BUDGET ENFORCEMENT ACT PREVIEW REPORT

13. 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 "Budget Process Reforms" below.)

This Preview Report discusses the status of discretionary appropriations and pay-as-you-go legislation based on laws enacted as of December 31, 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 be revised only 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

Table 13–1. 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	3.1	35.0
	OL	....	1.0	2.4	2.3	3.0	–0.5	–2.6	–2.8	2.8
Adjustments for changes in inflation	BA	....	–0.5	–5.1	–9.5	–11.8	3.0	2.6	0.0	–21.2
	OL	....	–0.3	–2.5	–5.8	–8.8	1.8	2.3	0.9	–12.2
Adjustments for credit reestimates, IRS funding, debt forgiveness, IMF, and CDRs..	BA	0.2	0.2	13.0	0.6	0.7	0.1	0.2	0.1	15.0
	OL	0.3	0.3	0.8	0.8	0.9	0.1	0.3	0.1	3.6
Adjustments for emergency requirements	BA	0.9	8.3	4.6	12.2	7.7	5.1	1.6	....	40.4
	OL	1.1	1.8	5.4	9.0	10.1	6.4	5.4	1.7	40.9
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	7.5	4.0	3.1	66.2
	OL	3.9	5.9	8.8	10.0	6.8	5.5	3.7	–1.5	43.0
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	7.5	4.0	3.1	140.1
	OL	37.2	20.8	16.4	12.8	7.8	5.5	3.7	–1.5	111.1
Preview Report spending limits [2]	BA	537.1	536.6	535.7	525.1	511.0	526.7	532.0	533.8	4,238.0
	OL	551.6	545.7	550.4	547.6	548.6	552.7	551.0	546.4	4,394.0

* $50 million or less.

[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 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.

be exceeded will trigger a sequester to eliminate any such breach.

The Administration is proposing that the Congress adopt a joint resolution on the budget covering each of the fiscal years 1998 through 2002. This proposal is discussed in the "Budget Process Reforms" section of this report.

Adjustments to the limits.—The BEA permits certain adjustments to the discretionary limits—also known as caps. On November 15, 1996, the Office of Management and Budget submitted the Final Sequestration Report for 1997 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 13–1 is a summary of all changes to the 1991 through 1998 caps originally enacted in law. Table 13–2 shows the impact on the caps of adjustments being made in this Preview Report. Table 13–2 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 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 1998 Budget are lower than those contained in the 1997 Budget.

The 1997 Budget inflation estimates were 2.7 percent per year for 1996 through 1998. For the 1998 Budget, the comparable inflation estimates are 2.2 percent for 1996, 2.5 percent for 1997, and 2.6 percent for 1998. Thus, inflation estimates are lower in 1996, 1997, and 1998 by 0.5 percent, 0.2 percent, and 0.1 percent, respectively. Adjusting the caps for these changes in inflation estimates reduces 1998 budget authority by $4.2 billion. The estimated spendout of these reductions in budget authority reduces outlays by $2.5 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 1997 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.

Table 13–2. DISCRETIONARY SPENDING LIMITS

(In millions of dollars)

		1994	1995	1996	1997	1998
General Purpose Discretionary						
Total General Purpose Discretionary Spending Limits, November 15, 1996, Final Sequestration Report	**BA**	**525,146**	**508,546**	**522,376**	**527,031**	**528,857**
	OL	**547,559**	**547,930**	**550,400**	**547,055**	**544,078**
Adjustments:						
Inflation	BA	....	....	....	....	–4,154
	OL	....	....	....	....	–2,492
Changes in concepts and definitions:						
Statutory and other shifts between categories	BA	....	....	....	....	–110
	OL	....	....	....	....	–85
Conversion of obligation limitations to discretionary budget authority	BA	....	....	....	....	3,687
	OL	....	....	....	....	....
Contingent emergency appropriations released	BA	....	....	....	5	....
	OL	....	....	....	5	....
Subtotal, Adjustments for the Preview Report	BA	....	....	....	5	–577
	OL	....	....	....	5	–2,577
Preview Report General Purpose Discretionary Limits	**BA**	**525,146**	**508,546**	**522,376**	**527,036**	**528,280**
	OL	**547,559**	**547,930**	**550,400**	**547,060**	**541,501**
Adjustments Under the Revised Budget Enforcement Act for Appropriations Committee Action:						
Proposed Emergency Spending:						
Emergency supplemental appropriations contained in the 1998 Budget	BA	....	....	....	2,098	....
	OL	....	....	....	1,585	401

Table 13–2. DISCRETIONARY SPENDING LIMITS—Continued

(In millions of dollars)

		1994	1995	1996	1997	1998
The Budget contains FY 1997 emergency supplemental requests for the National Transportation Safety Board and for the Department of Defense.						
Contingent emergency appropriations for unanticipated disasters contained in the 1998 Budget	BA	....	....	....	....	(5,800)
	OL	....	....	....	....	(2,320)
The Budget contains a request for contingent emergency appropriations for natural disasters of $5.8 billion. This emergency spending would be scored upon release by the President and the Congress.						
User Fee Proposals:						
Department of Health and Human Services						
Food and Drug Administration (FDA): FDA user fees	BA	....	....	....	....	237
	OL	....	....	....	....	237
The Budget proposes new user fees to finance FDA activities, including the review of prescription drugs and medical devices, approval of animal drugs, import inspections, food additive petition reviews, generic/over-the-counter drug applications and fees for post market surveillance of products.						
Department of Labor:						
Alien labor certification fees	BA	....	....	....	....	25
	OL	....	....	....	....	25
The Budget proposes new user fees to fund discretionary spending. Fees would be charged to employers who receive certification from the Labor Department of the admissibility of aliens to work in the United States.						
Department of State:						
Immigration, passport, and other user fees	BA	....	....	....	....	455
	OL	....	....	....	....	387
The Budget proposes to dedicate existing governmental receipts generated by consular activities toward support and improvement of State Department operations. Discretionary spending caps would be increased by the amount of estimated annual appropriations of the receipts.						
Machine readable visa fees	BA	....	....	....	....	140
	OL	....	....	....	....	119
The Budget proposes to correct the classification of existing receipts used to support the State Department's border security program. These fees were previously classified as offsetting collections; they will now be classified as governmental receipts.						
Department of Transportation:						
Federal Aviation Administration (FAA) $300 million gross increase in user fees	BA	....	....	....	....	225
	OL	....	....	....	....	198
The Budget proposes new user fees to fund discretionary spending for the FAA. Discretionary spending caps increased by amount of spending of increased governmental receipts.						
Department of Veterans Affairs:						
VA medical care cost recovery	BA	....	....	....	....	(440)
	OL	....	....	....	....	(440)
Existing user fees (offsetting receipts) are reclassified as discretionary with a PAYGO cost. Discretionary spending would be offset by user fees. No change in the discretionary spending caps.						
Social Security Administration:						
Supplementary Security Income (SSI) user fee (administration of State supplementary payments)	BA	....	....	....	....	(40)
	OL	....	....	....	....	(37)
SSA currently charges States to administer the payment process. Discretionary spending would be offset by the proposed increase in SSI user fees (offsetting collections). No change in the discretionary spending caps.						
National Transportation Safety Board (NTSB):						
NTSB user fee	BA	....	....	....	....	5
	OL	....	....	....	....	5
The Budget proposes a new user fee to fund discretionary spending on commercial aviation accident investigations. Discretionary spending caps increased by amount of spending of increased governmental receipts.						
Other Proposals Included in the Budget Affecting the Discretionary Spending Caps:						
Funding for additional continuing disability reviews (CDRs)	BA	....	....	....	....	190
	OL	....	....	....	....	175

Table 13–2. DISCRETIONARY SPENDING LIMITS—Continued

(In millions of dollars)

		1994	1995	1996	1997	1998
Discretionary spending cap adjusted upward to reflect increased spending on associated additional continuing disability reviews (CDRs).						
Welfare reform implementation	BA	....	....	....	....	100
	OL	....	....	....	....	92
Discretionary spending cap adjusted upward to reflect increased administrative spending associated with implementation of changes to the Supplemental Security Income program in the welfare reform bill.						
State unemployment insurance cost containment proposal	BA	....	....	....	....	89
	OL	....	....	....	....	89
Discretionary spending cap adjusted upward to reflect increased spending on integrity activities in this area.						
Financial Management Service's reimbursement to the Federal Reserve Board (FRB)	BA	....	....	....	....	122
	OL	....	....	....	....	122
The Budget includes increases for discretionary spending for payment to the Federal Reserve. Mandatory governmental receipts would increase in an equal amount as a result of this discretionary increase.						
Exemption of Federal vaccine purchases from the payment of vaccine excise tax	BA	....	....	....	....	–54
	OL	....	....	....	....	–54
Governmental receipts and outlays in the Medicaid accounts are reduced as a result of this proposal. This proposal does not affect services.						
Subtotal, Adjustments Under the Revised Budget Enforcement Act for Appropriations Committee Action	**BA**	....	....	....	**2,098**	**1,534**
	OL	....	....	....	**1,585**	**1,796**
Proposed adjustment to offset restored PAYGO balances	BA	....	....	....	–6,236	....
	OL	....	....	....	–6,236	....
Preview Report General Purpose Discretionary Limits, Including Further Adjustments	**BA**	**525,146**	**508,546**	**522,376**	**522,898**	**529,814**
	OL	**547,559**	**547,930**	**550,400**	**542,409**	**543,297**
Violent Crime Reduction Trust Fund Discretionary						
Total Violent Crime Reduction Trust Fund (VCRTF) Spending Limits, November 15, 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 (VCRTF) 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**	**526,663**	**527,898**	**535,314**
	OL	**547,559**	**548,633**	**552,734**	**546,345**	**548,201**

Another cap adjustment for changes in concepts and definitions is for the redefinition of certain obligation limitations as discretionary budget authority. For example, administrative expenses for the Social Security Administration (SSA) are controlled by a limitation on total funding from several financing sources including the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds. Prior to the 1998 Budget, the funding for administrative expenses attributable to these two sources had been classified as a discretionary obligation limitation, rather than discretionary budget authority. Thus, administrative expenses for the OASI and DI programs and expenses for other agencies' accounts with similar types of limitations on obligations were not covered by the budget authority caps or by the 602 allocation contained in the BEA, although they were covered by the outlay caps and the 602 allocation contained in the BEA for outlays. This anomaly was corrected in the 1990 BEA for the Medicare trust funds, the Unemployment trust fund, and the railroad retirement trust funds. Beginning with the 1998 budget, obligation limitations enacted in appropriations acts will be defined as discretionary budget authority. The budget authority caps are increased for this conceptual change.

Other adjustments to the limits.—

- *Emergency appropriations.* Spending that is designated as an emergency requirement by the President and Congress would result in an upward adjustment to the caps. The Budget contains FY 1997 emergency supplemental requests for the National Transportation Safety Board (NTSB) and for the Department of Defense (DOD). The NTSB request would provide funds for TWA Flight 800 accident investigation costs, including fire and explosion testing, and overtime and command center costs related to the investigation. In addition, funds would be provided for assistance to families of victims of aviation accidents. The emergency request for DOD would support United States participation in the Bosnia stabilization force (SFOR) and the continuation of enforcing no-fly zones in northern and southern Iraq. Table 12–2 displays estimated adjustments for these emergency appropriations. The actual adjustments to the discretionary caps cannot be determined until appropriations have been enacted.

- *Contingent emergency appropriations.* The Budget also proposes the establishment of a contingent reserve (see the "Emergency Requirements for Disasters" account in the Funds Appropriated to the President chapter of the Budget *Appendix*) to fund the unanticipated needs that arise from both natural and man-made disasters. The reserve, which is described in the "Budget Process Reform" section of this report, is intended to avoid emergency supplemental requests and provide flexibility in responding to disasters. The discretionary caps would be adjusted when the President makes contingent emergency funds available for use.
- *User fee proposals.* The Budget will include several proposals to allow user fees, both existing fees and new fees, to be used to finance discretionary spending. A change will be proposed to the BEA to establish a procedure for such proposals to be enacted and used to offset discretionary activities. The purpose of this change is to promote the use of appropriate fees by Federal Government agencies to support and improve agency operations. This new treatment is designed to be deficit neutral so that new discretionary spending is financed by new user fees or by other offsets. Further discussion of this proposal is included in the "Budget Process Reforms" section of this report.
- *Savings proposals.* The Administration supports several discretionary proposals that would result in additional savings to be derived from administrative efficiencies in benefit programs. These mandatory savings would more than offset discretionary costs; however, the Administration is not proposing to use these savings as offsets to other spending. These proposals include:

  Cap adjustments that would be made under existing authority:

  —*Funding for additional continuing disability reviews (CDRs).*—CDRs are conducted to verify that recipients of Social Security disability insurance benefits and Supplemental Security Income (SSI) benefits for persons with disabilities are still eligible. A cap adjustment would ensure that the Social Security Administration (SSA) has sufficient funds to increase CDRs to achieve the savings assumed in the debt ceiling bill. Authority to make this cap adjustment was originally provided in the debt ceiling bill.

  —*Welfare reform implementation.*—This cap adjustment would ensure that the SSA has sufficient funds for administrative expenses to carry out the implementation of changes made to the SSI program in the welfare reform bill. Authority to make this cap adjustment was provided in the welfare reform bill, through a modification to the cap adjustment authority provided in the debt ceiling bill described in the preceding paragraph.

  Cap adjustment that would be made under proposed authority:

  —*State unemployment insurance cost containment proposal.*—In addition to the two cap adjustments already mandated by current law, the Budget proposes an additional cap adjustment to reflect increased spending on program integrity activities in the Labor Department's State Unemployment Insurance and Employment Service Operations account (SUIESO). These would include activities such as eligibility reviews and tax audits. This additional spending is expected to result in reduced overpayments and increased tax collections.
- *Other changes.* The Budget also contains additional cap adjustments that would occur as a result of proposals included in the Budget. These include changes in the treatment of the Financial Management Service's reimbursement to the Federal Reserve Board and the exemption of Federal vaccine purchases from the payment of vaccine excise tax. The Federal Reserve currently provides certain services on behalf of FMS, which the Federal Reserve currently funds using a portion of its earnings. The net profit is remitted to Treasury and is recorded as revenue in the budget. The Budget requests permanent appropriations to fund these expenses. This proposal will have no net impact on the deficit, since the additional discretionary spending will be offset by the increase in Federal Reserve profits that are remitted to the Treasury. The effect of the proposal is to make the funding more explicit in the Budget. Instead of offsetting the spending against income in the Federal Reserve's budget, the profits and spending will be shown on a gross basis in the Federal budget.

The Budget also proposes to exempt Federal vaccine purchases from the payment of vaccine excise tax. Current and projected vaccine excise tax receipts to the Vaccine Injury Compensation Trust Fund far exceed current and projected claims on the Trust Fund. The Budget proposes lowering revenue to the Trust Fund by exempting Federal programs (which provide free vaccine to low-income, uninsured, and under-insured children) from payment of the vaccine excise tax in 1998.

The Administration proposes to restore to the PAYGO scorecard for 1997 the $6.2 billion in balances that were removed pursuant to the Omnibus Consolidated Appropriations Act of 1997. In order to offset the additional mandatory spending accommodated by restoring the balances, the discretionary caps for 1997 would be reduced by a like amount.

- *Loans to the International Monetary Fund (IMF).* The Budget includes an appropriations request for the dollar equivalent of 2,462 million Special Drawing Rights, scored in the Budget as $3,521 million. This amount is needed to fully fund the U.S. share of the New Arrangements to Borrow (NAB), which is a set of individual credit lines to the IMF, modeled on the existing General Arrangements to Borrow (GAB). Section 251(b)(2)(C) of the BEA of 1990 authorized a budget authority cap adjustment only for a similar proposal because the U.S. transactions with the IMF are not scored in the Budget as outlays. However, because the total discretionary budget authority is well within the caps established by the BEA, the Administration is not requesting cap adjustment authority for this increase. The Administration would seek a cap adjustment for potential future appropriations for an IMF quota increase.

The actual adjustments to the discretionary caps to be included in subsequent sequester reports cannot be determined until appropriations have been enacted. Table 13–3 compares the President's discretionary proposals to the proposed caps for 1997 and 1998. The estimates for 1997 are based on BEA scoring of enacted appropriations bills and have been adjusted for a subsequent emergency release and Presidential proposals included in the 1998 Budget.

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 re-

Table 13–3. BUDGET PROPOSALS

(in millions of dollars)

		1997	1998
General Purpose Discretionary Spending			
Estimated Limits	BA	522,898	529,814
	OL	542,409	543,297
President's General Purpose Discretionary Proposals	BA	494,712	524,979
	OL	534,305	542,579
President's Proposals Compared to the General Purpose Discretionary Limits	BA	–28,186	–4,835
	OL	–8,104	–718
Violent Crime Reduction Trust Fund Spending			
Estimated Limits	BA	5,000	5,500
	OL	3,936	4,904
President's Violent Crime Reduction Trust Fund (VCRTF) Proposals	BA	4,683	5,500
	OL	3,697	4,883
President's Proposals Compared to the Violent Crime Reduction Limits	BA	–317	....
	OL	–239	–21
Total Discretionary Spending			
Estimated Limits	BA	527,898	535,314
	OL	546,345	548,201
President's Proposals	BA	499,395	530,479
	OL	538,002	547,462
President's Proposals Compared to the Limits	BA	–28,503	–4,835
	OL	–8,343	–739

Note: The President's Proposals for FY 1997 reflect official BEA scoring and do not reflect current budget estimates.

sults 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 Final Sequestration Report to the President and the Congress that discretionary appropriations enacted for 1997 were within the prescribed spending limits.

Sequester calculations.—If either the discretionary budget authority or outlay caps are exceeded, an across-the-board reduction of sequestrable budgetary resources is required to eliminate the breach. The percentage reduction for certain special-rule programs is limited to two percent. Once this limit is reached, the uniform percentage reduction for all other discretionary sequestrable resources is 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 13–4 compares OMB and CBO limits for 1997 through 1998. The differences for 1998 are due primarily to the difference in forecast inflation. CBO's forecast for lower inflation in 1997 resulted in a change of $6.7 billion in budget authority and $4.0 billion in outlays in 1998. OMB's forecast resulted in a lower change ($4.2 billion in budget authority and $2.5 billion in outlays) in 1998.

CBO and OMB also differed on their estimates of the effect of discretionary changes made to mandatory accounts in fiscal year 1997 appropriations bills, and, thus, the effect of those changes on the fiscal year 1998 discretionary spending caps. CBO assumed a net decrease to the caps of $220 million in budget authority and $9 million in outlays, while OMB assumed a downward cap adjustment of $110 million in budget authority and $85 million in outlays. Finally, CBO did not make an adjustment for the conversion of obligation limitations to discretionary authority. OMB adjusted the FY 1998 discretionary spending caps upward by $3.7 billion for this conceptual change.

Table 13–4. COMPARISON OF OMB AND CBO DISCRETIONARY SPENDING LIMITS

(In millions of dollars)

	1997	1998
General Purpose Discretionary		
CBO Preview Report limits:		
BA	527,036	521,901
OL	547,060	540,027
OMB Preview Report limits:		
BA	527,036	528,280
OL	547,060	541,501
Difference:		
BA	....	–6,379
OL	....	–1,474
Violent Crime Reduction Trust Fund Discretionary		
CBO Preview Report limits:		
BA	5,000	5,500
OL	3,936	4,904
OMB Preview Report limits:		
BA	5,000	5,500
OL	3,936	4,904
Difference:		
BA	....	....
OL	....	....
Total Discretionary		
CBO Preview Report limits:		
BA	532,036	527,401
OL	550,996	544,931
OMB Preview Report limits:		
BA	532,036	533,780
OL	550,996	546,405
Difference:		
BA	....	–6,379
OL	....	–1,474

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 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. Under current law, the 1997 and 1998 deficit impact of legislation enacted this year would be combined with the balance to determine whether a sequester is neeeded. The Administration is proposing to extend the pay-as-you-go horizon and restore the 1997 balances that the Congress eliminated last year. As listed in Table 13–2, the discretionary cap for 1997 would be reduced by the amount of the balances restored. Table 13–5 summarizes the impact of the Adminstration's proposals on the pay-as-you-go balances.

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 December 31, 1996, OMB had issued 391 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 legislation had a deficit impact greater than $50 million in any one year.

Table 13–6 shows OMB estimates for legislation enacted through December 31, 1996. In total, pay-as-you-go legislation enacted to date has reduced the combined 1997 and 1998 deficits by $3.4 billion.

Budget Process Reforms

The Administration is proposing several budget process reforms in conjunction with this budget, which are summarized here, and looks forward to working with the Congress on the details of implementation.

Table 13–5. PAY-AS-YOU-GO PROPOSALS

(in billions of dollars)

	1997	1998	1997–98
Pay-as-you-go proposals in the 1998 Budget:			
Receipts	–1.6	6.9	
Mandatory outlays	0.3	–0.1	
Proposed discretionary cap adjustments funded by governmental receipts	0.0	1.0	
Total pay-go proposals	–1.3	7.8	6.5
Current pay-go balance	0.0	–3.5	
Restore pay-go balance (offset by reduction in discretionary cap)	–6.2	0.0	
Proposed pay-go balances	–7.6	4.3	–3.3

Table 13–6. PAY-AS-YOU-GO LEGISLATION ENACTED AS OF DECEMBER 31, 1996

(In millions of dollars)

	1993	1994	1995	1996	1997 [1]	1998	1999	2000	2001	2002
Total, Pay-as-you-go legislation enacted:										
Revenue impact of enacted legislation	5,126	1,265	1,722	–1,227	–1,320	–1,889	–1,869	2,228	–729	–829
Outlay impact of enacted legislation	2,430	785	–100	–2,458	–7,556	–5,355	–8,318	–6,242	–9,994	–11,908
Total deficit impact of enacted legislation [2]	–2,696	–480	–1,822	–1,231	–6,236	–3,466	–6,449	–8,470	–9,266	–11,078

[1] The Omnibus Consolidated Appropriations Act of 1997 (P.L. 104–208) removed the balances for 1997 from the pay-as-you-go scorecard. OMB is proposing to restore the balances and reduce the discretionary cap by a like amount.

[2] The balances shown above for 1997 and 1998 differ from those shown in OMB's Final Sequester Report. The Final Report balances for 1997 included savings of $65 million that should have been included in 1998 instead. The balances shown above reflect this correction.

Joint resolution on the budget.—The President and the Congress share the goal of balancing the budget by 2002. In order to provide an overall budget framework for achieving this goal, the Administration urges the Congress to pass and present to the President for signature a joint resolution on the budget covering each of the fiscal years from 1998 through 2002. It would include the elements of the concurrent resolution on the budget required by the Congressional Budget Act and some elements would be added. Like the concurrent resolution, it would include totals for federal revenue, budget authority, outlays, and the deficit. It would set limits on the appropriate levels of debt for each of the fiscal years covered by the resolution. It would be used as the budget resolution for all purposes of the Act. The joint budget resolution would include major economic assumptions for the 5-year period.

Budget Enforcement Act.—The BEA, which will expire at the end of fiscal year 1998, has been an effective constraint on discretionary spending and laws that would increase the deficit. The Administration recommends that Congress extend it, with the proposed modifications described in this budget, through 2002.

The "pay-as-you-go" (PAYGO) requirements for offsets to legislation that would increase mandatory spending or reduce receipts would continue to be a useful enforcement mechanism. The Administration proposes to extend the existing PAYGO requirements through 2002. In the course of extending the requirements, the Administration also recommends that the legislation restore to the PAYGO scorecard for 1997 the $6.2 billion in balances that were removed pursuant to the Omnibus Consolidated Appropriations Act of 1997. In order to offset the additional mandatory spending accommodated by restoring the balances, the discretionary caps for 1997 would be reduced by a like amount.

Whether the BEA is extended in its current form or as part of a joint budget resolution approach, some aspects of the current rules should be changed. These are discussed in the following paragraphs.

User fees.—It is sound budget policy to charge fees to users directly availing themselves of, or subject to, a government service, program, or activity, in order to cover the government's costs. However, under current BEA scoring rules, it is difficult to align user fees with the spending for agency operations that they are intended to support. This is because receipts usually are scored as PAYGO and the spending for agency operations usually is scored as discretionary spending.

The Administration proposes a revised scoring rule that would avoid these problems. It would (1) employ a definition of user fees that is currently part of the House rules on jurisdiction, (2) support the longstanding practice of authorizing user fees in authorizing legislation, and (3) require the fees to be appropriated before they could be spent.

The budget treatment of user fees should provide both government agencies and users an incentive to support user fees. For example, it may be appropriate to deposit the fees in a special fund of the Treasury, rather than the general fund, where the fees would be available only for appropriation to the collecting agency for administration of the program they are intended to support. This would create a direct link between the fee payments and the level of funding for the agency operations that affect them. Also, the agency's budget for administering a program should be dependent, at least in part, on the success of the agency's collections. In some existing cases, user fees are earmarked for and appropriated to an agency's program, but the program is guaranteed a funding level from the general fund whether the fees are collected or not.

This budget applies the new scoring rule to several user fee proposals. These proposals are identified in the "Discretionary Sequestration Report" section of this chapter. The Administration intends to work with the Congress to identify other programs where the principle and revised scoring treatment should be applied.

Emergency funding requirements for disaster assistance.—The current BEA permits the Congress and the President to jointly designate any discretionary spending measure as an emergency requirement that does not count under the limits on discretionary spending. The BEA does not define emergency spending.

This budget proposes the establishment of a $5.8 billion contingent reserve for the emergency funding requirements for disaster assistance. This amount is the average annual emergency budget authority adjustment made to the discretionary spending caps under the existing rule. It is proposed that this amount be appropriated to the President for the purposes of the disaster relief activities of the Federal Emergency Management Agency, the wildland firefighting activities of the Departments of Interior and Agriculture, the flood control and emergency conservation activities of the Department of Agriculture, the emergency highway activities of the Department of Transportation, the disaster loan program of the Small Business Administration, and the flood control and coastal emergency activities of the Corps of Engineers.

The regular budget request for each of those agencies includes discretionary appropriations for these activities at the higher of the 1997 enacted amount or the 10-year average of nonemergency appropriations for each of the disaster assistance programs.

The contingent reserve is an attempt to anticipate, to the extent possible, the annual cost to the government of sudden, urgent, and unforseen requirements for natural and man-made disasters, and to avoid the necessity of emergency supplemental appropriations. These funds would be available for obligation only after the President designates them as emergency requirements and not until 15 days after the President notifies Congress of the designation. This built-in constraint is designed to give the Executive Branch a mechanism to respond to pressing disaster situations in a timely fashion while allowing the Congress the time to consider the proposal and take appropriate action. The designated amount would be transferred to the appropriate agency as needed. The appropriation language and budget presentation for this proposal is shown in the Funds Appropriated to the President chapter of the *Appendix*. The current emergency provision should be extended to cover emergency requirements that, in an extraordinary year, could exceed even the contingent amount.

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 cap adjustment was authorized because increases in revenue were expected to more than offset the increase in discretionary spending. This budget includes similar initiatives and cap adjustment authority (see the "Discretionary Sequestration Report"). However, rather than enact specific cap increase limits for specific purposes in the BEA, the Administration proposes a rule, similar to the current emergency requirements rule, that would allow the Congress and the President to designate appropriations as spending for savings initiatives and would require OMB to adjust the limits on discretionary spending (such as the previously enacted adjustments for continuing disability reviews). This would allow savings initiatives to be identified and funded as the opportunities arise and without needing to amend the BEA, when both the President and the Congress support the initiative.

Amend the asset sale scoring rule.—A provision of the BEA prohibits scoring the proceeds of asset sales as offsets to discretionary spending or PAYGO legislation, even where there is general agreement that selling the asset is good policy. The Credit Reform Act of 1990 effectively ended this practice for loan assets by scoring them at their cost in present value terms. Thus, the rule currently applies solely to the sale of real assets. Repealing the rule could create a scoring incentive to sell real assets at less than the long-term value to the government, because the proceeds would be scored in the year of the sale, but the loss in future income to the government would be realized over a period of many years. Therefore, the Administration proposes to replace the current provision of law with a scoring rule that would allow the sales proceeds to be scored, on a cash basis, only if they exceed the present value cost of continued ownership and operation.

Scoring capital asset acquisitions.—This Administration continues to work to improve planning and budgeting for the government's capital assets, including buildings, information technology, and a wide variety of equipment and other construction. These efforts are discussed in "Part II: Planning, Budgeting, and Acquisition of Capital Assets," of Chapter 6 of this volume. One of the principles stressed is full funding: budget authority sufficient to complete a useful segment of a capital project (or the entire project, if it is not divisible into useful segments) must be appropriated before any obligations for the useful segment (or project) may be incurred. In order to enforce this principle, the Administration proposes a new BEA scoring rule that would require an appropriations act to be scored for the estimated total budget authority necessary to complete a useful segment, even if the act actually provides only partial funding for a useful segment. The proposed rule is discussed in more detail in the Appendix to Part II of Chapter 6.

Mechanism to ensure balance in 2002.—The budget includes a mechanism to ensure that the President's plan reaches balance in 2002 under OMB or CBO assumptions. If OMB's assumptions prove correct, as the Administration expects, then the mechanism would not take effect. If, however, CBO proves correct—and the President and Congress cannot agree on how to close the gap through expedited procedures—then most of the President's tax cuts would sunset, and discretionary budget authority and identified entitlement programs would face an across-the-board limit.