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

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", written in a cursive style.

Mitchell E. Daniels, Jr.

Enclosure

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

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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.

Table 1. HISTORICAL SUMMARY OF CHANGES TO DISCRETIONARY SPENDING LIMITS
(In billions of dollars)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
TOTAL DISCRETIONARY													
Statutory Caps as set in OBRA 1990, OBRA 1993, 1997 Bipartisan Budget Agreement, and TEA-21	491.7	503.4	511.5	510.8	517.7	519.1	528.1	530.6	533.0	537.2	542.0	551.1	551.1
BA	491.7	503.4	511.5	510.8	517.7	519.1	528.1	530.6	533.0	537.2	542.0	551.1	551.1
OL	514.4	524.9	534.0	534.8	540.8	547.3	547.3	547.9	559.3	564.3	564.4	560.8	34.6
Adjustment to 1998 OBRA limits to reach discretionary spending limits included in the 1997 Bipartisan Budget Agreement	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
BA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
OL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Adjustments for changes in concepts and definitions	7.7	8.2	8.2	8.2	8.8	-0.6	-0.4	3.1	-0.2	2.8	-0.1	-3.3	N/A
BA	7.7	8.2	8.2	8.2	8.8	-0.6	-0.4	3.1	-0.2	2.8	-0.1	-3.3	N/A
OL	1.0	2.4	2.3	2.3	3.0	-0.5	-2.6	-2.8	-0.3	0.1	-0.1	-3.3	N/A
Adjustments for changes in inflation	-0.5	-5.1	-9.5	-5.1	-11.8	3.0	2.6	0.0	N/A	N/A	N/A	N/A	N/A
BA	-0.5	-5.1	-9.5	-5.1	-11.8	3.0	2.6	0.0	N/A	N/A	N/A	N/A	N/A
OL	-0.3	-2.5	-2.5	-5.8	-8.8	1.8	2.3	0.9	N/A	N/A	N/A	N/A	N/A
Adjustments for credit reestimates, IRS funding, debt forgive- ness, Arrearages, EITC, IMF, and CDRs	0.2	0.2	13.0	0.6	0.7	0.1	0.2	1.0	19.4	1.0	0.6	0.6	N/A
BA	0.2	0.2	13.0	0.6	0.7	0.1	0.2	1.0	19.4	1.0	0.6	0.6	N/A
OL	0.3	0.3	0.8	0.8	0.9	0.1	0.3	0.6	1.1	0.7	1.2	0.8	N/A
Adjustments for emergency requirements	0.9	8.3	4.6	12.2	7.7	5.1	9.3	5.7	31.9	43.6	20.0	46.9	N/A
BA	0.9	8.3	4.6	12.2	7.7	5.1	9.3	5.7	31.9	43.6	20.0	46.9	N/A
OL	1.1	1.8	5.4	9.0	10.1	6.4	8.1	7.0	22.9	35.8	20.5	39.1	N/A
Adjustment pursuant to Sec. 2003 of P.L. 104-191					-15.0	-0.1	-0.1		N/A	N/A	N/A	N/A	N/A
BA					-15.0	-0.1	-0.1		N/A	N/A	N/A	N/A	N/A
OL					-1.1	-3.5	-2.4	-1.5	N/A	N/A	N/A	N/A	N/A
Adjustments for special allowances: Discretionary new budget authority		3.5	2.9	2.9	2.9	2.9			N/A	N/A	3.2	0.3	N/A
BA		3.5	2.9	2.9	2.9	2.9			N/A	N/A	3.2	0.3	N/A
OL		1.4	2.2	2.6	2.7	1.1	0.5	0.1	N/A	N/A	N/A	N/A	N/A
Outlay allowance	2.6	1.7	0.5	1.0						0.8	2.4		N/A
BA	2.6	1.7	0.5	1.0						0.8	2.4		N/A
OL													
Subtotal, adjustments excluding Desert Shield/Desert Storm	1.1	19.3	23.6	14.3	-6.7	7.5	11.6	2.9	51.1	47.4	23.7	44.5	N/A
BA	1.1	19.3	23.6	14.3	-6.7	7.5	11.6	2.9	51.1	47.4	23.7	44.5	N/A
OL	3.9	5.9	8.8	10.0	6.8	5.4	6.3	12.3	23.7	37.3	24.0	36.6	N/A
Adjustments for Operation Desert Shield/Desert Storm	44.2	14.0	0.6	*	*				N/A	N/A	N/A	N/A	N/A
BA	44.2	14.0	0.6	*	*				N/A	N/A	N/A	N/A	N/A
OL	33.3	14.9	7.6	2.8	1.1				N/A	N/A	N/A	N/A	N/A
Rounding Adjustment	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.1	0.0		
BA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.1	0.0		
OL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A				
TEA-21 Adjustment (Net) ^{2 7}	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-0.9	-0.9	-0.9	-0.9	N/A
BA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-0.9	-0.9	-0.9	-0.9	N/A
OL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.1	2.6	5.2	7.1	0.5
Adjustment to reach spending limits mandated in P.L. 106-429 ³	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	95.9	N/A	N/A
BA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	95.9	N/A	N/A
OL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	58.6	N/A	N/A
Adjustment to reach spending limits mandated in P.L. 107-117 ⁴	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	134.5	N/A
BA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	134.5	N/A
OL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	133.1	N/A
Adjustment for conservation limits established by P.L. 106-291 ⁵	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.8	1.9
BA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.8	1.9
OL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.2	1.9
Total adjustments	45.3	33.2	24.2	14.3	-6.7	7.5	11.6	2.9	50.2	47.6	118.8	179.9	1.9
BA	45.3	33.2	24.2	14.3	-6.7	7.5	11.6	2.9	50.2	47.6	118.8	179.9	1.9
OL	37.2	20.8	16.4	12.8	7.9	5.4	6.3	12.3	24.9	40.0	87.8	178.0	2.4

Table 1. HISTORICAL SUMMARY OF CHANGES TO DISCRETIONARY SPENDING LIMITS—Continued
(In billions of dollars)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Preview Report spending limits ⁶	BA	537.0	536.6	535.7	525.1	511.0	526.6	533.5	583.2	584.8	660.8	731.0	1.9
	OL	551.6	545.7	550.4	547.6	548.7	552.7	560.2	584.2	604.2	652.2	738.8	37.0

N/A = Not Applicable
* \$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 equal to the aggregate amount of reductions in new budget authority and outlays for discretionary programs resulting from the provisions of the bill, other than emergency appropriations.

² Sec. 8101(a) of P.L. 105-178, the Transportation Equity Act for the 21st Century (TEA-21), which was signed by the President on June 6, 1998, established two new discretionary spending categories: Highway and Mass Transit. Sec. 8101(b) of TEA-21 provided for an offsetting adjustment in the existing discretionary spending limits.

³ Sec. 701 of P.L. 106-429, the Foreign Operations and Related Agencies Appropriations Act, 2001, included revised budget authority and outlay caps for 2001. In addition, this section provided for a budget authority rounding adjustment of 0.5 percent, and also prohibited OMB from making adjustments in the Final Sequestration Report for emergency requirements.

⁴ Division C, Section 101 of P.L. 107-117, the Department of Defense Appropriations Act, 2002, included revised budget authority and outlay caps for 2002. In addition, this section provided a budget authority technical estimating difference adjustment allowance of up to 0.12 percent of total appropriations.

⁵ Title VIII of P.L. 106-291, the Interior and Related Agencies Appropriations Act, 2001, created a new conservation category with limits on budget authority and outlays for 2002-2006. Figures include Highway, Mass Transit, and Conservation Categories only.

⁶ Reflects combined Defense Discretionary, Non-Defense Discretionary, Violent Crime Reduction, Highway Category, Mass Transit Category, and Conservation Category spending limits. 2003 figures include Highway, Mass Transit, and Conservation Categories only.
⁷ A March 14, 2002 budget amendment corrected an error in the tax revenues credited to the Highway category, which increased the Highway category outlay limit by \$161 million. Section 1402 of P.L. 107-206, the 2002 Emergency Supplemental Appropriations Act, set to zero the adjustments made to the Highway Category pursuant to Section 251(b)(1)(B) of the Budget Enforcement Act of 1997, as amended, and Section 8103(a)(5) of the Transportation and Equity Act for the 21st Century in the OMB 2003 Preview Report that was transmitted to the Congress on February 4, 2002.

Table 2. DISCRETIONARY SPENDING LIMITS

(In millions of dollars)

		2001	2002	2003
HIGHWAY CATEGORY				
Preview Report Highway Category Spending Limits	BA			
	OL	26,920	28,489	27,581
Adjustments for the Update Report:				
Adjustment to revise Preview Report RABA Adjustment for technical correction included in 3/14/02 budget amendment	BA	N/A	N/A	.....
	OL	N/A	N/A	161
Adjustment to reset Preview Report RABA Adjustment mandated in 2002 supplemental appropriations act, P.L. 107-206	BA	N/A	N/A	.....
	OL	N/A	N/A	1,358
Update Report Highway Category Spending Limits	BA			
	OL	26,920	28,489	29,100
Anticipated Adjustments for the Final Sequestration Report:				
No Adjustments	BA	N/A	N/A	N/A
	OL	N/A	N/A	N/A
Anticipated Final Sequestration Report Highway Category Spending Limits	BA			
	OL	26,920	28,489	29,100
MASS TRANSIT CATEGORY				
Preview Report Mass Transit Category Spending Limits	BA			
	OL	4,639	5,275	6,030
Adjustments for the Update Report:				
No Adjustments	BA	N/A	N/A	.....
	OL	N/A	N/A	.....
Update Report Mass Transit Category Spending Limits	BA			
	OL	4,639	5,275	6,030
Anticipated Adjustments for the Final Sequestration Report:				
No Adjustments	BA	N/A	N/A	.....
	OL	N/A	N/A	.....
Anticipated Final Sequestration Report Mass Transit Category Spending Limits	BA			
	OL	4,639	5,275	6,030
CONSERVATION CATEGORY				
Preview Report Conservation Category Spending Limits	BA	N/A	1,735	1,922
	OL	N/A	1,469	1,872
Federal and State Land and Water Conservation Fund subcategory	BA	N/A	540	540
State and Other Conservation subcategory	BA	N/A	275	300
Urban and Historic Preservation subcategory	BA	N/A	160	173
Payments in Lieu of Taxes subcategory	BA	N/A	50	50
Federal Deferred Maintenance subcategory	BA	N/A	150	150
Coastal Assistance subcategory	BA	N/A	440	482
Unallocated	BA	N/A	120	227
Adjustments for the Update Report:				
No Adjustments	BA	N/A	.....	.....
	OL	N/A	.....	.....
Update Report Conservation Category Spending Limits	BA	N/A	1,735	1,922
	OL	N/A	1,469	1,872
Anticipated Adjustments for the Final Sequestration Report:				
No Adjustments	BA	N/A	.....	.....
	OL	N/A	.....	.....
Anticipated Final Sequestration Report Conservation Category Spending Limits	BA	N/A	1,735	1,922
	OL	N/A	1,469	1,872

Table 2. DISCRETIONARY SPENDING LIMITS—Continued

(In millions of dollars)

		2001	2002	2003
OTHER DISCRETIONARY SPENDING¹				
Preview Report Other Discretionary Spending Limits	BA	660,803	704,548	N/A
	OL	620,606	696,092	N/A
Adjustments for the Update Report:				
Emergency Appropriations Enacted in P.L. 107-206, the 2002 Supplemental Appropriations act	BA	N/A	24,712	N/A
	OL	N/A	7,462	N/A
Subtotal, Adjustments for the Update Report	BA	N/A	24,712	N/A
	OL	N/A	7,462	N/A
Update Report Other Discretionary Spending Limits	BA	660,803	729,260	N/A
	OL	620,606	703,554	N/A
Anticipated Adjustments for the Final Sequestration Report:				
Adjustment to reach Administration-proposed spending level ¹	BA	N/A	N/A	757,154
	OL	N/A	N/A	755,316
Adoption Incentive Payments	BA	N/A	N/A	20
	OL	N/A	N/A	2
Subtotal, Adjustments for the Final Sequestration Report	BA	.....	.....	757,174
	OL	.....	.....	755,318
Anticipated Final Sequestration Report				
Other Discretionary Spending Limits¹	BA	660,803	729,260	757,174
	OL	620,606	703,554	755,318
TOTAL DISCRETIONARY SPENDING				
Preview Report Total Discretionary Spending Limits	BA	660,803	706,283	1,922
	OL	652,165	731,325	35,483
Update Report Total Discretionary Spending Limits	BA	660,803	730,995	1,922
	OL	652,165	738,787	37,002
Anticipated Final Sequestration Report				
Total Discretionary Spending Limits¹	BA	660,803	730,995	759,096
	OL	652,165	738,787	792,320

N/A = Not Applicable.

¹ 2003 Other Discretionary limit does not exist; amounts shown reflect the Administration proposal for a new Other Discretionary cap that matches the House-passed budget resolution, including a \$10 billion reserve for the war on terrorism.

Adjustments to Discretionary Limits.—Table 2 shows how adjustments pursuant to section 251(b) of the BEA affect the discretionary limits for 2001 through 2003. Table 2 also includes the spending limits anticipated for the Final Sequestration Report, and makes an adjustment to that effect that substitutes the House-passed Budget Resolution 2003 spending levels for the Other Discretionary Category limit. The Administration cannot determine the actual adjustments or subsequent spending limits that will be included in the 2003 Final Sequestration Report until all the 2003 appropriations bills and an extension of the BEA caps are enacted.

Section 251(b)(2) of the BEA authorizes certain adjustments after the enactment of appropriations. Table 2 includes those adjustments that can be made now due to legislation enacted to date, specifically adjustments for enacted 2002 supplemental appropriations. The section 251(b)(2) adjustments include:

Emergency Appropriations.—These adjustments include funding for amounts that the President and Congress designated as “emergency requirements.” P.L. 107-206, the 2002 Supplemental Appropriations for Further Recovery From and Response to Terrorist Attacks on the United States, included \$24.7 billion in emergency appropriations designated as

such by the President. Additionally, P.L. 107-206 included \$5.1 billion in contingent emergency appropriations, all of which were not previously requested by the President as emergency. Furthermore, the legislation requires that the President designate the entire \$5.1 billion as an emergency within 30 days of enactment of the bill. The President announced on August 13, 2002, that he would not designate the \$5.1 billion as emergency requirements. As a result, OMB has not adjusted the 2002 caps for this portion of the P.L. 107-206 emergency appropriations.

Anticipated Additional Adjustments That Would Be Made Upon Final Congressional Action.—The only anticipated adjustment under section 251(b)(2) is for Adoption Incentive Payments (AIPs). The Adoption and Safe Families Act of 1997 authorizes bonus payments to States that increase the number of adoptions from the foster care system. It also provides for a discretionary cap adjustment for appropriations up to \$20 million annually through 2003, because the cost of adoption bonuses are assumed to be offset by reductions in mandatory foster care costs. Both the Administration-proposal and the Senate Committee version of the 2003 Labor, Health and Human Services, and Education Appropriations Bill provide a funding level for AIPs that use the entire allowable adjustment of \$20 million in budget authority, which is reflected as the adjustment shown. The House version of the bill has not yet been drafted.

In the past, adjustments have also been made for Continuing Disability Reviews

(CDRs) and the Earned Income Tax Credit (EITC) Compliance Initiative. The BEA allowed such adjustments through 2002. The Administration proposed to continue funding for each program as part of base discretionary funding and not as a cap adjustment. The Senate has followed suit in both cases, and the House has done so for the EITC compliance initiative.

Revision of 2003 Highway Category Spending Limits.—Table 3 reverses the adjustments made to the highway category obligation level and outlay cap in the 2003 Preview Report, as mandated by section 1402 of P.L. 107-206. Section 8101 of TEA-21 requires OMB to revise the highway spending limits for changes in actual and estimated federal gasoline tax receipts, relative to the receipt levels assumed in TEA-21. For 2003, this TEA-21 formula estimate produced a nearly -\$5.0 billion downward adjustment in the highway obligation limitation. Part of this reduction was due to an error in the calculation of tax revenue and was corrected in a budget amendment transmitted on March 14, 2002, which reduced the downward adjustment to -\$4.4 billion. Absent any other correction, the remaining portion of the downward adjustment still would have significantly reduced spending on highway programs. To avoid the effects of this reduction, the Administration and Congress agreed to reverse the adjustment made to the highway limits in the preview report, and to adjust the funding to the affected programs accordingly.

Table 3. REVISED ADJUSTMENTS TO THE HIGHWAY AND MASS TRANSIT CATEGORIES FOR CHANGES IN RECEIPTS AND TECHNICAL ASSUMPTIONS

(In millions of dollars)

	2001	2002	2003
HIGHWAY CATEGORY			
Obligation Limitation Assumed in 2003 Preview Report	30,216	32,310	23,268
Adjustments for the Update Report:			
Adjustment to revise Preview Report RABA Adjustmen for technical correction included in 3/14/02 budget amendment ¹	N/A	N/A	596
Adjustment mandated by Section 1402 of P.L. 107-206, the 2002 Supplemental Appropriations act ²	N/A	N/A	4,369
2003 Update Report Revised Obligation Limitation	30,216	32,310	28,233

Table 3. REVISED ADJUSTMENTS TO THE HIGHWAY AND MASS TRANSIT CATEGORIES FOR CHANGES IN RECEIPTS AND TECHNICAL ASSUMPTIONS—Continued

(In millions of dollars)

	2001	2002	2003
Outlay Limits in 2003 Preview Report	26,920	28,489	27,581
Adjustments for the Update Report:			
Adjustment to revise Preview Report RABA Adjustment for technical correction included in 3/14/02 budget amendment	N/A	N/A	161
Adjustment mandated by Section 1402 of P.L. 107-206, the 2002 Supplemental Appropriations act ²	N/A	N/A	1,358
Revised Outlay Limits in 2003 Update Report	26,920	28,489	29,100
MASS TRANSIT CATEGORY			
Outlay Limits in 2003 Preview Report	4,639	5,275	6,030
Adjustments for the Update Report:			
No Adjustments	N/A	N/A	.....
Revised Outlay Limits in 2003 Update Report	4,639	5,275	6,030

¹This adjustment to the Highway category accounts for a failure to credit \$596 million in receipts to the Highway category. This error was discovered after the 2003 Budget and Preview Report were released. A budget amendment was transmitted on March 14, 2002 to correctly credit the Highway category with the limitations.

²Section 1402 of P.L. 107-206, the 2002 Emergency Supplemental Appropriations Act, set to zero the adjustments made to the Highway Category pursuant to Section 251(b)(1)(B) of the Budget Enforcement Act of 1997, as amended, and Section 8103(a)(5) of the Transportation and Equity Act for the 21st Century in the OMB 2003 Preview Report that was transmitted to the Congress on February 4, 2002.

Summary of 2002 Discretionary Appropriations.—Table 4 summarizes the status of enacted 2002 discretionary appropriations, relative to the discretionary caps. Enacted budget

authority for all categories, including those amounts enacted in P.L. 107-206, are within the specified cap levels for 2002.

Table 4. SUMMARY OF 2002 DISCRETIONARY APPROPRIATIONS

(In millions of dollars)

	BA	Outlays
Highway Category		
Adjusted discretionary spending limits		28,489
Total enacted		28,489
Spending over/under (-) limits
Mass Transit Category		
Adjusted discretionary spending limits		5,275
Total enacted		5,272
Spending over/under (-) limits		-3

Table 4. SUMMARY OF 2002 DISCRETIONARY APPROPRIATIONS—Continued

(In millions of dollars)

	BA	Outlays
Conservation Spending Category		
Adjusted discretionary spending limits	1,735	1,469
Total enacted	1,733	1,469
Spending over/under (-) limits	-2	.....
Other Discretionary Spending		
Adjusted discretionary spending limits	729,260	703,554
Total enacted	728,320	699,734
Spending over/under (-) limits	-940	-3,820
Total Discretionary Spending—All Categories		
Adjusted discretionary spending limits	730,995	738,787
Total enacted	730,053	734,964
Spending over/under (-) limits	-942	-3,823

Status of 2003 Discretionary Appropriations.—Table 5 shows the President's request and preliminary OMB scoring of the latest House and Senate action for the 13 annual appropriations bills. Since there are no caps

on total discretionary spending in 2003, appropriations are shown relative to the Administration-supported limit on other discretionary spending.

Table 5. STATUS OF 2003 APPROPRIATIONS ACTION

(In millions of dollars)

	Request		House		Senate			
	BA	Outlays	BA	Outlays	BA	Outlays		
TOTAL DISCRETIONARY								
Agriculture and Rural Development	17,106	17,625	17,676	17,735	C	17,956	17,972	C
Commerce, Justice, State and the Judiciary	40,385	43,551	40,333	43,104	A	43,237	43,976	C
Defense	366,582	348,993 ¹	354,428	339,083	F	355,127	338,982	F
District of Columbia	379	375	517	581	A	517	510	C
Energy and Water Development	25,492	25,422	26,022	25,742	S	26,274	25,894	C
Foreign Operations	16,114	16,308	16,350	16,481	A	16,363	16,312	C
Interior and Related Agencies	18,947	19,410	19,724	19,899	F	19,334	19,690	C
Labor, HHS, and Education	130,515	123,893 ²	129,902	125,701	A ²	134,450	125,385	C ²
Legislative	3,430	3,552	3,404	3,516	F	3,434	3,557	F
Military Construction	9,542	10,245	10,082	9,989	F	10,620	10,064	F
Transportation and Related Agencies ..	18,834	55,904	17,966	60,767	A	20,043	59,107	C
Mass Transit BA (non-add)	1,445 ³	.....	1,445 ³	.....	A ³	1,545 ³	.....	C ³
Treasury, Postal Service, and General Government	18,004	17,687	18,502	17,932	F	18,504	18,097	C

Table 5. STATUS OF 2003 APPROPRIATIONS ACTION—Continued
(In millions of dollars)

	Request		House		Senate	
	BA	Outlays	BA	Outlays	BA	Outlays
Veterans Affairs, HUD, Independent Agencies	92,226	98,137	91,841	97,713 A	92,712	98,328 C
Unallocated	1,540	1,383	.....	271 A	10,000	12,369 A
Subtotal, Discretionary Spending, excluding P.L. 107-206	759,096	782,485	746,747	778,514	768,571	790,243
Total, 2003 effects of the 2002 supplemental appropriations act, P.L. 107-206		9,835	.....	9,835	.....	9,835
Total, Discretionary Spending	759,096	792,320	746,747	788,349	768,571	800,078
Estimated Final Sequestration Report Discretionary Spending Limits	759,096	792,320	759,096	792,320	759,096	792,320
CONGRESSIONAL ACTION OVER/ UNDER (-) LIMITS			-12,349	-3,971	9,475	7,758

Key: S= Subcommittee-Reported bill; C= Committee-Reported bill; F= Bill Passed by House or by Senate; CN= Conference Action has Occurred; E= Enacted bill; A= current 302(b) allocation.

NOTE: OMB scoring of latest House and Senate action is preliminary.

¹ The Administration's request for Defense includes a \$10 billion reserve for the war on terrorism.

² Estimates include BA and associated outlays for Adoption Incentive Payments. The House 302(b) allocation amount excludes a \$1 billion reserve the House Resolution created for special education programs (IDEA).

³ The Administration has proposed and the House is likely to propose \$1.45 billion in Mass Transit BA, while the Senate has proposed over \$1.5 billion in Mass Transit BA. However, this authority does not count towards the Mass Transit nor any other cap. The Administration has excluded this BA from its 2003 Discretionary totals and it is displayed here as a non-add line.

Comparison of OMB and CBO Discretionary Limits.—Section 254(d)(5) of the BEA requires that this report explain the differences between OMB and CBO estimates for discretionary spending limits. Table 6 compares OMB and CBO limits for 2002 and 2003. CBO uses the discretionary limits from OMB's preview report as a starting point for adjustments in its sequestration update report.

The only existing difference between the OMB and CBO estimates of the spending limits is \$641 million in the 2002 outlay limits, which is due to OMB generally assuming faster spendout of the emergency funding enacted in P.L. 107-206. More detailed explanations of these differences are available in the separate seven-day-after report for the supplemental, which was issued on August 19, 2002.

Table 6. COMPARISON OF OMB AND CBO DISCRETIONARY SPENDING LIMITS
(In millions of dollars)

	2001	2002	2003
Highway Category			
CBO Update Report limits:			
BA			
OL	26,920	28,489	29,100
OMB Update Report limits:			
BA			
OL	26,920	28,489	29,100

Table 6. COMPARISON OF OMB AND CBO DISCRETIONARY SPENDING LIMITS—Continued

(In millions of dollars)

	2001	2002	2003
Difference:			
BA			
OL			
Mass Transit Category			
CBO Update Report limits:			
BA			
OL	4,639	5,275	6,030
OMB Update Report limits:			
BA			
OL	4,639	5,275	6,030
Difference:			
BA			
OL			
Conservation Category			
CBO Update Report limits:			
BA	N/A	1,735	1,922
OL	N/A	1,469	1,872
OMB Update Report limits:			
BA	N/A	1,735	1,922
OL	N/A	1,469	1,872
Difference:			
BA	N/A	N/A	
OL	N/A	N/A	
Other Discretionary			
CBO Update Report limits:			
BA	660,803	729,260	N/A
OL	620,606	702,913	N/A
OMB Update Report limits:			
BA	660,803	729,260	N/A
OL	620,606	703,554	N/A
Difference:			
BA			N/A
OL		641	N/A
Total Discretionary Spending Limits			
CBO Update Report limits:			
BA	660,803	730,995	1,922
OL	652,165	738,146	37,002
OMB Update Report limits:			
BA	660,803	730,995	1,922
OL	652,165	738,787	37,002
Difference:			
BA			
OL		641	

III. PAY-AS-YOU-GO SEQUESTRATION REPORT

The BEA requires that OMB issue reports after enactment of individual bills and three times a year on the overall status of pay-as-you-go (PAYGO) legislation. This report provides OMB's updated estimates, reflecting legislation reported on by OMB as of August 15, 2002. As the BEA requires, the estimates are based on the economic and technical assumptions in the President's 2003 Budget, which the Administration transmitted to Congress on February, 4, 2002.

PAYGO enforcement covers all direct spending and receipts legislation. The BEA defines direct spending as entitlement authority, the food stamp program, and budget authority provided by laws other than appropriations acts.

The BEA requires that, in total, receipts and direct spending legislation not result in a net cost in any year. If such legislation yields a net cost, and if the President and Congress do not fully offset it by other legislative savings, the law requires a sequester of non-exempt direct spending programs.

The BEA requires that OMB submit a report to Congress that estimates the change in outlays or receipts for the current year, the budget year, and each outyear resulting

from enactment of PAYGO legislation. The estimates determine whether the PAYGO requirement is met. The law requires OMB to maintain a "scorecard" that shows the cumulative net cost of such legislation.

Table 7 presents OMB estimates of PAYGO legislation reported on by OMB as of August 15, 2002. In total, the current scorecard shows net costs of \$2.2 billion for 2002 and \$123.4 billion for 2003. At the end of this session of Congress, OMB will determine the need for sequestration by combining the 2002 and 2003 totals. For legislation reported on by OMB as of August 15, 2002, this calculation yields a net cost of \$125.6 billion, indicating that a 100 percent sequester would be required for 2003 if there are no further changes to current law. However, the maximum savings achievable from a sequester in 2003 is only \$31.1 billion. In recent years, the PAYGO constraints have been skirted. For 2002, net costs of \$130.3 billion were removed from the PAYGO scorecard. Since 1998, net costs totaling \$258.0 billion have been exempted or removed from the scorecard or designated as emergencies. The Administration will work with Congress to ensure that no unintended sequesters of spending occur.

Table 7. NET COST OF PAY-AS-YOU-GO LEGISLATION REPORTED ON BY OMB AS OF AUGUST 15, 2002¹
(In millions of dollars)

Report Number	Act Number	Act Title	2002	2003	2004	2005	2006	2002-2006
Pay-as-you-go balances in the 2003 Preview Report:								
		OMB estimate		110,694	129,857	130,571	134,698	505,820
		CBO estimate		109,985	127,476	126,507	139,310	503,278
Legislation enacted in the 2nd session of the 107th Congress:								
574	P.L. 107-139 S. 1762	Student Loan Interest Rate Amendments	-180	345	875	1,005	995	3,040
		OMB estimate	-180	345	875	1,005	995	3,040
575	P.L. 107-138 H.R. 1913	Acoma Indian Ownership Rights		2				2
		OMB estimate		2				2
576	P.L. 107-147 H.R. 3090	Job Creation and Worker Assistance Act ²	46,538	36,868	29,032	-3,001	-20,714	88,723
		OMB estimate	46,538	36,868	29,032	-3,001	-20,714	88,723
		CBO estimate	50,869	42,922	29,108	3,571	-16,115	110,355
577	P.L. 107-171 H.R. 2646	Farm Security and Rural Investment Act of 2002	2,384	10,195	11,453	11,065	9,924	45,021
		OMB estimate	2,384	10,195	11,453	11,065	9,924	45,021
		CBO estimate	1,613	8,406	9,854	10,212	9,867	39,952
578	P.L. 107-181 H.R. 4156	Clergy Housing Allowances Clarification Act	*	-1	-2	-2	-2	-7
		OMB estimate	*	-1	-2	-2	-2	-7
		CBO estimate			-1	-1	-2	-4
579	P.L. 107-195 H.R. 4560	Spectrum Auction Reform Act		2,150	3,150	-3,900	-3,850	-2,450
		OMB estimate		2,150	3,150	-3,900	-3,850	-2,450
		CBO estimate		775	1,300	1,525	-2,200	1,400
580	P.L. 107-196 S.2431	Mychal Judge Police and Fire Chaplains Public Safety Officers' Benefit Act	2	*	*	*	*	2
		OMB estimate	2	*	*	*	*	2
		CBO estimate						
581	P.L.107-188 H.R. 3448	Public Health Security and Bioterrorism Preparedness and Response Act		*	*	*	*	
		OMB estimate		*	*	*	*	
		CBO estimate		1	1	1	1	4
n/a	P.L.107-206 H.R. 4775	2002 Supplemental Appropriations Act						
		OMB estimate						
		CBO estimate		60	60	70	70	260
Subtotal, legislation enacted in the 2nd session of the 107th Congress (including emergency):								
		OMB estimate	48,744	49,559	44,508	5,167	-13,647	134,331
		CBO estimate	52,304	52,511	41,197	16,383	-7,384	155,011
Remove amounts designated as emergency:								
		Job Creation and Worker Assistance Act ²	-46,538	-36,868	-29,032	3,001	20,714	-88,723
		OMB estimate	-46,538	-36,868	-29,032	3,001	20,714	-88,723
		CBO estimate	-50,869	-42,922	-29,108	-3,571	16,115	-110,355

Table 7. NET COST OF PAY-AS-YOU-GO LEGISLATION REPORTED ON BY OMB AS OF AUGUST 15, 2002¹—Continued
(In millions of dollars)

Report Number	Act Number	Act Title	2002	2003	2004	2005	2006	2002-2006
Total, legislation enacted in the 2nd session of the 107th Congress (excluding emergency):								
		OMB estimate	2,206	12,691	15,476	8,168	7,067	45,608
		CBO estimate	1,435	9,589	12,089	12,812	8,731	44,656
Total, current balances:								
		OMB estimate	2,206	123,385	145,333	138,739	141,765	551,428
		CBO estimate	1,435	119,574	139,565	139,319	148,041	547,934
		OMB balance for sequester³					125,591	

¹ Excludes bills with impact of \$500,000 or less in each fiscal year 2002 through 2006 under both OMB and CBO scoring.

² This Act was designated as emergency and therefore, is exempt from the pay-as-you-go scorecard.

³ The maximum savings achievable from a sequester in 2003 is only \$31,070 million.

Table 8. PAY-AS-YOU-GO LEGISLATION WITH IMPACT OF \$500,000 OR LESS ENACTED IN 2002

2nd Session of the 107th Congress

Public Law Number	Act Number	Act Title
P.L. 107-122	S. 1793	Higher Education Relief Opportunities for Students Act
P.L. 107-150	H.R. 1892	Family Sponsor Immigration Act
P.L. 107-155	H.R. 2356	Bipartisan Campaign Reform Act
P.L. 107-170	H.R. 4167	Family Farmer Bankruptcy Extension Act
P.L. 107-173	H.R. 3525	Enhanced Border Security and Visa Entry Reform Act
P.L. 107-174	H.R. 169	Notification and Federal Employee Antidiscrimination and Retaliation Act of 2002
P.L. 107-185	H.R. 1840	To Extend Eligibility for Refugee Status to Unmarried Sons and Daughters of Certain Vietnamese Refugees
P.L. 107-197	H.R. 3275	To Implement the International Convention for the Suppression of Terrorist Bombings and for other purposes
P.L. 107-201	S. 2594	Support of American Eagle Silver Bullion Program Act
P.L. 107-202	H.R. 2362	Benjamin Franklin Tercentenary Commission Act
P.L. 107-205	H.R. 3487 ¹	Nurse Reinvestment Act
P.L. 107-207	H.R. 2175	Born-Alive Infants Protection Act
P.L. 107-208	H.R. 1209	Child Status Protection Act

¹ OMB does not consider this bill as subject to pay-as-you-go requirements; CBO does.

Pending Legislation.—The Sarbanes-Oxley Act of 2002 and the Trade Act of 2002 were signed into law, but not yet reported on by OMB as of August 15, 2002. Table 9 presents OMB's preliminary estimates of these bills. In addition, Congress completed action on two additional PAYGO bills, but they have not yet been signed into law. These bills are the

James Peak Wilderness, Wilderness Study, and Protection Area Act (H.R. 1576) and the Great Smoky Mountains National Park Natural Gas Pipelines Rights-of-Way Permit Act (H.R. 3380). Both OMB and CBO estimate that these bills would have a negligible PAYGO impact.

Table 9. PRELIMINARY NET COST IMPACT OF PAY-AS-YOU-GO LEGISLATION NOT YET REPORTED ON BY OMB AS OF AUGUST 15, 2002

(In millions of dollars)

Act Number	Act Title	2002	2003	2004	2005	2006	2002-2006
P.L.107-204 (H.R. 3763)	Sarbanes-Oxley Act of 2002		-7	-5			-12
P.L.107-210 (H.R. 3009)	Trade Act of 2002	141	1,521	1,589	2,867	1,960	8,078

Comparison with CBO Estimates.—The BEA requires that OMB explain differences with CBO estimates of enacted PAYGO legislation. Table 7 shows the CBO estimate for each Act as it was reported in CBO's PAYGO bill reports. For legislation enacted so far in the 2nd session of the 107th Congress, OMB estimates a net cost of \$134.3 billion for 2002 through 2006, while CBO estimates a net cost of \$155.0 billion for the same period. OMB's estimate is \$20.7 billion lower than CBO largely due to scoring differences in pricing of the Job Creation and Worker Assistance Act. The

differences largely result from different revenue baselines and estimating models. However, the cost estimates for this bill are not retained on the PAYGO scorecard, because they were designated as emergency under the BEA. Excluding this emergency requirement, OMB's cost estimate is \$1.0 billion higher than CBO principally due to scoring differences for the Farm Security and Rural Investment Act and the Spectrum Auction Reform Act. OMB's cost estimate for the Farm Act is \$5.1 billion higher than CBO largely due to differing assumptions about prices and loan rates for farm

income support payments to producers. This higher estimate is partly offset by OMB's lower estimate for the Spectrum Auction Reform Act. OMB's cost estimate for this Act is \$3.9 billion

lower than CBO due to different assumptions about baseline receipts, the timing of replacement auctions, and the increase in value of the spectrum resulting from delay.