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# Congressional Budget Actions in 2002

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# Contents

# Congressional Budget Actions in 2002

## SUMMARY

During the second session of the 107th Congress, the House and Senate will consider many different budgetary measures. Most of these measures will pertain to FY2003 (which will begin on October 1, 2002) and beyond, but some may make adjustments to the budget for FY2002. As the congressional session progresses, this issue brief will describe House and Senate action on major budgetary legislation within the framework of the congressional budget process and other procedural requirements.

Congress begins its annual budget process once the President submits his budget. President Bush submitted his FY2003 budget to Congress on February 4, 2002.

In preparation for congressional action on the budget, the CBO Director, Dan L. Crippen, presented CBO's baseline budget projections for FY2003-FY2012 during separate testimony to the House and Senate Budget Committees on January 23, 2002. Among other things, Crippen testified that CBO projects the total budget will show a small deficit for both fiscal years 2002 and 2003, if current policies remain the same and the economy performs as CBO forecasts. On January 31, 2002, CBO released its annual report on budget baseline projections, *The Budget and Economic Outlook: Fiscal Years 2003-2012*.

The Congressional Budget Act of 1974 established the congressional budget process. The process is centered on the adoption of an annual concurrent resolution on the budget. The budget resolution sets forth aggregate spending and revenue levels, and spending levels by major functional area, for at least 5 fiscal years. Because the budget resolution is a concurrent resolution, it is not presented to the President for his signature and thus does not become law. Instead, it is an agreement between the House and Senate on a congressional budget plan, providing a framework for subsequent budgetary legislation during a congressional session.

Budget resolution policies are implemented through the enactment of reconciliation bills, revenue and debt-limit legislation, and appropriations and other spending measures, and enforced by points of order that may be raised when legislation is pending on the House and Senate floor.

Budget legislation also is constrained by limits on discretionary spending and a "pay-as-you-go" (PAYGO) requirement for direct spending and revenue legislation established under the Budget Enforcement Act of 1990, as amended.

Currently, adjustable discretionary spending limits exist for the following categories: highway and mass transit spending for FY2002-FY2003; conservation spending (divided into six subcategories) for FY2002-FY2006; and other discretionary spending, also called general purpose discretionary spending, for FY2002. However, the sequestration process established to enforce the discretionary spending limits expires at the end of FY2002 (*i.e.*, September 30, 2002), and it is not yet clear whether Congress and the President will extend it.

The PAYGO requirement also expires at the end of FY2002, but the PAYGO sequestration process covers the net effects through FY2006 of new direct spending and revenue legislation enacted before the end of FY2002.

## MOST RECENT DEVELOPMENTS

*On February 14, 2002, the House adopted an amended version of a Senate-approved bill (H.R. 622) to provide temporary extended unemployment compensation. The House-amended version includes an extension of unemployment compensation as well as tax provisions similar to those included in a broader economic stimulus bill (H.R. 3529) adopted by the House in December 2001. Subsequently, the Senate adopted by unanimous consent a second stand-alone provision extending unemployment compensation as an amendment to H.R. 3090, an economic stimulus bill passed by the House in October 2001.*

*These actions followed Senate adoption of a stand-alone provision extending unemployment compensation as an amendment to H.R. 622, a House-passed revenue bill dealing with adoption tax credits that became law as part of other legislation last year, on February 6. The legislation was adopted by unanimous consent after two cloture motions failed to get the required three-fifths vote to end debate on two separate amendments that included broader economic stimulus provisions.*

*The Senate, also on February 14, rejected by voice vote a joint resolution (S.J.Res. 31) suspending budget enforcement procedures due to low economic growth. The automatic suspension resolution was triggered by a CBO "low-growth" report issued on January 30, informing Congress that real economic growth was less than 1% for the last two quarters.*

## BACKGROUND AND ANALYSIS

During the second session of the 107th Congress, the House and Senate will consider many different budgetary measures. Most of these measures will pertain to FY2003 (which will begin on October 1, 2002) and beyond, but some may make adjustments to the budget for FY2002. As the congressional session progresses, this issue brief will describe House and Senate action on major budgetary legislation within the framework of the congressional budget process and other procedural requirements.

This year, Congress faces a significantly different procedural and budget environment than in recent years. Not only are key enforcement procedures under the Budget Enforcement Act (Title XIII of P.L. 101-508) set to expire at the end of FY2002 (*i.e.*, September 30, 2002), the current and long-term budget outlook has changed considerably from a year ago. Last year, CBO projected federal surpluses in each fiscal year through FY2011 and a cumulative surplus of $5.6 trillion for FY2002-FY2011, under policies existing at that time.[1] In contrast, CBO Director Dan L. Crippen testified before the House and Senate Budget Committees on January 23, 2002, that CBO now is projecting that both fiscal years 2002 and 2003 will show small deficits, if current policies remain the same and the economy performs as CBO forecasts. Further, the projected cumulative surplus for FY2002

[1] Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002-2011* (Washington: January 2001).

through FY2011 has dropped by $4.0 trillion to $1.6 trillion. The new environment undoubtedly will have a significant effect on congressional budget actions during this session.

## Overview of the Congressional Budget Process

The congressional budget process consists of the consideration and adoption of spending, revenue, and debt-limit legislation within the framework of an annual concurrent resolution on the budget. Additionally, congressional action on budget legislation is constrained by limits on discretionary spending and a "pay-as-you-go" (PAYGO) requirement for direct spending and revenue legislation.

Congress begins its budget process once the President submits his budget. The President is required by law to submit a comprehensive federal budget no later than the first Monday in February. The President's budget includes estimates of direct spending and revenues under existing laws, as well as requests for discretionary spending (i.e., funds provided through the appropriations process) for the upcoming fiscal year. In addition, the President frequently proposes new initiatives in his budget submission to Congress. Although Congress is not bound by the President's budget, congressional action on spending and revenue legislation often is influenced by his recommendations, as well as subsequent budgetary activities by the President during the year. The Office of Management and Budget (OMB) assists the President in formulating and coordinating his budget policies and activities.

On February 4, 2002, President Bush submitted his FY2003 budget to Congress. Following the usual practice, the President's budget was submitted as a multi-volume set consisting of a main document, which includes the President's budget message and information on his 2003 proposals (*Budget*), and supplementary documents, which provide special budgetary analyses (*Analytical Perspectives*), historical budget information (*Historical Tables*), and detailed account and program level information (*Appendix*), among other things. These documents are available from the Government Printing Office or on OMB's Web site at [http://www.whitehouse.gov/omb].

The Congressional Budget Act (CBA) of 1974 (Titles I-IX of P.L. 93-344) established the congressional budget process, including a timetable for congressional action on budget legislation (see **Table 1**). The process is centered on the adoption of an annual concurrent resolution on the budget. The budget resolution sets forth aggregate spending and revenue levels, and spending levels by major functional area, for at least 5 fiscal years. Because the budget resolution is a concurrent resolution, it is not presented to the President for his signature and thus does not become law. Instead, it is an agreement between the House and Senate on a congressional budget plan, providing a framework for subsequent legislative action on the budget during each congressional session.

**Table 1. The Congressional Budget Process Timetable**

| On or before | Action to be completed |
|---|---|
| First Monday in February | President submits budget to Congress. |
| February 15 | Congressional Budget Office submits economic and budget outlook report to Budget Committees. |
| 6 weeks after President submits budget | Committees submit views and estimates to Budget Committees. |
| April 1 | Senate Budget Committee reports budget resolution. |
| April 15 | Congress completes action on budget resolution. |
| May 15 | Annual appropriations bills may be considered in the House, even if action on budget resolution has not been completed. |
| June 10 | House Appropriations Committee reports last annual appropriations bill. |
| June 15 | House completes action on reconciliation legislation (if required by budget resolution). |
| June 30 | House completes action on annual appropriations bills. |
| July 15 | President submits mid-session review of his budget to Congress. |
| October 1 | Fiscal year begins. |

Because the budget resolution does not become law, budget policies are implemented through the enactment of reconciliation bills, revenue and debt-limit legislation, and appropriations and other spending measures. Congress enforces budget resolution policies through points of order on the floor of each chamber and the reconciliation process. For example, any legislation that would cause the aggregate levels to be violated is prohibited from being considered. Further, the total budget authority and outlays set forth in the budget resolution are allocated among the House and Senate committees having jurisdiction over specific spending legislation. Any legislation, or amendment, that would cause these committee allocations to be exceeded is prohibited. Finally, the House and Senate Appropriations Committees subdivide their allocations among their respective 13 subcommittees. A point of order may be raised against any appropriations act, or amendment, that would cause one of these subdivisions to be exceeded.[2] Congress also may use reconciliation legislation (discussed further below) to enforce direct spending, revenue, and debt-limit provisions of a budget resolution.

[2] For more detailed information on these points of order and their application, see CRS Report 97-865, *Points of Order in the Congressional Budget Process*, by James V. Saturno.

In addition to the enforcement procedures associated with the budget resolution, budget legislation is constrained by statutory limits on discretionary spending and a PAYGO requirement for direct spending and revenue legislation, both established by the Budget Enforcement Act (BEA) of 1990 (Title XIII of P.L. 101-508), which amended the Balanced Budget and Emergency Deficit Control Act of 1985 (Title II of P.L. 99-177).

Currently, adjustable discretionary spending limits exist for the following categories: highway and mass transit spending for FY2002-FY2003; conservation spending (divided into six subcategories) for FY2002-FY2006; and other discretionary spending, also called general purpose discretionary spending, for FY2002. PAYGO generally requires that increases in direct spending or decreases in revenues due to legislative action are offset so that the net effects of new legislation do not incur a positive balance on the PAYGO scorecard. The PAYGO requirement applies to legislation enacted through FY2002, but it covers the effects of such legislation through FY2006.

The discretionary spending limits and PAYGO requirement are enforced primarily by sequestration, which involves automatic, largely across-the-board spending cuts in non-exempt programs. Sequestration is triggered if the director of the Office of Management and Budget estimates in the final sequestration report at the end of a session that one or more of the discretionary spending limits will be exceeded or the PAYGO requirement will be violated. A within-session sequestration is possible if a supplemental appropriations bill causes the spending levels of the current fiscal year to exceed the statutory limit for a particular category. The discretionary spending limits, as well as a PAYGO requirement similar to the statutory one, also may be enforced through points of order while legislation is being considered on the Senate floor.

The sequestration process established to enforce the discretionary spending limits expires at the end of FY2002 (i.e., September 30, 2002). The PAYGO sequestration process continues until the end of FY2006, but only applies to the net effects of legislation enacted before the end of FY2002.

## Budget Resolution

The Congressional Budget Act, as amended, establishes the concurrent resolution on the budget as the centerpiece of the congressional budget process. The budget resolution sets forth aggregate spending and revenue levels, and spending levels by major functional area, for at least 5 fiscal years. Once adopted, it provides the framework for subsequent action on budget-related legislation.

Following the submission of the President's budget early in the year, Congress begins formulating the budget resolution. The House and Senate Budget Committees are responsible for developing and reporting the budget resolution. In formulating the budget resolution, the Budget Committees hold hearings and receive testimony from Members of Congress and representatives from federal departments and agencies, the general public, and national organizations. Three regular hearings include separate testimony from the Director of the Congressional Budget Office (CBO), the Chair of the Federal Reserve Board, and the Director of OMB. On January 23, 2002, the CBO Director, Dan L. Crippen, presented CBO's baseline budget projections for FY2003-FY2012 during separate testimony to the

House and Senate Budget Committees.[3] Among other things, he testified that CBO projects the total budget will show a small deficit for both fiscal years 2002 and 2003, if current policies remain the same and the economy performs as CBO forecasts. On January 24, Federal Reserve Board Chairman Alan Greenspan testified before the Senate Budget Committee that the economy was showing signs of recovery from the recession of the past year; that he had doubts about the need for stimulus legislation; and that he supports an extension of the discretionary spending limits and PAYGO requirement.[4] On February 5, OMB Director Mitchell E. Daniels, Jr. elaborated on the three priorities of the President's FY2003 budget–homeland security, war on terrorism abroad, and economic recovery–in separate testimony to the House and Senate Budget Committees.[5]

The congressional budget resolution, as well as the President's budget, is based on budget baselines. The budget baseline is a projection of federal revenue, spending, and deficit or surplus levels based upon current policies, assuming certain economic assumptions. The President's budget baseline, referred to as current services estimates, usually differs from CBO's baseline, referred to as baseline budget projections, often due to different economic and technical assumptions. Baseline projections provide a benchmark for measuring the budgetary effects of proposed policy changes. On January 31, 2002, CBO released its annual report on budget baseline projections, *The Budget and Economic Outlook: Fiscal Years 2003-2012*. The report is available on CBO's Web site at [http://www.cbo.gov].

Another source of input comes from the "views and estimates" of congressional committees with jurisdiction over spending and revenues. Within 6 weeks after the President's budget submission, House and Senate committees are required to submit views and estimates of budget matters under their jurisdiction to their respective Budget Committees. These views and estimates, frequently submitted in the form of a letter to the Chair and Ranking Member of the Budget Committee, typically include comments on the President's budget proposals and estimates of the budgetary impact of any legislation likely to be considered during the current session of Congress. The Budget Committees are not bound by these recommendations. The views and estimates often are printed in the committee report accompanying the budget resolution in the Senate or compiled as a separate committee print in the House.

The budget resolution was designed to provide a framework to make budget decisions, leaving specific program determinations to House and Senate Appropriations Committees and other committees with spending and revenue jurisdiction. In many instances, however, particular program changes are considered when formulating the budget resolution. Program assumptions sometimes are referred to in the reports of the House and Senate Budget Committees and usually are discussed during floor action. Although these program changes

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[3] Dan L. Crippen, Testimony before the Senate Budget Committee, January 23, 2002. Identical testimony was given to the House Budget Committee on the same date. The testimony is available on CBO's Web site at [http://www.cbo.gov].

[4] Alan Greenspan, Testimony before the Senate Budget Committee, January 24, 2002. The testimony is available on the Senate Budget Committee's Web site at [http://www.senate.gov/~budget].

[5] Mitchell E. Daniels, Jr., Testimony before the Senate Budget Committee, February 5, 2002. The testimony is available on the Senate Budget Committee's Web site at [http://www.senate.gov/~budget]. Identical testimony was given to the House Budget Committee on the same date.

are not binding, committees may be strongly influenced by these recommendations when formulating appropriations bills, reconciliation measures, or other budgetary legislation.

The congressional budget process timetable sets April 15 as a target date for final adoption of the budget resolution. The CBA prohibits the consideration of spending, revenue, or debt-limit legislation for the upcoming year until the budget resolution has been adopted, unless the rule is waived or set aside. The House and Senate consider the budget resolution under procedures generally intended to expedite final action. In the House, the budget resolution usually is considered under a special rule, limiting the time of debate and allowing only a few amendments, as substitutes to the entire resolution. The Senate considers the budget resolution under the procedures set forth in the CBA, unless superseded by a unanimous consent agreement. Debate on the initial consideration of the budget resolution, and all amendments, debatable motions, and appeals, is limited to 50 hours. Amendments, motions, and appeals may be considered beyond this time limit, but without debate. Consideration of the conference report is limited to 10 hours in the Senate.

## Reconciliation Legislation

Congress may implement changes to existing law related to direct spending, revenues, or the debt limit through the reconciliation process, under Section 310 of the CBA. The reconciliation process has two stages. First, Congress includes reconciliation instructions in a budget resolution directing one or more committees to recommend changes in statute to achieve the levels of spending, revenues, and debt limit agreed to in the budget resolution. Second, the legislative language recommended by committees is packaged "without substantive revision" into one or more reconciliation bills, as set forth in the budget resolution, by the House and Senate Budget Committees. In some instances, a committee may be required to report its legislative recommendations directly to its chamber.

Once reconciliation legislation is reported, consideration is governed by special procedures. These special rules serve to limit what may be included in reconciliation legislation, to prohibit certain amendments, and to encourage its completion in a timely fashion. In the House, as with the budget resolution, reconciliation legislation usually is considered under a special rule, establishing the time allotted for debate and what amendments will be in order. In the Senate, debate on a budget reconciliation bill, all amendments, debatable motions, and appeals is limited to not more than 20 hours. After the 20 hours of debate has been reached, consideration of amendments, motions, and appeals may continue, but without debate.

In both chambers, the CBA requires that amendments to reconciliation legislation be deficit neutral and germane. Also, the CBA prohibits the consideration of reconciliation legislation, or any amendment to a reconciliation bill, recommending changes to the Social Security program. Finally, in the Senate, Section 313 of the CBA, commonly referred to as the Byrd rule, prohibits extraneous matter in a reconciliation bill.

## Revenue and Debt-Limit Legislation

Congress may adopt revenue and debt-limit legislation individually. Revenue and debt-limit legislation is under the jurisdiction of the House Ways and Means Committee and the Senate Finance Committee. Article I, Section 7, of the U.S. Constitution, requires revenue legislation originate in the House of Representatives, but the Senate may amend a revenue bill as it chooses.

Most of the laws establishing the federal government's revenue sources are permanent and continue year after year without any additional legislative action. Congress, however, typically enacts revenue legislation, changing some portion of the existing tax system, every year. Revenue legislation may include changes to individual and corporate income taxes, social insurance taxes, excise taxes, or tariffs and duties.

Revenue legislation is not automatically considered in the congressional budget process on an annual basis. Frequently, however, the President proposes and Congress considers changes in the rates of taxation or the distribution of the tax burden. An initial step in the congressional budget process is the publication of revenue estimates of the President's budget by CBO. These revenue estimates usually differ from the President's since they are based on different economic and technical assumptions (*e.g.*, growth of the economy and change in the inflation rate). Estimates of any congressional revenue-policy proposals are prepared by CBO, based on Joint Committee on Taxation revenue estimates, and are published in committee reports or the *Congressional Record*.

The budget resolution includes baseline estimates of federal government receipts based on the continuation of existing laws and any proposed policy changes. The revenue levels in the budget resolution provide the framework for any action on revenue measures during the session. A point of order may be raised against the consideration of legislation that causes revenues to fall below the agreed upon levels for the first fiscal year or the total for all fiscal years in the budget resolution. This point of order may be set aside by unanimous consent, or waived by a special rule in the House or by a three-fifths vote in the Senate.

A Senate PAYGO point of order, under Section 207 of the FY2000 budget resolution (H.Con.Res. 68, 106th Congress), also may be raised against any revenue legislation that would increase or cause an on-budget deficit for the first fiscal year, the period of the first 5 fiscal years, or the following 5 fiscal years, covered by the most recently adopted budget resolution. The point of order may be waived by a vote of three-fifths of Senators, or set aside by unanimous consent.

On January 23, 2002, the Senate began consideration of a scaled-down economic recovery package that included tax-related provisions and an extension of unemployment benefits, among other things. The House last year approved two economic stimulus packages (H.R. 3090 and H.R. 3529) upon which the Senate did not vote. The scaled-down package was introduced by Senator Daschle as an amendment in the nature of a substitute to H.R. 622, a House-passed revenue bill dealing with adoption tax credits that became law as part of other legislation last year. On February 6, after two cloture motions failed to get the required three-fifths vote to end debate on the scaled-down recovery package and a separate amendment, the Senate instead adopted by unanimous consent a stand-alone amendment to

H.R. 622 to provide temporary extended unemployment compensation. The unemployment compensation extension legislation now returns to the House for further action.

Federal debt consists of debt held by the public plus debt held by government accounts. Almost all of the federal debt is subject to a statutory debt limit. The debt held by the public represents the total net amount borrowed from the public to cover the federal government's budget deficits. By contrast, the debt held by government accounts represents the total net amount of federal debt issued to specialized federal accounts, primarily trust funds (*e.g.*, Social Security). Trust fund surpluses by law must be invested in special federal government securities and thus are held in the form of federal debt. Because the statutory limit applies to the combination of both types of debt, budget deficits or trust fund surpluses may contribute to the federal government reaching the existing debt limit. So long as federal budget policy results in an increase in the federal debt, Congress periodically must enact increases to the debt limit.

The most recent increase in the statutory debt limit was enacted in the Balanced Budget Act of 1997 (P.L. 105-33). At the time of passage, the increase to $5.95 trillion was considered sufficient to meet the federal government's financial needs through mid-December 1999. The federal government's surpluses over the last 4 years contributed to the fact that the statutory debt limit has been sufficient beyond this date. However, Treasury Secretary Paul O'Neill reportedly indicated in a December 11, 2001, letter to congressional leaders that the existing debt limit may begin to interfere with the federal government's financial responsibilities "as early as February 2002."[6] Therefore, he requested that Congress raise the debt limit by $750 billion to $6.7 trillion.

## Appropriations and Other Spending Legislation

Federal spending is categorized into two different types: discretionary or direct spending. Discretionary spending is controlled through the annual appropriations acts, while direct spending (which consists mostly of entitlement programs) is determined by existing law.

Discretionary spending is under the jurisdiction of the House and Senate Appropriations Committees. Direct spending is under the jurisdiction of the various legislative committees of the House and Senate. Some entitlement programs, such as Medicaid and certain veterans' programs, are funded in annual appropriations acts, but such spending is not considered discretionary and is not controlled through the annual appropriations process.

The President's budget includes recommendations for the annual appropriations; account and program level detail about these recommendations are included in the *Appendix* volume of the President's budget documents. In addition, agencies submit justification materials to the House and Senate Appropriations Committees. The budget justifications provide more detailed information about an agency's program activities than is contained in the President's

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[6] Bud Newman,"Debt Ceiling Hike Not on House Agenda Before Adjournment, DeLay, Thomas Say," BNA *Daily Report for Executives*, no. 238, December 13, 2001, p. G-3. Also, for more information on the current need to raise the debt limit, see CRS Report RS21111, *The Debt Limit: The Need to Raise It After Four Years of Surpluses*, by Philip D. Winters.

budget documents and are used in support of agency testimony during Appropriations subcommittee hearings on the President's budget request.

Congress passes three main types of appropriations measures. *Regular appropriations acts* provide budget authority for the next fiscal year, beginning on October 1. The 13 subcommittees of the Appropriations Committees of the House and Senate are each responsible for one of the 13 regular appropriations acts. *Supplemental appropriations acts* provide additional funding for unexpected needs while the fiscal year is in progress. *Continuing appropriations acts*, commonly referred to as continuing resolutions, provide stop-gap funding for agencies that have not received a regular appropriations by the start of the fiscal year.

In addition to the 13 regular appropriations acts, Congress typically acts on at least two supplemental appropriations measures during a session. As well, because of recurring delays in the appropriations process, Congress often adopts one or more continuing resolutions each year. In 2001, for example, Congress passed the 13 regular appropriations measures individually, two supplementals, and eight continuing resolutions. In some years, such as in each of the three prior to 2001 (1998-2000), instead of adopting all of the regular appropriations acts individually, Congress combines several of them into an omnibus appropriations measure.

Spending allocations to the Appropriations Committees and other committees accompany the conference report on the budget resolution. Soon after it is adopted, the House and Senate Appropriations Committees subdivide their spending allocations among their subcommittees and formally report these suballocations to their respective chambers. During the appropriations process, these suballocations usually are revised several times.

The House and Senate appropriations subcommittees begin holding extensive hearings on appropriations requests shortly after the President's budget is submitted. By custom, appropriations measures originate in the House. In recent years, the Senate Appropriations Committee has adopted and reported original Senate appropriations measures, allowing the Senate to consider appropriations measures without having to wait for the House to adopt its version. Under this practice, the Senate version is considered and amended on the floor, and then inserted into the House-adopted version, when available, as a substitute amendment, thereby retaining the House-numbered bill for final action.

## Budget Enforcement and Sequestration

The sequestration process was first established in 1985 by the Balanced Budget and Emergency Deficit Control Act, commonly known as the Gramm-Rudman-Hollings Act. Initially, the sequestration process was tied to annual maximum deficit targets established in law, declining to zero by FY1991. If the budget deficit exceeded those target levels (plus a margin-of-error amount in some years), automatic across-the-board spending cuts would be triggered to bring the deficit to within the allowable level. The process was intended to provide an incentive to Congress and the President to reduce the deficit through legislative action to avoid an automatic sequestration. The law was amended and modified in 1987, 1990, 1993, and 1997. Most notably, the Budget Enforcement Act (BEA) of 1990 changed the focus of the sequestration process. Instead of maximum deficit targets, the BEA of 1990 tied sequestration to new statutory limits on discretionary spending and a PAYGO requirement for new direct spending and revenue legislation. The change was intended to hold Congress and the President accountable for projected budget outcomes that would result from new legislation, rather than the level of the deficit which could be affected by factors beyond their direct control, such as economic growth, inflation, and demographic changes.

Currently, adjustable discretionary spending limits exist for the following categories: highway and mass transit spending for FY2002-FY2003; conservation spending (divided into six subcategories) for FY2002-FY2006; and other discretionary spending, also called general purpose discretionary spending, for FY2002. Under the PAYGO requirement, the net effect of new direct spending and revenue legislation enacted for a fiscal year may not cause a positive balance (reflecting an increase in the on-budget deficit or a reduction in the on-budget surplus) on a multiyear PAYGO "scorecard." For each fiscal year, this scorecard maintains the balances of the accumulated budgetary effects of laws enacted during the session and prior years. The PAYGO requirement applies to legislation enacted through FY2002, but it covers the effects of such legislation through FY2006.

The discretionary spending limits and PAYGO requirement are enforced primarily by sequestration, which involves automatic, largely across-the-board spending cuts in non-exempt programs. Sequestration is triggered if the director of the Office of Management and Budget estimates in the final sequestration report that one or more of the discretionary spending limits will be exceeded or the PAYGO requirement will be violated. The President is required to issue a sequestration order cancelling budgetary resources in non-exempt programs by the amount of any spending limit breach or PAYGO violation. A within-session sequestration is possible if a supplemental appropriations bill causes the spending levels of the current fiscal year to exceed the statutory limit for a particular category.[7]

The discretionary spending limits, as well as a PAYGO requirement similar to the statutory one, also may be enforced through points of order while legislation is being considered on the Senate floor. First, Section 312(b) of the 1974 CBA prohibits the consideration of legislation that would cause any of the spending limits to be exceeded. Second, Section 207 of the FY2000 budget resolution (H.Con.Res. 68, 106th Congress), like similar provisions in previous budget resolutions, provides a point of order against any direct spending or revenue legislation that would increase or cause an on-budget deficit for the first fiscal year, the period of the first 5 fiscal years, or the following 5 fiscal years, covered by the most recently adopted budget resolution. Both of these points of order may be waived by a vote of three-fifths of Senators, or set aside by unanimous consent.

**Table 2** provides the timetable for sequestration actions. As indicated, OMB and CBO publish preview and update sequestration reports to provide Congress and the President with advance notice regarding the possibility of a sequester. If one or both types of sequester are anticipated, these reports may afford Congress and the President enough warning so that they

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[7] Under the BEA, if a supplemental appropriations act causes a discretionary spending limit to be exceeded in the last quarter of a fiscal year (i.e., July 1 through September 30), the spending limit for the applicable category for the following fiscal year must be reduced by the amount of the violation. However, this particular procedure will have no effect this year, unless the discretionary spending limits are extended beyond FY2002.

can enact legislation to forestall them. The utility of these reports this year, however, may depend on whether Congress and the President extend the discretionary spending limits and the PAYGO requirement beyond FY2002. Only an OMB within-session (noted above) or final sequestration report can trigger a sequester; the CBO sequestration reports are advisory only.

### Table 2. Timetable for Sequestration Actions

| **Deadline** | **Action to be completed** |
|---|---|
| 5 days before the President's budget submission | CBO sequestration preview report. |
| Date of the President's budget submission | OMB sequestration preview report (as part of the President's budget). |
| August 10 | Notification regarding military personnel. |
| August 15 | CBO sequestration update report. |
| August 20 | OMB sequestration update report. |
| 10 days after end of session | CBO final sequestration report. |
| 15 days after end of session | OMB final sequestration report; presidential sequestration order. |

The BEA enforcement procedures, as well as several enforcement procedures tied to the budget resolution, may be suspended in the event a declaration of war is enacted or if Congress enacts a joint resolution triggered by the issuance of a "low-growth" report by CBO.[8] With regard to the latter, CBO must notify Congress if actual real economic growth was less than 1% or estimated real economic growth is projected to be negative for the most recently reported quarter and the preceding quarter. Upon receiving a low-growth report, the Senate majority leader is required to introduce a joint resolution suspending the enforcement procedures, but such action is optional in the House. On January 30, 2002, CBO issued a low-growth report to Congress (H.Doc. 107-178), and on February 7, the Senate majority leader subsequently introduced a suspension resolution (S.J.Res. 31). The Senate rejected by voice vote the suspension resolution on February 14.

In previous years, Congress and the President have enacted statutory provisions to avoid a sequestration for the upcoming fiscal year or to reduce the likelihood of a sequester in future fiscal years.[9] Most recently, the FY2002 Department of Defense Appropriations Act (P.L. 107-117) included provisions increasing certain discretionary spending limits for FY2002 and changing the PAYGO scorecard balance to zero for FY2001 and FY2002.

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[8] For further information on these suspension provisions, see CRS Report RS20182, *Suspension of Budget Enforcement Procedures During Hostilities Abroad*; and CRS Report RL31068, *Suspension of Budget Enforcement Procedures During Low Economic Growth*, both by Robert Keith.

[9] For detailed information on the several techniques used to avoid a sequester, see CRS Report RL31155, *Techniques for Preventing a Budget Sequester*, by Robert Keith.

Specifically for the discretionary spending limits, Division C, Section 101(a), of P.L. 107-117 increased the budget authority and outlay limits for FY2002 in the general purpose discretionary category to $681.441 billion and $670.206 billion, respectively, and the outlay limit for FY2002 in the conservation spending category to $1.473 billion. In addition, Division C, Section 101(d), of the law authorized an estimating adjustment of 0.12% in the budget authority limit for all categories for FY2002. Such modifications to the discretionary spending limits and PAYGO scorecard effectively prevented an end-of-the-session sequester for FY2002.[10]

## Congressional Hearings, Reports, and Documents

Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2003-2012* (Washington: January 2002). The document is available on CBO's Web site at [http://www.cbo.gov].

Dan L. Crippen, Testimony before the Senate Budget Committee, January 23, 2002. The testimony is available on CBO's Web site at [http://www.cbo.gov]. Identical testimony was given to the House Budget Committee on the same date.

Mitchell E. Daniels, Jr., Testimony before the Senate Budget Committee, February 5, 2002. The testimony is available on the Senate Budget Committee's Web site at [http://www.senate.gov/~budget]. Identical testimony was given to the House Budget Committee on the same date.

Alan Greenspan, Testimony before the Senate Budget Committee, January 24, 2002. The testimony is available on the Senate Budget Committee's Web site at [http://www.senate.gov/~budget].

## Chronology

02-04-2002 – President Bush submitted his FY2003 budget to Congress.

01-31-2002 – CBO released its annual report on budget baseline projections, *The Budget and Economic Outlook: Fiscal Years 2003-2012*.

[10] See Office of Management and Budget, *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2002* (Washington: January 2002).

## FOR ADDITIONAL READING

CRS Report 97-684. *The Congressional Appropriations Process: An Introduction*, by Sandy Streeter.

CRS Report 98-721. *Introduction to the Federal Budget Process*, by Robert Keith and Allen Schick.