

104TH CONGRESS
2D SESSION

S. 2170

To establish spending limits for entitlement programs and other mandatory spending programs, and for other purposes.

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 30, 1996

Mrs. KASSEBAUM introduced the following bill; which was read twice and referred jointly pursuant to the order of August 4, 1977, to the Committees on the Budget and Governmental Affairs, with instructions that if one committee reports, the other committee have thirty days to report or be discharged

A BILL

To establish spending limits for entitlement programs and other mandatory spending programs, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Save Our Savings Act of 1996”.

6 (b) TABLE OF CONTENTS.—

Sec. 1. Short title and table of contents.

TITLE I—CAP ENTITLEMENTS AND OTHER MANDATORY
SPENDING

Sec. 101. Definitions.

- Sec. 102. Timetable.
 Sec. 103. Direct spending caps.
 Sec. 104. Economic assumptions.
 Sec. 105. Revisions to the caps for entitlement and other mandatory spending.

TITLE II—ENFORCEMENT PROVISIONS

- Sec. 201. Enforcing direct spending caps.
 Sec. 202. Reporting excess spending.
 Sec. 203. Enforcing direct spending limits.
 Sec. 204. Exempt programs and activities.
 Sec. 205. Special rules.
 Sec. 206. Current law baseline.

1 **TITLE I—CAP ENTITLEMENTS AND OTHER** 2 **MANDATORY SPENDING**

3 **SEC. 101. DEFINITIONS.**

4 For purposes of this Act:

5 (1) The term “eligible population” shall mean
 6 those individuals to whom the United States is obli-
 7 gated to make a payment under the provisions of a
 8 law creating entitlement authority. Such term shall
 9 not include States, localities, corporations, or other
 10 non-living entities, except that corporate farms may
 11 be part of the “eligible population” for programs ad-
 12 ministered by the Commodity Credit Corporation.

13 (2) The term “sequester” and “sequestration”
 14 refer to or mean the cancellation of budgetary re-
 15 sources provided by discretionary appropriations or
 16 direct spending law.

17 (3) The term “breach” means, for any fiscal
 18 year, the amount (if any) by which outlays for that

1 year (within a category of direct spending) is above
2 that category's direct spending cap for that year.

3 (4) The term "baseline" means the projection
4 (described in section 206 of this Act) of current lev-
5 els of new budget authority, outlays, receipts, and
6 the surplus or deficit into the budget year and the
7 outyears.

8 (5) The term "budgetary resources" means new
9 budget authority; unobligated balances; direct spend-
10 ing authority; and obligation limitations.

11 (6) The term "discretionary appropriations"
12 means budgetary resources (except to fund direct
13 spending programs) provided in appropriations Acts.
14 If an appropriations Act alters the level of direct
15 spending or offsetting collections, that effect shall be
16 treated as discretionary spending. Classifications of
17 new accounts or activities and changes in classifica-
18 tions shall be made in consultation with the Commit-
19 tees on Appropriations and the Budget of the House
20 of Representatives and the Senate and with the Con-
21 gressional Budget Office.

22 (7) The term "direct spending" means—

23 (A) budget authority provided by law other
24 than appropriations Acts, including entitlement
25 authority; and

1 (B) the food stamp program.

2 If a law other than an appropriations Act alters the
3 level of discretionary appropriations or offsetting col-
4 lections, that effect shall be treated as direct spend-
5 ing.

6 (8) The term “entitlement authority” means
7 authority (whether temporary or permanent) to
8 make payments (including loans and grants), the
9 budget authority for which is not provided for in ad-
10 vance by appropriations Acts, to any person or gov-
11 ernment if, under the provisions of the law contain-
12 ing such authority, the United States is obligated to
13 make such payments to persons or governments who
14 meet the requirements established by such law.

15 (9) The term “current” means, with respect to
16 OMB estimates included with a budget submission
17 under section 1105(a) of title 31 U.S.C., the esti-
18 mates consistent with the economic and technical as-
19 sumptions underlying that budget.

20 (10) The term “account” means, for items not
21 provided for in appropriations Acts, an item identi-
22 fied in the section “Federal Programs by Agency
23 and Account” as it appears in the Analytical Per-
24 spectives to the President’s fiscal year 1997 budget
25 proposal at page 383.

1 (11) The term “budget year” means the fiscal
2 year of the Government that starts on the next Oc-
3 tober 1.

4 (12) The term “current year” means, with re-
5 spect to a budget year, the fiscal year that imme-
6 diately precedes that budget year.

7 (13) The term “outyear” means, with respect
8 to a budget year, any of the fiscal years that follow
9 the budget year.

10 (14) The term “OMB” means the Director of
11 the Office of Management and Budget.

12 (15) The term “CBO” means the Director of
13 the Congressional Budget Office.

14 (16) The terms “budget outlays” and “outlays”
15 mean, with respect to any fiscal year, expenditures
16 of funds under budget authority during such year.

17 (17) BUDGET AUTHORITY AND NEW BUDGET
18 AUTHORITY.—

19 (A) IN GENERAL.—The term “budget au-
20 thority” means the authority provided by Fed-
21 eral law to incur financial obligations, as fol-
22 lows: provisions of law that make funds avail-
23 able for obligation and expenditure (other than
24 borrowing authority), including the authority to
25 obligate and expend the proceeds of offsetting

1 receipts and collections; borrowing authority,
2 which means authority granted to a Federal en-
3 tity to borrow and obligate and expend the bor-
4 rowed funds, including through the issuance of
5 promissory notes or other monetary credits;
6 contract authority, which means the making of
7 funds available for obligation but not for ex-
8 penditure; and offsetting receipts and collec-
9 tions as negative budget authority, and the re-
10 duction thereof as positive budget authority.

11 (B) LIMITATIONS ON BUDGET AUTHOR-
12 ITY.—Any amount that is precluded from obli-
13 gation in a fiscal year by a provision of law
14 (such as a limitation or a benefit formula) shall
15 not be budget authority in that year.

16 (C) NEW BUDGET AUTHORITY.—The term
17 “new budget authority” means, with respect to
18 a fiscal year—

19 (i) budget authority that first becomes
20 available for obligation in that year, includ-
21 ing budget authority that becomes avail-
22 able in that year as the result of a reap-
23 propriation; or

24 (ii) borrowing authority, which means
25 authority granted to a Federal entity to

1 borrow and obligate and expend the bor-
2 rowed funds, including through the issu-
3 ance of promissory notes of other monetary
4 credits;

5 (iii) contract authority, which means
6 the making of funds available for obliga-
7 tion but not for expenditure; and

8 (iv) offsetting receipts and collections
9 as negative budget authority; and the re-
10 duction thereof as positive budget author-
11 ity.

12 (18) The term “tax expenditures” means those
13 revenue losses attributable to provisions of the Fed-
14 eral tax laws which allow a special exclusion, exemp-
15 tion, or deduction from gross income or which pro-
16 vide a special credit, a preferential rate of tax, or a
17 deferral of tax liability; and the term “tax expendi-
18 tures budget” means an enumeration of such tax ex-
19 penditures.

20 (19) The term “appropriations Act” means an
21 Act referred to in section 105 of title 1 of the Unit-
22 ed States Code.

23 (20) The term “deficit” means, with respect to
24 a fiscal year, the amount by which outlays exceed re-
25 ceipts during that year.

1 (21) The term “surplus” means, with respect to
2 a fiscal year, the amount by which receipts exceed
3 outlays during that year.

4 (22) The term “government-sponsored enter-
5 prise” means a corporate entity created by a law of
6 the United States that—

7 (A) has a Federal charter authorized by
8 law;

9 (i) is privately owned, as evidenced by
10 capital stock owned by private entities or
11 individuals;

12 (ii) is under the direction of a board
13 of directors, a majority of which is elected
14 by private owners;

15 (iii) is a financial institution with
16 power to—

17 (I) make loans or loan guaran-
18 tees for limited purposes such as to
19 provide credit for specific borrowers
20 or one sector; and

21 (II) raise funds by borrowing
22 (which does not carry the full faith
23 and credit of the Federal Govern-
24 ment) or to guarantee the debt of oth-
25 ers in unlimited amounts; and

1 (B) does not exercise powers that are re-
 2 served to the Government as sovereign (such as
 3 the power to tax or to regulate interstate com-
 4 merce);

5 (i) does not have the power to commit
 6 the Government financially (but it may be
 7 a recipient of a loan guarantee commit-
 8 ment made by the Government); and

9 (ii) has employees whose salaries and
 10 expenses are paid by the enterprise and
 11 are not Federal employees subject to title
 12 5 of the United States Code.

13 (23) The term “sale of an asset” means the
 14 sale to the public of any physical asset owned in
 15 whole or in part by the United States.

16 (24) The term “direct spending caps means the
 17 nominal dollar limits for entitlements and other
 18 mandatory spending pursuant to section 103 of this
 19 Act (as modified by any revisions provided for in
 20 this Act).

21 **SEC. 102. TIMETABLE.**

On or Before	Action to be Completed
January 15	CBO Economic and Budget Update
First Monday in February	President’s budget; Includes Sequestration Update based on new assumptions
July 1	Cutoff for in-session sequester
August 1	Baseline Update—OMB and CBO
August 15	Preview report
October 1	Start of new fiscal year

On or Before	Action to be Completed
December 15	OMB Issues Final (look back) Report for Prior Year and Preview for Current Year
December 15	Presidential Sequester Order

1 **SEC. 103. DIRECTOR SPENDING CAPS.**

2 (a) Effective upon enactment of this Act, the follow-
 3 ing direct spending caps shall apply to all entitlement au-
 4 thority except for undistributed offsetting receipts and net
 5 interest outlays. For purposes of enforcing direct spending
 6 caps under this Act, each separate entitlement cap shall
 7 be defined as a “category”. The statement of managers
 8 to accompany this Act shall include the account numbers
 9 included in each specific category; that is, Medicaid
 10 through veterans’ benefits below. All direct spending ac-
 11 counts not included in the Statement of Managers under
 12 a separate category shall be included under “Other Enti-
 13 tlements and Mandatory Spending”.

[Fiscal years—dollars in millions]

	1997	1998	1999	2000	2001	2002
Medicaid	\$106,505	\$113,524	\$120,576	\$128,327	\$135,318	\$144,758
Food Stamps	26,001	25,763	26,963	28,282	29,513	30,715
Supplemental Security Income	25,944	25,457	27,011	31,737	28,844	33,910
Family Support	19,673	20,189	20,832	21,319	21,701	21,791
Earned Income Tax Credit	19,746	20,438	21,228	22,106	22,919	23,642
Social Security	365,403	383,402	402,351	422,412	444,081	466,767
Medicare	188,684	204,807	217,543	232,051	248,109	266,981
Federal retirement:						
Civilian/other	46,083	48,499	51,093	53,888	56,689	59,680
Military	29,848	30,881	31,949	33,022	34,122	35,259
Unemployment compensation	25,555	26,613	27,644	28,698	29,814	30,989
Veterans’ benefits	20,179	20,499	20,644	22,243	19,643	22,633
Other entitlements and mandatory spending	25,922	36,380	33,839	35,746	35,224	34,645
Total entitlements and other mandatory spending	899,543	956,452	1,001,673	1,059,831	1,105,977	1,171,770

14 (b) Legislation enacted subsequent to this Act, which
 15 creates new or increased entitlement(s) and/or mandatory

1 spending, must make necessary revisions (if any) to the
 2 caps contained in the table above as follows—

3 (1) create a new entitlement cap or caps; and

4 (2) for each fiscal year contained in the table
 5 below specify—

6 (A) increases/decreases (if any) in the
 7 cap(s) for specific categories enumerated in that
 8 table, as revised pursuant to Section 105 of this
 9 Act if applicable; and or

10 (B) increases/decreases (if any) to the
 11 cap(s) for “Total Entitlements and Other Man-
 12 datory Spending” enumerated in that table
 13 above, as revised pursuant to Section 105 of
 14 this Act if applicable; or

15 (3) the new/increased entitlement/mandatory
 16 spending created pursuant to such legislation shall
 17 be included under the “Other Entitlements and
 18 Mandatory Spending” cap in the table above, as re-
 19 vised pursuant to Section of this Act if applicable.

20 **SEC. 104. ECONOMIC ASSUMPTIONS.**

21 Subject to periodic reestimation based on changed
 22 economic conditions or changes in eligible population, de-
 23 terminations of the direct spending caps under section 103
 24 of this Act, any breaches of such caps, and actions nec-

- 1 essary to remedy such breaches shall be based on the fol-
 2 lowing economic assumptions (fiscal years).

Preliminary ¹ Forecast							
	1996	1997	1998	1999	2000	2001	2002
Nominal GDP (Billions of dollars)	7,491	7,853	8,225	8,627	9,047	9,489	9,952
Nominal GDP (percentage change)	4.3	4.8	4.7	4.9	4.9	4.9	4.9
Real GDP ² (percentage change)	1.8	2.0	2.0	2.1	2.1	2.1	2.1
Chain-type GDP Price Index (percentage change)	2.6	2.8	2.7	2.7	2.7	2.7	2.7
CPI-U ³ (percentage change)	2.7	3.1	3.1	2.9	2.9	2.9	3.0
Unemployment Rate (percent)	5.7	6.0	6.0	6.0	6.0	6.0	6.0
Three-Month Treasury Bill Rate (percent)	5.0	4.8	4.8	4.8	4.8	4.8	4.8
Ten-Year Treasury Note Rate (percent)	6.0	6.3	6.4	6.4	6.4	6.4	6.4
Tax bases (billions of dollars):							
Corporate profits	595	609	618	618	626	643	665
Other taxable income	1,578	1,643	1,731	1,834	1,933	2,033	2,132
Wage and salary disbursements	3,548	3,719	3,889	4,076	4,272	4,475	4,688
Total	5,721	5,972	6,237	6,529	6,831	7,151	7,485
Tax Bases (Percentage of GDP):							
Corporate profits	7.9	7.8	7.5	7.2	6.9	6.8	6.7
Other taxable income	21.1	20.9	21.0	21.3	21.4	21.4	21.4
Wage and salary disbursements	47.4	47.4	47.3	47.3	47.2	47.2	47.1
Total	76.4	76.0	75.8	75.7	75.5	75.4	75.2

Source: The Congressional Budget Office, The Economic and Budget Outlook: Fiscal Years 1997–2006, p. 15.

¹ Consistent with the first official estimate for 1995 published on March 5, 1996.

² Based on chained (1992) dollars.

³ CPI-U is the consumer price index for all urban consumers.

1 **SEC. 105. REVISIONS TO THE CAPS FOR ENTITLEMENTS**
2 **AND OTHER MANDATORY SPENDING.**

3 REVISIONS TO DIRECT SPENDING CAPS

4 (a) AUTOMATIC ADJUSTMENTS TO CAPS FOR ENTI-
5 TLEMENTS AND OTHER MANDATORY SPENDING.—When
6 the President submits the budget under section 1105(a)
7 of title 31, United States Code, for any year, and when
8 reports are submitted pursuant to section 201 calculate
9 (in the order set forth below), and the budget and reports
10 shall include, adjustments to the direct spending caps (and
11 those limits as cumulatively adjusted) for the current year,
12 the budget year and each outyear, to reflect the following:

13 (1) CHANGES IN CONCEPTS AND DEFINI-
14 TIONS.—The adjustments produced by changes in
15 concepts and definitions shall equal the baseline lev-
16 els of new budget authority and outlays using up-to-
17 date concepts and definitions minus those levels
18 using the concepts and definitions in effect before
19 such changes. Such changes in concepts and defini-
20 tions may only be made in consultation with the
21 Committees on Appropriations, the Budget, Govern-
22 ment Reform and Oversight, and Governmental Af-
23 fairs of the House of Representatives and the Senate
24 and the Congressional Budget Office.

1 (2) CHANGES IN NET OUTLAYS.—Changes in
2 net outlays for all programs and activities exempt
3 from sequestration under section 204 of this Act.

4 (3) CHANGES IN INFLATION.—Inflation adjust-
5 ment factors shall equal the ratio between the level
6 of year-over-year inflation measured for the fiscal
7 year most recently completed and the applicable esti-
8 mated level for that year as set forth in the table at
9 section 104 (Economic Assumptions) of this Act. In-
10 flation shall be measured as Assumptions) of this
11 Act. Inflation shall be measured as follows: for in-
12 dexed programs, inflation shall be measured by the
13 changes in the index specified in law; for programs
14 providing health care, inflation shall be measured by
15 changes in the consumer price index for all urban
16 consumers for medical care components (CPI–U
17 medical care); and for all other programs, inflation
18 shall be measured by changes in the consumer price
19 index for all urban consumers (CPI–U). The base-
20 line and the direct spending caps shall be adjusted
21 to reflect those changes.

22 (4) CHANGES IN UNEMPLOYMENT AND INTER-
23 EST RATES.—For direct spending caps, OMB shall
24 make adjustments in new budget authority and out-
25 lays for changes in actual unemployment and inter-

1 est rates. The adjustment factor for unemployment
2 shall equal the ratio between the level of year-over
3 unemployment measured for the fiscal year most re-
4 cently completed and the applicable estimated level
5 for that year set forth in the table at section 104
6 (Economic Assumptions) of this Act. The adjust-
7 ment factor for inflation shall equal the level of year-
8 over-year inflation measured for the fiscal year most
9 recently completed and the applicable estimated level
10 for that year set forth in the table at section 104
11 (Economic Assumptions) of this act. The baseline
12 and the direct spending caps shall be adjusted to re-
13 flect those changes.

14 (5) CHANGES IN ELIGIBLE POPULATIONS.—For
15 direct spending caps, OMB shall make adjustments
16 in new budget authority and outlays for changes in
17 the number of eligible beneficiaries (the eligible pop-
18 ulation), in the year most recently completed, com-
19 pared to the number projected to be eligible in the
20 calculation of CBO’s Estimates of the President’s
21 Budgetary Proposals contained in The Economic
22 and Budget Outlook: Fiscal Years 1997–2006. The
23 baseline and the direct spending caps shall be ad-
24 justed to reflect those changes.

1 (6) INTRA-BUDGETARY PAYMENTS.—From dis-
 2 cretionary accounts to mandatory accounts. The
 3 baseline and the discretionary spending caps shall be
 4 adjusted to reflect those changes.

5 (b) PERMISSIBLE REVISIONS TO DIRECT SPENDING
 6 CAPS.—Direct spending caps as enacted pursuant to sec-
 7 tion 103 of this Act may be revised as follows: Except as
 8 required pursuant to section 105(a) of this Act, direct
 9 spending caps may only be amended by recorded vote. It
 10 shall be a matter of highest privilege in the House of Rep-
 11 resentatives and the Senate for a Member of the House
 12 of Representatives or the Senate to insist on a recorded
 13 vote solely on the question of amending such caps.

14 **TITLE II—ENFORCEMENT PROVISIONS**

15 **SEC. 201. ENFORCING DIRECT SPENDING CAPS.**

16 (a) GENERAL STATEMENT ON SPENDING CAPS.—
 17 This title provides enforcement of the direct spending caps
 18 on categories of spending established pursuant to section
 19 103 of this Act. The provisions of this title trigger seques-
 20 tration of direct spending that exceeds an applicable
 21 spending cap.

22 (b) OVERALL RULES.—

23 (1) ELIMINATING A BREACH.—Each non-ex-
 24 empt account within a category shall be reduced by
 25 a dollar amount calculated by multiplying the base-

1 line level of sequestrable budgetary resources in that
2 account at that time by the uniform percentage nec-
3 essary to eliminate a breach within that category.

4 (2) PROGRAMS, PROJECTS, OR ACTIVITIES.—
5 Except as otherwise provided, the same percentage
6 sequestration shall apply to all programs, projects
7 and activities within a budget account (with pro-
8 grams, projects and activities as delineated in the
9 appropriation Act or accompanying report for the
10 relevant fiscal year covering that account, or for
11 amounts not included in appropriations Acts, as
12 identified in the section “Federal Programs by
13 Agency and Account” as it appears in the Analytical
14 Perspectives to the President’s FY 1997 Budget
15 Proposal beginning at page 383.

16 (3) ADMINISTRATIVE EXPENSES ASSOCIATED
17 WITH CERTAIN PROGRAMS.—Notwithstanding any
18 exemption, general rule or special rule in this Act,
19 administrative expenses associated with all programs
20 shall be fully subject to sequestration under this sec-
21 tion.

22 (4) INDEFINITE AUTHORITY.—Except as other-
23 wise provided, sequestration in accounts for which
24 obligations are indefinite shall be taken in a manner
25 to ensure that obligations in the fiscal year of a se-

1 questration and succeeding fiscal years are reduced,
2 from the level that would actually have occurred, by
3 the applicable sequestration percentage or percent-
4 ages.

5 (5) CANCELLATION OF BUDGETARY RE-
6 SOURCES.—Budgetary resources sequestered from
7 any account other than an entitlement trust, special
8 or revolving fund account shall revert to the Treas-
9 ury and be permanently canceled or repealed.

10 (6) IMPLEMENTING REGULATIONS.—Adminis-
11 trative regulations or similar actions implementing
12 the sequestration of a program or activity shall be
13 made within 30 days of the effective date of the se-
14 questration of that program or activity.

15 **SEC. 202. REPORTING EXCESS SPENDING.**

16 (a) ANALYSIS OF ACTUAL SPENDING LEVELS.—Fol-
17 lowing the end of any fiscal year the Director of the Office
18 of Management and Budget shall compile a statement of
19 actual direct spending for that year. The statement shall
20 identify such spending by categories contained in section
21 103 of this Act.

22 (b) ESTIMATE OF NECESSARY SPENDING REDUC-
23 TION.—Based on the statement provided under subsection
24 (a), the Director of the Office of Management and Budget
25 shall issue a report to the President and the Congress on

1 December 15 of any year in which such statement identi-
2 fies actual or projected spending, in the current and/or
3 immediately preceding fiscal years, in excess of the total
4 direct spending cap(s) in section 103 of this Act, as ad-
5 justed pursuant to section 105 of this Act, by more than
6 one percent of the total direct spending cap(s) for such
7 year(s).

8 (1) All instances in which actual direct spend-
9 ing has exceeded the direct spending cap or caps
10 identified in the preceding paragraph;

11 (2) For the current fiscal year, the difference
12 between the amount of spending available under the
13 direct spending caps identified under paragraph (b)
14 above and estimated actual spending for the cat-
15 egories associated with such caps;

16 (3) The amounts by which direct spending must
17 be reduced in the current fiscal year so that total ac-
18 tual and estimated direct spending for all cap cat-
19 egories identified under paragraph (b) for the cur-
20 rent and immediately preceding fiscal years shall not
21 exceed the amounts available under the direct spend-
22 ing caps for such fiscal years; and

23 (4) If the excess spending, in whole or in part,
24 has resulted solely from changes in inflation, interest
25 rates, unemployment or eligible population, the

1 amounts by which such spending has resulted solely
 2 from such factors.

3 (c) TIMETABLE.—

Date	Actions to be completed
January 15	CBO Economic and Budget Update
First Monday in February	President's Budget (Includes Sequestration Update Based on New Assumptions)
August 1	CBO and OMB Updates
August 15	Preview Report
December 15	OMB Issues Final (look back) Report for Prior Year and Preview for Current Year
December 15	Presidential Sequester Order

4 **SEC. 203. ENFORCING DIRECT SPENDING LIMITS.**

5 (a) IN GENERAL.—All direct spending (except mat-
 6 ters exempted from the caps under section 204 of this Act)
 7 shall be subject to caps on total direct spending outlays
 8 for each fiscal year. Consistent with the cap on total out-
 9 lays, separate caps are established for—

10 (1) any program (named in the table at section
 11 103 of this Act,

12 (2) such other program or groups of programs
 13 for which additional caps shall be established in sub-
 14 sequent legislation, or

15 (3) the remainder of direct spending programs,
 16 except that the separate caps in section 103 of this
 17 Act, plus any additional direct spending under such
 18 additional separate caps as shall be established in
 19 subsequent legislation, shall not exceed the cap for

1 total direct spending in section 103, as adjusted in
2 accordance with section 105 of this Act.

3 (b) For all direct spending programs (except matters
4 exempted under section 204, and programs subject to spe-
5 cial rules set forth under section 205, of this Act), not-
6 withstanding any other provisions of law, any sequestra-
7 tion required under this Act shall reduce benefit levels by
8 an amount sufficient to eliminate all excess spending iden-
9 tified in the report issued pursuant to section 202, while
10 maintaining the same uniform percentage reduction in the
11 monetary value of benefits subject to reduction under this
12 subsection.

13 (c) GENERAL RULES.—For programs subject to di-
14 rect spending caps—

15 (1) sequestration is triggered if total direct
16 spending subject to the caps exceeds or is projected
17 to exceed by more than 1 percent in any year the
18 aggregate cap for direct spending for the current or
19 immediately preceding fiscal year; or

20 (2) sequestration shall reduce spending under
21 each separate direct spending cap in proportion to
22 the amounts each category of direct spending con-
23 tributes or contributed to the overage.

24 (3) UNIFORM PERCENTAGES.—In calculating
25 the uniform percentage applicable to the sequestra-

1 tion of all spending programs or activities within
2 each category, or the uniform percentage applicable
3 to the sequestration of nonexempt direct spending
4 programs or activities with each category, the
5 sequestrable base for direct spending programs and
6 activities is the total level of outlays for the fiscal
7 year for those programs or activities in that category
8 each current law baseline.

9 (4) PERMANENT SEQUESTRATION OF DIRECT
10 SPENDING.—Obligations in sequestered direct spend-
11 ing accounts shall be reduced in the fiscal year in
12 which a sequestration occurs and in all succeeding
13 fiscal years. Notwithstanding any other provision of
14 this section, after the first direct spending seques-
15 tration, any later sequestration shall reduce direct
16 spending by an amount in addition to, rather than
17 in lieu of, the reduction in direct spending in place
18 under the existing sequestration or sequestrations.

19 (5) For any direct spending program in
20 which—

21 (A) outlays pay for entitlement benefits,

22 (B) a current-year sequestration takes ef-

23 fect after the first day of the budget year, and

1 (C) that delay reduces the amount of enti-
2 tlement authority that is subject to sequestra-
3 tion in the budget.

4 The uniform percentage otherwise applicable to the
5 budget-year sequestration of a program or activity is
6 increased due to the delay, then it shall revert to the
7 uniform percentage calculated under paragraph (3)
8 when the budget year is completed.

9 (6) INDEXED BENEFIT PAYMENTS.—If, under
10 any entitlement program—

11 (A) benefit payments are made to persons
12 or governments more frequently than once a
13 year, and

14 (B) the amount of entitlement authority is
15 periodically adjusted under existing law to re-
16 flect changes in a price index (commonly called
17 “cost of living adjustments”).

18 Sequestration shall first be applied to the cost of liv-
19 ing adjustment before reductions are made to the
20 base benefit. For the first fiscal year to which a se-
21 questration order applies, the benefit payment re-
22 ductions in such programs accomplished by the
23 order shall take effect starting with the payment
24 made at the beginning of January following a final
25 sequester order. For the purposes of this subsection

1 Veterans Compensation shall be considered a pro-
2 gram that meets the conditions of the preceding sen-
3 tence.

4 (7) LOAN PROGRAMS.—For all loans made, ex-
5 tended or otherwise modified on or after the date of
6 sequestration, under loan programs subject to direct
7 spending caps—

8 (A) the sequestrable base shall be total
9 fees associated with all loans made extended or
10 otherwise modified on or after the date of se-
11 questration; and

12 (B) the fees paid by borrowers shall be in-
13 creased by a uniform percentage sufficient to
14 produce the dollar savings in such loan pro-
15 grams for the fiscal year or years of the seques-
16 trations required by this section. Notwithstand-
17 ing any other provision of law, in any year in
18 which a sequester is in effect, all subsequent
19 fees shall be increased by the uniform percent-
20 age and all proceeds from such fees shall be
21 paid into the general fund of the Treasury.

22 (8) INSURANCE PROGRAMS.—Any sequestration
23 in a Federal program that sells insurance contracts
24 to the public (including the Federal Crop Insurance
25 fund, the National Insurance Development fund, the

1 National Flood Insurance fund, insurance activities
2 of the Overseas Private Insurance Corporation, and
3 Veterans' Life insurance programs)—

4 (A) the sequestrable base shall be all fees
5 associated with all contracts executed, extended
6 or otherwise modified on or after the date se-
7 questration takes effect; and

8 (B) shall be accomplished by increasing
9 premiums on contracts entered into extended or
10 otherwise modified, after the date a sequestra-
11 tion order takes effect by a uniform sequestra-
12 tion percentage sufficient to produce the dollar
13 savings in such programs required by the se-
14 questration.

15 Notwithstanding any other provision of law, for any
16 year in which a sequester affecting such programs is
17 in effect, subsequent premiums shall be increased by
18 the uniform percentage and all proceeds from the
19 premium increase shall be paid from the insurance
20 fund or account to the general fund of the Treasury.

21 (9) STATE GRANT FORMULAS.—For all State
22 grant programs subject to direct spending caps—

23 (A) for all State grant programs subject to
24 direct spending caps, the total amount of funds

1 available for all States shall be reduced by the
2 amount required to be sequestered; or

3 (B) for State grant programs subject to di-
4 rect spending caps, if in the absence of caps
5 States would receive increased funding in the
6 current year compared to the immediately pre-
7 ceding fiscal year, sequestration shall first be
8 applied to the estimated increases before reduc-
9 tions are made compared to actual payments to
10 States in the previous year—

11 (i) the reductions shall be applied first
12 to the total estimated increases for all
13 States; then

14 (ii) the uniform reduction shall be
15 made from each State's grant; and

16 (iii) the uniform reduction shall apply
17 to the base funding levels available to
18 States in the immediately preceding fiscal
19 year only to the extent necessary to elimi-
20 nate any remaining excess over the direct
21 spending cap(s).

22 (d) WITHIN SESSION SEQUESTER.—If a bill or reso-
23 lution providing direct spending for a fiscal year in
24 progress is enacted before July 1 of that fiscal year and
25 causes a breach within a direct spending cap or caps for

1 that fiscal year, 15 days later there shall be a sequestra-
2 tion to eliminate that breach within that cap or caps fol-
3 lowing the procedures set forth in subsection (a).

4 **SEC. 204. EXEMPT PROGRAMS AND ACTIVITIES.**

5 (a) The following budget accounts, activities within
6 accounts, or income shall be exempt from sequestration:

7 (1) Net interest.

8 (2) All payments to trust funds from excise
9 taxes or other receipts or collections properly cred-
10 itable to those trust funds.

11 (3) Offsetting receipts and collections.

12 (4) All payments from one Federal direct
13 spending budget account to another Federal budget
14 account; all intragovernmental funds including those
15 from which funding is derived primarily from other
16 Government accounts.

17 (5) Expenses to the extent they result from pri-
18 vate donations, bequests, or voluntary contributions
19 to the Government.

20 (6) Nonbudgetary activities, including but not
21 limited to—

22 (A) credit liquidating and financing ac-
23 counts;

24 (B) the Pension Benefit Guarantee Cor-
25 poration Trust funds;

1 (C) the Thrift Savings fund;

2 (D) the Federal Reserve System; and

3 (E) appropriations for the District of Co-
4 lumbia to the extent they are appropriations of
5 locally raised funds.

6 (7) Payments resulting from Government insur-
7 ance, Government guarantees, or any other form of
8 contingent liability, to the extent those payments re-
9 sult from contractual or other legally binding com-
10 mitments of the Government at the time of any se-
11 questration.

12 (8) The following accounts, which largely fulfill
13 requirements of the Constitution or otherwise make
14 payments to which the Government is committed:
15 Bureau of Indian Affairs, miscellaneous trust funds,
16 tribal trust funds (14-9973-0-7-999); claims, de-
17 fense; claims, judgments and relief act (20-1895-0-
18 1-806); Compact of Free Association, economic as-
19 sistance pursuant to Public Law 99-658 (14-0415-
20 0-1-806); compensation of the President (11-0001-
21 0-1-802); Customs Service, miscellaneous perma-
22 nent appropriations (20-9992-0-2-852); Eastern
23 Indian land claims settlement fund (14-2202-0-1-
24 806); Farm Credit System Financial Assistance Cor-
25 poration, interest payments (20-1850-0-1-351); In-

1 ternal Revenue collections of Puerto Rico (20-5737-
2 0-2-852; payments of Vietnam and USS Pueblo
3 prisoner-of-war claims (15-0104-0-1-153); pay-
4 ments to copyright owners (03-5175-0-2-376); sal-
5 aries of article III judges (not including cost of liv-
6 ing adjustments); Soldier's and Airman's Home,
7 payment of claims (84-8930-0-7-705); and Wash-
8 ington Metropolitan Area Transit Authority, interest
9 payments (46-0300-0-1-401).

10 (9) The Following Noncredit Special, Revolving,
11 or Trust-Revolving Funds: Exchange Stabilization
12 fund (20-4444-0-3-155); and Foreign Military
13 Sales trust fund (11-82232-0-7-155).

14 (b) OPTIONAL EXEMPTION OF MILITARY PERSON-
15 NEL—.

16 (1) The President may, with respect to any
17 military personnel account, exempt that account
18 from sequestration or provide for a lower uniform
19 percentage reduction that would otherwise apply.

20 (2) The President may not use the authority
21 provided by paragraph (1) unless he notifies the
22 Congress of the manner in which such authority will
23 be exercised on or before the initial snapshot date
24 for the budget year.

1 **SEC. 205. SPECIAL RULES.**

2 (a) CHILD SUPPORT ENFORCEMENT PROGRAM.—

3 Any sequestration order shall accomplish the full amount
4 of any required reduction in payments under sections 455
5 and 458 of the Social Security Act by reducing the Fed-
6 eral matching rate for State administrative costs under
7 the program, as specified (for the fiscal year involved) in
8 section 455(a) of such Act, to the extent necessary to re-
9 duce such expenditures by that amount.

10 (b) COMMODITY CREDIT CORPORATION.—

11 (1) EFFECTIVE DATE.—For the Commodity
12 Credit Corporation, the date on which a sequestra-
13 tion order takes effect in a fiscal year shall vary for
14 each crop of a commodity. In general, the sequestra-
15 tion order shall take effect when issued, but for each
16 crop of a commodity for which 1-year contracts are
17 issued as an entitlement, the sequestration order
18 shall take effect with the start of the sign-up period
19 for that crop that begins after the sequestration
20 order is issued. Payments for each contract in such
21 a crop shall be reduced under the same terms and
22 conditions.

23 (2) DAIRY PROGRAM—

24 (A) As the sole means of achieving any re-
25 duction in outlays under the milk price-support
26 program, the Secretary of Agriculture shall pro-

1 vide for a reduction to be made in the price re-
2 ceived by producers for all milk in the United
3 States and marketed by producers for commer-
4 cial use.

5 (B) That price reduction (measured in
6 cents per hundred-weight of milk marketed)
7 shall occur under subparagraph (A) of section
8 201(d)(2) of the Agricultural Act of 1949 (7
9 U.S.C. 1446(d)(2)(A)), shall begin on the day
10 any sequestration order is issued, and shall not
11 exceed the aggregate amount of the reduction
12 in outlays under the milk price-support pro-
13 gram, that otherwise would have been achieved
14 by reducing payments made for the purchase of
15 milk or the products of milk under this sub-
16 section during that fiscal year.

17 (3) EFFECT OF DELAY.—For purposes of sub-
18 section (b)(1), the sequestrable base for Commodity
19 Credit Corporation is the current-year level of gross
20 outlays resulting from new budget authority that is
21 subject to reduction under paragraphs (1) and (2).

22 (4) CERTAIN AUTHORITY NOT TO BE LIM-
23 ITED.—Nothing in this Act shall restrict the Cor-
24 poration in the discharge of its authority and re-
25 sponsibility as a corporation to buy and sell com-

1 modities in world trade, or limit or reduce in any
2 way any appropriation that provides the Corporation
3 with funds to cover its realized losses.

4 (c) EARNED INCOME TAX CREDIT.—

5 (1) The sequestrable base for Earned Income
6 Tax Credit Program is the dollar value of all current
7 year benefits to the entire eligible population.

8 (2) All Earned Income Tax Credits shall be re-
9 duced, whether or not such credits otherwise would
10 result in cash payments to beneficiaries, by a uni-
11 form percentage sufficient to produce the dollar sav-
12 ings required by the sequestration.

13 (d) REGULAR AND EXTENDED UNEMPLOYMENT
14 COMPENSATION.—

15 (1) A State may reduce each weekly benefit
16 payment made under the regular and extended un-
17 employment benefit programs for any week of unem-
18 ployment occurring during any period with respect
19 to which payments are reduced under any sequestra-
20 tion order by a percentage not to exceed the percent-
21 age by which the Federal payment to the State is to
22 be reduced for such week as a result of such order.

23 (2) A reduction by a State in accordance with
24 paragraph (1) shall not be considered as a failure to

1 fulfill the requirements of section 3304(a)(11) of the
2 Internal Revenue Code of 1986.

3 (e) FEDERAL EMPLOYEES HEALTH BENEFITS
4 FUND.—For the Federal Employees Health Benefits
5 Fund, a sequestration order shall take effect with the next
6 open season. The sequestration shall be accomplished by
7 annual payments from that fund to the General Fund of
8 the Treasury. Those annual payments shall be financed
9 solely by charging higher premiums. The sequestrable base
10 for the Fund is the current-year level of gross outlays re-
11 sulting from claims paid after the sequestration order
12 takes effect.

13 (f) FEDERAL HOUSING FINANCE BOARD.—Any se-
14 questration of the Federal Housing Board shall be accom-
15 plished by annual payments (by the end of each fiscal
16 year) from that Board to the general fund of the Treasury,
17 in amounts equal to the uniform sequestration percentage
18 for that year times the gross obligations of the Board in
19 that year.

20 (g) FEDERAL PAY.—

21 (1) IN GENERAL.—New budget authority to pay
22 Federal personnel from direct spending accounts
23 shall be reduced by the uniform percentage cal-
24 culated under section 203(3), as applicable, but no
25 sequestration order may reduce or have the effect of

1 reducing the rate of pay to which any individual is
2 entitled under any statutory pay system (as in-
3 creased by any amount payable under section 5304
4 of title 5, United States Code, or any increase in
5 rates of pay which is scheduled to take effect under
6 section 5303 of title 5, United States Code, section
7 1109 of title 37, United States Code, or any other
8 provision of law.

9 (2) DEFINITIONS.—For purposes of this sub-
10 section:

11 (A) The term “statutory pay system” shall
12 have the meaning given that term in section
13 5302(1) of title 5, United States Code.

14 (B) The term “elements of military pay”
15 means—

16 (i) the elements of compensation of
17 members of the uniformed services speci-
18 fied in section 1009 of title 37, United
19 States Code,

20 (ii) allowances provided members of
21 the uniformed services under sections
22 403(a) and 405 of such title, and

23 (iii) cadet pay and midshipman pay
24 under section 203 of such title.

1 (C) The term “uniformed services” shall
2 have the same meaning given that term in sec-
3 tion 101(3) of title 37, United States Code.

4 (h) MEDICARE.—

5 (1) TIMING OF APPLICATION OF REDUC-
6 TIONS.—

7 (A) IN GENERAL.—Except as provided in
8 subparagraph (B), if a reduction is made in
9 payment amounts pursuant to sequestration
10 order, the reduction shall be applied to payment
11 for services furnished after the effective date of
12 the order. For purposes of the previous sen-
13 tence, in the case of inpatient services furnished
14 for an individual, the services shall be consid-
15 ered to be furnished on the date of the individ-
16 ual’s discharge from the inpatient facility.

17 (B) PAYMENT ON THE BASIS OF COST RE-
18 PORTING PERIODS.—In the case in which pay-
19 ment for services of a provides of services is
20 made under title XVIII of the Social Security
21 Act on a basis relating to the reasonable cost
22 incurred for the services during a cost reporting
23 period of the provider, if a reduction is made in
24 payment amounts pursuant to a sequestration
25 order, the reduction shall be applied to payment

1 for costs for such services incurred at any time
2 during each cost reporting period of the pro-
3 vider any part of which occurs after the effec-
4 tive date of order, but only (for each such cost
5 reporting period) in the same proportion as the
6 fraction of the cost reporting period that occurs
7 after the effective date of the order.

8 (2) NO INCREASE IN BENEFICIARY CHARGES IN
9 ASSIGNMENT-RELATED CASES.—If a reduction in
10 payment amounts is made pursuant to a sequestra-
11 tion order for services for which payment under part
12 B of title XVIII of the Social Security Act is made
13 on the basis of an assignment described in section
14 1842(b)(3)(B)(ii), in accordance with section
15 1842(b)(6)(B), or under the procedure described in
16 section 1870(f)(1) of such Act, the person furnishing
17 the services shall be considered to have accepted
18 payment of the reasonable charge for the services,
19 less any reduction in payment amount made pursu-
20 ant to a sequestration order, as payment in full.

21 (3) PART B PREMIUMS.—In computing the
22 amount and method of sequestration from part B of
23 title XVIII of the Social Security Act—

24 (A) the amount of sequestration shall be
25 calculated by multiplying the total amount by

1 which Medicare spending exceeds the appro-
2 priate spending cap by a percentage that re-
3 flects the ratio of total spending under part B
4 to total Medicare spending; and

5 (B) sequestration in the part B program
6 shall be accomplished by increasing premiums
7 to beneficiaries.

8 (4) NO EFFECT ON COMPUTATION OF AAPCC.—

9 In computing the adjusted average per capita cost
10 for purposes of section 1876(a)(4) of the Social Se-
11 curity Act, the Secretary of Health and Human
12 Services shall not take into account any reductions
13 in payment amounts which have been or may be ef-
14 fected under this part.

15 (i) POSTAL SERVICE FUND.—Any sequestration of
16 the Postal Service fund shall be accomplished by annual
17 payments from that fund to the General Fund of the
18 Treasury, and the Postmaster General of the United
19 States and shall have the duty to make those payments
20 during the first fiscal year to which the sequestration
21 order applies and each succeeding fiscal year. The amount
22 of each annual payment shall be—

23 (1) the uniform sequestration percentage, times

24 (2) the estimated gross obligations of the Postal

25 Service fund in that year other than those obliga-

1 tions financed with an appropriation for revenue for-
2 gone that year.

3 Any such payment for a fiscal year shall be made as soon
4 as possible during the fiscal year, except that it may be
5 made in installments within that year if the payment
6 schedule is approved by the Secretary of the Treasury.

7 Within 30 days after the sequestration order is issued, the
8 Postmaster General shall submit to the Postal Rate Com-
9 mission a plan for financing the annual payment for that
10 fiscal year and publish that plan in the Federal Register.

11 The plan may assume efficiencies in the operation of the
12 Postal Service, reductions in capital expenditures, in-
13 creases in the prices of services, or any combination, but
14 may not assume a lower fund surplus or higher fund defi-
15 cit and must follow the requirements of existing law gov-
16 erning the Postal Service in all other respects. Within 30
17 days of the receipt of that plan, the Postal Rate Commis-
18 sion shall approve the plan or modify it in the manner
19 that modifications are allowed under current law. If the
20 Postal Rate Commission does not respond to the plan
21 within 30 days, the plan submitted by the Postmaster
22 General shall go into effect. Any plan may be later revised
23 by the submission of a new plan to the Postal Rate Com-
24 mission, which may approve or modify it.

1 (j) POWER MARKETING ADMINISTRATIONS AND
2 TVA.—Any sequestration of the Department of Energy
3 power marketing administration funds or the Tennessee
4 Valley Authority fund shall be accomplished by annual
5 payments from those funds to the General Fund of the
6 Treasury, and the administrators of those funds shall have
7 the duty to make those payments during the fiscal year
8 to which the sequestration order applies and each succeed-
9 ing fiscal year. The amount of each payment by a fund
10 shall be—

11 (1) the direct spending uniform sequestration
12 percentage, times

13 (2) the estimated gross obligations of the fund
14 in that year other than those obligations financed
15 from discretionary appropriations for that year.

16 Any such payment for a fiscal year shall be made as soon
17 as possible during the fiscal year, except that it may be
18 made in installments within that year if the payment
19 schedule is approved by the Secretary of the Treasury. An-
20 nual payments by a fund may be financed by reductions
21 in costs required to produce the pre-sequester amount of
22 power (but those reductions shall not include reductions
23 in the amount of power supplied by the fund), by reduc-
24 tions in capital expenditures, by increases in tax rates, or
25 by any combination, but may not be financed by a lower

1 fund surplus, a higher fund deficit, additional borrowing,
2 delay in repayment of principal on outstanding debt and
3 must follow the requirements of existing law governing the
4 fund in all other respects. The administrator of a fund
5 or the TVA Board is authorized to take the actions speci-
6 fied above in order to make the annual payments to the
7 Treasury.

8 (k) **BUSINESSLIKE TRANSACTIONS.**—Notwithstand-
9 ing any other provision of law, for programs which provide
10 a businesslike service in exchange for a fee, sequestration
11 shall be accomplished through a uniform increase in fees
12 (sufficient to produce the dollar savings in such programs
13 for the fiscal year of the sequestration required by section
14 202(a)(2), all subsequent fees shall be increased by the
15 same percentage, and all proceeds from such fees shall be
16 paid into the general fund of the Treasury, in any year
17 for which a sequester affecting such programs are in ef-
18 fect.

19 **SEC. 206. THE CURRENT LAW BASELINE**

20 (a) **DETERMINATION OF THE BUDGET BASELINE.**—
21 The Directors of the Congressional Budget Office and the
22 Office of Management and Budget shall submit to the
23 President and the Congress reports setting forth the budg-
24 et baselines for the budget year and at least the subse-
25 quent nine fiscal years. The CBO report shall be submit-

1 ted on or before January 15. The OMB report shall ac-
2 company the President's budget. The budget baseline shall
3 be based on the common economic assumptions set forth
4 in Section 104 of this Act, adjusted to reflect revisions
5 pursuant to (b) below. The budget baseline shall consist
6 of a projection of current year levels of budget authority,
7 outlays, revenues and the surplus or deficit into the budget
8 year and the relevant outyears based on current enacted
9 laws as of the date of the projection.

10 (b) REVISIONS TO THE BASELINE.—The baseline
11 shall be adjusted for up-to-date economic assumptions
12 when CBO submits its Economic and Budget Update and
13 when OMB submits their its Budget Update, and by Au-
14 gust 1 each year, when CBO and OBM submit their Mid-
15 year Reviews. For Discretionary spending items, the base-
16 line shall be the spending caps in effect pursuant to sec-
17 tion 601(a)(2) of the Congressional Budget Act of 1974
18 as amended. For years in which there are no caps, the
19 baseline for discretionary spending shall be the same as
20 in the last year for which there were statutory caps. For
21 all other expenditures, and for revenues, the baseline shall
22 be adjusted by comparing unemployment, inflation, inter-
23 est rates, growth and other economic indicators—and
24 changes ineligible population—for the most recent period
25 for which actual data are available, compared to the as-

1 sumptions contained in section 104 of this Act. The budg-
2 et baseline shall provide the basis for scorekeeping proce-
3 dures pursuant to title II of this Act.

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