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BUDGET ISSUES

Compliance Report Required by the Budget Enforcement Act of 1990

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Comptroller General
of the United States

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January 10, 1994

The President
The President of the Senate
The Speaker of the House of Representatives

As required by the Budget Enforcement Act of 1990 (BEA), which amended the Balanced Budget and Emergency Deficit Control Act of 1985, we hereby submit our compliance report covering reports issued by the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) during the session of the Congress ending November 26, 1993. We are required to issue this compliance report 45 days after the end of a session of the Congress.

In our opinion, the OMB and CBO reports substantially complied with the act with two exceptions. Their inflation adjustment to the fiscal year 1994 discretionary spending limits was incomplete because it did not cover personnel costs. Also, OMB's final sequester report did not include an upward adjustment to the 1993 domestic discretionary spending limits for released contingent emergency appropriations.

If the inflation adjustment had been applied to all discretionary spending, the spending limit for discretionary budget authority would have been about $2.3 billion lower because actual inflation was lower than that assumed in the BEA when the caps were originally set in 1990. However, appropriated amounts were far enough under the spending limit that such an adjustment would not have required a sequester.

OMB's decision not to adjust the 1993 discretionary spending limits for the release of contingent emergency appropriations resulted in official discretionary spending limits which understated the full amount of spending allowed by $132 million, but did not affect any sequestration calculation. The inflation issue, which we also reported on in our 1993 compliance report,[1] and the contingent appropriation issue are discussed further in appendix II.

Appendix III discusses some implementation issues related to (1) re-estimates of credit subsidies, (2) distinguishing between discretionary and mandatory spending, and (3) large differences in estimates for appropriations acts. These issues do not, in our judgment,

[1]Budget Issues: Compliance With the Budget Enforcement Act of 1990 (GAO/AFMD-93-38, November 23, 1992).

represent compliance issues. The differences in cost estimates are due primarily to different methodological and technical assumptions by OMB and CBO about the programs involved. Differences in category designations result from different interpretations of scorekeeping guidelines under BEA.

To determine compliance with the Budget Enforcement Act, we reviewed OMB and CBO reports issued under the act to determine if they reflected all of the act's requirements. We interviewed cognizant OMB and CBO officials to obtain explanations for differences between reports. Background information on the various reports required by the act and details concerning our objectives, scope, and methodology are contained in appendix I.

Copies of this report are being provided to the Director of the Office of Management and Budget, the Director of the Congressional Budget Office, and Members of the Congress. Copies will be made available to other interested parties on request.

This report was prepared under the direction of Paul L. Posner, Director, Budget Issues, who may be reached on (202) 512-9573 if you or your staffs have any questions. Major contributors to this report are listed in appendix IV.

Charles A. Bowsher

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Comptroller General
of the United States

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Abbreviations

BEA	Budget Enforcement Act
CBO	Congressional Budget Office
DBOF	Defense Business Operations Fund
DCAA	Defense Contract Audit Agency
DCMC	Defense Contract Management Command
DOD	Department of Defense
EPA	Environmental Protection Agency
FEMA	Federal Emergency Management Agency
FHA	Federal Housing Administration
FmHA	Farmers Home Administration
GNMA	Government National Mortgage Association
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
NASA	National Aeronautics and Space Administration
OBRA	Omnibus Budget Reconciliation Act of 1993
OMB	Office of Management and Budget
PAYGO	pay-as-you-go
R&D	research and development
VA	Department of Veterans Affairs

Background and Objectives, Scope, and Methodology

Background

The Budget Enforcement Act of 1990 (BEA) changed the deficit reduction process by establishing three major budgetary points of control—dollar limits on discretionary spending, a pay-as-you-go (PAYGO)[1] requirement for direct spending[2] and receipts legislation, and adjustable maximum deficit targets for fiscal years 1991 through 1995. For fiscal years 1991 through 1993, discretionary spending was divided into three categories—defense, domestic, and international—but was consolidated into a single discretionary category for fiscal years 1994 and 1995. The act requires OMB and CBO to issue Preview, Update, and Final Sequestration reports at various times during the year. Each report is to include (1) a discretionary sequestration report, (2) a pay-as-you-go sequestration report, and (3) a deficit sequestration report. These reports correspond to the three major points of control established by the act. The Omnibus Budget Reconciliation Act of 1993 (OBRA) extended the discretionary and PAYGO provisions through fiscal year 1998 but did not extend the sequestration provision for enforcing deficit targets beyond fiscal year 1995.

In their final sequestration reports, both CBO and OMB calculate whether a sequester is necessary. However, the OMB report is the sole basis for determining whether any end-of-session sequestration is required. If OMB determines that a sequestration is required, the President must issue an order implementing it. For fiscal year 1994, neither CBO's report, issued December 6, 1993, nor OMB's report, issued December 10, 1993, called for a sequestration.

In addition, as soon as practicable after the Congress completes action on any appropriation involving discretionary spending, CBO is required to report to OMB the estimated amount of new budget authority and outlays provided by the legislation. Five days after an appropriation is enacted, OMB must report its estimates for these amounts, using the same economic and technical assumptions underlying the most recent budget submission. It must also include the CBO estimates and explain any differences between the two sets of estimates. OMB and CBO have similar requirements to report their estimates for any mandatory spending or receipts legislation.

Furthermore, if an appropriation for a fiscal year in progress that is enacted after the Congress adjourns to end a session for that budget year but before July 1 of that fiscal year causes any of the spending limits for

[1]The Budget Enforcement Act requires that any new legislation that increases direct spending or decreases receipts be deficit neutral (that is, not increase the deficit).

[2]Direct spending (commonly referred to as mandatory spending) means entitlement authority, the food stamp program, and any budget authority provided by law other than in appropriation acts.

the year in progress to be exceeded, CBO and OMB must issue Within-Session Sequestration Reports 10 and 15 days, respectively, after enactment. On the same day as the OMB report, the President must issue an order implementing any sequestrations set forth in the OMB report.

Objectives, Scope, and Methodology

The primary objective of our review was to determine whether the OMB and CBO reports complied with the requirements of BEA. A second objective was to evaluate other issues which we believed would be of interest to the Congress. To accomplish these objectives, we reviewed the OMB and CBO Preview, Update, and Final Sequestration reports to determine if they reflected all of the technical requirements specified in BEA, such as (1) estimates of the discretionary spending limits, (2) explanations of any adjustments to the limits, (3) estimates of the amount of net deficit increase or decrease, (4) estimates of the maximum deficit amount, and (5) in the event of a sequester, the sequestration percentages necessary to achieve the required reduction.

We reviewed BEA, its accompanying Joint Statement of Managers, and OBRA. We also reviewed the pertinent appropriations acts and their related Committee Reports. We examined the OMB and CBO reports on the 13 regular appropriations acts, the supplemental appropriations acts passed in 1993, and the 49 pay-as-you-go reports on mandatory spending and receipts legislation enacted by the Congress and signed by the President before the date of OMB's Final Sequestration Report. We compared each OMB and CBO report and obtained explanations for differences of $500 million or more in total bill estimates (for the appropriation and PAYGO reports) and in the discretionary spending limits, the maximum deficit amounts, and the adjustments to the spending limits and maximum deficit amounts for the Preview, Update, and Final Sequestration reports. We also examined categorization differences between OMB and CBO in relation to mandatory and discretionary spending.

During the course of our work, we interviewed cognizant OMB and CBO officials. Our work was conducted in Washington, D.C., from August through December 1993.

Compliance Issues

Inflation Adjustments Were Incomplete

BEA established discretionary spending limits for fiscal years 1991 through 1995 based on assumed levels of inflation for fiscal years 1990 through 1993. If the actual rate of inflation for those years differs from the assumed rate, BEA requires OMB to adjust the spending limits to account for the difference when the President submits his budget for an upcoming fiscal year. In practice, this involves using the actual inflation rate for the most recently completed fiscal year, comparing that rate to the assumed rate in BEA, and making the appropriate adjustment.

When the President submitted his budget for fiscal year 1994, the most recently completed fiscal year was 1992. The actual inflation rate for fiscal year 1992 was 2.9 percent—1.2 percentage points lower than the 4.1 percent assumed for fiscal year 1992 in BEA. Accordingly, a downward adjustment for the discretionary limits for fiscal years 1994 and 1995 was required.

Neither CBO's nor OMB's adjustments were calculated according to the BEA methodology described in our previous compliance report.[1] The method they used resulted in smaller reductions and, as a result, higher discretionary limits than if they had used the correct methodology. CBO estimated the inflation adjustment using the method that OMB adopted in its 1993 sequestration preview report, recognizing that OMB estimates are controlling under BEA. This method considered only nonpersonnel costs instead of adjusting all discretionary spending as required by BEA. As a result, CBO estimated that the 1994 spending limits were $2.3 billion higher in budget authority and $1.5 billion higher in outlays than if the inflation adjustment had been applied to all discretionary spending. Also, the 1995 limits were $2.3 billion and $1.9 billion higher in budget authority and outlays, respectively.

In our 1993 BEA compliance report, we stated that OMB's inflation adjustment to the discretionary spending limits contained in its 1993 sequestration preview report was incomplete due to the exclusion of personnel costs. The methodology CBO used that year included personnel costs in the adjustment. However, for its 1994 sequestration preview report, CBO changed to the methodology used by OMB. In discussing this change in methodology, CBO indicated that although the BEA requires that all discretionary spending be adjusted, CBO adopted OMB's methodology because OMB makes the final decision in BEA matters. CBO reported that its use of OMB's methodology would reduce confusion over differences

[1] Budget Issues: Compliance With the Budget Enforcement Act of 1990 (GAO/AFMD-93-38, November 23, 1992).

between CBO and OMB estimates of the spending limits. We continue to hold the position that the BEA requires that all discretionary spending be included in the inflation adjustment. However, we will not raise this issue again if personnel costs are not included in the adjustment in subsequent sequestration reports unless their inclusion could have caused or affected the amount of a sequestration.

OMB Did Not Adjust the 1993 Discretionary Spending Limit for Released Contingent Emergency Appropriations

Section 251(b)(2)(D)(i) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, requires that OMB, in submitting a final sequestration report under section 254(g), include adjustments to discretionary spending limits resulting from enacted appropriations for discretionary accounts designated by the President as emergency requirements and so designated by the Congress in statute. The act specifies that "the adjustment shall be the total of such appropriations in discretionary accounts designated as emergency requirements and the outlays flowing in all years from such appropriations."

In its final sequestration report, CBO points out that OMB did not increase the 1993 domestic discretionary spending limits in its update report to include the release of $132 million in contingent emergency funds and that OMB did not, accordingly, increase its estimate of 1993 discretionary spending. Also, OMB did not include these items in its final sequestration report and did not give an explanation as to why it omitted this adjustment.

The Congress appropriated the emergency funds during fiscal year 1992 in Public Law 102-368, the Dire Emergency Supplemental Appropriations Act of 1992. The appropriations at issue here state that the amounts provided shall be available until September 30, 1993, only to the extent the President transmits to the Congress a request for an amount that he designates as an emergency requirement. Of the $132 million subsequently designated by the President as emergency requirements, $100 million was for Commodity Credit Corporation Fund crop losses assistance (designated as an emergency by the President on July 4, 1993) and $12 million for Soil Conservation Service watershed and flood prevention operations and $20 million for Department of Education impact aid (designated as emergencies by the President on March 31, 1993).

CBO increased the 1993 domestic discretionary budget authority spending limit by $132 million for the contingent emergency appropriations which were made available between the release of OMB's preview report and CBO's update report. CBO also estimated a corresponding $23 million increase in 1993 outlays.

As reported by CBO, because adjustments to the spending limit and estimated spending offset each other, OMB's decision did not affect any sequestration calculation or the amount of discretionary spending allowed in 1993. However, it did result in official discretionary spending limits that understated the full amount of spending allowed. To fully comply with section 251(b)(2)(D)(i) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, OMB needs to increase the discretionary spending limits for emergency appropriations enacted by the Congress.

Implementation Issues

We found several implementation issues related to difficulties in drawing clear boundaries between budget categories and in making cost estimates as discussed below.

Credit Subsidy Re-estimates Reduced Spending Limits

The Budget Enforcement Act requires that the discretionary spending limits be adjusted for changes in the estimated subsidy cost of discretionary direct loan and loan guarantee programs. The limits are adjusted so that misestimates of credit subsidy costs do not affect amounts available for appropriation under the spending limits. The adjustment avoids penalizing the Appropriations Committees for increases in the estimated credit subsidy cost and prevents a windfall if subsidy cost estimates decline.

The fiscal year 1994 Sequestration Preview Reports of OMB and CBO showed different adjustments, related to credit subsidy re-estimates, to the discretionary spending limits for fiscal year 1994. CBO's changes were significantly higher than OMB's, as shown in table III.1.

Table III.1: Discretionary Spending Limit Adjustments Due to Credit Subsidy Re-estimates for Fiscal Year 1994

Dollars in millions

	OMB	CBO
Budget Authority	$-130	$-701
Outlays	–72	–580

The largest adjustments resulted from re-estimates of the subsidy costs for the guarantees of mortgage-backed securities by the Government National Mortgage Association (GNMA), the mutual mortgage insurance guarantees of the Federal Housing Administration (FHA), and the direct loan components of the Farmers Home Administration's (FmHA) rural housing insurance fund. These also are the programs for which OMB and CBO adjustments were most dissimilar. A more detailed discussion of the differences in the three major programs follows.

Government National Mortgage Association

CBO showed a reduction to the discretionary spending limits ($281.1 million in both budget authority and outlays) because it estimated that the fiscal year 1994 subsidy rate for GNMA's guarantees of mortgage-backed securities would be lower than in fiscal year 1993. OMB's subsidy cost estimates remained unchanged, so it did not adjust the spending limits.

OMB and CBO took a different approach to estimating the subsidy cost of GNMA's guarantees of mortgage-backed securities. CBO used a model incorporating estimates of interest rates, fees, and characteristics of the FHA and the Department of Veterans Affairs mortgage loan programs underlying the GNMA guarantees. This model indicated that receipts are expected to be significantly higher than costs. Lower long-term interest rates than originally anticipated and the resulting higher level of refinancing activity contributed to CBO's re-estimate of increased revenue. CBO adjusted the spending caps downward to eliminate the windfall caused by lower subsidy estimates.

OMB told us that GNMA is designed to break even—that revenue would just cover administrative and program subsidy costs. OMB used a subsidy rate calculated so that the revenue just offset administrative costs.

Federal Housing Administration

CBO showed a reduction of $176.1 million in budget authority and outlays to the fiscal year 1994 discretionary spending limits due to a downward re-estimate of the subsidy cost of the Federal Housing Administration's mutual mortgage insurance fund loan guarantee program. A CBO official stated that lower than expected long-term interest rates were the main reason for its subsidy re-estimates. CBO's re-estimate brought its estimate from above OMB's to below OMB's (that is, CBO now estimates a greater negative subsidy than OMB). OMB did not change the subsidy rate and thus did not adjust the spending limits.

Farmers Home Administration

Both OMB and CBO reduced the discretionary spending limits due to downward re-estimates of the subsidy cost of the direct loans and loan guarantees of the Farmers Home Administration's rural housing insurance fund. Lower than expected long-term interest rates were the primary cause of CBO's changes and contributed to OMB's adjustment as well. Changes made to the OMB subsidy model and to other assumptions such as write-offs, prepayments, and delinquencies also caused some of the change in OMB's estimate. However, CBO's downward adjustment of $189 million in budget authority was much larger than OMB's $25.5 million reduction.

OMB and CBO Differed in Their Categorization of Discretionary and Mandatory Programs

As also discussed in our fiscal year 1993 compliance report,[1] OMB and CBO agree that substantive changes to mandatory programs made in appropriations acts should be scored as discretionary spending. This policy permits some mandatory spending to escape the discipline of pay-as-you-go financing and could result in increases to the deficit, assuming there is room under the discretionary spending limit.

However, as shown in table III.2, OMB and CBO disagreed on the proper spending category for portions of three programs contained in fiscal year 1994 appropriations acts. In essence, they did not agree on what constitutes a substantive change. Different interpretations resulted in OMB scoring the changes as discretionary while CBO scored the changes as mandatory spending.

Table III.2: Differences in Categorizing Discretionary Versus Mandatory Programs

Dollars in millions

Appropriations Act and Program	Budget Authority	Outlays	Category Scored: OMB	Category Scored: CBO
Agriculture				
State Child Nutrition Payments	$13	$12	Discretionary	Mandatory
Food Stamp Program	23	16	Discretionary	Mandatory
Labor, Health and Human Services, Education				
Rehabilitation Services and Handicapped Research	46	35	Discretionary	Mandatory
Total	**$82**	**$63**		

The Joint Explanatory Statement of Managers accompanying the BEA conference report provides scorekeeping guidelines for OMB and CBO to follow in calculating deficit estimates and making projections. Under scorekeeping guideline 3, which refers to direct (mandatory) spending programs, substantive changes to or restrictions on entitlement law or other mandatory spending law made in appropriations bills are to be scored against the Appropriations Committee's section 302(b) allocation in the House and the Senate for discretionary spending. Under this rule, if an Appropriations Committee includes language in an appropriation bill that changes a mandatory program, the cost or savings from the change are subtracted from or added to the Committee's 302(b) allocation.

OMB and CBO officials both stated they scored spending for the programs based on scorekeeping guideline 3. The inconsistent categorization results

[1]Budget Issues: Compliance With the Budget Enforcement Act of 1990 (GAO/AFMD-93-38, November 23, 1992).

from differing opinions between OMB and CBO as to what constitutes a substantive change in a program. A CBO official stated that the appropriations language must change the content of a mandatory program before CBO will score the change as discretionary. CBO did not consider the Committees' changes to be substantive. An OMB official stated that if any portion of a mandatory program is controllable by an Appropriations Committee, OMB will consider the change to be substantive and thus score it as discretionary spending.

Although OMB and CBO disagree about what constitutes a substantive change to a mandatory program, they agree in interpreting scorekeeping guideline 3 to mean that substantive changes made by Appropriation Committees are subject to the discretionary limits instead of the PAYGO requirements for mandatory programs. As we stated in our 1993 compliance report, assuming there is room under the discretionary spending limits, this interpretation in effect allows the Committees to increase spending for entitlement or other mandatory programs without scoring the spending as mandatory. OMB's and CBO's interpretation avoids the need for offsetting revenues or reductions in other mandatory programs under the PAYGO provisions.

Large Differences in OMB and CBO Outlay Estimates in Appropriations Acts

OMB and CBO had significant differences in their estimates of outlays for fiscal year 1994 appropriations acts. As shown in table III.3, net differences totaled about $3.4 billion based on CBO's scorekeeping reports prepared after the completion of congressional action and OMB's "5-day" scorekeeping reports issued after enactment of the appropriations. Differences in OMB and CBO estimated outlays exceeded $100 million for 10 of the 13 appropriations. This contrasts sharply with fiscal year 1993 appropriations when the total net difference between OMB and CBO estimates was $9 million and in only two instances did individual appropriations bill outlay estimates differ by more than $100 million. OMB and CBO estimates of budget authority did not differ significantly.

Table III.3: Comparison of OMB and CBO Scoring of Fiscal Year 1994 Appropriations Acts

Dollars in millions

	Outlays		
Appropriations Act	**OMB**	**CBO**	**Difference**
Agriculture	$15,850	$14,297	$1,553
Commerce	23,025	23,221	−196
Defense	254,173	255,750	−1,577
District of Columbia	698	698	0
Energy and Water Development	21,996	21,702	294
Foreign Operations	13,634	13,789	−155
Interior	13,829	13,721	108
Labor/HHS[a]/Education	68,477	68,089	388
Legislative Branch	2,304	2,267	37
Military Construction	8,874	8,783	90
Transportation	35,339	34,889	450
Treasury/Postal Service	11,815	11,642	173
VA[b]/HUD[c]/Independent Agencies	72,225	69,973	2,252
Total Enacted[d]	**$542,239**	**$538,821**	**$3,418**

[a]Department of Health and Human Services.

[b]Department of Veterans Affairs.

[c]Department of Housing and Urban Development.

[d]Detail does not add due to rounding.

Because of the large differences in the estimates, we examined the reasons for the differences for the three appropriations acts with differences in outlay estimates exceeding $500 million: (1) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, (2) Department of Defense, and (3) Veterans Affairs, Housing and Urban Development, and Independent Agencies. The reasons for different estimates for these appropriation acts are discussed below.

Agriculture, Rural Development, Food and Drug Administration, and Related Agencies

As shown in table III.4, OMB's outlay estimates exceeded those of CBO by a net total of about $1.6 billion. Most of the difference in the outlay estimates is attributable to their scoring differences for supplemental appropriations. CBO scores appropriations against the budget resolution, which does not include any supplemental actions. OMB, however, includes supplemental funding in its scoring of each appropriations act. As a result, where supplemental appropriations are involved, OMB and CBO will differ.

OMB's scoring of the Agriculture appropriation included funding from the Emergency Supplemental Appropriations for Relief From the Major, Widespread Flooding in the Midwest Act of 1993 (Public Law 103-75) while CBO's did not.

Table III.4: Comparison of OMB and CBO Scoring of Outlays for the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriation Act for Fiscal Year 1994

Dollars in millions

Program	Outlay Difference[a]	Reason for Difference
Emergency Flood Supplemental	$1,462	Scoring of supplemental appropriations
Wetlands Reserve Program	–20	Program assumptions
Conservation Reserve Program	–14	Technical assistance funding needs
Commodity Credit Corporation	14	Different savings estimate
State child nutrition payments	12	Discretionary/ mandatory categorization
Food stamp program	16	Discretionary/ mandatory categorization
Other programs	83	Other outlay differences
Total	**$1,553**	

[a]A positive number means that OMB's estimate is higher than CBO's.

Other differences were the result of differing economic and technical assumptions. In the Wetlands Reserve Program, the difference of $20 million resulted from a difference in initial baseline assumptions about the number of acres that would be in the program in 1994. For the Conservation Reserve Program, the difference of $14 million resulted from different estimates of the amount of funds for technical assistance that each agency estimated as necessary for new acres in 1994. A difference of $14 million in the estimates for the Commodity Credit Corporation fund resulted primarily from different estimates of the (1) subsidies needed to support the Market Promotion Program and (2) savings from reduced/revised honey program participation rates.

Differences in categorizing programs between discretionary and mandatory (discussed earlier in this report) occurred for state child nutrition payments and the food stamp program. Other differences totaled $83 million, resulting primarily from different assumptions about new and prior year spendout rates for activities carried out under the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480).

Department of Defense

CBO's estimate for fiscal year 1994 outlays for the Department of Defense (DOD) appropriation act was about $1.6 billion higher than OMB's. As shown in table III.5, this was due largely to CBO's outlay estimate for the Defense Business Operations Fund (DBOF), which was about $2 billion higher than OMB's estimate. These DBOF differences were partially offset by other estimating differences, primarily for the National Defense Stockpile transaction fund.

Table III.5: Comparison of OMB and CBO Scoring of Outlays for the Department of Defense Appropriation Act for Fiscal Year 1994

Dollars in millions

Program	Outlay Difference[a]	Reason for Difference
Defense Business Operations Fund	$-1,991	Income from sale of excess inventory and inclusion of audit activities
National Defense Stockpile transaction fund	350	Asset sales/discretionary spending
Other programs	64	Other outlay differences
Total	**$-1,577**	

[a]A positive number means that OMB's estimate is higher than CBO's.

The Defense Business Operations Fund was implemented in October 1991, primarily to replace nine existing industrial and stock funds operated by the military services. DBOF is used by DOD components to manage depot maintenance and supply operations and other business-type activities. DOD estimates that DBOF will collect and disburse about $85.6 billion and $83.1 billion, respectively, in fiscal year 1994. Part of this activity involves the sale of billions of dollars in excess inventory. For fiscal year 1994, CBO estimated there would be $1.453 billion less in offsetting income from the sale of excess inventory than did OMB.

CBO and OMB officials told us that coordination between themselves and DOD on the best approach to scoring DBOF could have been better for fiscal year 1994. However, several factors associated with the scoring for DBOF activities could have caused valid differences. Based on our prior work,[2] differences between OMB and CBO regarding the amount of income from the sale of excess inventory are not surprising. For example, according to DBOF's fiscal year 1992 financial statements, about $79 billion of inventory is available for sale to its customers. However, billions of dollars of DOD's inventory is in excess to its current needs. To the extent that DBOF has

[2]Defense Business Operations Fund (GAO/AIMD-94-7R, October 12, 1993).

inventory for which there is limited current demand, it may not realize anticipated receipts.

With financial activity of over $80 billion, capturing an accurate net figure between total potential receipts and disbursements is a difficult task under the best of circumstances. Complicating the matter of scoring DBOF is the newness of the account. There is little history to provide a pattern of the outlay rates, making it difficult to make accurate estimates.

CBO also attributed an additional $538 million in outlays to DBOF for audit activities that OMB did not include in its estimates.[3] The fiscal year 1994 budget for the Defense Contract Audit Agency (DCAA) and the Defense Contract Management Command (DCMC) included extra funds as part of a proposal to shift funding for these two agencies for services to be provided by DBOF. The proposal to make this shift was later rejected by the Congress.

CBO told us that it initially scored the proposal as an increase in collections for DBOF in fiscal year 1994 as a result of the transfer of budget authority. These collections would offset outlays by $538 million. As a result of the Congress rejecting the transfer, CBO told us it revised its scoring to reflect the absence of these collections in DBOF and a resulting increase in outlays of $538 million.

OMB stated that since the funds were to accomplish out-year work, the transfer did not involve any collections for DBOF in fiscal year 1994. It did not believe CBO should have had any reason to score offsetting receipts initially. Further, OMB did not believe that CBO scored such receipts initially and therefore should not have reduced DBOF collections (and increased outlays) as a result of the DCAA/DCMC reversal.

CBO and OMB also had a difference of $350 million in scoring the National Defense Stockpile transaction fund. The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, specified that routine, ongoing sales of government assets would count toward deficit reduction, but that any sales above those routine levels should be scored as asset sales which do not reduce deficit totals. OMB scored $350 million of sales of excess inventory as asset sales and did not offset those receipts from such sales against the fund's outlays. CBO scored the $350 million as discretionary collections (netting them against outlays) and thus had a lower outlay

[3]CBO was directed by the House and Senate Budget Committees not to score this amount for purposes of the budget resolution.

estimate for the transaction fund. CBO concurs that OMB's scoring, which did not count the asset sales toward deficit reduction, was appropriate and that its scoring was an oversight.

Veterans Affairs, Housing and Urban Development, and Independent Agencies

As shown in table III.6, OMB and CBO differences in outlay estimates totaled about $2.2 billion. The largest factor ($973 million) was the result of differing methodologies for scoring the emergency flood supplemental appropriation as mentioned previously. Other differences arose from differing subsidy rate assumptions in the Department of Housing and Urban Development programs. For example, in the Government National Mortgage Association program, OMB assumed a negative credit subsidy rate of .004 percent. OMB told us that the GNMA program is designed to break even, neither generating a profit nor providing a subsidy. OMB states that user fees and collections (negative subsidy receipts) are equal to, and are used to pay, the program's administrative costs. However, CBO used a much larger negative credit subsidy rate (.38 percent), indicating that the program would generate a significant profit. In other words, CBO estimated that user fees and other collections would more than cover the administrative costs of the GNMA program. Because of those differing assumptions, OMB's estimate of the outlays of the GNMA program was $261 million more than CBO's.

Table III.6: Comparison of OMB and CBO Scoring of Outlays for the Department of Veterans Affairs, Housing and Urban Development, and Independent Agencies Appropriation Act for Fiscal Year 1994

Dollars in millions

Program	Outlay Difference[a]	Reason for Difference
Emergency flood supplemental	$973	Different methodology for scoring supplementals
GNMA subsidies	261	Different subsidy rates
HUD subsidized housing	407	Spendout rates
HUD Home Block Grants	220	Spendout rates
VA Medical Care	323	Spendout rates
EPA Hazardous Substance Superfund	99	Spendout rates
NASA[b] Research and Development	–200	Spendout rates
FEMA[c] Disaster Relief	122	Spendout rates
All other programs	47	Other outlay differences
Total	**$2,252**	

[a]A positive number means that OMB's estimate is higher than CBO's.

[b]National Aeronautics and Space Administration.

[c]Federal Emergency Management Agency.

Most of the remaining differences resulted from OMB and CBO using different spendout rates to estimate outlays. For example, in HUD's account for the renewal of expired Section 8 subsidy contracts, OMB and CBO estimates differed by $407 million due to different spendout assumptions, particularly in the spendout of prior year obligations in the annual contributions account. Also, in HUD's Home Block Grant program, OMB's estimate of outlays exceeded CBO's by $220 million. OMB assumed that these block grant outlays would be accelerated based on such factors as accelerating issuance of regulations to simplify program requirements, providing better information on how the program can be used, rapidly approving and targeting technical assistance, and simplifying administrative procedures. CBO did not make the same assumptions.

In VA's medical care account, OMB's outlay estimate was $323 million greater than CBO's primarily because OMB used an 88 percent first-year spendout rate while CBO used an 86 percent rate. For the Environmental Protection Agency's (EPA) Hazardous Substance Superfund account, CBO used a 15 percent first-year spendout rate, while OMB used a 26 percent rate which resulted in CBO's estimate being $99 million less than OMB's.

For NASA's research and development account, CBO's outlays were estimated to be $200 million more than OMB's because CBO used a 58 percent first-year outlay rate for the Space Station while OMB used a 55 percent rate. OMB estimated that FEMA's outlays would be $122 million more than CBO's because of different spendout rates for the Disaster Relief account.

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