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DOCUMENT NO. & TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. Memo	To POTUS from Leon Panetta re: bipartisan commission on budget savings, 2p (partial)	10/29/93	P5

RESTRICTIONS

P1 National security classified information [(a)(1) of the PRA].
P2 Relating to appointment to Federal office [(a)(2) of the PRA].
P3 Release would violate a Federal statute [(a)(3) of the PRA].
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

PRM Personal records misfile defined in accordance with 44 USC 2201 (3).

B1 National security classified information [(b) (1) of the FOIA].
B2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
B3 Release would violate a Federal statute [(b)(3) of the FOIA].
B4 Release would disclose trade secrets or confidential commercial financial information [(b)(4) of the FOIA].
B6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA].
B7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
B8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
B9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

NOV 1 - REC'D

Document No. 043079

WHITE HOUSE STAFFING MEMORANDUM

DATE: 10/30/93 ACTION/CONCURRENCE/COMMENT DUE BY: ----

SUBJECT: PANETTA MEMO RE: BIPARTISAN COMMISSION ON BUDGET SAVINGS file

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☑	PASTER	☐	☑
McLARTY	☐	☑	RASCO	☐	☑
NEEL	☐	☐	RUBIN	☐	☑
PANETTA	☐	☐	SEGAL	☐	☐
BAGGETT	☐	☐	SEIDMAN	☐	☐
EMANUEL	☐	☐	STEPHANOPOULOS	☐	☑
GEARAN	☐	☑	TYSON	☐	☑
GERGEN	☐	☑	VARNEY	☐	☐
GIBBONS	☐	☐	WATKINS	☐	☐
HALE	☐	☑	WILLIAMS	☐	☐
HERMAN	☐	☑	______	☐	☐
LAKE	☐	☐	______	☐	☐
LINDSEY	☐	☑	______	☐	☐
McGINTY	☐	☐	______	☐	☐
MYERS	☐	☐	______	☐	☐
NUSSBAUM	☐	☐	______	☐	☐

REMARKS:

The attached has been forwarded to the President.

RESPONSE:

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
Ext. 2702

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

THE DIRECTOR

October 29, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: Leon E. Panetta

SUBJECT: Bipartisan Commission on Budget Savings

The purpose of this memo is to outline the remaining steps necessary to implement an executive order creating a Bipartisan Commission on Budget Savings.

Remaining Issues

Supermajority

Senator Kerry has agreed that a 3/5ths (60%) vote of the Commission members is appropriate to ensure that the recommendations are made with bipartisan support.

Report to National Economic Council

The executive order would require the Commission to report to the National Economic Council, which would then advise you of its recommendations with respect to the report. This is intended to keep you a step removed from the Commission report once it is issued.

Reporting Date

The recommended reporting date is March 1. This would give the Commission almost four months to work; its recommendations would follow the submission of the Administration's FY 1995 budget in February and would precede congressional consideration of a FY 1995 budget resolution.

THIS FORM MARKS THE FILE LOCATION OF ITEM NUMBER ___1___ LISTED IN THE WITHDRAWAL SHEET AT THE FRONT OF THIS FOLDER.

THE FOLLOWING PAGE HAS HAD MATERIAL REDACTED. CONSULT THE WITHDRAWAL SHEET AT THE FRONT OF THIS FOL DER FOR FURTHER INFORMATION.

Attached is a copy of the proposed executive order with the issues above highlighted.

Congressional Appointments

The following are some likely appointments to the Commission from the congressional leadership:

Speaker Foley - Budget Committee Chairman Martin Sabo, Chairman Dingell, either Tim Penny or Charlie Stenholm and possibly a member of the Black Caucus.

Minority Leader Michel - Budget Committee ranking member John Kasich, Dick Armey and possibly a moderate such as Alex McMillan of North Carolina;

Majority Leader Mitchell - Budget Committee Chairman Sasser, Carol Mosely-Braun, Bob Kerry, and Diane Feinstein;

Minority Leader Dole - Senator Domenici, John Danforth, Phil Gramm, Trent Lott, and Hank Brown.

Presidential Appointments

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<u>Announcement</u>

The announcement and signing of the Executive Order creating the Commission should be made at the joint leadership meeting next week. Prior to the announcement, you should call the following:

1. Senators Kerry and Danforth to ask that they serve as chairman and vice-chairman of the Commission.

2. House and Senate leadership, particularly Senator Dole and Bob Michel and ask that they submit their names within one week of the announcement.

3. Staff will prepare a statement on the importance of establishing the Commission and why it complements your efforts on the budget, reinventing government and health care reform.

EXECUTIVE ORDER

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BIPARTISAN COMMISSION ON BUDGET SAVINGS

By the authority vested in me as President by the Constitution and the laws of the United States of America, including the Federal Advisory Committee Act, as amended (5 U.S.C. App.), and in order to establish a Bipartisan Commission on Budget Savings, it is hereby ordered as follows:

Section 1. Establishment. (a) There is established the Bipartisan Commission on Budget Savings ("Commission"). The Commission shall comprise [34] members to be appointed by the President. Ten members shall be Senators, five each from the Democratic and Republican parties. Ten members shall be Members of the House of Representatives, five each from the Democratic and Republican parties. Ten members shall be individuals, other than Senators or Members of the House, who have experience and expertise in the areas to be considered by the Commission. [The remaining four members, who shall be non-voting ex officio members, shall be the Speaker of the House, the House Minority Leader, the Majority Leader of the Senate and the Republican Leader of the Senate.]

(b) The President shall designate a Chairperson and Vice-chairperson from among the members of the Commission.

Sec. 2. Functions. (a) The Commission shall recommend potential long-term budget savings measures involving (1) revisions to statutory entitlement and other mandatory programs and (2) alternative tax reform proposals. The Commission shall report its recommendations respecting potential entitlement and other mandatory program savings and tax system revisions to [the National Economic Council] and to the Congressional leadership by March 1, 1994. [The National Economic Council shall advise the President of its recommendations with respect to the Report of the Commission.]

(b) The Commission shall decide by a [three-fifths] vote which recommendations to include in the Report. At the request of any Commission member, the Report will include that Commission member's dissenting views or opinions.

(c) The Commission may, for the purposes of carrying out its functions, hold such hearings and sit and act at such times and places, as the Commission may find advisable.

Sec. 3. Administration. (a) To the extent permitted by law, the heads of executive departments, agencies, and independent instrumentalities shall provide the Commission, upon request, with such information as it may require for the purposes of carrying out its functions.

(b) Upon request of the Chairperson of the Commission, the head of any Federal agency or instrumentality shall, to the extent possible and subject to the discretion of such head, (1) make any of the facilities and services of such agency or instrumentality available to the Commission; and (2) detail any of the personnel of such agency or instrumentality to the Commission, to assist the Commission in carrying out its duties.

(c) Members of the Commission shall serve without compensation for their work on the Commission. While engaged in the work of the Commission, members appointed from among private citizens of the United States may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by law for persons serving intermittently in the Government service (5 U.S.C. 5701-5707) to the extent funds are available for such purposes.

(d) To the extent permitted by law and subject to the availability of appropriations, the [Department of Health and Human Services] shall provide the Commission with administrative services, funds, facilities, staff, and other support services necessary for the performance of the Commission's functions. The

Secretary of [Health and Human Services] shall perform the functions of the President under the Federal Advisory Committee Act, as amended (5 U.S.C. App.) ("Act"), except that of reporting to the Congress, in accordance with the guidelines and procedures established by the Administrator of General Services.

(e) The Commission shall adhere to the requirements set forth in the Act. All executive branch officials assigned duties by the Act shall comply with its requirements with respect to the Commission.

Sec. 4. General Provision. The Commission shall terminate 30 days after submitting its Report.

THE WHITE HOUSE,

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

THE DIRECTOR

June 21, 1994

MEMORANDUM FOR CAROL RASCO
MARCIA L. HALE

FROM: Leon E. Panetta
Director

SUBJECT: Tribal Consultation and the FY 1996 Budget

During the President's April 29th meeting with tribal leaders for all the federally recognized tribes, the President emphasized his commitment to enhancing executive branch consultation with tribal governments prior to taking actions that affect the recognized tribes. This commitment was taken as part of the President's broader directive to ensure that the Federal Government operates within a government-to-government relationship with federally recognized tribes.

As you know, in partial response to the President's instructions, a first ever National American Indian Listening Conference was held in Albuquerque, New Mexico, on May 4-6th, co-chaired by Attorney General Janet Reno and Secretary of the Interior Bruce Babbitt. Though the conference provided recognized tribes additional opportunity to raise important issues, the forum also has raised tribal expectations relative to further consultation and, particularly, a likelihood of increased funding for tribal programs in FY 1996 and beyond.

Attached is a summary of the consultation activities that OMB and the agencies have engaged in to date with respect to the FY 1996 budget process and a proposed action plan for next steps (see Attachments A and B). Our main objective with respect to the Bureau of Indian Affairs (BIA) and the Indian Health Service (IHS), the two agencies that encompass most of the funding for tribal activities, is to strengthen the existing consultation process, rather than creating a new process. I suggest we further discuss appropriate next steps for consultation and how we might diminish increased funding expectations among the tribes.

Should you have questions concerning the attached next steps in tribal consultation, please contact Nancy-Ann Min (x5-5178) or T. J. Glauthier (x5-4561).

Attachments

cc: Lorretta Avent
Donsia Strong
Mike Schmidt

Attachment A
6/16/94

IMPROVING THE TRIBAL CONSULTATION PROCESS BETWEEN TRIBES AND HEALTH AND HUMAN SERVICES AND THE DEPARTMENT OF THE INTERIOR

Following up on the President's meeting with tribal leaders, as well as the Director's meeting with tribal leaders, OMB staff have been working with the Departments of Health and Human Services (HHS) and the Interior (DOI) and tribes to improve the budget consultation process.

Strategy: Rather than create a new process, we seek to improve the existing Indian Health Service (IHS) and Bureau of Indian Affairs (BIA) tribal consultation process. OMB staff may attend some of the tribal meetings as observers, but would not initiate a separate tribal Federal budget process.

OMB staff would continue to be accessible to tribal calls and visits, and continue to work closely with HHS, the Public Health Service (PHS), and DOI regarding tribal concerns.

Finally, WH Intergovernmental Affairs (Loretta Avent) has suggested that it may be appropriate and desirable for the Director to meet once again with a group of Tribal leaders, possibly in a July time frame. The objective of such a meeting would be to better frame the context of the President's April 29 meeting and to lower Tribes' expectations by explaining the FY 1996 Budget both in terms of dollar limitations and the current process, which gives greater authority to Departments in carrying out Presidential priorities. OMB staff will proceed with the necessary scheduling coordination to set up such a meeting.

THE BIA BUDGET PROCESS AND OMB INVOLVEMENT IN CONSULTATIONS: CHRONOLOGY OF COMPLETED EVENTS AND NEXT STEPS

- October 1993 -- BIA provided each tribe with information on the overall level of Tribal Priority Allocation (TPA) funding contained in the FY 1995 budget submission to OMB. With this information, tribes know in advance how much of the Department's request would be allocated to their tribe.

- February 1994 -- Shortly after submission of the President's FY 1995 Budget to Congress, BIA informed each tribe of the total amount of funding they would receive, on a program by program basis. This tribal allocation is completed for the BIA's congressional justification.

- February 17 -- Briefing on the budget process given by the National Congress of American Indians (NCAI). This was arranged by WH Intergovernmental Affairs, and attended by Beard and PAD, Nancy-Ann Min. At this session it was requested that tribes and the NCAI become much more involved in the budget process.

- February 18 -- NCAI meeting with the Director at which tribes again emphasized the need for increased consultation.

- April 26 -- Tribal Environmental Issues Briefing (attended by various tribes, EPA, Glauthier, Tuccillo). Tribes presented requests for increased funding for EPA planning grants and to be given the authority to run EPA programs on their own.

- April 29 -- The Director and the Secretaries of HHS and HUD met with Tribal leaders prior to the President's meeting. Session was introduced by the Vice President.

- April 29 -- President's meeting with the leaders of all Federally recognized tribes.

- May 4-6 -- National American Indians Listening Conference in Albuquerque (Beard attended).

- May 9 -- Health PAD, Nancy-Ann Min and Bill Dorotinsky met with HHS and IHS staff to discuss enhancement of the IHS consultation process. NRD, Beard, also attended.

- May 9-11 -- BIA/Tribal National Budget Meeting in Springfield, VA (James and Kodl attended).

- May 17 -- NRD (James and Kodl) held follow-up discussion with Dorotinsky on the BIA consultation process and how BIA and IHS can better coordinate their consultation efforts. NRD will now facilitate a dialogue between the two agencies with the goal of making their approaches more consistent and/or concurrent and more responsive to tribal interests.

- May 19 -- OMB Housing Branch staff and NRD, Kodl, attended the first interagency meeting on a HUD proposed Native American Financing Authority. Follow-up meetings during the week of May 23rd will be attended by Kodl or Beard.

- May 20 -- NRD and Health Division staff will meet with IHS to discuss the IHS consultation process, improvements they want to make, and how such improvements may be modeled on the BIA process. BIA and DOI budget staff will also attend. At this session, we will stress the importance of each agency designating a "point person" that will be responsible for informing OMB and the other agency as to upcoming consultation opportunities.

- May 23 -- Prepare memo for the Director to the DPC and WH Intergovernmental Affairs on past and future OMB participation in tribal consultation and what steps to take to lower tribal expectations about the FY 1996 BIA and IHS budgets.

- May 23-25 -- IHS/Tribal Consultations on Health Care Reform and on the FY 1996 budget process/priorities. NRD staff will attend some sessions, Nancy-Ann Min will address the gathering on the 23rd.

- May 24-26 -- Tribal Environmental Meeting in Cherokee, North Carolina (NRD Environment Branch staff Bob Tuccillo and Zach Church will attend). Concerns and issues solicited from and provided by Tribal officials and staff throughout Indian Country will be covered. The meeting is open to all tribes. EPA, BIA and IHS staff will be in attendance.

Additional activities/OMB involvement to occur prior to September budget submissions:

- Continue tracking "unfunded mandates" (authorizations to fund Indian programs in enacted legislation affecting Interior, Justice, Education, HHS, and HUD programs not included in the FY 1995 budget request).

- By June 1, coordinate with DOI and DOJ on their follow-up to the May Listening Conference in Albuquerque. Both Departments have instituted Department level working groups to organize and systematize notes from the conference. It is anticipated that some mechanism for Regional meetings will also be initiated. NRD follow-up will include:

    - meeting with representatives from both agencies to go over feedback from the conference and activities that will be undertaken to act on this feedback. This will be coordinated with the DPC and WH Intergovernmental affairs. NRD staff will also keep TJ, Nancy-Ann Min, and the Director apprised.

    - determining what type of Regional Listening Conferences DOI and DOJ have planned -- where, when, and with what objectives. If possible/practicable, NRD staff may attend.

- NRD, and possibly IHS staff will attend all remaining (final 2 or 3) Tribal/DOI/BIA Reorganization Task Force meetings during the next few months (the task force will terminate at the end of this fiscal year).

- NRD staff (James and Kodl) will take separate field trips (probably June or July), to different parts of Indian country. Objectives will be to visit successful and "hardship" tribes, both large and small, with a mix of those operating programs under 638 contracts, self-governance compacts, and tribes receiving BIA service delivery. Efforts will be made to follow-up on issues/priorities raised at the recent National Budget Meeting, i.e., difficulties of small tribes, unstable funding for self-governance tribes, and unfunded mandates.

- In June, call a formal meeting with other OMB examiners responsible for the other agencies' Indian programs to summarize the President's positions, describe steps taken thus far in the FY 1996 Budget consultation, and explain the likely coordination that will be necessary for preparing the FY 1996 Budget. Based on this, in July, possibly revise FY 1996 Budget guidance to the agencies.

- Institute a regular, informal get together (brown bag lunch) with other OMB examiners of other agencies' Indian programs to facilitate a greater degree of coordination among the numerous Indian programs throughout the Federal government. We may also want OMB staff to have their agency budget office counterparts attend, from time to time.

- During FY 1996 Budget formulation process, develop a real-time government-wide Indian program funding table to keep track of: 1.) agency budget submissions, 2.) unfunded mandates, and 3.) PAD or Director decisions to avoid another surprise like the IHS type budget cut. Details of this, including at what points the budget numbers will be requested from examiners, will have to be agreed upon.

Attachment B

IMPROVING IHS - TRIBAL CONSULTATION
OMB'S ROLE

- Meet with HHS and PHS officials to bring them on-board with the objective of strengthening consultation.

  - Nancy-Ann Min met with HHS Assistant Secretary for Management and Budget and Assistant Secretary for Health Phil Lee on May 9, 1994. HHS and PHS concur with strengthening process.

- Assess present IHS and Bureau of Indian Affairs (BIA) consultation process. Determine specific steps to strengthen IHS process.

  - Bill Dorotinsky convened a May 20, 1994, meeting of DOI, BIA, PHS, and IHS staff to discuss and compare these agencies' Federal-tribal consultation process.

  - Preliminary Conclusion: IHS has a very strong budget consultation process already. There are several areas where IHS process could be strengthened: obtain tribal input on how tribes would like to see annual base funding spent, versus present situation where tribes submit proposals only above the current services base; establish some mechanism for tracking tribal proposals as decisions are made through the budget process, and informing tribes of what has happened to their proposals as decisions are made (may be too cumbersome with over 400 tribes); IHS should hold one national budget meeting per year, like BIA does.

  OMB staff are continuing to follow up with HHS, PHS, and IHS to implement necessary changes.

- Meet with tribes earlier in budget cycle to provide overall budget picture. (At present, this means FY 1996.)

  - On May 23, 1994, Nancy-Ann Min, along with PHS and IHS representatives, spoke to tribal leaders assembled from across the nation to discuss the FY 1996 Budget situation, FY 1995 budget process, and to solicit tribal views both on the FY 1996 Budget and on how to improve the budget consultation process.

  - Tony Itteilag, Deputy Assistant Secretary for Health at HHS, committed the PHS to work with tribes to improve the budget consultation process, including hosting an annual national budget meeting with tribes. OMB staff are following-up with HHS to assure follow-through.

- Subsequent to the meeting, OMB staff have had numerous conversations with many tribal officials on FY 1994, FY 1995, and FY 1996 budget issues. Issues range from local and IHS-wide FTE concerns, to Health Reform, facility construction, to health status. In some cases, OMB staff have played the role of active ombudsman, such as helping resolve IHS staffing policy confusion.

To date, no tribes have submitted written proposals per Nancy-Ann Min's May 23, 1994, suggestion. However, some tribes are expected to offer proposals, including the Navajo Nation.

- Permanently On-Going Activities: Having initiated the dialogue, tribes have been taking advantage of the opportunity to discuss relevant issues with OMB staff. As issues arise, and tribes submit specific proposals for improving the budget process, coordination between OMB, HHS, IHS, and tribal leaders will continue.

THE WHITE HOUSE

WASHINGTON

These all need to go next [illegible] early Mon.

MEMORANDUM FOR BILL GALSTON
BRUCE REED
KATHI WAY

file 8/8

FROM: Carol H. Rasco

SUBJ: Attached memo on Alternative Budget Methodologies

DATE: July 24, 1994

The attached was distributed late Friday, July 22. If you have time to review it I would appreciate any comments you have by 4 p.m. returned to Rosalyn who will get them to me for the NEC weekly meeting if held as scheduled.

Thank you.

cc: Rosalyn Miller

Roz: Pat has a note from me to check if indeed there will be an NEC weekly meeting on Tuesday as referenced in this document and if so, then I will return in time for it. If any comments have been given to you then I will need for you to meet me at the car as I return for the meeting and head into the NEC meeting. Thanks.

Carol Rasco

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

JUL 22 REC'D

THE CHAIRMAN

July 22, 1994

MEMORANDUM FOR NEC PRINCIPALS

FROM: ROBERT E. RUBIN, NEC
LAURA D'ANDREA TYSON

SUBJECT: Alternative Budget Methodologies—Decision Memo

At the request of the President, we convened an interagency Working Group to develop a memorandum that would summarize the issues and controversies surrounding alternative budget methodologies intended to promote additional public investment.

The attached memorandum represents the work of the interagency group. As part of a strategy to emphasize public investment, some have suggested that the Federal Government adopt a form of capital budgeting or otherwise modify its budget system. The memorandum considers several alternative budgetary methodologies, with a range of budget impacts, that could increase public investment made by the Federal Government. The Working Group developed five specific budget alternatives, and the memorandum presents arguments for and against each alternative. One of the alternatives can be described as an operational capital budget—the other four represent smaller changes from the existing cash-based budget system.

This memorandum will be discussed at the NEC Principals meeting on Tuesday. The discussion will focus on views on the various alternatives and on whether to send the memorandum to the President in its current form or to develop a decision document that would indicate the level of support for the specific budget alternatives. We look forward to your comments.

Attachments

EXECUTIVE SUMMARY

This memo considers several alternative budgetary methodologies intended to increase public investment by the Federal Government without seriously eroding budget discipline. As part of a strategy to emphasize public investment, some have suggested that the Federal Government adopt a form of capital budgeting or otherwise modify its budget system. Five specific alternatives to the current budget system are discussed, with arguments presented for and against the alternatives. One of the alternatives can be described as an operational capital budget—the other four represent smaller changes from the existing cash-based budget system.

Choice of a budget method requires a balancing of multiple objectives: to measure and control the fiscal policy of the Federal Government; to allocate resources within the Federal Government; and to provide a public statement of the Administration's priorities. The current Federal budget is a cash-based system that records receipts when received and disbursements when made. The annual deficit (or surplus) is simply the difference between total spending and total receipts.

Some analysts claim that a shortcoming of the cash budget system is the identical treatment given to operating expenses, transfer spending, and government programs that can properly be termed "investment". These analysts argue that the current budget system imposes a higher political cost on public investment spending than on current consumption programs, because the entire amount of investment spending in a given year must fit under the discretionary spending caps for that year even though the expenditure provides a stream of returns in future years. Other analysts claim that the current cash-based budget system properly focuses attention on the costs of various programs, and ensures that the costs of current consumption programs are equated with the costs of other programs that may have future benefits.

A capital budget system has been proposed as a way to increase public investment spending. Such a budget system separates annual investment spending from other government spending by dividing the operations of government into a capital budget and an operating budget. The operating budget measures the current costs of government programs, including the annual decline in the value of long-lived investment assets (measured by depreciation expense). The capital budget collects all spending on investment items, regardless of how they are financed. In general, a capital budget system envisions a balanced operating budget, with borrowing supporting net investment (total investment in excess of depreciation).

If the Federal Government were to adopt a capital budget system, clear conceptual definitions of investment and depreciation would be required to help prevent "gaming" of the budget system. Moreover, any move toward capital budgeting would have to address many political issues. Among these is that undertaking a major change of the budget process would require modifications to the Budget Enforcement Act (BEA) and it is unclear that the Administration would benefit from this.

Note that the designation of spending items as "investment" does not by itself address the issue of whether each individual item is a worthwhile public investment. This project-by-project decision is logically independent of the decision about budget systems and should be based on a thorough cost/benefit analysis. However, to the extent adoption of a capital budget increases the ability of the Federal Government to undertake greater "investment" spending than would occur under the current caps on discretionary spending, it must be realized that *all* investment spending will be made more attractive relative to spending on current consumption.

Finally, adopting a capital budget would not ensure that the Administration's priorities would be treated favorably in the budget process. For example, even rather broad definitions of investment would not encompass many of the Administration's investment spending priorities (as outlined, for example, in *A Vision of Change for America*).

The five alternatives developed and discussed by the Working Group are:

(1) Establish a "soft" target for public investment and enhance the presentation of public information contained in the annual Budget

(2) Establish separate discretionary caps (firewalls) for operating and investment expenditures

(3) Permit "pay-as-you-go" financing for increased discretionary spending

(4) Establish a Lifelong Learning Trust Fund to support human capital investments and offset this fund by reducing other discretionary spending

(5) Modify the budget law to establish an operational capital budget

The Working Group believes that the first four alternatives may increase public investment while maintaining budget discipline and also may be politically viable. However, the Working Group does not view the fifth alternative as a politically viable choice.

BUDGET ALTERNATIVES

MEMORANDUM

FINAL DRAFT

There has been a substantial amount of debate about whether the Federal Government should adopt a form of capital budgeting in lieu of its current cash budgeting system. This issue has received increased prominence, in part because the Administration has espoused the goal of increased investment spending. Under the current discretionary spending caps (and even before the current spending caps were enacted in 1990), many desired investment items (for example, FAA modernization and Head Start) have run into funding roadblocks. As part of a strategy to emphasize public investment relative to other government spending, it has been suggested that the Federal Government adopt a form of capital budgeting. (Background information on Federal investment spending over the past 15 years is provided in Table 1.)

This memorandum explains the basic distinctions between cash and capital budgets and identifies some of the complex definitional and measurement problems involved in moving toward the latter. These issues cut across virtually all types of capital budgeting systems and would have to be addressed before a form of capital budgeting could be adopted by the Federal Government. Finally, five separate budget strategies are presented, along with arguments for and against each alternative. The Working Group believes that the first four alternatives may increase public investment while maintaining budget discipline and also may be politically viable. However, the Working Group does not view the fifth alternative (an operational form of capital budgeting) as a politically viable choice. This fifth alternative is presented for completeness and to elucidate the strong theoretical and practical arguments on both sides of this policy option.

<u>Cash vs. Capital Budgeting</u>

Budgets are forward-looking planning documents used by organizations to allocate and control resources. The current Federal budget is a cash-based system that records receipts when received and disbursements when made. The annual deficit (or surplus) is simply the difference between total spending and total receipts.

The choice of budget method must balance multiple objectives: to measure and control the fiscal policy of government; to allocate resources within the Federal Government; and to provide a public statement of the Administration's priorities. The cash-based budget system provides financial accountability and maintains control over the total resources flowing into and out of the Federal Government. A surplus or deficit in a cash budget system focuses on total amounts received, expended, and borrowed or saved, without regard to the composition of spending. Some analysts claim that one shortcoming of the cash budget system is that it provides identical treatment to operating expenses, transfer spending, and government programs that can properly be termed "investment", since they provide future returns. These analysts argue that the current budget system imposes a higher political cost on public investment spending than on current consumption programs, because the entire amount of investment spending in a given year must fit under the discretionary spending caps for that year even though the expenditure provides a stream of returns in future years.[1]

Public investment spending can take two forms: spending for the acquisition of long-lived physical assets (e.g., buildings or roads) or spending to create intangible assets that produce future benefits accruing to the Federal Government or to the economy as a whole (e.g., education and training programs that raise future earnings). In principle, both types of investment create "capital" that either adds to the economy's productivity or reduces the Federal Government's cost of operations over time.

A capital budget system separates annual investment spending from the rest of government spending by dividing the operations of government into a capital budget and an operating budget. The operating budget measures the current costs of government programs, including the annual decline in the value of long-lived investment assets (measured by depreciation expense). The capital budget collects all spending on investment items, regardless of how they are financed.

A capital budget could be used in a variety of ways. Most simply, a capital budget could be developed only for presentation purposes to distinguish between different types of Federal spending with no effect on how government spending and borrowing decisions are made or controlled. At the other extreme, a capital budget could be accompanied by changes in the budget law that would allow the government to borrow to finance all net investment (investment in excess of the depreciation of the existing capital stock) but would prohibit a deficit in the operating budget (including depreciation as an operating expense). In between these two extremes are many possible alternatives. For example, operating and capital expenditures could be subject to different spending caps, and limits could be placed on borrowing for each activity.[2]

Defining Investment and Depreciation

If the Federal Government were to adopt a capital budget system, clear conceptual definitions of investment and depreciation would be required. Segregating "investment" spending from all other government spending would create political pressure to

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[1] The term "investment spending" is used loosely in this context. Budget authority for capital projects generally is allocated to the year in which the project is initiated. Outlays for capital projects generally are spread over the actual period of construction or acquisition.

[2] This example assumes that no tax revenues or only specified tax revenues would be used to fund the capital budget.

categorize many spending programs as "investment" (especially if budgetary caps were eased for investment spending). Congress would have the responsibility for writing a revised budget law that would define "investment", and it is quite likely that the Congressional characterization of "investments" would differ from the definition favored by the Administration. Furthermore, capital budgeting would require legally defined measures of depreciation to provide a clear picture of the resources used by the Federal Government on an annual basis. Because investment is the key component of the capital budget and because depreciation is the link between the capital budget and the operating budget, clear definitions of these concepts could help prevent "gaming" of the budget system.

Public "investment" can be defined in a number of ways.[3] However, the range of possibilities can be understood by focusing on two extremes -- a narrow and a broad definition. The narrow definition of "investment", which is broadly consistent with business practice and with some State and local governments, includes only physical capital assets with useful lives of over one year.[4] According to this definition, investment spending would include spending on roads, buildings, parklands, equipment, and so on. Such a definition, however, fails to include public programs that create other long-lived assets, such as a stock of technical knowledge or a skilled workforce. A broad definition would include spending on these intangible assets in addition to spending on physical assets.

The designation of spending items as "investment" does not by itself address the issue of whether each individual item is a worthwhile public investment. This project-by-project decision is logically independent of the decision to adopt a capital budget or to retain the current cash-based budget and should be based on a thorough cost/benefit analysis. However, to the extent adoption of a capital budget increases the ability of the Federal Government to undertake greater "investment" spending than would occur under the current caps on discretionary spending, it must be realized that

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[3] The many existing definitions of "investment", include those put forth by the System of National Accounts, the General Accounting Office, the National Performance Review, the Congressional Budget Office, the Bureau of Economic Analysis, and the old Bureau of the Budget. The general principles of these definitions often do not lead to clear-cut determinations of the exact amount of investment undertaken by various programs.

[4] One separate issue is whether to characterize defense spending on military hardware as investment or as current consumption of national defense. A second issue is how to distinguish (if at all) between those capital assets owned by the Federal government and those owned by others but funded by Federal grants.

all investment spending will be made more attractive relative to spending on current consumption.[5]

Budget Process Modifications

Any move toward capital budgeting would have to address both the conceptual and measurement issues mentioned above and also numerous budget process issues. Resolution of these issues could take various forms. For example, the Budget Enforcement Act (BEA) could be amended to delineate separate categories of public investment, each with its own spending cap and definitional guidelines (e.g., infrastructure, R&D, and education and training programs could form three separate investment categories). Alternatively, an independent commission could be formed to establish a multi-year capital budget for the Federal Government. Such a commission could be responsible for determining what government spending constitutes "investment" and for determining appropriate depreciation rates for public assets. The Administration, working with Congress, could then determine if any spending caps should be applied to the capital and operating portions of the budget. In any event, the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) could play important policing roles, enforcing any spending caps and ensuring that the definitional and measurement guidelines are followed.

Political Issues

Undertaking a major change of the budget process would require opening up the BEA and it is unclear that the Administration would benefit from doing so. If Congress amended the BEA, it is possible that future budgetary choices would be even more constrained than they are under current law. For instance, Congress has actually reduced the discretionary spending caps over the past two years, indicating that tighter constraints are a real possibility. Moreover, promotion of a capital budget may lead to perceptions that the Administration does not view reducing the Federal budget deficit as a serious responsibility. If this were to occur, financial markets might react with increased interest rates, which could have adverse consequences for future economic growth.

A capital budget would generally reduce the political hurdles associated with spending on items designated as "investment". Sensing this, proponents of various programs (e.g., those Members of Congress who have advanced their own priorities at the expense of the Administration's) would attempt to have such programs classified as "investment". This could lead to politicization of the determination of items contained in the capital portion of the

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[5] Much of what political pundits call "pork" would be classified as "investment" because many "pork barrel" projects involve the construction and acquisition of physical assets.

budget, with uncertain consequences for the programmatic priorities of the Administration. Under some definitions of capital, public investments favored by the Administration might be bypassed in favor of other discretionary spending. Even the rather broad definition of investment proposed by the General Accounting Office ("spending, either directly or through grants, directly intended to enhance the private sector's long-term productivity") would not encompass many of the Administration's investment spending priorities. Indeed, as mentioned above, many of the programs favored by the Administration might not be properly considered "investment" in the capital budgeting sense. For example, Table 2 (attached) indicates that a number of items called "investment" in *A Vision of Change for America* probably would not be classified as "investment" even under a relatively broad definition.

Finally, it is not clear that Congress would accept the Administration's proposed definitions of "investment" and "depreciation" or delegate the ability to define these concepts to an independent commission (as suggested above). And, if the BEA is reopened, it is not clear what policing responsibilities Congress would give to CBO and OMB under the revised law.

Alternative 1: A "Soft" Target for Public Investment Combined with Enhanced Presentation of Public Investment Information

Description: Use the annual Budget presentation to help advance public investment as a national priority by: enhancing and highlighting the information already included in the annual Budget; highlighting the President's investment priorities; and setting a "soft" target (as recommended by the independent Competitiveness Policy Council) for Federal investment in the annual appropriations process.[6] This investment target would be emphasized in public statements made by Federal officials at the time the Budget is published. Alternative 1 would also capitalize on the recent Executive Order requiring infrastructure investments to be subject to stringent cost-benefit analyses. Finally, this alternative would incorporate the National Performance Review (NPR) recommendation that agencies submit five-year investment plans and base investment decisions on the full costs over the life cycles of the assets.

Rationale: The current cash-based budget system is useful in making fiscal policy. Moreover, it provides enough information to create financial statements that emphasize the capital spending portion of the Federal Budget, without detracting from the presentation of the unified cash-based budget currently used. Reorganized presentation could help Congress make better decisions regarding public investment, while educating the public about the tradeoff between current spending and investment. In addition, emphasis on an investment target would serve to highlight the Administration's priorities and perhaps also serve to hold Congress accountable for its decisions on investment and non-investment spending.

Arguments for the alternative:

- The overall claims by the Federal Government on financial resources are best measured by the unified cash budget surplus or deficit, the main focus of current budget practice. This alternative may help maintain budget discipline, and in so doing, promote private as well as public investment.

- By defining "investment" in the budget document, the Administration, not the Congress, sets spending priorities. Setting an investment target may suggest a shift toward more spending on public investments and provides for public monitoring of Congressional spending decisions.

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[6] Since 1951, the annual Budget has presented data on the investment activities of the Federal government along with estimates of annual depreciation for the Federal capital stock. In the FY 1995 Budget, this information was included in the *Analytical Perspectives* volume.

Arguments against the alternative:

- Enhanced presentation does not change current budget practices that provide the same treatment to current consumption and equivalent spending for investment even though the latter provides long-lived benefits.

- This alternative simply rearranges present budget practices and may not affect real decisions about public investment at all.

Alternative 2: Establish separate discretionary spending caps (firewalls) for investment and operating spending.

Description: Establish firewalls (separate spending caps) for operating and capital items. These individual caps could sum up to the current discretionary caps or could be higher or lower. For example, the two caps could be set to increase investment spending and constrain non-investment spending over future fiscal years. (Another example, perhaps a subalternative, would establish a "one-way" firewall that would permit reductions in operating expenditures to offset increases in capital spending.)

Rationale: The current caps on discretionary spending are one of the main elements of budgetary control and accordingly, should be kept more or less intact. Separate caps for investment and operating items may act as firewalls and prevent investment programs from having to compete with current spending programs for scarce budget dollars.

Arguments for the alternative:

- This alternative would maintain some measure of budget discipline while encouraging use of a greater amount of total Federal discretionary spending for investment purposes.

- If the investment spending cap increased over time, Federal discretionary spending would tend to become more focused on investment programs.

Arguments against the alternative:

- The alternative pits investment programs against each other in the competition for scarce budget resources. Unless the cap on investment spending is raised, there may be little or no additional investment spending. Moreover, noninvestment discretionary spending could be squeezed under this alternative, which may be undesirable.

- If the Administration proposes spending caps higher than the existing discretionary caps, this may be seen as a sign of reduced budget discipline, with the attendant effects in financial markets.

- If Congress is presented with the option of reducing the size of the existing spending caps, they may take advantage of the opportunity to do so.

Alternative 3: Allow Pay-As-You-Go Financing for Discretionary Spending

(Subalternative: Prohibit changes in tax revenues from financing additional discretionary spending)

Description: Allow "pay-as-you-go" financing for discretionary spending or for investment spending in particular. Tax increases or entitlement cuts could be used to "pay for" higher discretionary spending caps, with the increase in the cap used to cover spending on investment programs. For example, an increase in the motor fuels excise tax could be used to raise the discretionary spending caps to accommodate increased highway spending. Similarly, a cut in entitlement spending could be used to "pay for" increased investment in a discretionary training or education program.

(Subalternative: Allow pay-as-you-go financing of additional discretionary spending only with entitlement spending cuts (or with either entitlement cuts or tax expenditure reductions.))

Rationale: The current caps on discretionary spending are one of the main elements of budgetary control and accordingly, should be kept more or less intact. However, extending the "pay-as-you-go" rules to discretionary investment programs could add new opportunities for expanding public investment without increasing the Federal budget deficit.

Arguments for the Alternative:

- Opportunities for investment could be expanded, without directly increasing the size of the Federal deficit.

- The firewall between defense and nondefense discretionary spending has been allowed to expire. This has created the possibility of tradeoffs between these two categories of spending to meet the priorities of the Federal Government. Similarly, removal of the firewall between mandatory and discretionary programs may also serve to allow more flexible responses to government spending priorities.

Argument for the Subalternative:

- Restricting pay-as-you-go funding sources to reductions in entitlement spending could help the Administration avoid the "tax and spend" label.

Arguments Against the Alternative:

- There would be a political price to pay for raising the possibility of tax increases to pay for additional discretionary spending. The Administration risks being tagged as "tax and spend".

- In theory, the process could also run in reverse, with reductions in discretionary spending caps being used to "pay for" overall tax reductions. This could further constrain opportunities for increased public investment.

- Discretionary spending is appropriated for one year at a time, while the "pay-as-you-go" process covers the five-year budget window. Applying the "pay-as-you-go" rules to discretionary spending may be technically difficult. In addition, this alternative could encourage Congress to extend the discretionary spending caps indefinitely.

- To some extent, the goals of the alternative may already be achievable through the use of "capped entitlements" to pay for programs that previously may have been structured as discretionary spending.

Arguments Against the Subalternative:

- Prohibiting tax changes from financing discretionary spending increases would pre-empt the possibility of using earmarked taxes to finance related investments (e.g., highway spending funded by increased motor fuels taxes would be precluded under the Subalternative).

- To the extent that health care reform reduces the ability to achieve entitlement reductions in the health area, the subalternative may be characterized by some as focusing on Social Security reductions to finance discretionary expenditure increases.

Alternative 4: Establish a Lifelong Learning Trust Fund

Description: Create a Lifelong Learning Trust Fund to provide for increased education and training expenditures. The Trust Fund would be phased in over several years. For example, the Trust Fund could begin in FY 1996 at $3 billion, with increases to $6 billion in FY 1997, to $9 billion in FY 1998, to $12 billion in FY 1999, and to $15 billion in FY 2000 (which would be the steady-state level). The Lifelong Learning Trust Fund would be financed by lowering the discretionary spending caps by amounts corresponding to the size of the Trust Fund. Ideally, the Lifelong Learning Trust Fund would finance a small number of key human capital investments. Examples of these key investments could include Head Start, National Service, School-to-Work, Goals 2000, and perhaps one or more new and innovative education programs (e.g., mentoring). Legislation to create the Trust Fund would prevent Trust Fund expenditures from being used for current or projected baseline funding of education or training programs.

Rationale: Creation of a Trust Fund can focus attention on a specific class of expenditures and provide these expenditures with priority standing in the budget process. By establishing the Fund, and specifying the programs it could support, the Administration's priority investment programs are clearly stated. The Trust Fund mechanism walls off a class of expenditures, which may force the budget process to find spending cuts elsewhere to fund these priorities. Moreover, the proposal maintains the existing discretionary spending caps, which should reinforce confidence in the Administration's budget discipline. Finally, Lifelong Learning can become a signature policy for the Administration and establishment of a separate Trust Fund may be the most realistic means to shift spending to these investments.

Arguments for the Proposal:

- The Trust Fund mechanism does not loosen the overall Federal discretionary spending caps nor lead to additional Federal borrowing. Consequently, it will maintain confidence in the overall deficit reduction program.

- The Trust Fund mechanism uses the political realities of the budget process to the advantage of investment. Abstract deficit reduction appeals to legislators since they do not have to confront specific trade-offs. This mechanism couples lower discretionary spending caps with additional investments in people -- leaving the specifics for the appropriations process. If the spending cuts are in lower priority areas than Lifelong Learning investments, this approach will lead to a more effective allocation of Federal resources.

- Polls show that people are willing to raise revenues for education. Therefore, the idea of cutting lower priority spending to fund new education should be quite popular. The Lifelong Learning Trust Fund is a vehicle to present the Administration's vision of "cut and invest" to the American people.

Arguments Against the Proposal:

- Creation of a Lifelong Learning Trust Fund could lead to a proliferation of Federal trust funds for discretionary programs (e.g., trust funds for National Defense, administration of justice, agriculture support, etc.). This proliferation could hamstring the budget process by placing large portions of the Federal budget off limits to policy makers.

- Just like current law, the Trust Fund mechanism leaves the ultimate spending decisions up to Congress. There is a risk that other Administration investment priorities (e.g., research or physical infrastructure) could be cut to fund the Lifelong Learning Trust Fund.

- It will be difficult to prevent existing spending on education programs from being funded by the Lifelong Learning Trust Fund.

- Critics may deride the Lifelong Learning Trust Fund as a "gimmick" -- the same criticism that was levelled at the pending crime trust fund.

Alternative 5: An Operational Capital Budget

Description: Separate the Federal budget into its capital and operating components. Operating expenditures, including depreciation on existing capital assets, would be charged against current revenues. Capital expenditures in excess of depreciation would be financed by net borrowing. The definition of capital expenditures could be based on the one developed for the international System of National Accounts (SNA). The SNA definition of investment is limited to physical capital and includes non-defense government purchases of equipment and structures and defense purchases of structures (but not defense purchases of equipment; note the division between equipment and structures may be ambiguous). The general concept of a capital budget requires a balanced operating budget. Based on the SNA definition of investment, the FY 1995 operating budget would have a substantial deficit of perhaps $140 billion, compared to a unified budget deficit of $165 billion.[7] This alternative would require that the operating budget trend toward balance over time, implying the need for a substantial multi-year deficit-reduction program.

Rationale: Current budget rules are perceived as inhibiting long-lived capital investments. This alternative attempts to address the situation for investment in physical assets. Moreover, the alternative responds to the argument that for a growing economy, the unified Federal budget should be in deficit, by allowing net investment to be debt-financed (because in a growing economy, gross public investment generally exceeds depreciation on existing public assets). The SNA definition of investment has been determined outside the U.S. political process, which may lessen the risk of political processes eroding the definition of investment over time.[8] Finally, if the discretionary spending caps are not adjusted downward, adoption of this alternative could increase annual Federal spending by about $25 billion (the amount of net investment in FY 1995).

Arguments for the alternative:

- The Federal budget process should recognize that different types of spending have different long-term effects. In particular, the treatment of the costs of investment items should be distinguished from the costs of current consumption items. Many other types of organizations (e.g., private

[7] The $25 billion difference approximately equals net investment in the FY 1995 budget, using the SNA definition.

[8] However, the SNA definition would probably require modification to accommodate Federal grants to subnational governments.

sector firms, State and local governments, non-profit entities) recognize a qualitative difference between operating and investment expenditures.

- The focus on physical capital, rather than broad investment, breaks the link between the Administration's spending priorities and the types of spending that can be debt-financed. This alternative may be viewed as a "businesslike" reform of process and not merely an effort to expand funding for certain priorities.

Arguments against the alternative:

- A capital budget may be perceived as lessening the Administration's commitment to deficit reduction. It will prove difficult to limit solely to physical capital the relatively favorable budget treatment provided to "investment" even though the proposal uses a standard international definition. Pressures will grow to include "human capital" and "research and development" expenditures in "investment" and the objectivity embodied in the SNA definition may be compromised. This process could severely erode budget discipline.

- Increased discretionary spending with a capital budget would require an amendment to the Budget Enforcement Act to maintain the overall discretionary spending caps at current levels. This may be politically difficult if the issue of fiscal responsibility becomes the focus of debate.

- Some analysts state that previous generations have borne the cost of public capital used by the current generation (ignoring the stock of public debt). Therefore, making future generations bear some of the cost of capital projects undertaken by the current generation may be perceived as an unfair and substantial windfall benefit.

- To the extent this alternative increases public investment at the expense of private investment (by "crowding out" private investment through a larger Federal budget deficit), the total stock of capital in the economy will not increase. Economic analysis suggests the economy benefits from more of <u>both</u> public and private investment, not simply trading one for the other.

- A capital budget increases the relative attractiveness of <u>all</u> capital spending projects, not only those that are desirable investments. Much of what pundits term "pork" would be classified as "investment" under the SNA definition.

- A capital budget, by itself, does nothing to address the substantial deficit in the operating budget. It might be very difficult to find sufficient spending reductions among operating expenditures to offset a $140 billion annual operating deficit.

TABLE 1

Federal Investment Relative to the Size of the Economy 1980-1995

FISCAL YEAR	TOTAL INVESTMENT/GDP	NON-DEFENSE INVESTMENT/GDP	DEFENSE INVESTMENT/GDP
1980	4.49%	2.71%	1.78%
1981	4.45%	2.56%	1.89%
1982	4.33%	2.16%	2.17%
1983	4.42%	1.96%	2.46%
1984	4.46%	1.92%	2.54%
1985	4.70%	1.97%	2.73%
1986	4.74%	1.89%	2.85%
1987	4.58%	1.73%	2.84%
1988	4.33%	1.75%	2.57%
1989	4.26%	1.73%	2.53%
1990	4.15%	1.76%	2.39%
1991	4.06%	1.82%	2.24%
1992	3.94%	1.91%	2.03%
1993	3.76%	1.91%	1.85%
1994	3.52%	1.93%	1.59%
1995	3.33%	1.91%	1.42%

Notes: The Budget defines Federal investment as spending to create or acquire public physical assets, to conduct research and development, and to conduct education and training. The FY 1995 Budget shows $234 billion for Federal investment, of which $119.8 billion is to create or acquire public physical assets ($60.4 billion for national defense); $69.7 billion to conduct research and development ($39.4 billion for national defense); and $44.6 billion to conduct education and training.

Source: FY 1995 Budget, *Historical Tables*.

TABLE 2

Items Considered "Investment" in *Vision of Change for America* that Would Not be Classified as Investment in a Capital Budget

DOT -- Alcohol-related Highway Safety Grants
Interior and USDA -- Natural Resource Protection Grants (used for deferred maintenance)
Corps of Engineers -- Cyclic Maintenance Projects
DOE -- Clean up non-Defense sites and uranium enrichment facilities
USDA -- "Forest of the Future" Grants used for Forest Resource Management
EPA -- "Green Lights" program
Rural Rental Assistance (e.g., vouchers)
HUD -- CBDG Monies used for backlogged maintenance projects
Empowerment Zone Wage Tax Credits
HUD -- Rental Housing Subsidies (e.g., vouchers)
HUD -- Public Housing Operating Subsidies
HUD -- Urban Partnership Against Crime
USDA -- Head Start Meals for Participants
HHS -- Head Start Medicaid Coverage
USDA -- Women, Infants, and Children (WIC) program
HHS -- Parenting and Family Support Initiatives
National Service (current costs of program, not higher-ed costs)
Labor -- Income support component of Dislocated Workers Program
Labor -- Establish "One Stop" Career Shops
Earned Income Tax Credit Expansion
Welfare Reform
Crime Initiative (e.g., increased community policing)
EEOC -- Increased enforcement
HHS -- Child Immunizations
HHS -- Substance Abuse and Prevention
USDA -- Food Safety and Inspection Service
VA -- Increased Medical Care
SSA -- Disability Insurance Processing
HIV/AIDS Prevention Initiatives

July 26, 1994

TO: CHR

FROM: Bill Galston

SUBJ: Budget Options for Today's NEC meeting

I've reviewed the Rubin/Tyson memo fairly carefully. I used to favor an explicit capital budget (Option 5), but now I'm not so sure. The pressures to shoehorn everything in under the rubric of "investment" would be intense. Out of curiosity, how do the states manage to do it? Do they preserve a reasonable and workable distinction between "capital" and "operating" accounts? This matters a lot, of course, because typically states are required to run balanced operating budgets and may borrow only for capital investment.

With regard to the other four options:

o At a minimum, we should do Option 1. It can't hurt, and it could help.

o Option 2 strikes me as a bad idea. The investment subcap could actually make it harder to fund investments within discretionary spending.

o Option 3 makes sense only to the extent that aggregate spending continues to be restrained. If it became an excuse for relaxing spending restraints, we would pay a significant price.

o From my (perhaps parochial) standpoint, the **goal** of Option 4 makes a great deal of sense. I'm not sure that I see how it works in practice, however. If the point is to increase overall investment in Lifelong Learning, how does the proposed Trust Fund ensure that result--particularly during the phase-in period?

AUG 19 REC'D

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OMB Sequestration Update Report to the President and Congress

August 19, 1994

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

TABLE OF CONTENTS

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 budget 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 requirments	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 Sheild/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	35
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	527,555	530,092
OL	545,961	543,591	549,380	547,672	547,507
OMB Update Report limits:					
BA	524,075	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	397

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	5	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	1994–98
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. 375):							
	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. 103–259; 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	Fees Under Perishable Agricultural Commodities Act (P.L. 103–276; H.R. 4581):							
	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. 4635):							
	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. 103–295; 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	–56	–330	–419
225	Telemarketing and Consumer Fraud and Abuse Prevention Act (P.L. 103–297; H.R. 868):							
	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. 2243	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 Institutions 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

DRAFT

Carol Harold Alice — please let me know if you have edits/a

OK ty

October 4, 1994

MEMORANDUM FOR CHIEF OF STAFF

FROM: HAROLD ICKES
CAROL RASCO
ALICE RIVLIN
ROBERT RUBIN
GEORGE STEPHANOPOULOS

SUBJECT: **Coordination of Health Care, Welfare Reform, and the Budget**

This memo reflects a meeting among the five of us following up on yesterday's Management Committee meeting discussion of how to integrate the Administration efforts on health care, welfare reform, and the budget.

Below is a proposed structure to make sure: (a) that health care, welfare reform, and the budget (broadly defined to include entitlement issues, tax questions, deficit questions, balanced budget issues, etc.) are integrated; (b) that the White House focuses on the ramifications of each of those policies for each other; and (c) that there is focus on what the three policies together mean for the President.

We propose that an informal group whose membership is drawn from each of the specific areas meet weekly, or as needed, to integrate the progress from the three separate DPC and NEC policy efforts, and will include political and outreach efforts. Suggested membership of the group is: Carol Rasco, George Stephanopoulos, Harold Ickes, Alice Rivlin, Bob Rubin, Pat Griffin, Mark Gearan, and Leon Panetta when available (you might want John Angel there, as well).

Welfare (DPC), the budget (NEC), and health care (DPC/NEC) policy development will run on parallel tracks. These policy groups will also include legislative affairs and others, as appropriate. By articulating the major choices in each area, the group can think about the interaction of these choices. In the budget area, the Rivlin memo already articulates the major choices that we face. The health care working group will focus on developing those choices in its first several weeks. On welfare, Carol will start the welfare piece after there is some Presidential guidance on budget, political and other matters.

In addition to handling these major policy initiatives, the group can be used to make sure that efforts that pass a threshold of importance, like the REA and the Farm Bill, are considered in the context of our other major efforts.

Another issue that we focused on when we met was use of the President's time. While these efforts are going to require a considerable amount of Presidential time, the group discussed how pre-meetings and thorough briefing memos can help the President make informed decisions and reduce the time the President spends in meetings.