displayed in Table 12–3. This table also compares the President's discretionary proposals to the proposed caps. If the President's proposed cap reductions are enacted, the caps and discretionary spending proposed by the President will be equal.

**TABLE 12–2. DISCRETIONARY SPENDING LIMITS**

(In millions of dollars)

| | | 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|---|
| **General Purpose Discretionary** | | | | | | |
| Total General Purpose Discretionary spending limits, January 18, 1996 Final Sequestration Report | BA | 525,146 | 508,546 | 520,713 | 529,845 | 536,087 |
| | OL | 547,559 | 547,930 | 549,276 | 549,955 | 551,147 |
| Adjustments: | | | | | | |
| Inflation | BA | .................. | .................. | –2,037 | –4,656 | –7,316 |
| | OL | .................. | .................. | –1,222 | –3,303 | –5,717 |
| Changes in concepts and definitions: | | | | | | |
| Statutory and other shifts between categories | BA | .................. | .................. | .................. | 117 | 86 |
| | OL | .................. | –88 | –61 | 211 | 17 |
| Transportation programs exempt from Appropriations Committee control | BA | .................. | .................. | .................. | .................. | .................. |
| | OL | –1,708 | –1,848 | –2,302 | –2,121 | –1,860 |
| Contingent emergency appropriations release | BA | .................. | .................. | 17 | .................. | .................. |
| | OL | .................. | .................. | 13 | 3 | * |
| Subtotal, adjustments for the Preview Report | BA | .................. | .................. | –2,020 | –4,539 | –7,230 |
| | OL | –1,708 | –1,936 | –3,572 | –5,210 | –7,560 |
| Preview Report General Purpose Discretionary limits [1] | BA | 525,146 | 508,546 | 518,693 | 525,306 | 528,857 |
| | OL | 545,850 | 545,994 | 545,704 | 544,745 | 543,588 |
| Adjustments to Reflect Budget Reconciliation: | | | | | | |
| Combating Medicare fraud and abuse (reclassification of discretionary to mandatory spending) | BA | .................. | .................. | –477 | –476 | –475 |
| | OL | .................. | .................. | –467 | –472 | –474 |
| Reduce discretionary limits to reflect President's proposals | BA | .................. | .................. | –23,395 | –28,559 | –27,350 |
| | OL | .................. | .................. | –6,837 | –6,328 | –9,429 |
| Revised Budget Enforcement Act Discretionary Limits | BA | 525,146 | 508,546 | 494,821 | 496,271 | 501,032 |
| | OL | 545,850 | 545,994 | 538,400 | 537,945 | 533,685 |
| Adjustments Under the Revised Budget Enforcement Act for Appropriations Committee Action: | | | | | | |
| Emergency supplemental appropriations | BA | .................. | .................. | 821 | .................. | .................. |
| | OL | .................. | .................. | 566 | 208 | 30 |
| Funding to Implement Welfare Reform Provisions | BA | .................. | .................. | 110 | 510 | 475 |
| | OL | .................. | .................. | 103 | 486 | 478 |
| General Purpose Discretionary Spending Limits Including Further Adjustments | BA | 525,146 | 508,546 | 495,752 | 496,781 | 501,507 |
| | OL | 545,850 | 545,994 | 539,069 | 538,639 | 534,193 |
| **Violent Crime Reduction Trust Fund Discretionary** | | | | | | |
| Total Violent Crime Reduction Trust Fund Discretionary spending limits, January 18, 1996 Final Sequestration Report | BA | .................. | 2,423 | 4,287 | 5,000 | 5,500 |
| | OL | .................. | 703 | 2,334 | 3,936 | 4,904 |
| Preview Report Violent Crime Reduction Trust Fund Discretionary spending limits | BA | .................. | 2,423 | 4,287 | 5,000 | 5,500 |
| | OL | .................. | 703 | 2,334 | 3,936 | 4,904 |
| Combined General Purpose and Violent Crime Reduction Trust Fund Discretionary spending limits | BA | 525,146 | 510,969 | 500,039 | 501,781 | 507,007 |
| | OL | 545,850 | 546,697 | 541,403 | 542,575 | 539,097 |

AAA*Less than $500 thousand.

[1] The discretionary spending limits shown in this table represent what the limits would be if the inflation adjustments and changes in concepts and definitions were made on a consistent basis. The reclassification of transportation programs and the changes in estimates of inflation would impact the 1996 discretionary spending limits as shown above if such adjustments were permitted under statute. However, the statutory adjustments can only be applied to the 1997 and 1998 limits. The *statutory* General Purpose Discretionary spending limits for 1996 through 1998 are as follows (in millions of dollars):

| | *1996* | *1997* | *1998* |
|---|---|---|---|
| Budget authority | 520,730 | 525,306 | 528,857 |
| Outlays | 549,289 | 545,254 | 543,750 |

The Administration also has proposed to adjust the caps for increases in discretionary spending by the Social Security Administration that will be necessary to implement the Administration's welfare reform proposals. The savings in mandatory spending—benefit payments—are expected to more than offset the increase in discretionary spending. Table 12–2 displays estimated adjustments for appropriations. The actual adjustments to the discretionary caps to be included in the final sequester report at the end of the current session of Congress cannot be determined until appropriations have been enacted.

*Sequester determinations.*—Five days after enactment of an appropriations act, OMB must submit a report to Congress estimating the budget authority and outlays provided by the legislation for the current year and the budget year. These estimates must be based on the same economic and technical assumptions used in the most recent President's budget. In addition, the report must include CBO estimates and explain the differences between the OMB and CBO estimates. The OMB estimates are used in all subsequent calculations to determine whether a breach of any of the budget authority or outlay caps has occurred, and whether a sequester is required.

Compliance with the discretionary caps is monitored throughout the fiscal year. The first determination of whether a sequester is necessary for a given fiscal year occurs when OMB issues its Final Sequestration Report after Congress adjourns to end a session—near the beginning of the fiscal year. The monitoring process begins again after Congress reconvenes for a new session. Appropriations for the fiscal year in progress that cause a breach in the caps would, if enacted before July 1st, trigger a sequester. When such a breach is estimated, a "within-session" sequestration report and Presidential sequestration order are issued. For a breach that results from appropriations enacted on or after July 1st, reductions necessary to eliminate the breach are not applied to the budgetary resources available in the current year. Instead, the corresponding caps for the following fiscal year are reduced by the amount of the breach. A within-session sequester can only be caused by newly enacted appropriations. Reestimates of budget authority and outlays for already enacted funds cannot trigger a sequester.

OMB reported in its most recent Final Sequestration Report to the President and the Congress that discretionary appropriations enacted for 1996 were within the prescribed spending limits. Since that time, the President has signed the 1996 Foreign Operations Appropriations bill and the Ninth Continuing Resolution. Given the constraint on discretionary spending imposed by the Congressional Budget Resolution for 1996, neither OMB or CBO anticipate that subsequent appropriations for 1996 will cause a sequester.

**TABLE 12–3. BUDGET PROPOSALS**

(In millions of dollars)

| | | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|
| **General Purpose Discretionary Spending** | | | | | | | | |
| Estimated Limits | BA | 495,752 | 496,781 | 501,507 | ............ | ............ | ............ | ............ |
| | OL | 539,069 | 538,639 | 534,193 | ............ | ............ | ............ | ............ |
| President's General Purpose Discretionary Proposals | BA | 495,752 | 496,781 | 501,507 | ............ | ............ | ............ | ............ |
| | OL | 539,069 | 538,639 | 534,193 | ............ | ............ | ............ | ............ |
| President's Proposals Compared to the General Purpose Discretionary Limits | BA | ............ | ............ | ............ | ............ | ............ | ............ | ............ |
| | OL | ............ | ............ | ............ | ............ | ............ | ............ | ............ |
| **Violent Crime Reduction Trust Fund Spending** | | | | | | | | |
| Estimated Limits | BA | 4,287 | 5,000 | 5,500 | ............ | ............ | ............ | ............ |
| | OL | 2,334 | 3,936 | 4,904 | ............ | ............ | ............ | ............ |
| President's Violent Crime Reduction Trust Fund (VCRTF) Proposals | BA | 4,081 | 5,000 | 5,500 | ............ | ............ | ............ | ............ |
| | OL | 2,118 | 3,661 | 4,904 | ............ | ............ | ............ | ............ |
| President's Proposals Compared to the Violent Crime Reduction Limits | BA | –206 | ............ | ............ | ............ | ............ | ............ | ............ |
| | OL | –216 | –275 | ............ | ............ | ............ | ............ | ............ |
| **Total Discretionary Spending** | | | | | | | | |
| Estimated Limits | BA | 500,039 | 501,781 | 507,007 | 511,066 | 516,098 | 511,727 | 514,672 |
| | OL | 541,403 | 542,575 | 539,097 | 535,693 | 536,821 | 526,563 | 527,097 |
| Fiscal Dividend | BA | ............ | ............ | ............ | ............ | ............ | 34,341 | 55,282 |
| | OL | ............ | ............ | ............ | ............ | ............ | 21,663 | 45,763 |
| Adjusted Estimated Limits | BA | 500,039 | 501,781 | 507,007 | 511,066 | 516,098 | 546,068 | 569,954 |
| | OL | 541,403 | 542,575 | 539,097 | 535,693 | 536,821 | 548,226 | 572,860 |
| President's Discretionary Proposals | BA | 499,833 | 501,781 | 507,007 | 511,066 | 516,098 | 546,068 | 569,954 |
| | OL | 541,187 | 542,300 | 539,097 | 535,693 | 536,821 | 548,226 | 572,860 |
| President's Discretionary Proposals Compared to the Adjusted Discretionary Limits | BA | –206 | ............ | ............ | ............ | ............ | ............ | ............ |
| | OL | –216 | –275 | ............ | ............ | ............ | ............ | ............ |

*Sequester calculations.*—If either the discretionary budget authority or outlay caps are exceeded, an across-the-board reduction of sequestrable budgetary resources would be required to eliminate the breach. The percentage reduction for certain special-rule programs would be limited to 2 percent. Once this limit is reached, the uniform percentage reduction for all other discretionary sequestrable resources would be increased to a level sufficient to achieve the required reduction. If both the budget authority and outlay caps are exceeded, a sequester would first be calculated to eliminate the budget authority breach. If estimated outlays still remained above the cap, even after applying the available outlay allowance, further reductions in budgetary resources to eliminate the outlay breach would then be required.

*Comparison between OMB and CBO discretionary limits.*—Section 254(d)(5) of the BEA requires an explanation of differences between OMB and CBO estimates for the discretionary spending limits. Table 12–4 compares OMB and CBO limits for 1996 through 1998. Differences for 1996 through 1998 are due primarily to the difference in forecast inflation and spendout rate differences for other adjustments to the caps.

### Pay-As-You-Go Sequestration Report

This section of the Preview Report discusses the enforcement procedures that apply to direct spending and receipts. The BEA defines direct spending as budget authority provided by law other than appropriations acts, entitlement authority, and the food stamp program. Social Security and the Postal Service are not subject to pay-as-you-go enforcement. Legislation specifically designated as an emergency requirement and legislation fully funding the Government's commitment to protect insured deposits are also exempt from pay-as-you-go enforcement.

Current law requires that direct spending and receipts legislation should not increase the deficit in any year through 1998. If it does, and if it is not fully offset by other legislative savings, the increase must be offset by sequestration of direct spending programs. Net savings enacted for one fiscal year can be used to offset net increases in the subsequent year. The tables entitled Summary of Budget Proposals, Estimates of Mandatory Budget Proposals by Program, and Effect of Proposals on Receipts in the Summary Tables chapter of the Budget demonstrate that the President's budget meets the PAYGO requirement.

*Sequester determinations.*—Within five days after enactment of direct spending or receipts legislation, OMB is required to submit a report to Congress estimating the change in outlays or receipts for each fiscal year through 1998 resulting from that legislation. The estimates must use the economic and technical assumptions underlying the most recent President's budget. These OMB estimates are used to determine whether the pay-as-you-go requirements have been met.

The cumulative nature of the pay-as-you-go process requires maintaining a "scorecard" that shows, beginning with the 102nd Congress, the deficit impact of enacted direct spending and receipts legislation and required pay-as-you-go sequesters. The pay-as-you-go Preview Report is intended to show how these past actions affect the upcoming fiscal year.

As of March 1, 1996, OMB had issued 308 reports on legislation affecting direct spending and receipts. Most of these (82 percent) either had no effect on the deficit or changed it by less than $10 million in each year. Less than ten percent of the pay-as-you-go legisla-

**TABLE 12–4. COMPARISON OF OMB AND CBO DISCRETIONARY SPENDING LIMITS**

(In millions of dollars)

| | 1996 | 1997 | 1998 |
|---|---|---|---|
| **General Purpose Discretionary** | | | |
| CBO Preview Report limits: [1] | | | |
| BA | 520,730 | 525,145 | 528,303 |
| OL | 549,284 | 544,822 | 543,308 |
| OMB Preview Report statutory limits: | | | |
| BA | 520,730 | 525,306 | 528,857 |
| OL | 549,289 | 545,254 | 543,750 |
| Difference: | | | |
| BA | .................. | –161 | –554 |
| OL | –5 | –432 | –442 |
| **Violent Crime Reduction Trust Fund Discretionary:** | | | |
| CBO Preview Report limits: [1] | | | |
| BA | 4,287 | 5,000 | 5,500 |
| OL | 2,334 | 3,936 | 4,904 |
| OMB Preview Report statutory limits: | | | |
| BA | 4,287 | 5,000 | 5,500 |
| OL | 2,334 | 3,936 | 4,904 |
| Difference: | | | |
| BA | .................. | .................. | .................. |
| OL | .................. | .................. | .................. |

[1] CBO Preview Report limit estimates are preliminary.

tion had a deficit impact greater than $50 million in any one year.

Table 12–5 shows OMB estimates for legislation enacted through March 1, 1996. In total, pay-as-you-go legislation enacted to date has increased the combined 1996 and 1997 deficits by $2.4 billion. As required by Section 254 (d)(3)(c) of the Budget Enforcement Act, if legislation offsetting this increase is not enacted, a sequester of certain direct spending programs is required. This report projects a sequester of 1.1 percent of mandatory spending would be required to eliminate this increase. Any such sequester would take place after OMB's final sequester report for 1997 is issued. Table 12–6 shows the amounts that would be sequestered from major mandatory programs if legislation offsetting the deficit increase is not enacted in the current session of Congress.

A pay-as-you-go sequester would apply solely to direct spending accounts. By law, most direct spending is exempt from sequestration, and there are special rules that limit the size of a sequester for several direct spending accounts. In 1997, total direct spending is estimated to be $863.1 billion. Of this, only $26.0 billion is subject to sequestration. Table 12–6 shows the composition of the direct spending sequestrable universe.

**TABLE 12–5. PAY-AS-YOU-GO LEGISLATION ENACTED AS OF MARCH 1, 1996**

(In millions of dollars

| Report number | Act number | Act title | Change in the baseline deficit 1996 | 1997 | 1998 | 1996–1998 |
|---|---|---|---|---|---|---|
| Legislation enacted in the 2nd session of the 104th Congress: | | | | | | |
| 302 | P.L. 104–93 | Intelligence Authorization Act: | | | | |
| | H.R. 1655 | Revenue effect | ............ | ............ | ............ | ............ |
| | | Direct spending effect | ............ | ............ | ............ | ............ |
| | | Net deficit effect | ............ | ............ | ............ | ............ |
| 303 | P.L. 104–96 | Smithsonian Institution Sesquicentennial Commemorative Coin Act of 1995 | | | | |
| | H.R. 2627 | Revenue effect | ............ | ............ | ............ | ............ |
| | | Direct spending effect | ............ | ............ | ............ | ............ |
| | | Net deficit effect | ............ | ............ | ............ | ............ |
| 304 | P.L. 104–104 | Telecommunications Act of 1996: | | | | |
| | S. 652 | Revenue effect | ............ | 400 | 1,200 | 1,600 |
| | | Direct spending effect | ............ | 404 | 1,205 | 1,609 |
| | | Net deficit effect | ............ | 4 | 5 | 9 |
| 305 | P.L. 104–105 | Farm Credit System Reform Act: | | | | |
| | H.R. 2029 | Revenue effect | ............ | ............ | ............ | ............ |
| | | Direct spending effect | –1 | –1 | –1 | –3 |
| | | Net deficit effect | –1 | –1 | –1 | –3 |
| 306 | P.L. 104–106 | Defense Authorization Act: | | | | |
| | S. 1124 | Revenue effect | ............ | ............ | ............ | ............ |
| | | Direct spending effect | 315 | 609 | 852 | 1,776 |
| | | Net deficit effect | 315 | 609 | 852 | 1,776 |
| 307 | P.L. 104–110 | Extension of VA Medical and Housing Programs: | | | | |
| | H.R. 2353 | Revenue effect | ............ | ............ | ............ | ............ |
| | | Direct spending effect | –3 | –1 | ............ | –4 |
| | | Net deficit effect | –3 | –1 | ............ | –4 |
| 308 | P.L. 104–111 | Congressional Gold Medal for Ruth and Billy Graham: | | | | |
| | H.R. 2657 | Revenue effect | ............ | ............ | ............ | ............ |
| | | Direct spending effect | ............ | ............ | ............ | ............ |
| | | Net deficit effect | ............ | ............ | ............ | ............ |
| | | Subtotal, enacted this session, as of March 1, 1996: | | | | |
| | | Revenue effect | ............ | 400 | 1,200 | 1,600 |
| | | Direct spending effect | 311 | 1,011 | 2,056 | 3,378 |
| | | Net deficit effect | 311 | 611 | 856 | 1,778 |
| | | **Total, legislation enacted:** | | | | |
| | | Revenue effect | –1,432 | –1,421 | –999 | –3,853 |
| | | Direct spending effect | –404 | –33 | 1,373 | 936 |
| | | Net deficit effect | 1,028 | 1,389 | 2,371 | 4,789 |

**TABLE 12–6. SEQUESTRABLE MANDATORY SPENDING AND POTENTIAL SEQUESTER AMOUNTS**

(1997 outlays in millions of dollars)

| | Subject to Sequester | Projected Sequester[1] |
|---|---|---|
| Sequestration limited to automatic spending increases: | | |
| Special milk program | .............. | .............. |
| Vocational rehabilitation basic State grants | 45 | 45 |
| Subtotal, automatic spending increases | 45 | 45 |
| Sequestration according to special rules: | | |
| Federal Family Education Loan program | 66 | 66 |
| Payments to states for foster care and adoption assistance | 8 | 8 |
| Subtotal, special rules | 74 | 74 |
| Medicare (maximum sequester of 4 percent) | 7,740 | 2,101 |
| Subject to across-the-board sequestration: | | |
| Commodity Credit Corporation (incl. sequestrable 1988 amount) | 3,988 | 43 |
| Social Services Block Grants. | 2,520 | 27 |
| Family support payments to states | 2,182 | 24 |
| Crop insurance corporation fund | 1,117 | 12 |
| Justice activities financed by immigration and border fees | 904 | 10 |
| Veterans Education and Readjustment Benefits | 822 | 9 |
| Payments to States for AFDC Work Programs | 750 | 8 |
| Direct student loans program account | 531 | 6 |
| Payments to States for Mineral Leasing Act | 515 | 6 |
| Forest Service permanent appropriations | 493 | 5 |
| Assets Forfeiture Fund | 363 | 4 |
| Rehabilitation services and handicapped research | 266 | 3 |
| Customs salaries and expenses, unclaimed or abandoned goods | 284 | 3 |
| Surcharge collections, sales of comissary stores | 255 | 3 |
| Forest Service, Cooperative Work Trust Fund | 232 | 3 |
| Federal Unemployment Benefits and Allowances | 211 | 2 |
| Lower Colorado River Basin fund | 141 | 2 |
| Treasury Forfeiture Fund | 121 | 1 |
| VA medical cost recovery fund | 118 | 1 |
| Agricultural marketing service, miscellaneous trust funds | 90 | 1 |
| Fees and expenses of witnesses | 88 | 1 |
| Crime victims fund | 84 | 1 |
| Unemployment insurance extended benefits | 69 | 1 |
| Judiciary filing fees | 63 | 1 |
| Other sequestrable spending | 1,862 | 20 |
| Subtotal, subject to across-the-board sequestration | 18,069 | 196 |
| **Total, sequestrable mandatory outlays** | 25,928 | 2,417 |

AAA[1] These are the amounts that would be sequestered based on legislation enacted as of 3/1/96. OMB's final determination of the need for a sequester will be made at the end of this session of Congress and will take into account legislation enacted during the current session.

## Proposals to Extend and Amend the BEA and Other Reforms to Strengthen the Budget Process

The Administration proposes to extend the BEA requirements generally, to reduce the discretionary caps below current levels, and to make other procedural changes to improve budget enforcement. In addition to the BEA changes, the Administration urges the Congress to complete legislation granting the President line-item veto authority.

*Extend the BEA's discretionary spending and "pay-as-you-go" (PAYGO) requirements.*—The BEA has been an effective constraint on laws that would increase discretionary spending or increase the deficit. That is why, in 1993, the Congress and the President agreed to extend the requirements of the BEA through 1998. Now, the BEA requirements need to be extended again to support the goal of a balanced budget by the year 2002. The Administration proposes to lower the discretionary spending caps for 1996 through 1998 and to enact caps for 1999 through 2002 that are below baseline discretionary spending levels for those years. The Administration proposes to extend, through 2002, the PAYGO requirements for offsets to legislation that would increase mandatory spending or reduce receipts.

*Cap adjustment authority for savings initiatives.*—When the BEA was enacted in 1990, it authorized cap adjustments, within specified limits, for each of the years 1991 through 1995 in order to accommodate annual appropriations for an Internal Revenue Service compliance initiative. The Administration proposes that similar cap adjustment authority be provided to accomodate increases in discretionary spending by the Social Security Administration necessary to implement the Administration's welfare reform proposals. The savings in mandatory spending (benefit payments) are expected to more than offset the increase in discretionary spending.

The Administration proposes to increase funding for the prevention of Medicare fraud and abuse. Rather than increase discretionary spending, legislation will be proposed to substitute increased levels of mandatory spending for the current levels of discretionary spending for this purpose in the Department of Health and Human Services and in the Justice Department. The savings in mandatory Medicare benefit payments are expected to more than offset the increase in mandatory spending. Alternatively, Congress could continue to provide discretionary funding for fraud and abuse prevention with increases accommodated through cap adjustment authority like that proposed for the welfare reform initiative.

*Amend the asset sale scoring rule.*—The BEA's asset sale scoring rule prohibits scoring the proceeds from asset sales as offsets to discretionary spending or PAYGO legislation, even where there is general agreement that selling the asset is good policy. The rule was originally intended primarily to stop uneconomic loan asset sales, before the Credit Reform Act of 1990 effectively ended this practice.

The Congress waived the scoring rule for purposes of the concurrent resolution on the 1996 budget. In the conference report on the budget resolution, the conferees said that the asset sale scoring prohibition should be repealed and consideration should be given to replacing it with a methodology that takes into account the long-term budgetary impact of asset sales. They said that assets should not be sold if such sale would increase the budget deficit over the long run. The Administration agrees and proposes to work with the Congress to develop a new scorekeeping guideline. At a minimum, the guideline should require that all losses of receipts and reductions in outlays resulting from the sale, as well as the immediate receipts from the sale, be taken into account in determining whether an asset should be sold.

*Establish "fiscal dividend" procedures.*—The Administration proposes to establish procedures for dividing any "fiscal dividend" in 2000 among tax cuts, spending increases, and deficit reduction in 2001 and 2002. Under the Administration's proposal, a fiscal dividend would occur if the actual deficit in 2000 were below the deficit target for that year. The deficit target would be fixed at CBO's estimate in the 1997 budget process of the deficit for 2000. The dividend would be applied in as many as three steps, depending on the whether the dividend were less than $20 billion, between $20 and $40 billion, or greater than $40 billion. To illustrate, if the deficit target were $100 billion, then any dividend would be applied as follows:

- First, if the actual deficit were not greater than $80 billion, the tax cuts in the Administration's plan, which otherwise would expire on January 1, 2001, would be proposed to be extended.
- Next, if the actual deficit were less than $80 billion but greater than $60 billion, the discretionary caps for 2001 and 2002 would be increased by an amount equal to the difference between $80 billion and the actual deficit. Discretionary spending could be increased by as much as $40 billion over the two-year period.
- Finally, if the actual deficit were less than $60 billion, the difference between $60 billion and the actual deficit would be divided equally among discretionary spending increases, further tax cuts, and deficit reduction in the following manner: the discretionary caps would be increased by an amount equal to one third of the amount of the dividend; the PAYGO scorecard would be credited with an amount equal to one third of the dividend and the revenue floors in the Congressional resolution on the budget would be decreased by an equal amount to reserve the PAYGO savings for tax cuts; and the remaining one third could not be used to increase spending or reduce taxes, preserving this amount as deficit reduction.

The expectation is that if a fiscal dividend is achieved in 2000, it will be because economic growth has been strong and will continue to be strong enough to produce a surplus in 2002, even with the continuance of the planned tax cuts and possibly additional tax cuts and spending.

*Line-item veto.*—The President should have line-item veto authority to use as a tool for eliminating wasteful spending and special interest tax provisions. To be effective, any such measure should allow the President to rescind in whole or in part any discretionary budget authority provided in an appropriation act, to cancel any new direct spending, and to cancel any targeted tax benefits. In order to be effective in the near-term, the authority should apply to unobligated balances of 1996 appropriations. The exercise of this authority should stand unless Congress enacts a disapproval bill.