



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

OMB

ADMINISTRATOR
OFFICE OF
INFORMATION AND
REGULATORY AFFAIRS

JUL 18 1997

MEMORANDUM FOR ERSKINE BOWLES

FROM: Sally Katzen 

SUBJECT: Heads-up on Report on Benefits and Costs of Federal Regulations

This afternoon there will be "on display" at the Federal Register a draft report to Congress from OMB discussing the costs and benefits of Federal regulations. It will be published in the Federal Register on Monday.

This report was mandated by a Stevens-Levin amendment to last year's Treasury-Postal appropriations bill (this provision had in effect been lifted, but substantially streamlined, from earlier comprehensive regulatory reform bills) with strong bipartisan support. One of the requirements is that we make our report available for public comment before it is actually filed with Congress; that is the step we are taking today (in other words, this is a draft, and we will have an opportunity to make further revisions as necessary before we go final).

Earlier versions of this draft report were circulated to all of the agencies and to everyone we could think of in the White House. Most of the comments we received were highly supportive. The document itself has the "flavor" of an academic piece that discusses the limitations of the available data and limitations on the use of existing data. Nevertheless, the careful reader will find that our measure of the total annual monetized benefits of Federal regulations in 1997 is \$298 billion, while the total annual monetized costs are \$289 billion. If we limit this measurement to "environmental and other social regulations" (i.e., excluding economic regulations), the benefits are \$298 billion and the costs are \$198 billion.

Those who want more information should read the report; I have attached the report's executive summary. I would be happy to answer any questions (5-4852).

cc: Maria Echaveste
Rahm Emanuel
John Hilley
Ann Lewis
Thurgood Marshall, Jr.
Sylvia Mathews
Katie McGinty
Franklin D. Raines
Bruce Reed
Gene Sperling
Janet Yellen
Victoria Radd
Barry Toiv
Michael Waldman
Larry Haas

Draft Report to Congress on the Costs and Benefits of Federal Regulations

Introduction

The Federal Government affects the lives of its citizens in a variety of ways -- through taxation, spending, grants, and loans, and through regulation. Over time, regulation has become increasingly prevalent in our society, and the importance of our regulatory activities cannot now be overstated.

Both proponents and opponents of regulation have resorted to grand characterizations of either the benefits or the costs of regulation, without much substantiation and very little agreement on the underlying facts. In order to help further the debate on the nation's regulatory system, Congress adopted Section 645 of the Treasury, Postal Services and General Government Appropriations Act, 1997 (P.L. 104-208) on September 30, 1996. Section 645(a) directs the Director of the Office of Management and Budget to submit to Congress, no later than September 30, 1997, a report that provides --

- “(1) estimates of the total annual costs and benefits of Federal Regulatory programs, including quantitative and nonquantitative measures of regulatory costs and benefits;
- “(2) estimates of the costs and benefits (including quantitative and nonquantitative measures) of each rule that is likely to have a gross annual effect on the economy of \$100,000,000 or more in increased costs;
- “(3) an assessment of the direct and indirect impacts of Federal rules on the private sector, State and local government, and the Federal Government; and
- “(4) recommendations from the Director and a description of significant public comments to reform or eliminate any Federal regulatory program or program element that is inefficient, ineffective, or is not a sound use of the Nation's resources.”

The request for this report reflected a consensus that it could be productive to assemble the information available, and acknowledge the data gaps and the limits of the information at hand, all for the purpose of improving the quality of the debate. The goals of this statutory charge are worthwhile and important, but also very ambitious. Having spent a considerable amount of time, we must acknowledge at the outset that what we present is neither a complete response to the mandate, nor in many respects as much as we would have liked to have done had we had more time and resources. But it is, we believe, a useful step in the process and will enable, we hope, a more constructive dialogue on this issue.

To be more specific, we found enormous data gaps in the information available on regulatory benefits and costs. Accurate data is particularly sparse on benefits, a fact that has been noted often by commentators in the literature and analysts in the field. We were not surprised by this finding. First, the limited quantified or monetized data is partly a result of the obvious technical difficulties, many of which we will discuss below (e.g., the problem of establishing baselines or valuing qualities not generally traded in the marketplace). Just as important, however, are the significant "cultural" or "philosophical" barriers to reducing values, equities, and a myriad of physical or emotional effects to dollars and cents. There are few agreed upon conventions for doing this, and agencies are understandably reluctant to spend scarce time and resources on what may be perceived as a not very informative exercise. This is compounded by the belief of some that it is morally or politically difficult or wrong to engage in such seemingly uncaring calculations. Some also fear a tyranny of numbers -- that is, "if it is quantified, the decision will necessarily be determined solely by the numbers." Their understandable response is not to quantify or monetize.

Nevertheless, the fact remains that explicitly quantifying and monetizing benefits and costs significantly enhances the consideration of alternative approaches to achieving regulatory goals, ultimately producing more benefits with fewer costs. As explained more fully below, President Clinton's Executive Order 12866, "Regulatory Planning and Review," recognizes and incorporates this principle, requiring agencies to quantify both costs and benefits to the best of their ability and to the extent permitted by law. This report takes up the challenge of the Executive Order and Section 645 and candidly presents the available information on both the total costs and benefits of regulation and the costs and benefits of the recent major individual regulations. We hope that this is just the beginning of an important dialogue to improve our knowledge about the effects of regulation on the public, the economy, and American society.

This document is only a draft of our report. Section 645(b) requires the Director of OMB to provide public notice and an opportunity to comment on the report before it is submitted to Congress at the end of September 1997. Accordingly we seek comments on all aspects of this document, but in particular are interested in comments and suggestions pertaining to the following:

- The validity and reliability of the quantitative and qualitative measures of the costs and benefits of regulations in the aggregate, as well as of the individual regulations discussed;
- Our discussion of the direct and indirect effects of regulation;
- Any additional studies that might provide reliable estimates or assessments of the annual costs and benefits, or direct and indirect effects, of regulation in the aggregate or of the individual regulations issued between April 1, 1996, and March 31, 1997, that we discuss; and;
- Programs or program elements on which there is objective and verifiable information that

would lead to a conclusion that such programs are inefficient or ineffective and should be eliminated or reformed.

All comments received will be carefully considered in preparing the final report that will be submitted to Congress.

The draft report is divided into four chapters: chapter I sets the context and provides the background for the next three chapters. It discusses the development of our regulatory system and demonstrates the breadth of activity that is called regulation, which ranges from economic regulation such as price supports of agricultural products to social regulation such as the protection of workers and the environment. It tracks the use of benefit-cost analysis to evaluate specific regulations, with the recognition of the limits of quantification and its permitted use under the law. Chapter I concludes by presenting the outline of the "best practices" guidance that the current regulatory review program under Executive Order 12866 uses in conducting economic analyses and estimating costs and benefits of economically significant regulations.

In accordance with Section 645(a)(1), chapter II presents our best estimate of the total costs and benefits of Federal regulation. We use a well recognized, peer reviewed study (Hahn and Hird 1991) for the costs and benefits of regulations as of 1988, supplemented by an Environmental Protection Agency (EPA) report to Congress (*Cost of Clean* 1990); we then add information about costs and benefits from agency regulatory impact analyses (RIAs) for regulations that have been issued since 1988. In almost all cases, the RIAs have gone through notice and comment and been reviewed by OMB for accuracy and reliability. The figures derived are approximately \$200 billion in annual costs and \$300 billion in annual benefits for environmental and social regulation and about \$90 billion in annual costs and nominal benefits for economic regulation. While this information is useful, we cannot over emphasize the limitations of these estimates for use in making recommendations about reforming or eliminating regulatory programs. As discussed in this chapter, aggregate estimates of the costs and benefits of regulation offer little guidance on how to improve the efficiency, effectiveness or soundness of the existing body of regulation. This chapter also discusses the possible indirect effects of regulation on the economy as directed by Section 645(a)(3) and concludes that the effects are ambiguous theoretically, not well understood empirically, and offer little content for making recommendations about regulatory policy.

In fulfillment of Section 645(a)(2), chapter III provides data on the costs and benefits of each of the economically significant regulations reviewed by OMB under Executive Order 12866 over the period from April 1, 1996, to March 31, 1997. These data were developed by the agencies as required by the Executive Order. For the most part, these data were subject to notice and public comment and reviewed by OMB. We conclude that although the agency analyses described in Chapter III provide much useful information on Federal regulatory programs and provisions of regulations, there should be further improvement in providing high quality data and analyses before decisions about modifying regulatory programs can be made.

Chapter IV provides recommendations aimed at further developing the information, methodologies, and analyses necessary for improving the efficiency, effectiveness and soundness of regulatory programs and program elements as required by Section 645(a)(4). We also propose several ways for the agencies and OMB to work together to improve the quality of the data and analysis found in the economic impact studies submitted to OMB under Executive Order 12866, including "best practices" training sessions and interagency peer reviews of selected regulatory programs.



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

March 11, 1997
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

H.R. 852 - Paperwork Elimination Act of 1997 (Talent (R) MO)

The Administration supports the goal of encouraging agencies to use electronic submission, maintenance, and disclosure of information in order to reduce paperwork burdens on small businesses and other members of the public. Although legislation is not necessary to accomplish this goal, the Administration has no objection to House passage of H.R. 852, as reported by the House Small Business Committee.

The Paperwork Reduction Act of 1995 (P.L. 104-13) and the Information Technology Management Reform Act of 1996 (P.L. 104-106) already encourage and direct agencies to collect and use information through electronic and other technical means where it makes programmatic and economic sense to do so.



EXECUTIVE OFFICE OF THE PRESIDENT
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WASHINGTON, D.C. 20503

THE DIRECTOR
M-97-08

February 26, 1997

MEMORANDUM FOR HEADS OF DEPARTMENTS AND AGENCIES

FROM: Franklin D. Raines 
Director

SUBJECT: The Census 2000 Long Form

In December 1992, the Office of Management and Budget, with the assistance of the Bureau of the Census, initiated a comprehensive survey of Federal agency needs for data from the decennial census short and long forms. We have been working with the agencies since that time to clarify and update their decennial census data requirements. By April 1 of this year, the Bureau of the Census must submit to the Congress its recommended list of topics for inclusion in Census 2000.

The Attachment compares the data collected in 1990 and the current draft of the data to be collected in 2000, according to whether it is "mandatory," "required," or "programmatic." You have previously provided information on how you would use long form data. As part of our continuing review, we need complete and up-to-date information regarding the consequences to your agency and its programs if data in the current draft of the long form were not collected in Census 2000. Specifically:

- If the data were not collected in Census 2000, would your agency need to initiate new data collections to carry out mandated responsibilities? If so, include estimates for the budgetary costs and the public burden of these collections, and describe their utility for carrying out your programs.
- If the data were not collected in Census 2000, and if the data could not be obtained through other means, how would the absence of this data impact the agency's ability to carry out its program responsibilities?

Please provide your agency's response by March 14, 1997, to Katherine K. Wallman, Chief Statistician, Office of Management and Budget, NEOB, Room 10201, Washington, DC 20503; with a copy to Martha Farnsworth Riche, Director, Bureau of the Census, Washington, D.C. 20233.

If your staff have any questions, please contact either Nancy Kirkendall (Office of Management and Budget at 202-395-7313) or Louisa Miller (Bureau of the Census at 301-457-2073).

Thank you for your continued cooperation in this effort.

Attachment

Summary of Federal Agency Decennial Census Data Needs (Population Subjects)

Mandatory (M) -- Decennial census data are specifically cited in legislation.

POPULATION SUBJECTS	STATUS	100-PERCENT		SAMPLE	
		1990	2000	1990	2000
Age	M	✓	✓	✓	✓
Sex	M	✓	✓	✓	✓
Relationship	M	✓	✓	✓	✓
Race	M	✓	✓	✓	✓
Hispanic Origin	M	✓	✓	✓	✓
Marital Status	M	✓	to sample	✓	✓
Place of Birth	M			✓	✓
Citizenship	M			✓	✓
Year of Entry	M			✓	✓
Education	M			✓	✓
Language Spoken at Home	M			✓	✓
Veteran Status	M			✓	✓
Journey to Work	M			✓	✓
Place of Work	M			✓	✓
Income	M			✓	✓
Grandparents as Caregivers ¹	M				NEW
Support Expenditures and Health Coverage ²	Potential M				NEW

¹ Added based on Public Law 104-193 and would include questions to identify grandparents who have primary responsibility for care of grandchildren.

² To implement the proposed redefinition of poverty, this subject would include questions on child support and alimony payments and health insurance coverage.

Summary of Federal Agency Decennial Census Data Needs (Population Subjects)

Required (R) – Data on topics are required:

- 1) by law (although not specifically decennial census data), and decennial census data are the only source, or the source historically used or
- 2) to fill case law requirements imposed by the U.S. Federal court system.

POPULATION SUBJECTS	STATUS	100-PERCENT		SAMPLE	
		1990	2000	1990	2000
Ancestry	R			✓	✓
Disability	R			✓	✓
Residence 5 Years Ago (Migration)	R			✓	✓
Labor Force Status	R			✓	✓
Industry	R			✓	✓
Occupation	R			✓	✓
Class of Worker	R			✓	✓
Work Status Last Year	R			✓	✓

Programmatic (P) – Data are used for program planning, implementation, evaluation, or to provide legal evidence.

[The (?) indicates that these subjects are considered most likely to be excluded from the 2000 census because they do not have an explicit legislative requirement. The Bureau plans to evaluate each subject below on a case-by-case basis to decide whether to recommend the subject in 2000.]

POPULATION SUBJECTS	STATUS	100-PERCENT		SAMPLE	
		1990	2000	1990	2000
Children Ever Born (Fertility)	P			✓	?
Year Last Worked ³	P			✓	?

³ Used with questions on industry, occupation, and class of worker to screen out people who do not need to answer these questions and to identify the specific segment of the population classified as the experienced civilian labor force.

Summary of Federal Agency Decennial Census Data Needs (Housing Subjects)

Mandatory (M) – Decennial census data are specifically cited in legislation.

HOUSING SUBJECTS	STATUS	100-PERCENT		SAMPLE	
		1990	2000	1990	2000
Rooms	M	✓	US to sample	✓	✓
Tenure (Owner or Renter)	M	✓	✓	✓	✓
Farm Residence	M			✓	✓
Vehicles Available	M			✓	✓
Year Structure Built	M			✓	✓
Household Noncash Benefits ¹	Potential M				NEW

¹ To implement the proposed redefinition of poverty, this subject would include questions on public housing, food stamps, school lunch programs, and energy assistance.

Summary of Federal Agency Decennial Census Data Needs (Housing Subjects)

Required (R) — Data on topics are required:

- 1) by law (although not specifically decennial census data), and decennial census data are the only source, or the source historically used or
- 2) to fill case law requirements imposed by the U.S. Federal court system.

HOUSING SUBJECTS	STATUS	100-PERCENT		SAMPLE	
		1990	2000	1990	2000
Units in Structure	R	✓	✗ to sample	✓	✓
Value of Home	R	✓	✗ to sample	✓	✓
Monthly Rent	R	✓	✗ to sample	✓	✓
Bedrooms	R			✓	✓
Plumbing Facilities	R			✓	✓
Kitchen Facilities	R			✓	✓
Telephone	R			✓	✓
House Heating Fuel	R			✓	✓
Year Moved Into Unit	R			✓	✓
Shelter Costs (incl. Utilities)	R			✓	✓

Programmatic (P) — Data are used for program planning, implementation, evaluation, or to provide legal evidence.

[The (?) indicates that these subjects are considered most likely to be excluded from the 2000 census because they do not have an explicit legislative requirement. The Bureau plans to evaluate each subject below on a case-by-case basis to decide whether to recommend the subject in 2000.]

HOUSING SUBJECTS	STATUS	100-PERCENT		SAMPLE	
		1990	2000	1990	2000
Source of Water	P			✓	?
Sewage Disposal	P			✓	?
Condominium Status	P			✓	?



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THE DIRECTOR

February 26, 1997

M-97- 07

MEMORANDUM FOR HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

FROM: Franklin D. Raines 

SUBJECT: Multiagency Contracts Under the Information Technology Management Reform Act of 1996

This memorandum authorizes agencies to enter into multiagency contracts for information technology and sets forth good management practices to be followed by agencies that do so.

Authority:

Section 5124(a)(2) of the Information Technology Management Reform Act of 1996 (ITMRA), 40 U.S.C. 1424(a)(2), states that an Executive agency may "enter into a contract that provides for multiagency acquisitions of information technology in accordance with guidance issued by the Director." The accompanying Conference Report, H.Rep. 104-450, states that "the requirements and limitations of the Economy Act, and other provisions of law, apply to these multiagency acquisitions." Accordingly, to the extent practicable, and consistent with the requirements of the Economy Act, 31 U.S.C. 1535, and other relevant provisions of law, agencies may permit use of their contracts by other agencies and award contracts for multiagency use.

This guidance is limited to multiagency contracts issued by agencies pursuant to Section 5124(a)(2) of ITMRA. Under Section 5124(a)(3) of ITMRA, 40 U.S.C. 1424(a)(3), the Director may authorize an agency to enter into a multiagency contract for procurement of commercial items of information technology that requires each agency covered by the contract either to procure the items under that contract or to justify an alternative source of the items. Similarly, under Section 5112(e) of ITMRA, 40 U.S.C. 1412(e), the Director may designate one or more heads of Executive agencies as executive agents for government-wide acquisitions of information technology. The CIO Council is encouraged to identify appropriate candidates. This guidance does not apply to contracts under Sections 5124(a)(3) and 5112(e).

Policy:

The ITMRA provides agencies the flexibility to acquire information technology effectively and efficiently. Multiagency contracts permit aggregation of agency demand to encourage vendors to offer the best possible prices, and they serve to reduce the overhead associated with multiple acquisitions, particularly by smaller agencies. In order to realize these benefits, a management

commitment commensurate with the potential size of the contracts is essential. This is especially important because customer demand can be difficult to anticipate, and could potentially exceed the agency's ability to manage the contracts, which could disrupt business relationships among agency customers and vendors.

Agency heads must, with regard to multiagency contracts:

- assure that their Chief Information Officers and Senior Procurement Executives work together to assign responsibilities and establish clear lines of accountability;
- see that the agency component conducting the acquisition has established effective contract management systems and has an adequately trained and sized staff available to administer the resulting contracts;
- monitor the progress of the contracts and ensure that adequate management resources continue to be devoted, particularly if the contracts prove to be unexpectedly popular or otherwise begin to strain existing management resources;
- assure agency compliance with Federal Acquisition Regulation section 16.504(a) by setting an initial dollar or quantity limit on such contracts; and,
- consider placing an initial limit on the amount of interagency usage, subject to periodic adjustment (either upward or downward) depending on the agency component's demonstrated ability to adequately manage the contracts in light of the volume of orders received.

Additional Information:

If you need further information regarding this guidance, please contact the Office of Information and Regulatory Affairs, (202) 395-3785. If you need information regarding procurement-related issues, please contact the Office of Federal Procurement Policy, (202) 395-3501.

OMB continues to review procurement-related matters on the use of multiagency contracts and will issue additional guidance in the future as appropriate. This memorandum supersedes OMB Memorandum M-96-36, issued August 6, 1996.



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WASHINGTON, D.C. 20503

THE DIRECTOR

MARCH 29, 1995

OFFICE MEMORANDUM 95-20

MEMORANDUM FOR OMB STAFF

FROM: Alice M. Rivlin
Director

SUBJECT: Branch Organizational Structure in GGF

I have approved several changes in the branch organizational structure in the General Government and Finance Resource Management Office. The new structure is as follows.

Transportation, Commerce, Justice and Services Division

Ken Schwartz, Deputy Associate Director
Transportation Branch (Branch Chief vacant)
Commerce Branch (Branch Chief vacant)
Justice/GSA Branch (David Haun, Branch Chief)

Housing, Treasury and Finance Division

Alan Rhinesmith, Deputy Associate Director
Housing Branch (Steve Redburn, Branch Chief)
Treasury Branch (Harry Meyers, Branch Chief)
Financial Institutions Branch (Branch Chief vacant)

Vacancy announcements for the vacant branch chief positions will be posted immediately.



EXECUTIVE OFFICE OF THE PRESIDENT
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THE DIRECTOR

March 28, 1995

OFFICE MEMORANDUM 95-19

MEMORANDUM FOR OMB STAFF

FROM: Alice M. Rivlin *AMR*
Director

SUBJECT: Changes in the Front Office

In an effort to increase the effectiveness of OMB and the efficiency of my own office, I am asking three people to take on major new responsibilities. The three "new faces," however, are ones that most of you already know.

First, Jack Lew is moving from his position of Associate Director for Legislative Affairs to Executive Associate Director. This is a position with a long and distinguished history, and it has been pivotal in the operation of OMB. In his new role Jack will be working on policy issues across-the-board and should be copied on all substantive material that is sent in to me. Jack will continue to reside in 243 OEOP and be reached on x54790.

Second, Chantale Wong is returning to OMB after a short stint at the EPA assisting Carol Browner. Chantale will be working directly with me on planning and organizing my schedule and priorities, as well as helping manage my activities generally. She will be located in 251 OEOP and can be reached on x59180.

Third, Jill Blickstein is coming across the street on detail from the Health Division. Jill will be assisting me with research and writing, developing policy issues, and generally helping Jack, Chantale and me keep on top of things. Jill will also be located in 251 OEOP and can be reached on x55883.

Please join me in welcoming these outstanding OMB veterans to the Director's Office and offer them any assistance you can in getting our job done more effectively.



EXECUTIVE OFFICE OF THE PRESIDENT
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 WASHINGTON, D.C. 20503

March 29, 1995

Circular No. A-76 (Revised)
 Transmittal Memorandum No. 14

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

SUBJECT: Performance of Commercial Activities

This Transmittal Memorandum updates the Federal pay raise assumptions and inflation factors used for computing the Government's in-house personnel and non-pay costs, as provided in the President's Budget for Fiscal Year 1996.

The following factors should be applied per paragraph C pages IV-6 and IV-7 of the OMB Circular A-76 Supplemental Cost Comparison Handbook (August 1983).

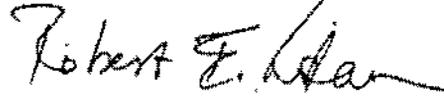
<u>Federal Pay Raise Assumptions</u>	<u>Inflation Factors</u>
<u>Effective Date</u>	<u>Civilian</u>
January 1995	2.0
January 1996	2.4
January 1997	3.1
January 1998	2.1
January 1999	2.1
January 2000	2.1

Non-Pay Categories (Supplies and Equipment, etc.)

FY 1994	2.7
FY 1995	2.9
FY 1996	3.0
FY 1997	3.1
FY 1998	3.1
FY 1999	3.1
FY 2000	3.1

Geographic pay differentials received in 1995 and prior years shall be included for the development of in-house personnel costs. The above pay raise factors shall be applied after consideration is given to the geographic pay differentials. The pay raise factors provided for 1996 and beyond shall be applied to all employees, with no assumption being made as to how they will be distributed between possible locality and ECI-based increases.

These revisions are effective as follows: all changes in the Transmittal Memorandum are effective immediately and shall apply to all cost comparisons in process where the Government's in-house cost estimate has not been publicly revealed before this date.



Robert E. Litan
Associate Director for
General Government and Finance



EXECUTIVE OFFICE OF THE PRESIDENT
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WASHINGTON, D.C. 20503

THE DIRECTOR

March 28, 1995

M-95-08

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Alice M. Rivlin *AMR*
SUBJECT: Performance Partnerships

The President's FY 1996 Budget includes several proposals that dramatically change the way the Federal government works with States to achieve the goals we share. These "Performance Partnerships," which we have proposed in the areas of environmental protection, public health, and housing, among others, represent a fundamentally new way of doing business. Neither the block grants of the early 1980s and the myriad narrow categorical programs that exist today integrate flexibility and accountability. In contrast, Performance Partnerships are an opportunity for the Federal government and the States to exchange funding restrictions for a new, incentive-based focus on performance and outcomes.

Performance partnerships work best: (1) when the Federal Government intends that services be delivered at State and local levels, (2) where there is shared agreement among Federal, State and local partners about national goals and objectives, and (3) where progress toward the goals and objectives can be measured.

Performance partnerships consolidate funding streams and eliminate overlapping authorities, create incentives to reward desirable results and reduce micromanagement and wasteful paperwork. They begin to move programs away from process and focus on outcomes and outputs as the basic measure of success. The partnerships seek to empower communities to make their own decisions about how to address their needs, and to be held accountable for results.

During the second phase of reinventing government, one of the major questions that we are asking is whether or not the work we do in Washington can be done better by States, localities or private citizens. You should use the attached "Performance Partnerships - Summary and Guiding Principles" as a set of "*rebuttable presumptions*" as you design performance partnerships in your agency.

Our goal must be to dramatically restructure the relationship between the Federal Government and the States and localities to create stronger partnerships. Performance partnerships provide a new opportunity to provide States and localities more flexibility to solve their problems, in return for more accountability for results.

Attachment

PERFORMANCE PARTNERSHIPS

SUMMARY

WHAT IS A PERFORMANCE PARTNERSHIP?

- CONSOLIDATED PROGRAMS WITH
 - INCREASED FLEXIBILITY
 - ACCOUNTABILITY FOR PERFORMANCE

WHERE DO THEY MAKE SENSE?

- IF PROGRAMS ARE DELIVERED AT STATE AND LOCAL LEVELS,
- THERE IS SHARED AGREEMENT ON GOALS AND OBJECTIVES, AND
- YOU CAN MEASURE RESULTS.

HOW ARE THEY DIFFERENT FROM BLOCK GRANTS?

- OUTCOMES (NOT PROCESS) ARE THE PRINCIPAL MEASURE OF SUCCESS, AND
- FUNDS AND FLEXIBILITY ARE TIED TO IMPROVED PERFORMANCE

HOW ARE THEY "PARTNERSHIPS"?

- FEDERAL, STATE, AND LOCAL GOVERNMENTS AND PROVIDERS JOINTLY DESIGN THE PROGRAM AND MEASURE PROGRAM RESULTS
- PARTNERS WORK TOGETHER TO REMOVE BARRIERS TO SUCCESS

PERFORMANCE PARTNERSHIPS

Guiding Principles

Current Federal grant system.

A great deal of the current grant system has broken down in a tangle of good intentions gone awry. There are too many funding categories, suffocating regulations and paperwork, misdirected emphasis on remediating rather than preventing problems, and no clear focus on measurable outcomes. The system stifles initiative and squanders resources without achieving sufficient results. Performance partnerships offer improvements to the current system.

What is a performance partnership?

Performance partnerships provide increased flexibility on how a program is run in exchange for increased accountability for results.

- Increased flexibility includes:
 - consolidated funding streams
 - elimination of micro-management,
 - devolved decision-making (national goals and objectives, with much more flexibility for State and local partners to determine HOW these are achieved), and
 - reduced wasteful paperwork.

- Increased accountability for results means the partners will:

begin to treat outcomes and outputs as the basic measure of success (e.g., teenage pregnancy rate rather than number of visits to a clinic), and create funding and other incentives to reward desirable results and performance towards results.

Where do performance partnerships make sense?

Performance partnerships work best:

- When the Federal Government intends to deliver services at State and local levels,
- Where there is shared agreement among Federal, State and local partners about national goals and objectives, and
- Where progress toward the goals and objectives can be measured.

Checklist of Guiding Principles for Designing a Performance Partnership

A number of key characteristics should be considered in designing and implementing performance partnerships:

1. Program consolidations
2. Partnership
3. Increased Flexibility
4. Improved Accountability
5. Measuring Performance
6. Performance Incentives
7. Shift in the Locus of Decision-making
8. Administrative Simplification
9. Administrative Savings
10. Implementation
11. Entitlement Programs

The checklist which follows contains principles which build upon the description of the Administration's six proposed "performance partnerships" in the President's FY 1996 Budget (see pages 152-154). The guiding principles should be regarded as "*rebuttable presumptions*":

- (a) In any policy arena in which there is a strong national interest and a history of Federal grants and other assistance to State and local governments, agencies should give strong consideration to developing one or more performance partnerships.
- (b) If a proposed performance partnership is not consistent with a particular principle, there should be a compelling argument about how the program is otherwise addressing local needs, stops micromanagement, and holds its partners accountable for results.

1. Program consolidations

- Proposals should restructure current grant program authorizations to consolidate programs and/or funding streams and eliminate overlapping authorities:
- Every effort should be made to merge funding streams which now force recipients to wastefully isolate administration and delivery of one program from another to avoid being penalized by auditors.

2. Partnership

- Federal, State and local partners should jointly design the partnership and the strategies to implement it.
- Performance partnerships should accommodate different program strategies with different State and local partners.

3. Increased Flexibility

- Performance partnerships should:
 - Promote multiple approaches to meeting national objectives,
 - Allow federally-funded activities to be fully integrated with State,

local, and provider activities, and

Allow flexibility so that State and local institutional forces and incentives achieve the desired results.

- If State plans are necessary, multiple "State Plan" requirements should be replaced with one "community-based strategic plan." Such a plan would outline basic strategies and tactics, and accommodate much more diversity from community-to-community and state-to-state than existing approaches.

- Partnerships should:

- Minimize "required" service requirements, and
- Provide multi-year funding.

4. Improved Accountability

- Federal agencies and State or local partners should develop, communicate, and monitor measurable program goals and report progress toward achieving them:

- Think in terms of shared accountability.

- Performance partnerships should focus on *outputs* and *outcomes* (real results) rather than detailed assessment of the

inputs and process used by States and localities:

- An emphasis on results means, for example, concentrating on getting cleaner air (not the existence of State environmental regulations) or whether educational goals are being achieved (not the level of school expenditures).

- Notwithstanding increased flexibility, performance partnerships will maintain Constitutional and critical, national public policy requirements:

- Non-discrimination requirements, for example, will apply.

5. Measuring Performance

- Performance partnerships should be structured, managed, and evaluated on the basis of *results* (i.e., progress in terms of agreed upon measures of performance).

- Performance measures will typically include a mix of outcome and output measures, including both measures of progress toward national goals and measures of important negative consequences that are likely to result from program activities.

- Partnerships should focus on *outcomes* (not *process*) as the principal criteria by which to measure success.

- Authorizing legislation should include a statement of:

"National goals and objectives" that the partnership seeks to help achieve; and

For example: "parental responsibility."

Types of "performance information" that would indicate what types of information would indicate progress toward the national goals and objectives.

For example: "paternities established"

- The Federal agency should be authorized to develop national goals and objectives where the authorizing legislation does not specify them.

For example: "The Secretary shall, in conjunction with the States, local governments, providers and consumers, develop national goals and objectives."

- "Performance measures" and performance targets should *not* be incorporated in authorizing legislation.

For example: "The Secretary shall, in conjunction with States, local

governments, providers and consumers, develop and update measures for determining State or local performance in achieving progress toward the national goals and objectives."

Accordingly, performance measures and targets should be:

- Mutually developed by the partners, or
- In the case of certain core indicators, developed by the Federal Government in consultation with grantees, and supplemented with indicators mutually agreed to by the grantees.
- Refined over time in consultation with the grantees.

Performance measures require specification of at least the following:

- (1) Type of performance information.
- (2) Data source (or sources).
- (3) Acceptable levels of precision and accuracy.
- (4) Domains of estimations (e.g., States, counties, etc.)
- (5) Frequency of data collection.

(6) Time period covered.

For example: for "paternities established"

(1.1) Percentage of new welfare cases for which paternities have been established, for each fiscal year cohort of new welfare recipients.

(1.2) Percentage of the total welfare caseload for which paternities have been established, as of the close of each fiscal year.

(2) Selected welfare system case records and information obtained through external quality control review.

(3) Total estimation error not to exceed 7% at the county level and/or 1% at the State level.

(4) The sample design must support precision and accuracy requirements for State (county) level estimates or for the population generally (e.g., the entire sample may be allocated across the State, "n" cases allocated per county, or even "n" cases per 1,000 per county).

(5) Annually.

(6) The last fiscal year.

For example: "The Secretary shall, in conjunction with the States, local governments, providers and consumers, develop individual performance agreements which specify the program goals and objectives, program performance measures, performance targets, and the timeframes for achieving the performance targets."

Assessing progress:

The authorizing legislation should include a requirement that the Federal agency work with the partners to develop a system for assessing the extent of progress toward national objectives.

For example: "The Secretary shall, in conjunction with the States, local governments, providers and consumers, develop a system for assessing the extent of progress toward the national objectives."

At least annually, the partners should assess the level of performance achieved, the extent to which performance meets or exceeds agreed-on performance targets, and the extent to which performance has changed over time. These reports should acknowledge the influence of important external factors that may

Performance agreements:

Federal agencies should develop individual performance agreements with each State/locality receiving funds.

have affected the performance levels achieved.

From time to time, annual performance reports should be supplemented by program evaluations that estimate the net program impacts caused by the program. These program evaluations would use research designs to estimate the difference that the program makes (i.e., the difference between (a) the actual performance levels achieved, and (b) the performance levels that would have been achieved in the absence of the program).

- **Data collection:**

The partners will have to identify or develop data systems to define and assess "results" and "improvement in results."

For example: "The Secretary is authorized to withhold up to 5 percent of the amount appropriated to the program to support the development and updating of data systems tied closely to the national goals; the development of performance agreements with States; and data quality assurance and data quality improvement; and research and development of performance measurement methodology."

Partners should consider whether and how to get data that is generalizable, and consistent among and within States overtime.

- **Refining the measures over time:**

It is expected that the performance measurement process and indicators will evolve over time, as Federal agencies and grantees develop greater experience with this approach.

6. Performance Incentives

- Agencies should consider whether funds should be allocated in part on performance (but other factors such as need may also be determinants, including population, poverty, disease incidence, morbidity, and mortality, as appropriate).

- Partners should be recognized and rewarded for success -- both high performance and improved performance.

- Recipients should be rewarded for achieving ambitious, rather than readily-attainable, performance targets.

- Some portion of the funding should be based on actual performance:

Some portion of funding should be available to the Federal agency as an incentive for States and localities that make improvement.

For example: "The Secretary is authorized to reserve up to 10 percent of the funds to be used for performance incentive awards for recipients making progress toward meeting national goals."

"Up to" is important, since it will first be necessary to get a sensible measurement system in place, before attempting to award performance incentives.

Rewards should not be directed toward only "exceptional" performance, but allow the Secretary to reward high or improved performance (i.e., "progress toward achieving national goals").

- High-performing States and localities should be rewarded with additional flexibility or reduced matching requirements.
- Similarly, disincentives should include reduced flexibility:

A requirement to shift funds into practices successfully used by high performing States and localities, or Requirements for additional commitments of State or local resources, or Reduction or termination of Federal funding.

- Partners should avoid punishing innovation and experimentation:

Keep in mind: no one is accountable for results now under the current system.

- Since there is shared accountability for results, Federal agencies should also respond to problems by providing technical assistance about promising practices:

For example: "The Secretary shall provide technical assistance to the States to help them expand and improve"

- States and localities should be held harmless for cases where outcomes are not achieved despite the use of best practices (given the current state of knowledge).

7. Shift in the Locus of Decision-making

- The partners should decide largely on the "What" and leave

most of the "How" to States and localities.

micro-management, and wasteful paperwork:

- Performance partnerships should seek to empower communities to make their own decisions about how to address their needs, and to be held accountable for results.
- Front-line, local-level providers should have greater flexibility and responsibility for service design, delivery, and results.
- Partnerships should permit customers and beneficiaries to shape programs to better match their individual needs -- by giving them voice, choice, and the means to integrate services from multiple providers.
- Recipient jurisdictions should have flexibility to set local benchmarks that are consistent with national program goals.

8. Administrative Simplification

- Partners will seek to reduce barriers to success.
- Partnerships should resemble "performance contracts" (i.e., contract for measurable results) rather than traditional cost-reimbursement, "level-of-effort" grants.
- Performance partnerships should reduce Federal regulation of inputs, and avoid

-- Rigid and costly program restrictions should be eliminated.

- Procedural, detailed, application, financial management, auditing, and expenditure reporting requirements should be eliminated or simplified to permit comprehensive service delivery;

-- The focus should be "Is the community achieving measurable results that indicate progress toward national goals?" -- rather than "Were the dollars spent on the identified problem?"

- -- Federal agencies should, to the extent feasible, establish or negotiate performance targets, rather than specify the manner of compliance that States or localities must adopt.

- Reporting and monitoring should focus on performance (outcomes and outputs that indicated progress toward strategic goals) rather than inputs.

9. Administrative Savings

- Administrative savings should be realized through consolidation and program and administrative simplification:

Consolidated planning requirements, for example, should enable more integrated services with less overhead.

- Eligibility may need to be simplified, for example, to transform public assistance offices from bureaucratic eligibility offices into family support and job preparation centers linking a range of services.

10. Implementation

- Proposals should consider:

Phased-in implementation, initially, shifting toward performance partnerships with self-selected or "volunteer" States/local partners that are ready.

- There may be a need to set specific common measures, but allow for flexibility for local circumstances:

Measures should be both population- and client-based.

- Partnership proposals should accommodate different degrees of devolution between Federal, and various State and local governments.

11. Entitlement Programs

- Performance partnerships for entitlement programs might:

Initially allocate funds to States to match what they currently receive,
Adjust over time for growth of poverty population and inflation,
Authorize the Secretary to provide extra funds to States during economic downturns,
As an incentive (since funding levels are fixed), permit high-performing States to re-direct their matching funds.

OMB Sequestration Update Report to the President and Congress

August 19, 1994



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

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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.



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

THE DIRECTOR

August 19, 1994

The President
The White House
Washington, DC 20500

Dear Mr. President:

Enclosed please find the OMB Sequestration Update Report to the President and Congress. It has been prepared in accordance with the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177), as amended by the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (Public Law 100-119), the Budget Enforcement Act of 1990 (Public Law 101-508), and the Omnibus Budget Reconciliation Act of 1993 (Public Law 103-66).

As required by law, the report includes updates of the discretionary spending limits, a summary of enacted legislation affecting direct spending and receipts, calculations of the maximum deficit amount, and comparisons with the estimates provided by the Director of the Congressional Budget Office in his report. The report estimates that no sequestration is necessary based on legislation enacted as of August 16, 1994. Whether sequestration may ultimately be necessary depends, of course, on subsequent Congressional action. A final sequestration report will be issued 15 days after the Congress adjourns.

Sincerely,

Alice M. Rivlin
Acting Director

Enclosure

Identical Letters Sent to Honorable Albert Gore,
and Honorable Thomas S. Foley

I. INTRODUCTION :

The Budget Enforcement Act of 1990 (BEA) was enacted into law as part of the Omnibus Budget Reconciliation Act of 1990. Through fiscal year 1995, the Act established annual limits on discretionary spending, a pay-as-you-go requirement that subsequent legislation affecting direct spending or receipts not increase the deficit, and maximum deficit amounts. Compliance with these three constraints is enforced by across-the-board sequestration (reduction) of non-exempt spending. The BEA requirements for discretionary spending and pay-as-you-go legislation were extended through 1998 by the Omnibus Budget Reconciliation Act of 1993 (OBRA93).

The BEA requires OMB to issue sequestration reports periodically during the year for discretionary spending, pay-as-you-go legislation, and the deficit. This includes a sequestration update report that is to be issued no later than August 20th of each year. This report provides OMB's updated estimates, reflecting legislation enacted and signed into law by the President as of August 16, 1994. As required by the BEA, the estimates use the same economic and technical assumptions contained in the President's FY 1995 Budget, which was transmitted to Congress on February 7, 1994.

II. DISCRETIONARY SEQUESTRATION REPORT

Discretionary programs are, in general, those that have their funding levels established annually through the appropriations process. The scorekeeping guidelines accompanying the BEA identify accounts with discretionary resources. The BEA limits budget authority and outlays available for discretionary programs. Appropriations that cause either the budget authority or outlay limits—also known as caps—to be exceeded trigger a sequester to eliminate any such breach. There is no requirement that the full amount available under the discretionary limits be appropriated. Table 1 is a summary of all changes to the caps since they were set in 1990.

Adjustments to the discretionary limits.—Table 2 shows the impact on the discretionary limits of adjustments permitted by section 251(b) of the BEA. Adjustments authorized under section 251(b)(1) include those for differences between actual and projected inflation and for changes in concepts and definitions. These adjustments were shown in the sequestration preview report included in the President's FY 1995 Budget and are included in the preview report limits in Table 2.

Section 251(b)(2) of the BEA authorizes adjustments that can be made after appropriations have been enacted. Table 2 includes those adjustments that can be made now due to legislation enacted to date, as well as adjustments that would be made assuming enactment of the President's proposals. The actual adjustments to be included in the final sequestration report at the end of this year's session of Congress cannot be determined until all appropriations have been enacted. The section 251(b)(2) adjustments include:

- *Internal Revenue Service (IRS) funding.*—Funding for the IRS compliance initiative above the Congressional Budget Office (CBO) baseline levels estimated in June 1990. Adjustments are limited to the bud-

et authority and outlay amounts specified in the law.

- *Emergency appropriations.*—Funding for amounts that the President designates as "emergency requirements" and that the Congress so designates in statute. Since the February 7th preview report, an additional \$10.7 billion has been enacted and designated by the President and Congress as "emergency requirements." Most of these funds are related to emergency relief following the Northridge, California earthquake.

The BEA also provides special allowances for budget authority and outlays. Two separate budget authority allowances may be provided for 1994 and 1995, together with an adjustment for outlays associated with one of the allowances, calculated using spendout rates contained in the BEA. For 1994 through 1998, the BEA also provides for an additional budget authority allowance equal to 0.1 percent of the adjusted limit on total discretionary budget authority for the budget year.

Another adjustment is the special outlay allowance. The dollar amounts of the special outlay allowance for 1991 through 1995 are specified in the BEA. The annual allowances for 1994 and 1995 are \$6.5 billion. The outlay allowances through 1995 are reduced by the outlays associated with the budget authority allowances. For 1996 through 1998, the outlay allowances are equal to 0.5 percent of the adjusted discretionary outlay limit.

Status of 1994 discretionary appropriations.—Table 3 summarizes the status of enacted 1994 discretionary appropriations relative to the discretionary caps. Enacted budget authority and outlays are within the caps.

Status of 1995 discretionary appropriations.—Table 4 shows preliminary OMB scoring of the latest House, Senate, and completed action for 1995 appropriations bills. Discretionary budget authority and outlays based on OMB scoring of House action to date are below

the caps for 1995 by \$10.3 billion and \$1.1 billion, respectively. Based on Senate action, budget authority is \$8.9 billion and outlays are \$0.5 billion below the caps. No sequester would be required if the levels described here were enacted.

In accordance with section 255(h) of the BEA, the President has exempted military personnel accounts from sequestration in the event that a sequester is required.

Comparison between OMB and CBO discretionary limits.—Section 254(d)(5) of the BEA requires an explanation of differences between OMB and CBO estimates for the discretionary spending limits. Table 5 compares OMB and CBO limits for 1994 through 1998. CBO uses the discretionary limits from OMB's February 7th sequestration preview report as a starting point for the adjustments made in its sequestration update report.

OMB and CBO have different estimates of budget authority for emergency funding enacted since February. CBO scores budget authority for contingent appropriations in the fiscal year in which it is appropriated. OMB scores budget authority for only those contingent appropriations officially requested for release by the President and designated by the President as emergency requirements.

OMB and CBO also have different estimates of the outlay effects of the emergency funding enacted since February. The largest differences in 1994 and 1995 are in the Federal Emergency Management Agency's Disaster Relief Fund. OMB assumes a faster spendout of the emergency appropriations for this program than does CBO. Additional detail on emergency funding estimating differences between OMB and CBO is available in the separate report issued February 17, 1994, subsequent to enactment of the bill providing emergency relief for the California earthquake.

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

		1991	1992	1993	1994	1995
TOTAL DISCRETIONARY						
Statutory Caps as Set in OBRA 1990	BA	491.7	503.4	511.5	510.8	517.7
	OL	514.4	524.9	534.0	534.8	540.8
Adjustments for changes in concepts and definitions	BA		7.7	8.2	8.2	8.8
	OL		1.0	2.4	2.3	3.0
Adjustments for changes in inflation	BA		-0.5	-5.1	-9.5	-11.8
	OL		-0.3	-2.5	-5.8	-8.8
Adjustments for credit reestimates, IRS funding, debt forgiveness, and IMF	BA	0.2	0.2	13.0	0.6	0.5
	OL	0.3	0.3	0.8	0.8	0.7
Adjustments for emergency requirements	BA	0.9	8.3	4.6	11.1	
	OL	1.1	1.8	5.4	8.7	5.8
Adjustments for special allowances: Discretionary new budget authority	BA		3.5	2.9	2.9	
	OL		1.4	2.2	2.6	1.3
Outlay allowance	BA					
	OL	2.6	1.7	0.5	0.8	
Subtotal, adjustments excluding Desert Shield/Desert Storm	BA	1.1	19.2	23.6	13.3	-2.5
	OL	3.9	5.9	8.8	9.6	2.0
Adjustments for Operation Desert Shield/Desert Storm	BA	44.2	14.0	0.6	*	*
	OL	33.3	14.9	7.6	2.8	1.1
Total adjustments	BA	45.4	33.2	24.2	13.3	-2.5
	OL	37.2	20.8	16.4	12.4	3.0
Update report discretionary spending limits	BA	537.1	536.6	535.7	524.1	515.2
	OL	551.6	545.7	550.4	547.1	543.8

* Less than \$50 million.

Table 2. DISCRETIONARY SPENDING LIMITS
(In millions of dollars)

		1994	1995	1996	1997	1998
Total discretionary spending limits, February 7, 1994 Preview Report	BA	513,363	515,178	518,631	527,555	530,092
	OL	542,708	539,636	547,318	546,879	547,055
Adjustments:						
Emergency supplemental appropriations (P.L. 103-211)	BA	9,069				
	OL	3,536	3,700	1,143	609	41
Contingent emergency appropriations released	BA	1,643				
	OL	905	502	145	73	14
Subtotal, adjustments	BA	10,712				
	OL	4,441	4,202	1,288	682	55
Update Report discretionary limits	BA	524,075	515,178	518,631	527,555	530,092
	OL	547,149	543,838	548,606	547,561	547,110
Anticipated further adjustments for the Final Sequestration Report:						
IRS funding	BA		188			
	OL		184			
Special allowances	BA		2,880			
	OL		1,438	753	396	134
Estimated discretionary spending limits for the Final Sequestration Report ¹	BA	524,075	518,246	518,631	527,555	530,092
	OL	547,149	545,460	549,359	547,957	547,244

¹ The February 7, 1994 Preview Report also displayed an estimated adjustment for the proper accounting of retirement costs. This change in accounting, which is supported by the Administration, would result in a cap adjustment after enactment of the implementing legislation.

Table 3. STATUS OF 1994 DISCRETIONARY APPROPRIATIONS
(In millions of dollars)

	BA	Outlays
TOTAL DISCRETIONARY		
Adjusted discretionary spending limits ¹	524,075	547,149
Total enacted	509,159	546,544
Appropriations over/under (-) spending limits	-14,916	-605

¹ Spending limits adjusted pursuant to section 251 of the BEA, including \$822 million for the use of the special outlay allowance.

Table 4. SUMMARY OF 1995 APPROPRIATIONS ACTION
(In millions of dollars)

	HOUSE			SENATE		
	BA	Outlays		BA	Outlays	
Agriculture, Rural Development	13,314	13,900	F	13,335	13,886	F
Commerce, Justice, State and the Judiciary	26,068	24,551	F	26,736	24,910	F
Defense	243,259	249,929	F	243,414	250,155	F
District of Columbia	712	712	A	712	712	A
Energy and Water Development	20,482	20,630	A	20,482	20,630	A
Foreign Operations	13,634	13,648	A	13,634	13,648	A
Interior and Related Agencies	13,482	13,808	F	13,373	13,742	F
Labor, HHS, Education	69,727	69,675	F	70,089	69,796	F
Legislative Branch	2,367	2,419	E	2,367	2,419	E
Military Construction	8,836	8,520	A	8,836	8,520	A
Transportation and Related Agencies	13,569	36,160	F	13,740	36,332	F
Treasury, Postal Service, and General Government	11,543	11,978	F	11,774	11,989	F
Veterans Affairs, HUD, Independent Agencies	70,717	74,060	F	70,709	73,850	F
FY 1995 effects of the FY 1994 emergency supplemental appropriations and emergency contingency releases ¹ ..		4,202			4,202	
Total discretionary	507,710	544,192		509,201	544,791	
IRS compliance initiative funding	188	184		188	184	
Total discretionary with IRS funding	507,898	544,376		509,389	544,975	
Estimated end-of-session discretionary caps	518,246	545,460		518,246	545,460	
CONGRESSIONAL ACTION OVER/UNDER (-)						
CAPS	-10,348	-1,084		-8,857	-485	

Notes:
 Detail may not add to totals due to rounding.
 F = Floor action
 A = Conference Agreement
 E = Enacted

¹ Emergency appropriations will be included in OMB's final scoring of affected bills. Outlays from emergency appropriations enacted or released since February are shown by bill below:

	1995 Outlays
Agriculture, Rural Development	236
Commerce, Justice, State and the Judiciary ..	331
Defense	190
Energy and Water Development	36
Interior and Related Agencies	14
Labor, HHS, Education	113
Transportation and Related Agencies	779
Veterans Affairs, HUD, Independent Agencies	2,504
Total emergency outlays	4,202

Table 5. COMPARISON OF OMB AND CBO DISCRETIONARY SPENDING LIMITS

(In millions of dollars)

	1994	1995	1996	1997	1998
CBO Update Report limits:					
BA	524,492	515,178	518,631	527,556	530,092
OL	545,961	543,591	549,380	547,672	547,507
OMB Update Report limits:					
BA	524,076	515,178	518,631	527,555	530,092
OL	547,149	543,838	548,606	547,561	547,110
Difference:					
BA	417				
OL	-1,188	-247	774	111	897

III. PAY-AS-YOU-GO SEQUESTRATION REPORT

Pay-as-you-go enforcement procedures apply to direct spending and receipts legislation. Direct spending is defined as entitlement authority, the food stamp program, and budget authority provided by laws other than appropriations acts. The BEA enforcement procedures specify that receipts or direct spending legislation should not increase the deficit. If it does, offsetting reductions in the deficit must be enacted in other legislation. Otherwise, an across-the-board sequestration of non-exempt mandatory spending is triggered. The sequester would occur 15 days after Congress adjourns to end a session. Social Security, the Postal Service, legislation specifically designated as "emergency requirements" according to 252(e) of the BEA, and legislation providing full funding of the Government's deposit insurance guarantee commitment, are not subject to pay-as-you-go enforcement.

Within five days after the enactment of direct spending or receipts legislation, OMB is required to submit a report to Congress estimating the change in outlays or receipts resulting from that legislation for each fiscal year through 1998. The estimates must use the same economic and technical assumptions contained in the most recent President's budget. Each year in its final sequestration report, OMB adds the estimates in all pay-as-you-go reports together to determine the need for a sequester. If, in total, the combined deficits for the budget year and the preceding fiscal year have been increased by pay-as-you-go legislation, that increase must be offset by sequestration.

In its preview report for 1995, OMB reported that pay-as-you-go legislation enacted as of December 31, 1993, had reduced the combined 1994 and 1995 deficit by \$1.0 billion. As Table 6 shows, OMB estimates that legislation

enacted subsequent to December 31st reduced the combined deficits for 1994 and 1995 by an additional \$0.5 billion. The pay-as-you-go balances currently available for 1995 are \$1.5 billion.

Pending legislation.—Several pay-as-you-go bills were cleared for the President. However, as of August 16, 1994, he has yet to take action. Because these bills are not yet law, their impact on the deficit is not taken into account in this report. Current OMB estimates of bills pending Presidential action are shown in Table 7.

Comparison with CBO estimates.—The BEA requires the pay-as-you-go sequestration update report issued by OMB to explain the differences between OMB and CBO estimates of enacted direct spending and receipt legislation. Since the CBO report uses OMB estimates for legislation enacted prior to the calendar year 1993, the only differences relate to legislation enacted this year.

CBO estimates that pay-as-you-go legislation enacted this year decreased the deficits for 1994 and 1995 by a total of \$0.2 billion, \$0.3 billion less than OMB estimate for these two years. Most of the difference is due to the Federal Workforce Restructuring Act of 1994. CBO scored the impact of the buyout program on Federal retirement benefits. OMB considered the change in retirement outlays to be indirect because the Act made no changes to the Federal retirement law. In addition, CBO's estimate of Multifamily Housing Property Disposition Reform Act of 1994 was \$0.1 below the OMB estimate. Additional detail on estimating differences between OMB and CBO is available in the separate reports issued subsequent to enactment of each bill.

Table 6. DEFICIT IMPACT OF PAY-AS-YOU-GO-LEGISLATION ENACTED AS OF AUGUST 16, 1994
(In millions of dollars)

Report Number	Act Title	Change in the fiscal year baseline deficit						
		1993	1994	1995	1996	1997	1998	1994-98
Legislation enacted prior to OBRA 1993:								
1 to 158	Total impact of all bills:							
	OMB estimate	-2,684	-912	-803	0	0	0	-1,715
	CBO estimate	-2,280	36	331	0	0	0	367
Legislation enacted following OBRA 1993 to end of 1st session, 103rd Congress:								
159 to 201	Total impact of post OBRA bills to end of 1st session:							
	OMB estimate	-12	916	-166	-450	-469	-1,114	-1,283
	CBO estimate	-12	1,067	-196	-367	-422	-1,028	-946
Legislation enacted in the 2nd session of the 103rd Congress:								
202	Technology-Related Assistance for Individuals with Disabilities Act of 1994 (P.L. 103-218; H.R. 2339):							
	OMB estimate	0	0	0	0	0	0	0
	CBO estimate (CBO did not classify this as PAYGO).							
203	Food Stamp Program Improvements Act of 1994 (P.L. 103-225; S. 1926):							
	OMB estimate	0	0	0	0	0	0	0
	CBO estimate	0	0	0	0	0	0	0
NA	Federal Workforce Restructuring Act of 1994 (P.L. 103-226; H.R. 3345):							
	OMB estimate (OMB did not classify this as PAYGO).							
	CBO estimate	0	10	174	96	-120	-160	0
204	Goals 2000: Educate America Act (P.L. 103-227; H.R. 1804):							
	OMB estimate	0	0	0	0	0	0	0
	CBO estimate	0	0	0	0	0	0	0
205	National Fish and Wildlife Foundation Establishment Act Amendments (P.L. 103-232; S. 476):							
	OMB estimate	0	0	0	0	0	0	0
	CBO estimate	0	0	0	0	0	0	0
206	Multifamily Housing Property Disposition Reform Act of 1994 (P.L. 103-233; S. 1299):							
	OMB estimate	0	-476	0	0	0	0	-476
	CBO estimate	0	-410	0	0	0	0	-410
207	Extending Federal Family Education Loan Program Eligibility to Certain Postsecondary Institutions (P.L. 103-235; S. 2004):							
	OMB estimate	0	6	12	12	12	6	48
	CBO estimate	0	3	6	5	5	1	19
208	Foreign Relations Authorization Act, FYs 1994 and 1995 (P.L. 103-236; H.R. 2333):							
	OMB estimate	0	-2	-4	-4	1	1	0
	CBO estimate	0	-2	-4	4	1	1	0

Table 6. DEFICIT IMPACT OF PAY-AS-YOU-GO-LEGISLATION ENACTED AS OF AUGUST 16, 1994—Continued
(In millions of dollars)

Report Number	Act Title	Change in the fiscal year baseline deficit						
		1993	1994	1995	1996	1997	1998	1994-96
209	Temporary Customs Duty Suspension for Certain World Athletic Events (P.L. 103-237; H.R. 4066):							
	OMB estimate	0	-*	-*	-*	-*	0	-*
	CBO estimate	0	0	0	0	0	0	0
210	Marine Mammal Protection Act Amendments of 1994 (P.L. 103-238; S. 1636):							
	OMB estimate	0	6	-*	-2	-2	-1	1
	CBO estimate	0	4	3	-2	-1	-1	3
211	School to Work Opportunities Act of 1994 (P.L. 103-239; H.R. 2884):							
	OMB estimate	0	0	0	0	0	0	0
	CBO estimate	0	0	0	0	0	0	0
212	Rio Grande Designation Act of 1994 (P.L. 103-242; S. 376):							
	OMB estimate	0	0	0	0	0	0	0
	CBO estimate	0	0	0	0	0	0	0
213	Clear Creek County Colorado, Public Lands Transfer Act (Public 103-253; H.R. 1134):							
	OMB estimate	0	0	0	0	0	0	0
	CBO estimate	0	0	0	0	0	0	0
214	Forest Service Land Exchange with Eagle and Pitkin Counties, Colorado (P.L. 103-255; S. 341):							
	OMB estimate	0	0	0	0	0	0	0
	CBO estimate	0	0	0	0	0	0	0
215	Freedom of Access to Clinic Entrances Act of 1994 (P.L. 103-269; S. 636):							
	OMB estimate	0	0	-*	-*	-*	-*	-*
	CBO estimate	0	0	0	0	0	0	0
216	Independent Counsel Reauthorization Act of 1994 (P.L. 103-270; S. 24):							
	OMB estimate	0	0	0	0	0	0	0
	CBO estimate	0	0	2	2	2	2	8
217	Railroad Right-of-Way Conveyance Validation Act (Private Law 103-2; H.R. 1183):							
	OMB estimate	0	0	0	0	0	0	0
	CBO estimate	0	0	0	0	0	0	0
218	Foss Under Perishable Agricultural Commodities Act (P.L. 103-276; H.R. 4681):							
	OMB estimate	0	0	0	0	0	0	0
	CBO estimate	0	0	0	0	0	0	0
219	Export Administration Act Extension (P.L. 103-277; H.R. 4835):							
	OMB estimate	0	0	0	0	0	0	0
	CBO estimate (CBO did not classify this as PAYGO)							
220	Twin Falls Landfill Act of 1994 (P.L. 103-281; S. 1402):							
	OMB estimate	0	0	0	0	0	0	0
	CBO estimate	0	0	0	0	0	0	0

Table 6. DEFICIT IMPACT OF PAY-AS-YOU-GO-LEGISLATION ENACTED AS OF AUGUST 16, 1994—Continued
(In millions of dollars)

Report Number	Act Title	Change in the fiscal year baseline deficit						
		1993	1994	1995	1996	1997	1998	1994-98
221	Disregarding Payments to Nazi Victims as Income for Federal Assistance Programs (P.L. 103-286; H.R. 1873):							
	OMB estimate	0	0	1	1	1	1	4
	CBO estimate	0	0	1	1	1	0	3
222	For the relief of Melissa Johnson (Private Law 103-3; H.R. 572):							
	OMB estimate	0	-*	0	0	0	0	-*
	CBO estimate	0	0	0	0	0	0	0
223	Navy Vessel Transfer Authorization Act (P.L. 103-296; H.R. 4429):							
	OMB estimate	0	-24	-3	-3	-2	-2	-33
	CBO estimate (CBO did not classify this as PAYGO)							
224	Social Security Independence and Program Improvements Act of 1994 (P.L. 103-296; H.R. 4277):							
	OMB estimate	0	0	-18	-4	-12	-61	-95
	CBO estimate	0	0	-10	-23	-58	-330	-419
225	Telemarketing and Consumer Fraud and Abuse Prevention Act (P.L. 103-297; H.R. 668):							
	OMB estimate	0	0	-*	-*	-*	-*	-*
	CBO estimate	0	0	0	0	0	0	0
	Subtotal, legislation enacted in 2nd session of the 103rd Congress:							
	OMB estimate	0	-490	-12	9	-2	-55	-551
	CBO estimate	0	-395	171	83	-168	-487	-796
	Total, legislation enacted:							
	OMB estimate	-2,696	-486	-981	-441	-471	-1,169	-3,548
	CBO estimate	-2,292	708	306	-284	-590	-1,515	-1,374
Memorandum:								
	Legislation enacted since OBRA 93:							
	OMB estimate	-12	426	-178	-441	-471	-1,169	-1,834
	CBO estimate	-12	672	-25	-284	-590	-1,515	-1,742

* \$500,000 or less.

**Table 7. DEFICIT IMPACT OF PAY-AS-YOU-GO LEGISLATION AWAITING
PRESIDENTIAL ACTION AS OF AUGUST 16, 1994**
(OMB estimates, in millions of dollars)

Bill Number	Act Title	Change in the fiscal year baseline deficit					
		1994	1995	1996	1997	1998	1994-98
H.R. 2249	Federal Trade Commission Act Authorizations	0	*	*	*	*	*
H.R. 2739	Federal Aviation Administration Authorization Act	0	0	0	0	0	0
H.R. 3474	Community Development Banking and Financial Insti- tutions Act ¹ .						

Note: The listing and all estimates in the table are preliminary and subject to change. As required by the BEA, OMB will issue final estimates within five days of enactment of all bills determined to be pay-as-you-go.

* \$500,000 or less
¹ Not yet available

IV. DEFICIT SEQUESTRATION REPORT

The BEA specified maximum deficit amounts through 1995. These deficit amounts reflected economic and technical assumptions as of the time the BEA was enacted. As allowed by the BEA, each January, the maximum deficit amounts were adjusted to reflect up-to-date economic and technical assumptions.

The maximum deficit amounts reflect the "on-budget" current law levels for direct spending and receipts, and the spending limits for discretionary programs. They do not include "off-budget" mandatory outlays for Social Security and the Postal Service. As Table 8 shows, the current estimated deficit is below the maximum deficit amount for 1995. There is no excess deficit, and thus no sequester is required.

The BEA requires a comparison of the OMB and CBO estimates of the maximum deficit amount for the budget year to be included in this report. The CBO estimate for the maximum deficit amount is \$250.4 billion, \$6.7 billion above the OMB estimate. Compared to previous update reports, this difference is relatively minor. As Table 9 shows, virtually all of the difference is due to the CBO's estimate of receipts, which is \$7.3 billion below the OMB estimate. While there are several offsetting outlay differences, the net difference is only \$0.6 billion. Both the OMB and CBO estimates are based on the economic and technical assumptions developed last winter. They do not reflect the economic and technical revisions that OMB issued in July or the revisions that CBO will issue within a month.

Table 8. MAXIMUM DEFICIT AMOUNTS
(In billions of dollars)

	1995
Current Estimated Deficit	242.6
Less: Maximum Deficit	243.7
Subtotal	-1.1
Excess deficit	0.0
Note: Current Estimated Deficit and Maximum Deficit amount include emergencies.	

**Table 9. DIFFERENCES BETWEEN OMB AND
CBO MAXIMUM DEFICIT AMOUNTS**
(In billions of dollars)

	1995
OMB maximum deficit amounts	243.7
Receipts (deficit impact)	7.3
Outlays:	
Discretionary	-0.2
Mandatory:	
Commodity Credit Corporation	-1.8
Housing Credit liquidating accounts	1.8
Deposit insurance	-1.0
Medicare	2.1
Supplemental Security income	-1.7
Veterans benefits and services	-1.3
Other mandatory	-0.7
On-budget interest	2.2
Subtotal mandatory differences	-0.4
Total, outlay differences	-0.6
Total, differences	6.7
CBO Maximum deficit amounts	250.4