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EXPLANATION OF THE BALANCED BUDGET AND
EMERGENCY DEFICIT CONTROL ACT OF 1985--PUBLIC LAW 99-177
(THE GRAMM-RUDMAN-HOLLINGS ACT)

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ABSTRACT

The report explains briefly the major features of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177), commonly referred to as the Gramm-Rudman-Hollings Act. Following a short overview of the deficit reduction process, the report outlines the deficit control timetable for each of fiscal years 1987-1991 (and the accelerated timetable for fiscal year 1986), describes the procedures for eliminating excess deficits, discusses how to compute the required spending reductions, and summarizes the sequestration of funds for fiscal year 1986. The report also identifies the programs exempted from emergency deficit reduction procedures and those that have special rules for making reductions.

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EXPLANATION OF THE BALANCED BUDGET AND
EMERGENCY DEFICIT CONTROL ACT OF 1985--PUBLIC LAW 99-177
(THE GRAMM-RUDMAN-HOLLINGS ACT)

I. OVERVIEW OF THE DEFICIT REDUCTION PROCESS 1/

The Balanced Budget and Emergency Deficit Control Act of 1985 (the Gramm-Rudman-Hollings Act), Public Law 99-177, provides for annual reductions in the budget deficit from \$171.9 billion in fiscal year 1986 to zero in fiscal year 1991. The Act establishes procedures to reduce deficits to the annual maximum levels through the mandatory sequestration of funds.

The amount and percentage of required reduction is determined by the Comptroller General on the basis of a joint OMB/CBO report estimating the fiscal year's deficit, expected economic conditions, and the budget base of accounts and programs.

The Comptroller General issues a report setting forth the amount of reduction to be made in each nondefense account and in each defense program, project, and activity. The total reduction is equally divided between defense and nondefense programs (with half of reductions in retirement cost-of-living increases listed as defense reductions). Except for programs with special rules, equal percentage reductions are made within each of these categories, so that all defense programs are reduced by a uniform percentage and nondefense programs are reduced by their own uniform percentage. The rules for computing the reductions are spelled out in this report.

The President is required to implement, through a sequestration order, the reductions specified by the Comptroller General. With the exception of some limited discretion with respect to fiscal 1986 defense programs, the President is not permitted to alter the reductions prescribed by the Comptroller General.

The OMB/CBO and GAO reports are issued twice each year, in August and in October; the President issues an initial sequestration order on September 1 and a final order on October 15. Congress could enact deficit-reduction legislation in the intervening period to diminish or eliminate sequestration.

1/ This report will be revised as necessary to take into account any significant developments affecting the operation of the Gramm-Rudman-Hollings Act.

A number of programs (including interest, social security, veterans' compensation and pensions, medicaid, AFDC, SSI, WIC, and food stamps) are not subject to the sequestration. In addition, certain programs would be subject to limited sequestration.

The sequestration process and related restrictions may be suspended by Congress in case of recession; they would not apply in wartime.

The Act establishes fallback procedures in the event that the sequestration process is invalidated by the courts. The fallback provides for expedited congressional consideration of a measure triggering the sequestration process.

The Act bars the President from submitting a budget with a deficit that is greater than the maximum level for the fiscal year. It also bars Congress from considering any budget resolution with a deficit in excess of the maximum level.

The Act makes a number of changes in the budget process. It removes social security from the federal budget (except for computation of the excess deficit) but places all other off-budget entities in the budget. It accelerates the timetable for congressional budget action and strengthens the enforcement of congressional budget decisions.

II. MAXIMUM DEFICIT LEVELS

The maximum deficit for each fiscal year from 1986 through 1991 is:

| | |
|---------|-----------------|
| FY 1986 | \$171.9 billion |
| FY 1987 | \$144 billion |
| FY 1988 | \$108 billion |
| FY 1989 | \$ 72 billion |
| FY 1990 | \$ 36 billion |
| FY 1991 | \$ 0 billion |

The deficit set forth in the budget submitted by the President and in the budget resolution adopted by Congress is not to exceed the maximum level for that fiscal year.

If the deficit is estimated (according to the procedures of the Act to exceed the maximum level by \$10 billion in 1987-1990, special deficit reduction requirements are to be triggered. These requirements would be triggered by any excess deficit for the 1986 or the 1991 fiscal years.

III. MODIFIED PROCEDURES FOR FISCAL YEAR 1986

Because the 1986 fiscal year is already in progress, the Act has a somewhat compressed timetable for the year.

The joint OMB/CBO report and the report of the Comptroller General which identify any excess deficit, calculate the base from which reductions are to be made, and specify the dollar and percentage reductions, were issued as scheduled in January. The President's sequestration order was issued as scheduled on February 1, at which time the affected budget authority and other funds were withheld from obligation. The final sequestration order cancelling the budget authority is to take effect March 1, 1986.

The maximum deficit is set at \$171.9 billion. The amount to be sequestered would be 7/12 of the deficit in excess of this amount. However, the maximum spending reduction for fiscal 1986 is \$11.7 billion, regardless of the amount of excess deficit.

Cost-of-living pension increases scheduled to take effect January 1, 1986 have been suspended until March 1. These increases would be paid retroactively to the extent that they exceed the required reductions.

Section VII of this report discusses more fully the actions taken with respect to fiscal year 1986.

IV. DEFICIT CONTROL TIMETABLE

The timetable for fiscal year 1986 (the current fiscal year) differs from that of subsequent years. Some of the steps are omitted in fiscal year 1986, and others occur later in the fiscal year.

| | <u>FY 1986</u> | <u>FY 1987-91</u> | |
|----|----------------|-------------------|---|
| 1. | Jan. 15 | Aug. 20 | OMB/CBO deficit and sequestration report to GAO |
| 2. | Jan. 20 | Aug. 25 | GAO report to President and Congress on deficit and sequestration amounts |
| 3. | Feb. 1 | Sept. 1 | President's initial sequestration order based on GAO report |
| 4. | February | September | Congress may consider deficit reductions under regular procedures |
| 5. | March 1 | Oct. 1 | President's order takes effect. In fiscal 1986, the budget authority and other funds are cancelled on March 1; in subsequent years, these funds are withheld from obligation as of October 1. |
| 6. | | Oct. 5 | Revised OMB/CBO report to take account of actions since Aug. 20 report |
| 7. | | Oct. 10 | Revised GAO report to President |
| 8. | | Oct. 15 | Final sequestration order takes effect and funds are cancelled |
| 9. | April 1 | Nov. 15 | GAO issues compliance report |

V. ELIMINATION OF EXCESS DEFICITS

The Act provides a series of steps for estimating the deficit for each fiscal year and for sequestering funds to eliminate any excess deficit. The process is effective--but with modified procedures--for the current fiscal year (fiscal year 1986).

The numbered steps set forth below correspond to the sequence of steps in the deficit control timetable.

1. OMB/CBO. The deficit reduction process begins with a joint OMB/CBO report issued in August (except for fiscal year 1986) estimating the deficit for the ensuing fiscal year (in fiscal 1986, for the fiscal year in progress.) This report estimates the expected rate of economic growth and whether (for all years except fiscal years 1986 and 1991) the deficit will be more than \$10 billion in excess of the maximum level.

If the OMB and CBO directors cannot agree on common estimates, they average their estimates for purposes of the deficit reduction process.

The OMB/CBO report also estimates for each nondefense account and for each defense program, project, and activity (PPA) the base from which reductions are to be taken and the dollars and percentages by which reductions are to be made to lower the estimated deficit to the maximum level.

Budget Base. In computing the required reductions, the August OMB/CBO report shall use a budget base that assumes:

- for revenues, that current law will continue for the fiscal year, and that (except for certain excise taxes) expiring provisions will terminate as scheduled;
- for entitlements, that current law will continue and expiring laws will expire (except for CCC price support programs which are assumed to continue at current rates);
- for annual appropriations, the amounts enacted for the fiscal year, or if the appropriation has not been enacted yet, the amounts appropriated for the prior year;
- for federal pay, that statutory adjustments will be as recommended by the President, but that these adjustments will not reduce pay rates;
- for medicare inpatient hospital services, the most recent HCFA regulations.

Deferrals proposed by the President are not to be taken into account in computing the base budget.

2. Report by the Comptroller General. The Comptroller General reviews the OMB/CBO report and "with due regard for the data, assumptions, and methodologies" in it, issues a report identifying the excess deficit, and (if the excess is more than \$10 billion in FY 1987-1990, and more than zero in FY 1986 or FY 1991) specifying the base from which reductions are to be made in each nondefense account and each defense PPA, and the dollars and percentage reduction in each account.

The Comptroller General explains any differences between his report and the OMB/CBO report.

3. President's Initial Sequestration Report. If the Comptroller General has identified an excess deficit, the President issues on September 1 (except for fiscal year 1986) an order that eliminates the excess deficit in strict conformance with the sequestration requirements of the Act.

The President's sequestration order may not modify or recalculate any of the estimates and determinations of the Comptroller General's report and must be consistent with it in all respects. The only flexibility the President has pertains to limited discretion in allocating defense reductions in fiscal 1986.

The amounts sequestered under this initial order are withheld from obligation pending issuance of the final order on October 15 (except for FY 1986).

Cost-of-living increases (COLAs) scheduled to take effect at the start of a fiscal year are to be suspended until issuance of the final order. (In fiscal year 1986, the COLAs are suspended until March 1, when the final sequestration order takes effect.) If the final order provides for payment of all or part of these COLAs, the amounts withheld shall be restored to eligible persons.

4. Congressional Action. The Act does not expressly provide for congressional action in response to the initial sequestration report. However, the Act sets aside a month between issuance of the initial order and its effective date, during which Congress can pass its own deficit reductions. If reductions were enacted into law, their impact on the deficit would be taken into account in the revised OMB/CBO and GAO reports, and in the President's final sequestration order.

Moreover, the Act provides a reconciliation-type procedure (in the Senate only) by which the Senate could consider its own deficit reductions.

5. The President's order takes effect. The sequestration order issued one month earlier takes effect on October 1. In the fiscal year 1986 process, funds covered by the order would be cancelled as of March 1. In subsequent fiscal years, these funds would be withheld from obligation pending issuance of the final sequestration order.

- 6.-7. Revised OMB/CBO and GAO Reports. Except during fiscal year 1986, OMB/CBO shall submit a report that takes into account legislation enacted and regulations promulgated after submission of their initial report in August. This revised report shall adjust the deficit estimates and sequestration calculations for these actions, but it shall use the same economic and other estimating assumptions as the initial report.

The Comptroller General shall issue a revised report adjusting the estimates and reductions in the light of the revised OMB/CBO report.

8. Final Sequestration Order. The President shall issue a final sequestration order implementing without change the reductions set forth in the revised report of the Comptroller General.

Upon issuance of this order on October 15 (except in fiscal 1986), sequestered new budget authority, direct or loan guarantee commitments, unobligated balances, entitlement authority, or other amounts shall be permanently cancelled. In the case of most revolving and trust funds, the sequestered amounts would revert to the fund but would not be available for expenditure for that fiscal year. If the deficit reduction process were suspended because of recession after issuance of the final order, the suspension would not release the sequestered funds.

9. Comptroller General Compliance Report. On November 15 (April 1 for fiscal 1986), the Comptroller General shall report to Congress on whether the President's final order fully complies with all the requirements of the deficit reduction process, including the requirement that sequestrations be uniformly distributed among programs, projects, and activities.

VI. COMPUTING THE REDUCTIONS

Outlays are to be reduced by an amount equal to the excess deficit (except for fiscal 1986, for which the reduction is 7/12 of the excess deficit or \$11.7 billion, whichever is less). One half of the reductions are to be made in defense (function 050); the other half in nondefense programs. Half of the reductions made in retirement cost-of-living increases are to be credited to defense.

The reductions in outlays are to be achieved by sequestration of new budget authority, direct and guaranteed loans, and other sequesterable resources. In the case of defense, unobligated balances are also subject to sequestration. The reductions are not to be made directly in outlays, however. The outlay reductions are the savings estimated to result from the sequestration of budgetary resources.

Defense programs. The first step in computing the reductions in defense programs is to subtract one half of the statutory increases in retirement COLAs. A lesser amount is to be subtracted if the COLAs are not to be completely eliminated. This would be the case only if the COLAs amount to more than 1/2 of the excess deficit. After the COLAs have been subtracted, the remaining outlay savings are calculated as a percentage of defense outlays from new budget authority and unobligated balances for the fiscal year.

If, for example, defense were allocated \$6 billion in reductions, and its share of the reductions in COLAs were \$500 million, then the remaining \$ 5.5 billion would be divided by sequesterable defense outlays. (The outlays subject to sequestration are those deriving from new budget authority and from unobligated balances. Outlays from existing contracts would not be included in computing the percentage reduction.) The percentage reduction deriving from this computation would be uniformly applied to each defense, program, project, or activity (PPA). At the present time, there are more than 4,000 defense PPAs, close to half of which are in procurement accounts.

The deficit control law grants the President three types of limited flexibility (two of which are applicable only in fiscal year 1986) in implementing the defense reductions. (The types of flexibility are set forth below.) If none of this flexibility were used, then the calculation of the defense reduction percentage would be completed, and the uniform cutback would be applied to new budget authority and unobligated balances in each PPA.

The reduction could be achieved by any combination of sequestrations of new budget authority and unobligated balances within the same PPA. Inasmuch as the outlay reduction would be achieved by cutbacks in new budget authority and unobligated balances, the reductions in outlays would vary across defense PPAs. A PPA with a high outlay (spendout) rate--this is the rate at which new budget authority and unobligated balances result in outlays during the fiscal year--would have higher outlay reductions as a percent of budget resources than would a PPA with a lower outlay rate. Both PPAs, however, would have the same percentage reduction in sequesterable budget authority and outlays.

In order for the President to exercise limited flexibility in apportioning reductions, it would be necessary to calculate the blended outlay rate for each PPA. The blended rate would be the weighted average of the rate deriving from new budget authority and unobligated balances.

With the outlay rate available for each PPA, the President would be permitted to credit to a PPA outlay reductions achieved through the modification or termination of existing contracts. To obtain these credits, the President would have to identify the specific contracts and estimated outlay savings, and these would have to be verified by the Comptroller General. The President has not sought any contract modifications or terminations in the sequestration order issued for the 1986 fiscal year.

The President is given some additional flexibility in making the fiscal year 1986 defense reductions. He may exempt all or parts of military personnel PPAs from sequestration. Any shortfall in outlay savings would have to be made up by larger across-the-board reductions in other defense PPAs. The President has exercised this discretion for fiscal year 1986. Since most other PPAs have lower spendout rates than do personnel accounts, this flexibility might result in higher sequestrations of budget authority in other defense PPAs.

In 1986, also, within the same account, the President may make greater reductions in some PPAs and lesser ones in others provided that (a) "congressional interest items" (those funded at 110% or more of the President's budget) are not reduced by an amount greater than the uniform defense sequestration percentage, (b) no bases are closed, and (c) the cuts in any PPA do not exceed twice the uniform percentage reduction. Within each account, the outlay reduction requirements must still be met. Use of this discretion could result in budget authority sequestrations for particular PPAs that differ in amount from those that would otherwise be calculated. The President has exercised this discretion for the 1986 fiscal year, with the result that the percentage sequestered from some PPAs exceeds the uniform 4.9 percent for defense.

Nondefense programs. Reductions in most nondefense programs subject to sequestration are to be a uniform percentage by program. This percentage is to be computed after adjustments are made for certain programs subject to special rules.

After the 50% of total outlay reductions to be derived from nondefense programs has been determined, the following subtractions are to be made in the following order.

- One half of the reductions from automatic retirement COLAs;
- Reductions of other statutory spending increases (the National Wool Act, Special Milk Program, and Vocational Rehabilitation);
- The savings from programs governed by special rules (guaranteed student loans, foster care, and adoption assistance);

- The savings from programs limited to a fixed percentage reduction (medicare, community and migrant health centers, Indian health services and facilities, and Veterans' medical care).

The remaining required outlay reduction is to be obtained by sequestering budgetary resources (new budget authority, new loan guarantee commitments, new direct loan obligations, entitlement authority, and obligation limitations) by a uniform percentage. This is computed in the same way that defense cutbacks are: the total outlay reduction is divided by the total amount of outlays subject to sequestration. The unobligated balances of nondefense programs are not subject to sequestration.

Savings from COLAs may not exceed one half of the total excess deficit. Furthermore, savings from the health programs covered by special rules may not cause the total nondefense savings to exceed the nondefense reduction target.

Determination of programs, projects, and activities. The determination of programs, projects, and activities for both defense and nondefense accounts shall be made: (1) in the case of funds provided in annual appropriations, by reference to appropriations bills, the reports accompanying these bills, and related documentation, and (2) in the case of funds not provided in annual appropriations, by reference to the budget account activities identified in the program and financing schedules contained in the Budget Appendix.

For fiscal year 1986, the PPAs for funds provided in annual appropriations were defined in a special report issued by the House and Senate Appropriations Committees. The Appropriations Committees special report defining Fiscal Year 1986 PPA's was adopted as an amendment to the Continuing Resolution for Fiscal Year 1986 (P.L. 99-190); see Amendment #10 in the conference report accompanying the continuing resolution (H. Rept. 99-450).

As required by the Gramm-Rudman-Hollings Act, defense PPAs (several thousand) were included in the joint OMB/CBO report and GAO report for FY 1986. The Comptroller General made only a few modifications to the PPAs contained in the joint OMB/CBO report. The Act does not provide for the inclusion of non-defense PPAs in either report.

In the FY 1986 sequester order issued on February 1, President Reagan directed each Department or agency head to report PPA information to the House and Senate, OMB, and GAO. According to the President's order:

For those programs in the National Defense function that have already been reported by program, project, and activity, no additional report is necessary. The reports of the Departments and agencies are hereby incorporated in this Order.

VII. SEQUESTRATION OF FUNDS FOR FISCAL YEAR 1986

On January 15, 1986, the Office of Management and Budget and the Congressional Budget Office submitted the first joint report provided for by the Balanced Budget and Emergency Deficit Control Act. (The report was published as Book 2 in the January 15, 1986 edition of the Federal Register.) The report estimated that the deficit for fiscal 1986 would be \$220 billion, an amount substantially in excess of the maximum deficit level set forth in the Act. Accordingly, the OMB/CBO report has triggered the sequestration procedures of the Act. Table 1 shows the budget aggregates estimated in the joint report. These aggregates are the averages of the levels estimated separately by OMB and CBO. The averages were reported, without change, in the January 21, 1986 report on Budget Reductions for FY 1986 submitted to the President and Congress by the General Accounting Office (Report No. GAO/OCG-86-1).

The joint OMB/CBO report apportioned the \$11.7 billion in required reductions among defense programs, projects, and activities, and nondefense accounts. The report by the GAO made changes in the reductions set forth for approximately 40 nondefense accounts. Most of these changes were relatively small. The GAO report also added \$6.3 billion to sequesterable defense resources. This adjustment had the effect of increasing the amount of defense resources sequestered as well as the estimated outlay reductions.

Table 2 provides a step-by-step computation of the amounts to be sequestered in fiscal 1986. Tables 3 and 4 are adapted from the OMB/CBO report (with adjustments for the GAO changes); these tables show the amounts sequestered and estimated outlay reductions by budget function and federal agencies. Table 5 allocates the defense sequestrations among the major components of the defense budget.

To explain how the sequestrations have been computed, the following paragraphs go through each of the steps identified in Table 2. The paragraph numbers correspond to the steps in this table.

1. The excess deficit in fiscal year 1986 is estimated to be \$48.6 billion. But the amount to be sequestered in this fiscal year is limited by law to \$11.7 billion.

2. The OMB/CBO report lists 16 retirement and disability programs with indexed increases totalling \$993.5 million in fiscal year 1986. More than \$800 million of this is accounted for by military and civilian retirement. The law limits sequestration of these accounts to the indexed increases.

3. One half of the required reduction is to be achieved by sequestering defense funds; the other half (see line 11) by sequestering nondefense funds.

4.-5. Half of the reduction in the indexed increases in retirement and disability programs is credited to defense; the other half (see line 12) to nondefense funds.

6. The amount to be sequestered is calculated by estimating outlays associated with sequesterable budgetary resources, though the sequestration is applied to budgetary resources.

7. The President has exercised his option to exempt military personnel expenditures from the fiscal year 1986 sequestration. Hence, \$63.1 billion of exempt funds have to be subtracted from the total defense outlays for determining the uniform percentage reduction.

8. Obligated balances are not sequesterable resources; hence, they, too, must be subtracted from total defense outlays. The President has not exercised his discretion to modify or terminate existing contracts and apply the savings as offsets against the amount to be sequestered in defense programs.

9. After subtracting exempted military personnel funds and obligated balances, the outlays from sequesterable defense resources are estimated to be \$110.3 billion. This estimate is taken from the GAO report. OMB/CBO estimate the amount at \$109.3 billion.

10. The 4.9% uniform reduction is derived by dividing outlays from sequesterable defense resources (line 9) into net required defense reduction (line 5). Although the 4.9 percent is computed in terms of outlays, it is applied to budget authority. For this reason, the amount to be sequestered exceeds the estimated \$5.85 billion outlay reduction.

11.-12. These calculations are the same as the ones shown above (lines 3 and 4) for defense programs.

13.-14. These rules fall into a number of categories. (1) Automatic spending increases in National Wool Act, vocational rehabilitation, and the special milk program; (2) limited reductions in guaranteed student loans and foster care and adoption assistance; and (3) limited reductions in medicare and certain other health programs. The savings from these special reductions are subtracted from line 11 to obtain the \$4.9 billion of outlay reductions to be achieved through uniform sequestration.

15.-19. To calculate the estimated outlays from sequesterable resources, a number of subtractions have to be made from total nondefense outlays. These are the outlays from programs with automatic increases and special rules (line 16); exempt programs (line 17) such as social security, interest, medicaid, SSI, and others; and other adjustments (line 18) for offsetting collections, outlays from prior appropriations, and other exemptions.

20. The 4.3% uniform reduction in nondefense resources is calculated by dividing line 19 into line 14.

TABLE 1. Budget Base Estimates for Fiscal Year 1986
(in billions of dollars)

| Budget aggregates | OMB/CBO Average |
|--------------------|-----------------|
| Revenues | 776.0 |
| Outlays | 996.5 |
| Deficit | 220.5 |
| Maximum Deficit | 171.9 |
| Excess Deficit | 48.6 |
| Required Reduction | 11.7 |

Sources: Office of Management and Budget, Congressional Budget Office,
and General Accounting Office.

TABLE 2. Computing the Fiscal Year 1986 Sequestrations
(in billions of dollars)

| | Computation | Amount |
|-------|---|--------|
| 1 | Determine amount to be sequestered | \$11.7 |
| 2 | Automatic spending increases to be sequestered | 1.0 |
| <hr/> | | |
| | DEFENSE | |
| 3 | Defense share of required outlay reductions | 5.85 |
| 4 | Minus one-half reductions in retirement COLAs | 0.5 |
| 5 | Net required reduction in defense outlays | 5.35 |
| 6 | Total estimated defense outlays | 272.8 |
| 7 | Minus military personnel expenditures exempted by the President | 63.1 |
| 8 | Minus outlays from obligated balances | 99.4 |
| 9 | Outlays from sequesterable defense resources | 110.3 |
| 10 | Uniform reduction in sequesterable defense resources | 4.9% |

(continued)

TABLE 2. Computing the Fiscal Year 1986 Sequestrations
(in billions of dollars)
--continued

| | Computation | Amount |
|------------|--|--------|
| NONDEFENSE | | |
| 11 | Nondefense share of required outlay reductions | 5.85 |
| 12 | Minus one-half reductions in retirement COLAs | 0.5 |
| 13 | Minus reductions from special rules | 0.45 |
| 14 | Reductions to be obtained by uniform sequestration | 4.9 |
| 15 | Total nondefense outlays | 723.7 |
| 16 | Minus programs with automatic spending increases and special rules | 135.7 |
| 17 | Minus major exempt programs | 434.5 |
| 18 | Other adjustments for offsetting collections, outlays from prior appropriations and legal obligations, and other exempt programs | 38.5 |
| 19 | Outlays from sequesterable nondefense resources | 115.2 |
| 20 | Uniform reduction in sequesterable nondefense resources | 4.3% |

TABLE 3. Fiscal Year 1986 Sequestrations by Function
(in billions of dollars)

| Function | Spending authority <u>a/</u> | Direct loan obligations | Loan guarantees | Estimated outlay reductions |
|--|------------------------------|-------------------------|-----------------|-----------------------------|
| National Defense * | 14.1 * | | | 5.4 |
| International affairs | 0.9 | 0.3 | 0.5 | 0.5 |
| General science, space and technology | 0.4 | -- | -- | 0.3 |
| Energy | 0.3 | 0.2 | 0.1 | 0.1 |
| Natural resources and environment | 0.6 | <u>b/</u> | -- | 0.4 |
| Agriculture | 0.9 | 0.7 | 0.3 | 1.0 <u>c/</u> |
| Commerce and housing credit | 0.2 | 0.2 | 5.7 | 0.2 |
| Transportation | 1.9 | <u>b/</u> | <u>b/</u> | 0.4 |
| Community and regional development | 0.2 | 0.1 | <u>b/</u> | 0.1 |
| Education, training, employment, and social services | 1.2 | <u>b/</u> | -- | 0.4 |
| Health | 0.5 | <u>b/</u> | -- | 0.3 |
| Medicare | 0.4 | -- | -- | 0.4 |
| Income security | 1.8 | <u>b/</u> | -- | 1.3 |
| Social security | 0.1 | -- | -- | 0.1 |
| Veterans benefits and services | 0.2 | <u>b/</u> | 0.5 | 0.2 |
| Administration of justice | 0.3 | -- | -- | 0.3 |
| General government | 0.3 | -- | -- | 0.3 |
| General purpose fiscal assistance | 0.3 | -- | -- | 0.2 |
| Total | 24.6 | 1.6 | 7.3 | 11.7 |

Sources: Congressional Budget Office, Office of Management and Budget, and General Accounting Office.

a/ For defense, includes new budget authority for fiscal year 1986 and unobligated balances from budget authority provided in previous years; for all other functions, includes new budget authority, obligation limitations, and other spending authority for fiscal year 1986.

b/ Less than \$50 million.

c/ Includes \$0.4 billion in estimated fiscal year 1987 outlay savings for Commodity Credit Corporation Programs, but credited as fiscal 1986 reductions.

* Includes adjustments made by the Comptroller General.

TABLE 4. Fiscal Year 1986 Sequestrations by Agency
(In billions of dollars)

| Agency | Spending authority <u>a/</u> | Direct loan obligations | Loan guarantees | Estimated outlay reductions |
|--|---------------------------------|----------------------------|--------------------|-----------------------------------|
| Legislative Branch | 0.1 | --- | --- | 0.1 |
| The Judiciary | <u>b/</u> | --- | --- | <u>b/</u> |
| Executive Office of the President | <u>b/</u> | --- | --- | <u>b/</u> |
| Funds Appropriated to the President | 0.6 | 0.3 | <u>b/</u> | 0.3 |
| Agriculture | 1.3 | 1.1 | 0.5 | 1.3 <u>c/</u> |
| Commerce | 0.1 | <u>b/</u> | <u>b/</u> | 0.1 |
| Defense-Military* | 13.6 | --- | --- | 5.1 |
| Defense-Civil | 0.6 | --- | --- | 0.5 |
| Education | 0.7 | <u>b/</u> | --- | 0.2 |
| Energy | 0.6 | --- | --- | 0.3 |
| Health and Human Services | 1.3 | <u>b/</u> | --- | 1.0 |
| Housing and Urban Development | 0.7 | <u>b/</u> | 5.5 | <u>b/</u> |
| Interior | 0.3 | <u>b/</u> | <u>b/</u> | 0.2 |
| Justice | 0.2 | --- | --- | 0.1 |
| Labor | 0.4 | --- | --- | 0.2 |
| State | 0.1 | <u>b/</u> | --- | 0.1 |
| Transportation | 1.8 | <u>b/</u> | <u>b/</u> | 0.4 |
| Treasury | 0.4 | --- | --- | 0.4 |
| Environmental Protection Agency | 0.1 | <u>b/</u> | --- | <u>b/</u> |
| General Services Administration | 0.1 | --- | --- | <u>b/</u> |
| National Aeronautics and Space Administration | 0.3 | --- | --- | 0.2 |
| Office of Personnel Management | 0.6 | --- | --- | 0.6 |
| Small Business Administration | <u>b/</u> | 0.1 | 0.2 | <u>b/</u> |
| Veterans Administration | 0.2 | <u>b/</u> | 0.5 | 0.2 |
| Other independent agencies | 4 | 0.1 | 0.5 | 0.3 |
| Total | 24.6 | 1.6 | 7.3 | 11.7 |

(footnotes on next page)

TABLE 4. Fiscal Year 1986 Sequestrations by Agency
--continued

Sources: Congressional Budget Office, Office of Management and Budget, and General Accounting Office.

a/ For defense, includes new budget authority for fiscal year 1986 and unobligated balances from budget authority provided in previous years; for all other functions, includes new budget authority, obligation limitations, and other spending authority for fiscal year 1986.

b/ Less than \$50 million.

c/ Includes \$0.4 billion in estimated fiscal year 1987 outlay savings for Commodity Credit Corporation Programs, but credited as fiscal year 1986 reductions.

* Includes adjustments made by the Comptroller General.

TABLE 5. Sequestration of Defense Budgetary Resources,
Fiscal Year 1986
(in millions of dollars)

| Defense budgetary category | Budget authority | Outlay reduction |
|----------------------------------|------------------|------------------|
| Military Personnel | -234 | -226 |
| Operation & Maintenance | -3,911 | -2,936 |
| Procurement* | -6,904 | -893 |
| RDT&E* | -1,893 | -930 |
| Military Construction | -619 | -140 |
| R & M Funds | -80 | -44 |
| Atomic Energy Defense Activities | -380 | -228 |
| Other Defense | -41 | -4 |
| Total | -14,062 | -5,401 |

Sources: Congressional Budget Office, Office of Management and Budget, and General Accounting Office.

* Includes adjustments made by the Comptroller General.

VIII. SUSPENSION OF DEFICIT REDUCTION REQUIREMENTS IN RECESSIONS

There is no automatic suspension of deficit reduction in the event of a recession.

However, if CBO or OMB projects negative real economic growth in two consecutive quarters, or if the Commerce Department reports that actual real growth was below one percent in two consecutive quarters, Congress would have expedited procedures for suspending sequestration procedures and certain other budget procedures.

Under these special procedures, the Majority Leaders of the House and Senate would be required to introduce a joint resolution suspending the deficit reduction provisions for the remainder of the current fiscal year and/or for all of the following fiscal year. The resolution would be expedited and considered without amendment. The suspension would take effect if the resolution were enacted into law. However, a suspension resolution would not supersede a final sequestration order that had taken effect.

IX. JUDICIAL REVIEW AND FALLBACK PROCEDURES

Courts: Provides for expedited review of constitutionality of the deficit reduction process, as well as of suits claiming that the President's sequestration order does not comply with the requirements of the Act.

The economic data, assumptions, and methodologies used in the deficit reduction process would not be reviewable by the courts.

Appeal would go directly from a three-judge court to the Supreme Court.

If any part of a sequestration order is found not to comply, the court can direct the President to revise his order. If the President claims--and the Supreme Court upholds--a constitutional right to sequester amounts other than those set forth in the Comptroller General's report, the entire sequestration order would be nullified.

Fallback: If the OMB/CBO reporting procedures are invalidated, the House and Senate Budget Committees would be constituted into a Temporary Joint Committee on Deficit Reduction. The Joint Committee shall report a joint resolution containing the sequestrations reported by OMB/CBO to the House and Senate. The joint resolution would be amendable and would be considered under expedited procedures. If the joint resolution were enacted into law, the President would issue a sequestration order based on it. The reductions would take effect only if the joint resolution were passed by Congress and signed into law by the President (or his veto overridden).

X. PROGRAMS EXEMPTED FROM SEQUESTRATION

| Program | Estimated FY 1986 outlays (in \$ billions) |
|---|---|
| Social Security (including disability benefits) and Railroad Retirement (Tier I) | 202.3 |
| Veterans' Compensation and Pensions | 14.3 |
| Net Interest | 137.4 |
| Certain Low-Income Programs: | 61.0 |
| -- Aid to Families with Dependent Children (AFDC) | |
| -- Supplemental Security Income (SSI) | |
| -- Women, Infants, Children (WIC) | |
| -- Food Stamps | |
| -- Child Nutrition | |
| -- Medicaid | |
| Regular State Unemployment Benefits | 18.2 |
| Other: | |
| -- Earned Income Tax Credit | |
| -- Payments to various trust accounts | |
| -- Payments for various claims | |
| -- Postal Service Fund | |
| -- Foreign Military Sales Trust Fund | |
| -- Most activities of TVA and other Power Administrations | |
| -- Legal obligations of approximately 50 insurance and loan guarantee funds | |

XI. PROGRAMS WITH PERCENTAGE LIMITS ON REDUCTIONS

The following programs are limited to a 1% cutback in fiscal year 1986 and a 2% cutbacks in subsequent fiscal years.

- Medicare
- Veterans' Medical Care
- Community Health Centers
- Migrant Health Centers
- Indian Health Facilities and Services

XII. PROGRAMS WITH SPECIAL CUTBACK RULES

Unemployment Programs: The federal share of extended benefits is subject to sequester; the state share is not. But states may reduce their share if federal payments are sequestered.

Federal Pay: Civilian and military pay rates--including scheduled pay increases--are not to be reduced pursuant to a sequestration order. Federal pay is to be treated as other administrative expenses subject to sequestration. The managers' statement on the conference report urges agencies "to employ all other options available to them in order to achieve savings under a sequestration order and resort to personnel furloughs only if other methods prove insufficient."

Guaranteed

Student Loans: If GSL is subject to sequestration, new loans (made after the order is issued) will have a maximum 0.50 percentage point increase in the origination fee and a 0.4 percentage point reduction in the first year of the special allowance paid to lenders.

Child Support

Enforcement: Only Federal matching for state administrative expenses can be sequestered.

Foster Care and

Adoption Assistance: Only increases in foster care maintenance payment rates and adoption assistance payment rates can be sequestered.

Commodity Credit

Corporation: In general, outlay reductions will occur in the year following sequestration but will be credited to the sequestration year.

XIII. MODIFICATIONS IN THE FEDERAL BUDGET PROCESS

- Scope:
- Off-budget entities, except social security, are to be included in the President's budget and the congressional budget resolution. (Does not pertain to federally-sponsored private corporations.)
 - Credit authority (direct and guaranteed loans) to be included in the budget. (This change conforms the rules to current practice.) Federal Financing Bank outlays to finance these loans are to be treated as loans of the originating agency.
 - Social security excluded from the budget totals, but is to be included for calculation of the maximum deficit. Thus, the budget resolution will show two deficits, one with social security, one without it.
 - It is not in order to consider change in social security in a reconciliation bill.

- Timetable:
- The deadlines for major budget actions have been moved forward, but the May 15 deadline for reporting authorizing legislation has been eliminated. There no longer is any deadline for authorizations.
 - Congress is to adopt only one budget resolution. (The Budget Act requires two resolutions annually, but in recent years Congress has adopted only one.)
 - After May 15, the House can consider appropriation bills even if the budget resolution has not been adopted.
 - The following is the new timetable; it does not include the special deadlines for deficit reduction.

| | |
|---------------------------------|--|
| First Monday after January 3 | Submission of the President's budget (FY 1987 budget deadline is February 5.) |
| February 25 | House and Senate committees submit views and estimates to the Budget Committees |
| April 15 | Adoption of the budget resolution |
| June 15 | Congress completes action on reconciliation legislation |
| June 30 | House completes action on annual appropriation bills |
| October 1 | Fiscal year starts |

Backdoor Spending:

Control on backdoor spending extended to offsetting receipts and to any other payment whose budget authority is not provided in advance in appropriation acts.

Legislation authorizing new direct and guaranteed loans must provide that these funds are to be effective only to extent provided in appropriation acts.

Budget Resolution:

Incorporates current practice with respect to 3-year resolutions (the figures for the second and third years are planning amounts and are not binding), direct and guaranteed loans.

A budget resolution reported in the House that would have the effect of changing any House rule is to be referred (under a time limit) to the Rules Committee. (No comparable provision in the Senate.)

It is not in order (except in wartime) to consider a budget resolution whose deficit would exceed the the maximum deficit amounts for the 1986-1991 fiscal years.

Reconciliation:

Budget resolution to include reconciliation instructions necessary to effectuate its provisions.

Committees subject to reconciliation instructions can shift up to 20% of deficit reduction between revenues increases and spending reductions. (In practice, affects House Ways and Means and Senate Finance Committees.)

(House) Not in order to consider amendment to reconciliation bill that would cause a net increase in outlays or a net decrease in revenues.

(Senate) Not in order to consider amendment to reconciliation bill that would cause deficit to be reduced less than the amount set forth in the reconciliation instructions.

Enforcement of
Budget Resolution:

CBO to issue monthly scorekeeping records.

Not in order to consider revenue, spending, or credit legislation until the affected committee has filed a Sec. 302(b) report allocating its budget authority and credit authority among its programs or subcommittees. (Form of allocation varies in the House and Senate.)

Enforcement of
Budget Resolution
(continued):

After adoption of the budget resolution, it is not in order to consider legislation that would cause a committee's suballocation to be exceeded. In the House, this applies to budget authority, credit authority, and entitlement authority; in the Senate, this applies to budget authority and estimated outlays.

(House) Would be in order to consider legislation causing totals in budget resolution to be breached, provided that the committee of jurisdiction did not exceed the "discretionary" amount allocated to it.