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OMB SEQUESTRATION UPDATE REPORT  
TO THE PRESIDENT AND CONGRESS  
FOR FISCAL YEAR 2003

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EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET



THE DIRECTOR

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

August 19, 2002

The President  
The White House  
Washington, DC 20500

Dear Mr. President:

Enclosed please find the *OMB Sequestration Update Report to the President and Congress for fiscal year 2003*, as required by the Budget Enforcement Act of 1990 (BEA), as amended.

While the overall discretionary spending caps will expire at the end of fiscal year 2002, category caps still exist for transportation and environmental conservation activities. This report provides a presentation of those remaining category limits, as well as the Administration-supported limit for the Other Discretionary Category. It also provides the status of overall discretionary spending based on Congressional action to date.

The report also provides the status of pay-as-you-go legislation enacted to date. If this year ended with no further action on pay-as-you-go, a sequester of mandatory programs would be required. The Administration will work with Congress to ensure that no unintended sequesters of mandatory spending occur.

Sincerely,

A handwritten signature in black ink, appearing to read "M E Daniels Jr".

Mitchell E. Daniels, Jr.

Enclosure

Identical Letter Sent to The Honorable Richard Cheney  
and The Honorable J. Dennis Hastert

# TABLE OF CONTENTS

*Page*

## **Transmittal Letter**

<b>I. Overview .....</b>	<b>1</b>
<b>II. Discretionary Sequestration Report .....</b>	<b>3</b>
<b>III. Pay-As-You-Go Sequestration Report .....</b>	<b>13</b>

### **GENERAL NOTES**

1. All years referred to are fiscal years unless otherwise noted.
2. Details in the tables and text may not add to totals due to rounding.

# I. OVERVIEW

The Budget Enforcement Act of 1997 (BEA of 1997) extended and modified the expiring enforcement requirements of the Budget Enforcement Act of 1990 (BEA of 1990). The BEA of 1997 established limits, or “caps,” for discretionary spending and pay-as-you-go (PAYGO) requirements through 2002.

While the overall discretionary spending caps will expire at the end of September 2002, category caps still exist for transportation and environmental conservation activities. However, there currently is no estimate of a sequester against these caps as the BEA mechanisms necessary to enforce them also expire at the end of September. This report includes a presentation of those remaining category limits in 2003, as well as the Administration-supported limit for the Other Discretionary Category. The report also

provides the status of overall discretionary spending based on Congressional action to date.

The PAYGO requirement also expires at the end of 2002, but the BEA of 1997 extends the estimates for legislation that is enacted prior to September 30, 2002, and the PAYGO sequestration process through 2006. This report provides the status of PAYGO legislation based on laws reported on by OMB as of August 15, 2002. If this year ended with no further action on PAYGO, a sequester of mandatory programs at the maximum level achievable under current law would be required as shown in Table 7. The Administration will work with Congress to ensure that no unintended sequesters of mandatory spending occur.

## II. DISCRETIONARY SEQUESTRATION REPORT

The Budget Enforcement Act (BEA) requires that OMB issue reports after enactment of individual appropriations bills on the scoring of those bills and three times a year on the overall status of discretionary legislation. This report provides OMB's updated estimates, reflecting legislation for which OMB has issued reports as of August 15, 2002. As the BEA requires, the estimates rely on the same economic and technical assumptions as in the President's 2003 Budget, which the Administration transmitted to Congress on February 4, 2002.

Discretionary programs are funded annually through the appropriations process. The scorekeeping guidelines accompanying the BEA identify accounts with discretionary resources. The BEA limits—or caps—budget authority and outlays available for discretionary programs for each year through 2002. For 2001 and 2002, the BEA specified a single category for all discretionary spending. The Transportation Equity Act for the 21st Century (TEA-21) established two additional categories for highway and mass transit outlays for 1999 through 2003. The Department of the Interior and Related Agencies Appropriations Act, 2001, carved out a new category for conservation spending with budget authority and outlay limits for 2002 through 2006. In addition to specifying overall limits for the conservation category, that Act also specified levels of spending for six subcategories.

The statutory spending limits established by the BEA for the Other Discretionary

Category and the provisions governing their enforcement expire on September 30, 2002. Although legislation has not yet been enacted for extension of the BEA and new discretionary spending limits, the Administration remains committed to fiscal restraint and would support the continuation of the caps at acceptable levels. The Administration will support a discretionary cap for 2003 at the levels set in the House-passed Budget Resolution (H.Con.Res. 353), including a \$10 billion reserve for the war on terrorism.

The Administration has made fiscal discipline a priority—particularly during this time of war. An extension of the BEA at levels that restrain the explosive growth rates in spending when surpluses arrived four years ago is an important means to ensure this fiscal discipline.

OMB monitors compliance with existing discretionary spending limits throughout the year. Appropriations that cause a breach in the budget authority or outlay limits would trigger an across-the-board reduction (sequester) to eliminate that breach. The BEA, however, does not require that Congress appropriate the full amount available under the discretionary limits. Since the enforcement provisions of the BEA will expire on September 30, 2002, and since no caps have been specified for 2003, Table 1 summarizes historical changes to the caps from 1990 to 2002, and illustrates changes to the remaining 2003 caps resulting from the effects of 2002 supplemental appropriations.



























