

Report to the Speaker
United States House of Representatives

June 1986

IMPLEMENTING FY1986 REDUCTIONS

Balanced Budget and Emergency Deficit Control Act of 1985



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Comptroller General
of the United States
B-221498

June 30, 1986

The Honorable Thomas P. O'Neill, Jr.
Speaker
United States House of Representatives

Dear Mr. Speaker:

In response to your request of April 17, 1986 (see app.I), the General Accounting Office (GAO) has reviewed the implementation in selected accounts of the changes specified in my January 21, 1986, report under the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177). Our findings are summarized in the body of this letter; appendixes II through IV contain additional information about many of the specific accounts of interest to you. The objectives, scope, and methodology of our work are discussed in appendix V.

Your request focused primarily on the application of the exemptions and special rules contained in sections 255 and 256 of the act, the pattern of reductions in certain grant programs to the states, and how reductions were achieved in those entitlement programs not having special rules. We found no significant problems in the way that the President's February 1, 1986, order was implemented with respect to the special rules contained in section 256. We are aware, however, of two suits challenging the way that order dealt with various provisions of section 255.

We found, despite numerous variations, that the reductions in the grant programs and those in most of the entitlement programs not having special rules were implemented in accordance with the act. In several cases, however, we found that sequestrations in special fund entitlement accounts were incorrectly made by reducing payments from fiscal 1985 budgetary resources.

Exempt Programs and Activities

Your first question involves application of the provisions contained in sections 255 and 256 of the act. Section 255 describes the programs and activities that are exempt from sequestration, and section 256 sets out certain exceptions, limitations, and special rules to be followed in the sequestration process.

With two exceptions, programs and activities listed in section 255 are exempt from sequestration. The first exception is that, under the provisions of section 256(b) of the act, federal administrative expenses paid from any of the listed accounts are sequestrable regardless of whether the programs or activities are otherwise exempt. The second exception is that, for accounts listed in section 255(g)(2), outlays not associated with prior legal obligations of the government are sequestrable.

We are aware of two pending suits challenging the way that order dealt with provisions in section 255. The Paralyzed Veterans of America have filed suit in the United States District Court for the District of Columbia challenging the treatment of outlays for policy loans in several of the Veterans Administration (VA) insurance programs listed in section 255(g)(2).¹ In the President's order, outlays for policy loans were treated as outlays not associated with prior legal obligations and were therefore considered sequestrable.

The National Association of Letter Carriers and several other plaintiffs have filed suit in the United States District Court for the District of Columbia, challenging the sequestration of non-indexed benefits in the Special Benefits, Federal Employees' Compensation Act program.²

Section 257(1) of the act defines the term "automatic spending increase" as meaning increases in outlays due to changes in indexes in certain specified programs, including Special Benefits, Federal Employees' Compensation Act. Section 255(f) provides that outlays for these automatic spending increase programs are subject to reduction only in accordance with the procedures

¹ Civil Action No. 86-1489. The accounts in question include Veterans Insurance and Indemnities, Veterans Reopened Insurance, Service-disabled Veterans Insurance, National Service Life Insurance, United States Government Life Insurance and Veterans Special Life Insurance.

² Civil Action No. 86-0866

established in section 251(a)(3)(C) for reducing or suspending automatic spending increases and the provisions of section 256(b) providing for the sequestration of federal administrative expenses.

The President's order applied section 255(f) only to the indexed benefit within each account specified in section 257(1). For example, although section 257(1) lists the account number for the entire GAO budget, the order applied section 255(f) only to the Comptrollers General retirement system. Similarly, the order applied section 255(f) only to the National Oceanic and Atmospheric Administration retirement system, even though the account number listed covers the entire National Oceanic and Atmospheric Administration. In accounts containing both indexed benefit programs and non-indexed items (such as expenditures for medical payments), the order applied section 255(f) only to the outlays for the indexed benefit; outlays for the non-indexed item were treated as sequestrable. This occurred, for example, in the Retirement pay and medical benefits for commissioned officers, Public Health Service account and the Special benefits, Federal Employees' Compensation Act account.

Exceptions, Limitations, and Special Rules

Section 256 contains special rules that limit the size of the sequestration and/or provide for the manner in which outlays are to be reduced in the following programs: Guaranteed Student Loans, Medicare, Child Support Enforcement, Foster Care and Adoption Assistance, Commodity Credit Corporation, Community Health Centers, Migrant Health Centers, Indian Health Facilities, Indian Health Services, and Veterans' Medical Care.

We have reviewed the manner in which the order was implemented in each of these programs. The reductions were made in substantial compliance with the act. Both the effective and termination dates of the required adjustments were clearly and correctly specified in directives implementing these reductions. Appendix II contains further details on the implementation of the order with respect to these programs.

Section 256 also contains provisions specifying:

- how certain indexed programs are to be adjusted in years after a sequester order is issued,
- the disposition of sequestered budgetary resources; and
- the treatment of federal administrative expenses, federal pay, payments under the unemployment compensation and mine worker disability programs, and obligated balances.

As explained in appendix II, we also found no significant problems in the implementation of these provisions.

Grant-in-Aid Programs

You also requested that we review how reductions were made in certain grant-in-aid programs not covered by special rules and in the refugee assistance program. Of particular interest was the allocation of reductions among the states in the grant programs and whether the reductions were achieved in a manner consistent with section 252(e) of the act.

Section 252(e) provides that nothing in section 252 (which describes the procedure for issuance of the President's sequestration order) shall be construed to give the President new authority to alter the relative priorities in the federal budget and that no person who is or becomes eligible for benefits under any provision of law shall be denied eligibility by reason of any sequestration order issued under the act.

In general, we found that the reductions in these grant programs were consistent with section 252(e). The reductions did not alter relative budget priorities established in law and no entitlement was extinguished.

The allocation of the reductions among the states varied from program to program. Uniform 4.3-percent reductions were made in each state's allocation under three formula grant programs: grants to states under the Maternal and Child Health Services Block Grant, the Community Services Block Grant, and the Social Services Block Grant.

It is not possible to know the exact pattern of reductions in all or a portion of five other programs because they fund project grants that are awarded competitively throughout the fiscal year. These programs include: Family Planning programs, the

Childhood Immunization program, and portions of the Developmental Disabilities, Child Welfare Services, and Maternal and Child Health programs. Generally, officials told us that the total amount available for these grants would be 4.3 percent less.

Reductions were not allocated equally among the states in four other programs: the Low Income Home Energy Assistance program, state formula grants under the Child Welfare Services program, basic state grants and protection and advocacy grants under the Developmental Disabilities program, and cash, medical, and administrative service reimbursement grants under the Refugee Assistance program.

The nonuniformity in three of the programs can be traced to particular features of the formulas used in each program to distribute funds. In the Low Income Home Energy Assistance program, the authorizing legislation contains hold harmless provisions, and in the Developmental Disabilities programs, the legislation provides for minimum payment amounts. Such provisions had the effect of preventing a reduction in the grants to certain states, thereby increasing the size of the reduction that had to be made in the grants to other states. The formula used to allocate state formula grants in the Child Welfare Services program includes both a flat dollar amount and a variable amount for each state, producing some variation from state to state in the percentage reduction. In effect, under these formula grant programs, the distribution among states after the sequestration was the distribution that would have resulted had the Congress appropriated 4.3 percent less initially.

Cash, medical, and administrative service grants in the Refugee Assistance program reimburse states for several types of expenditures, and the reductions in these grants were achieved by altering the provisions governing one of these several expenditure types. Specifically, the number of months for which certain refugees' cash and medical benefit costs could be reimbursed was reduced from 36 to 31. This affected states differently because the relative importance of this one cost element varied from state to state.

Detailed descriptions of the impact on these programs are contained in appendix III.

Other Entitlement Programs

We reviewed the manner in which the order was implemented for all programs classified by the House Budget Committee as entitlements and for which there was no special rule or exemption. We also reviewed three of the entitlement accounts in which one part of the account was treated as an automatic spending increase program but another part was sequestered.³ The list of accounts considered to be entitlements and the detailed explanations of the impact on each account not having a special rule or exemption are contained in appendix IV.⁴

The entitlement accounts we examined fall into five categories. One group consists of accounts (mainly permanently appropriated special funds) from which payments are made to specified state, commonwealth, or territorial governments. In general, the payments turn all or a portion of specified revenues collected by the federal government over to the recipient governmental unit. Accounts falling into this category include: Bureau of Reclamation Miscellaneous Permanent Appropriations, U.S. Customs Miscellaneous Permanent Appropriations, Internal Revenue Service Collections for Puerto Rico, Child Support Enforcement Payments to States, Payments to U.S. Territories, Corps of Engineers Permanent Appropriations, Bureau of Land Management (BLM) Range Improvements, BLM Miscellaneous Permanent Appropriations, Forest Service Permanent Appropriations, and Payments to States Under the Federal Power Act.

Although the President's order reduced the budgetary resources in each of these accounts by 4.3 percent, the reductions are not necessarily permanent. In most cases, the accounts are special funds in which amounts sequestered in one fiscal year will remain available for payment in the subsequent fiscal year in accordance with the existing permanent indefinite appropriation. In one case (Payments to U.S. Territories) amounts are appropriated in anticipation of certain federal tax receipts, and the subsequent year's appropriation provides for an adjustment if the amount of advance payments is different from actual receipts.

³ These were Rehabilitation Services and Handicapped Research, Special Benefits, and Special Workers' Compensation Expenses

⁴ As requested by your staff, we also examined the impact on the Rural Development Insurance Fund, even though it is not classified as an entitlement

In four of the accounts (BLM Miscellaneous Permanent Appropriations, Forest Service Miscellaneous Permanent Appropriations, Bureau of Reclamation Miscellaneous Permanent Appropriations, and Payments to States Under the Federal Power Act) it is our view that OMB is implementing the sequester order incorrectly by reducing payments from fiscal 1985 budgetary resources.

A second category of entitlements consists of programs in which sequestration resulted in reductions in individual payments. In one account, Special Benefits, payments to medical vendors were reduced. In other accounts, the authorizing statute confers an entitlement in a specified amount, and the effect of the sequester was to reduce budget resources to a level insufficient to fully fund the entitlement. In one of these programs, the VA Education Loan Fund, the required reductions are to be achieved by allowing expenditures to be made at the rate provided for in the authorizing statute for so long as spending authority permits. In the remaining programs--VA Burial Benefits and Miscellaneous Assistance, VA Readjustment Benefits, the VA Vocational Rehabilitation Revolving Loan Fund, and General Revenue Sharing--the reductions generally have been made by reducing proportionately the amount paid to each recipient.

A third category includes programs in which program managers were able to accommodate the reductions without having to reduce any payments below levels established in law. These are the Fees and Expenses for Witnesses account, the Salaries of Judges account, and the Higher Education Facilities Loans and Insurance account.

A fourth category consists of loan programs in which the sequester reduced the volume of new loans that could be made, but had no effect on outstanding loans. This includes the Rural Development Insurance Fund and the College Housing Loans Fund.

A final category consists of programs in which, for one reason or another, the sequester will have virtually no effect. In some accounts, appropriations (or the estimate of new spending authority used as the base for the sequester calculation) were sufficiently above the current estimate of the amount needed to fully fund the activity that it appears at the present time that no program changes will be needed. This occurred in the Government Payment for Annuitants, Employee Health Benefits; Federal Unemployment Benefits; Payments to Air Carriers; and Special Workers' Compensation Expenses

accounts; and in the Railroad Unemployment Insurance program. In addition, it appears that reductions in the federal share of extended unemployment benefits will have virtually no effect on outlays because, in the three jurisdictions currently participating in the program, reductions in the federal share have been offset by increases the jurisdictions made in their share, leaving monthly benefits (and total outlays from the Unemployment Insurance Trust Fund) unaffected. The sequester order also has not resulted in reductions in new loans under the VA Housing Loan Guaranty Revolving Fund because additional resources were supplied by the Congress after the effective date of the President's order.

In summary, at the present time the sequester has had virtually no effect on payments from some entitlement accounts but a significant effect on payments from other entitlement accounts. In part, this result was produced by variations in the relationship between the amount used as a base for the sequester calculation and the most recent estimate of the amount needed to fully finance the entitlement. For annually appropriated accounts, the sequester base was the amount appropriated; for other accounts, the base was a January estimate of total fiscal 1986 obligation or lending activity in the absence of the act. Events not foreseen when the January estimates were prepared can cause more recent estimates of the amount needed to fully fund the entitlement to be higher or lower than the January estimate. Yet, under the provisions of the act, obligation and lending estimates used as the sequester base become binding limitations.

In accounts where the sequester base was sufficiently higher than the most recent estimate of the amount necessary to fully fund the entitlement, no change in benefits appeared to be necessary. Where the sequester base and the most recent estimate were similar, reductions appeared necessary and those made were of approximately the same percentage size as the reductions made in non-defense accounts generally. Where the sequester base was substantially below the most recent estimate (as, for example, in the VA Housing Loan Guaranty Revolving Fund prior to its receiving supplemental authority), the effect of the act could be to reduce activity by substantially more than the general percentage reduction in non-defense accounts.

Finally, you asked us whether achieving the reductions by serving applicants on a first-come, first-served basis until funding was exhausted constituted a violation of section 252(e). In our view the question of whether an entitlement exists is distinct from the question of how one operates a program in

which budgetary resources available are insufficient to fully fund the entitlement. Therefore, we do not view any particular strategy for dealing with resource insufficiency, including serving applicants on a first-come, first-served basis, as a violation of the requirement in section 252(e) that eligibility not be denied by reason of any sequestration order issued under the act.

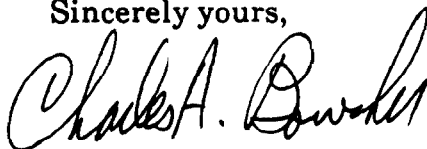
**Reductions by Agency
and Program**

The January 15 OMB/CBO report to GAO contained tables showing the net effect of the sequestrations recommended to us by agency and program. Tables 13, 14 and 15 in appendix VI are the results as presented in the OMB/CBO report modified to reflect the changes made by GAO in its January 21 report.

* * * *

Copies of this report are being sent to the President of the Senate and the Chairmen of the House and Senate Budget Committees, House and Senate Appropriation Committees, House Ways and Means Committee, Senate Finance Committee, House Government Operations Committee and Senate Governmental Affairs Committee. Copies will also be available to others who request them.

Sincerely yours,



Charles A. Bowsher
Comptroller General
of the United States

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Abbreviations

AFDC	Aid to Families with Dependent Children
CCC	Commodity Credit Corporation
CBO	Congressional Budget Office
GAO	General Accounting Office
HHS	Department of Health and Human Services
OMB	Office of Management and Budget
PPA	Programs, projects, and activities
USDA	United States Department of Agriculture
VA	Veterans Administration

Letter from the Speaker

The Speaker's Rooms
U.S. House of Representatives
Washington, D.C. 20515

April 17, 1986

Hon. Charles A. Bowsher
Comptroller General of the United States
Room 7000
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

As you are undoubtedly aware, there is much Congressional interest in the implementation of the "Balanced Budget and Emergency Deficit Control Act of 1985." How the required spending reductions were actually achieved, whether the law was followed, and whether the law was unambiguous in prescribing how outlay reductions from each program were achieved are important issues. I am especially concerned about these questions as they relate to entitlement and mandatory spending programs. These issues were not discussed in the April 1 compliance report issued pursuant to Section 253. Therefore, I am requesting that the General Accounting Office address the following questions in a supplemental report:

Did the Presidential order follow the special rules as defined in Sections 255 and 256? Do regulations or directives to states properly identify termination dates and/or the fiscal year 1987 impact?

Did the order follow Section 252(e) in making reductions in refugee assistance, the Indian Health Service, and the grant programs to states? How were the reductions in grant programs to states allocated among the states? Specific programs which should be investigated include: the Social Services Block Grant program, the Low Income Energy Assistance program, the Community Services Block Grant, Child Welfare Services, Developmental Disabilities Assistance, Family Planning Programs (Title X), the Childhood Immunization program, and the Maternal and Child Health Services Block Grant.

For all entitlement and mandatory spending programs without special rules, how are the dollar reductions to be accomplished? Are they in accord with Sections 252(d) and (e)? For example, is Section 252(e) violated if a reduction is accomplished by serving all individuals on a first-come first-served basis until the funds are exhausted and there are no changes in the execution of the law or in

Appendix I
Letter from the Speaker

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regulations? Programs which should be investigated include veterans readjustment benefits, various loan programs as well as other programs.

For each agency or major program, please identify the budgetary resources that were reduced as a result of sequestration and tabulate the figures.

This report will be most useful if it can be received by July 1, 1986. Thank you for your attention to this matter.

With every good wish.

Sincerely,



Thomas P. O'Neill, Jr.
Speaker

TPO:se

Special Rule Budgetary Accounts, Programs, Projects, or Activities

Child Support Enforcement

Child Support Enforcement
Family Support Administration
Department of Health and Human Services
(Budget Identification Code 75-0430-0-1-609)

The Child Support Enforcement program assists states in assuring that absent parents meet their responsibility in providing support for their children. This goal is accomplished through locating absent parents, proving paternity, establishing child support obligations and enforcing their collection. The program provides support for state administrative expenses. The 1986 federal payment rates were 70 percent for general expenses and 90 percent for computer expenses.

State agencies collect child support payments from absent parents on behalf of recipients of Aid to Families with Dependent Children (AFDC) and other state assistance programs. As a condition of eligibility for AFDC, recipients must assign their rights to support payments to the state. The state or local child support enforcement agency distributes the child support collections according to the formula in section 457 of the Social Security Act. The collections are distributed among the assistance families, the states (in repayment of assistance payments), and the federal government (in repayment of federal assistance payments under the AFDC program).

Under section 458 of the Social Security Act, a part of the federal government's share of the child support monies collected is retained by the states as incentive payments for enforcing and collecting child support. The remainder is offset against payments to states for federal assistance under the AFDC program. Collections on behalf of non-AFDC families are distributed directly by the states to those families.

Sequestration Action

The sequester base for the Child Support Enforcement account was \$610,480,000, of which \$26,251,000 was sequestered. An additional \$6,880,000 for the program was sequestered on the basis of anticipated incentive payments to the states from the Assistance Payments Account. The total reduction to be achieved in fiscal year 1986 was the sum of the two sequesters or \$33,131,000.

The special rule contained in section 256(e) of the Balanced Budget and Emergency Deficit Control Act of 1985 provides that the full amount of any reduction in expenditures under sections 455 and 458 of the Social Security Act be achieved by reducing the federal matching rates for state program administrative expenses. The director of the Office of Child Support Enforcement issued implementing instructions to states and Department of Health and Human Services (HHS) regional offices regarding the federal matching rates to be used in fiscal year 1986. The regular rate for general expenses was changed from 70 to 66.65 percent and the rate for computer expenses was changed from 90 to 85.69 percent. These rates reflect a reduction of 4.3 percent for anticipated state administrative expenses (under section 455) and an adjustment to allow for sequestration on the basis of state incentive payments (under section 458). The revised percentages do not, however, provide for sequestering \$516,000 from grants to states for interstate enforcement, which are also authorized under section 455 of the Social Security Act as amended by section 5(a) of the Child Support Enforcement Amendments of 1984. Instead, HHS made a direct 4.3-percent reduction in the funds available for this activity.

Commodity Credit Corporation

Commodity Credit Corporation
Department of Agriculture
(Budget Identification Code 12-4336-0-3-351)

The Commodity Credit Corporation (CCC) operates as a public enterprise fund. Authorized expenditures are made from the fund and CCC revenues (e.g., loan repayments) are deposited in it. Under present law, CCC can borrow up to \$25 billion from the U.S. Treasury to finance its operations. Periodically, CCC calculates net realized losses from its operations and seeks reimbursements through appropriations for these losses. Such appropriations are used to repay the Treasury loans.

The Department of Agriculture (USDA), working through CCC, operates a variety of programs to support farm income and prices. These programs are administered through employees and facilities of other USDA agencies, such as the Agricultural Stabilization and Conservation Service and the Foreign Agricultural Service. Administrative expenses incurred by these other agencies in administering CCC programs are paid by CCC.

One of the principal ways in which CCC helps farmers is by supporting prices through nonrecourse loans. Farmers growing crops covered by a loan program can borrow from CCC by offering their crops as collateral and receiving loans based on a previously established loan rate--for example, \$1.92 per bushel of corn in 1986. Generally, if the market price for the crop falls below the loan rate, farmers can forfeit their crop and not pay back the loan, rather than incur a loss on it. In some cases, the loan repayment obligation is reduced to reflect the lower market value of the commodity.

Another important method used by CCC to support farmers' incomes is deficiency payments. In this program, a farmer receives a payment equal to a legislatively set target price--for example, \$3.03 per bushel of corn in 1986--minus either the loan rate or market price, whichever is higher. By law, part of this deficiency payment can be made in kind by giving the farmer some of the commodities that CCC owns. In many cases, to be eligible for crop loans and deficiency payments, a farmer must withhold a certain amount of acreage from production. CCC is also authorized to make in-kind and cash diversion payments to farmers who agree to remove more than the required minimum acreage from production in order to further assist in reducing production.

A third major form of CCC support is direct purchases. For example, CCC purchases butter, cheese, and powdered milk to support milk prices.

In addition, CCC makes payments to wool and mohair producers when the average market prices for those commodities are below the support prices established under the National Wool Act. In some circumstances, payments are also made to farmers who elect not to receive upland cotton price support loans. Payments, called loan deficiency payments, are based on the difference between the price support loan rate and a reduced loan repayment obligation.

CCC also operates a dairy termination program and a conservation reserve program. In the dairy termination program, CCC accepts bids from dairy farmers who are willing to enter into long-term contracts under which the farmers slaughter their herds in return for cash payments from CCC. The objective is to reduce national milk production and curtail the amount of dairy surplus held by the government. Under the conservation reserve program, CCC accepts bids from farmers to enter into long-term contracts to idle erodible lands in return for cash payments from CCC.

Other CCC programs are aimed at bolstering foreign demand for U.S. agricultural products. The export enhancement program subsidizes U.S. exports through payments-in-kind. The export loan guarantee program provides up to \$5.5 billion in short-term and intermediate-term loan guarantees. In addition, CCC supplies agricultural commodities to other countries under Public Law 480.

Sequestration Action

Section 256(j) of the act specifies the procedures for reducing CCC outlays. The section provides that after the President issues an order eliminating the deficit excess for a fiscal year, any cash payments made by the CCC out of an entitlement account under the terms of any 1-year contract, entered into for that fiscal year, shall be subject to reduction.

In implementing the act, USDA reduced eight types of CCC expenditures. These are expenditures related to commodity loans, cash deficiency payments, cash diversion payments, CCC fund transfers to other programs for salaries and expenses, dairy product purchases, export guarantees, loan deficiency payments, and wool and mohair support payments.

For commodity loans, USDA announced on February 12, 1986, that it will compute the dollar amount of cash loan proceeds owed to a producer on the 1986 crop approved for loan and reduce this amount by 4.3 percent before any other applicable reductions, such as loan service fees. The producer will receive a check for the net amount payable. USDA will not change actual legislated loan rates. This procedure applies to all 1986 crop loans regardless of the fiscal year in which the loan is disbursed.

Similarly, USDA announced on February 12, 1986, that the dollar amount of 1986 crop cash deficiency payments will be computed using legislated target prices and loan rates and this amount will then be reduced by 4.3 percent. Cash diversion payments are also to be reduced by 4.3 percent according to this announcement.

Transfers to other USDA accounts that provide reimbursement for CCC administrative expenses incurred by these accounts will be reduced by 4.3 percent. This was announced in Administrator's Memo No. 37, dated February 5, 1986.

On February 12, 1986, USDA announced that in-kind diversion and deficiency payments will not be reduced. According to USDA officials, these payments will not be reduced because they are not cash outlays.

The 1986 Food Security Improvements Act (Public Law 99-260) ordered an assessment of not more than 12 cents per hundredweight on milk marketing from April through September 1986 in lieu of the 4.3-percent reduction in the purchase prices for milk and milk products that otherwise would have been necessary to comply with Public Law 99-177.

CCC announced on April 9, 1986, that it will cut back export guarantees by an amount equal to 4.3 percent of the approved fiscal year 1987 program level shown in the fiscal year 1987 budget. In this way it will reduce potential claims payments. In that same announcement, USDA indicated that it will reduce by 4.3 percent any 1986 crop cash loan deficiency payment made to producers of upland cotton. This reduction will be applied to the payment otherwise due the producer.

On February 12, 1986, USDA also announced that it will eliminate all automatic spending increases for the wool and mohair price support program.

USDA announced on February 7, 1986, that it considered the Dairy Termination Program exempt from sequestering. This was followed by a February 12, 1986, announcement that it also considered the Conservation Reserve Program to be exempt. USDA officials told GAO they believed that the intent of the Congress was to exempt these long-term contracts. However, USDA plans to reduce by 4.3 percent purchases under its authority to buy up to 200 million pounds of red meat to offset beef price declines caused by the Dairy Termination Program.

USDA's latest outlay estimate indicated both larger outlays and larger savings from the 1986 sequester than were estimated in January, primarily because outlays for deficiency payments were larger than expected.

**Community Health
Centers**

Community Health Centers
Public Health Service
Department of Health and Human Services
(Budget Identification Code 75-0350-0-1-550)

The Community Health Centers program is authorized by the Public Health Service Act and is administered by the Public Health Service's Health Resources and Services Administration. During fiscal year 1986, the Community Health Centers program will provide access to health services for an estimated 5,150,000 people throughout the nation using 550 grantees.

Sequestration Action

The special rule contained in section 256(k) of the Balanced Budget and Emergency Deficit Control Act of 1985 limits reductions in this program to 1 percent in fiscal year 1986 and 2 percent thereafter. The Congress appropriated \$1.5 billion for the Health Resources and Services account of which \$400,000,000 was for the Community Health Centers program in fiscal year 1986, and \$4,000,000 was sequestered. After sequestration, the remaining \$396,000,000 was awarded on a discretionary basis to individual grantees based on a number of factors including the grantee's prior performance, its carryover balance, and changes in the population the project serves.

The original appropriation for this program was an increase of \$17,000,000 over fiscal year 1985. Thus, the effect of the \$4,000,000 sequestration will be a reduction of a higher funding level rather than a cut from the 1985 level. An agency official said that, although funds available for planned expansion will be reduced, there will still be an expansion of services above the 1985 level.

**Foster Care and
Adoption Assistance**

Foster Care and Adoption Assistance
Office of Human Development Services
Department of Health and Human Services
(Budget Identification Code 75-1645-0-1-506)

The Foster Care program provides funds to states to assist with the cost of foster care maintenance for eligible children. The Adoption Assistance program provides funds to states to assist in paying costs for children with special needs who are adopted under certain conditions. Funds are also used for the administrative costs to manage the programs and to train staff.

The purpose of the Foster Care program is to help states provide proper care for children who need placement outside their homes, in a foster family home, a group home, or an institution. The goal of the Adoption Assistance program is to facilitate the placement of hard-to-place children in permanent adoptive homes and thus prevent long, inappropriate stays in foster care. Federal financial participation in foster care maintenance payments and adoption assistance is provided at the Medicaid match rate, which varies among states from 50 percent to 78 percent. State foster care and adoption assistance payment rates also vary from state to state. Federal participation in state administrative and training costs is provided at a 50 percent and 75 percent rate, respectively.

Sequestration Action

For fiscal year 1986 the Congress appropriated \$777,237,000 for the Family Social Services account including \$507,641,000 for the Foster Care program and \$41,948,000 for the Adoption Assistance program. As shown in the President's February 1986 Sequestration Order, \$6,061,000 (1.19 percent) was sequestered for foster care and \$557,000 (1.33 percent) for adoption assistance. These amounts are less than the 4.3 percent generally provided for in the President's order because of the limitation contained in the special rule.

The special rule contained in section 256(f) of the Balanced Budget and Emergency Deficit Control Act of 1985 limits the amount of sequestration to the amount of federal matching payments needed to cover increases in state maintenance payment rates and adoption assistance payment rates that took effect during the fiscal year. If the amount of the federal matching with respect to increases in these programs is greater than the amount needed to satisfy the sequestration, the federal

matching payment for each state's increase is to be reduced by a uniform percentage. If the total amount of the increases for either program is less than the amount needed to satisfy the sequestration, the uniform percentage of reduction is 100 percent.

The sequestration amounts shown in the President's February 1986 Sequestration Order reflect a 100-percent sequestration of federal matching funds for fiscal year 1986 increases in state maintenance and adoption assistance payment rates to be paid during the period of March 1, 1986, through September 30, 1986. These amounts are less than the 4.3 percent needed to satisfy the fiscal year 1986 sequestration, and thus are subject to 100-percent sequestration.

To implement the reductions, the states were instructed in May 1986 to omit from their fiscal year 1986 claims for federal matching funds that portion of foster care maintenance payments and adoption assistance payments resulting from a rate increase effective during fiscal year 1986 and paid after February 28, 1986.

Guaranteed Student Loans

Guaranteed Student Loans
Office of Postsecondary Education
Department of Education
(Budget Identification Code 91-0230-0-1-502)

The Guaranteed Student Loan program is designed to assure the availability of loans from banks and other lenders to students and their parents to help meet the costs of attending participating universities, colleges, and other postsecondary institutions after taking into consideration family financial resources and student self-help. This is accomplished through substantial federal subsidy payments to lenders.

The federal government pays lenders a quarterly "special allowance" throughout the life of each loan. It is based on a percentage of the average quarterly unpaid principal balance on loans held during these periods. Before the Balanced Budget and Emergency Deficit Control Act of 1985, the special allowance was the difference between the interest rate charged the borrowers and the Treasury bill rate plus 3.5 percentage points.

Lenders are also authorized to charge borrowers an origination fee on the principal amount of new loans. Special allowances paid by the Department of Education are reduced by the amount of origination fees collected by lenders. Before the act, the fee allowed was 5 percent.

Sequestration Action

Reductions in this program are controlled by the special rule contained in section 256(c) of the Balanced Budget and Emergency Deficit Control Act of 1985. The rule requires that for each eligible loan made from March 1 through September 30, 1986, (1) the rate used in computing the special allowance payment for each of the first four quarterly payments be reduced from 3.5 to 3.1 percent and (2) the origination fee be increased from 5.0 to 5.5 percent.

In January, the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) estimated that this special rule would reduce fiscal year 1986 expenditures by \$34,059,000. (GAO adopted this estimate in its January report.) The estimated savings attributable to each account are:

Decrease in special allowance payments because of reduced rate	\$4,952,000
Further decrease in special allowance payments because of increase in origination fee rate allowed lenders	<u>29,107,000</u>
Total estimated reduction	\$34,059,000

In February 1986, the Department issued Bulletin 86-L-87 to all lenders participating in the program, explaining the rate changes required by the act and delineating the lenders' responsibilities in accommodating them.

Because some of the quarterly payments of the loans made from March 1 through September 30, 1986, extend into fiscal year 1987, these reduced payments will result in additional estimated savings of \$15,423,000 in fiscal year 1987.

**Indian Health
Facilities**

Indian Health Facilities
Public Health Service
Department of Health and Human Services
(Budget Identification Code 75-0391-0-1-551)

Public Health Service's Indian Health Service is the component of the Department of Health and Human Services charged with administering the principal federal health facilities programs for American Indians and Alaska natives. The Indian Health Facilities program provides for the construction, modernization, and repair of facilities required to provide health services directly to American Indians and Alaska natives, and for the construction of sanitation facilities for Indian homes.

Sequestration Action

The special rule contained in section 256(k) of the Balanced Budget and Emergency Deficit Control Act of 1985 limits reductions in this program to 1 percent in fiscal year 1986 and 2 percent thereafter. The Congress appropriated \$46,665,000 for the Indian Health Facilities program in fiscal year 1986, and \$467,000 was sequestered.

These funds cover 14 programs, projects, or activities (PPAs) and are to remain available until expended. Each PPA was reduced by 1 percent, and the reductions will be reflected in the allotments for construction work performed by agency employees and in the amounts awarded to outside contractors. None of the fiscal year 1986 contracts were awarded prior to the effective date of the reduction.

Although the Indian Health Facilities account had an unobligated balance of \$39,105,000 at the end of fiscal year 1985, agency officials do not expect to end fiscal year 1986 with a significant unobligated balance. The previous balance represented contracts pending at the end of the year. Because the allotments for this account were issued quarterly and the timeframe necessary for the contract bid process is lengthy, there was insufficient time to award the fourth quarter contracts by the end of fiscal year 1985. Timing for the allotments for this account have been changed to preclude a similar situation at the end of fiscal year 1986.

Indian Health Services

Indian Health Services
Public Health Services
Department of Health and Human Services
(Budget Identification Code 75-0390-0-1-551)

The Indian Health Service administers the principal federal health programs for American Indians and Alaska natives. Health services are provided to eligible individuals by hospitals, clinics, and other public or private medical facilities in three environments:

- hospitals and clinics owned and operated by HHS,
- tribal facilities under contracts developed and approved by HHS field offices, and
- public or private medical or hospital facilities under contract with HHS.

Sequestration Action

The fiscal year 1986 sequestration for program activities funded in this account is limited to 1 percent under section 256(k) of the Balanced Budget and Emergency Deficit Control Act of 1985, while federal administration expenses are subject to the general 4.3-percent reduction. For fiscal year 1986, the Congress appropriated \$821,194,000 for this account, including \$3,000,000 for the expenditure of offsetting collections from Indian Health Service employees housed in the Service's personnel quarters. Of this amount, \$68,101,000 was subject to the 4.3-percent sequester for federal administration expenses and was reduced \$2,928,000. The remaining \$753,093,000 was subject to the 1-percent special rule and was reduced \$7,531,000.

Federal administrative expenses include \$60,383,000 for headquarters and field office operations and \$7,718,000 for HHS owned and operated hospitals and clinics.

The account is also expected to receive offsetting collections of \$25,748,000 from states in the form of Medicaid reimbursements and from other non-federal sources. At the time of the January 15, 1986, OMB/CBO sequestration report, these collections were estimated at \$25,581,000, and the authority to expend them to support program operations was reduced \$256,000 under the 1-percent provision of the act. Thus, the total amount sequestered from the account was \$10,715,000.

The agency has reported that efforts will be made to minimize the effects of the reduction on health services by reducing travel, training, and the purchase of supplies and equipment. However, some minor reductions in services are anticipated. Some examples include:

- Elimination of funding for about three emergency medical technicians. Funding will continue for 260 emergency medical technicians.
- Elimination of five health professions scholarships granted to Indians. Funding will continue for 295 scholarships.

Medicare

Medicare
Health Care Financing Administration
Department of Health and Human Services
(Budget Identification Codes 20-8005-0-7-571
and 20-8004-0-7-571)

The Department of Health and Human Services has overall responsibility for administering the Medicare Program. Medicare was established in 1965 by title XVIII of the Social Security Act to help eligible participants pay the costs of health care services. Within HHS, the Health Care Financing Administration is responsible for developing program policies, setting standards, and assuring compliance with federal legislation and regulations.

Under Medicare, eligible persons, usually those who are disabled or over age 65, may receive two basic forms of protection:

- Part A, Hospital Insurance, that covers inpatient hospital services and posthospital care in skilled nursing facilities, care in patients' homes, and hospice care (budget identification code 20-8005-0-7-571). Benefits paid are principally financed by social security taxes collected from employees, employers, and self-employed persons.
- Part B, Supplementary Medical Insurance, a voluntary program that covers physicians' services, outpatient hospital care, and a number of other medical costs (budget identification code 20-8004-0-7-571). Benefits paid are financed by premiums collected from enrollees and by appropriations from general revenues.

The Health Care Financing Administration contracts with Blue Cross and Blue Shield plans and commercial insurance companies to make benefit payments under Medicare. Contractors that pay for part A services are called intermediaries and those that pay for part B services are called carriers.

Sequestration Action

The special rule contained in section 256(d) of the Balanced Budget and Emergency Deficit Control Act of 1985 requires a maximum reduction of 1 percent for the Medicare health insurance program for fiscal year 1986 services rendered during the period beginning on March 1, 1986, and ending on September 30, 1986. To effect the 1-percent reduction in Medicare benefit payments, the Health Care Financing Administration issued instructions to its carriers and intermediaries requiring them to reduce by 1 percent all Medicare payments for services rendered during the period March 1 through September 30, 1986. Under the instructions, Medicare benefit payments to providers, including interim payments, will be 99 percent of the payment that would have been due in the absence of the act. In January, OMB and CBO estimated that this change will reduce fiscal year 1986 outlays by \$300,000,000.

Medicare beneficiaries will not be affected by any reduction in payments to hospitals, skilled nursing facilities, home health agencies, and other institutional providers. For physician services and other Medicare part B services, supplies, and equipment, Medicare beneficiaries will not be affected by the reductions in payments as long as the physician or supplier has agreed to accept the Medicare determination of reasonable charge. Otherwise the beneficiary will be billed for the difference between the reimbursable amount and the amount charged by the physician or supplier. Approximately 65 percent of the claims processed in December 1985 were for Medicare physicians and suppliers who accepted the Medicare determination of reasonable charge for services.

**Migrant Health
Centers**

Migrant Health Centers
Public Health Service
Department of Health and Human Services
(Budget Identification Code 75-0350-0-1-550)

The Migrant Health Centers program is authorized by section 329 of the Public Health Service Act and is administered by Public Health Service's Health Resources and Services Administration. This program provides primary health services to migrants and seasonal farmworkers and their families. In fiscal year 1986, an estimated 500,000 migrants and seasonal farmworkers are being served by 125 Migrant Health Centers program grantees. These services are provided in hospitals, primary care centers, and birthing centers targeted to high-risk mothers and infants.

Sequestration Action

The special rule contained in section 256(k) of the Balanced Budget and Emergency Deficit Control Act of 1985 limits reductions in this program to 1 percent in fiscal year 1986 and 2 percent thereafter. The Congress appropriated \$1.5 billion for the Health Resources and Services account in fiscal year 1986, of which \$45,400,000 was for the Migrant Health Centers program, and \$454,000 was sequestered.

Although the fiscal year 1986 appropriated funds for migrant health centers have been reduced by 1 percent, the total funds available after sequestration is \$667,000 more than was available in fiscal year 1985. The expected effect of the sequestration on this program is a reduction in the availability of additional services to migrants and seasonal farmworkers so that basic primary medical services can be maintained. This is not a formula program to the states and no directives were issued to implement the reductions.

Medical Care

Medical Care
Department of Medicine and Surgery
Veterans Administration
(Budget Identification Code 36-0160-0-1-703)

The Veterans Administration (VA) Medical Care account funds necessary expenses for maintaining and operating VA hospitals, nursing homes, and domiciliary facilities; furnishing inpatient and outpatient care and treatment to beneficiaries; furnishing recreational facilities, supplies, and equipment; paying funeral, burial, and other related expenses for beneficiaries receiving care in VA facilities; and repairing, altering, improving, or providing facilities in hospitals and homes under VA's jurisdiction.

Sequestration Action

Fiscal year 1986 sequestrations for program activities funded in this account are limited to 1 percent under section 256(k) of the act, while federal administrative expenses are subject to the general 4.3-percent reduction under section 256(b). In preparing their report, OMB and CBO estimated that, of the sequestrable resources available to this account, \$8,519,800,000 should be considered subject to the 1-percent reduction for program expenses and \$760 million should be considered subject to the 4.3-percent reduction for administrative expenses. Although this allocation could not be derived from historical costs generated through VA's accounting system, it was based on the best information available, and we accepted the estimate in our January report. Accordingly, the President's order sequestered \$117,878,000.

VA is implementing the sequestration reductions by object class: personal services are being reduced by \$71,991,000; direct care resources for non-VA programs are being reduced by \$5,689,000; and capital accounts are being reduced by \$40,198,000. The amount sequestered for personal services comes primarily from a reestimate of the average salary costs and from a reduction of 1,306 full-time equivalent positions. This reduction consists of (1) 500 non-ceiling full-time equivalent positions based on revised needs estimates of the VA medical centers; (2) 436 ceiling full-time equivalent positions based on the medical centers' assessments of their operating capabilities; and (3) 370 ceiling full-time equivalent positions based on program slippages and reductions in central office control accounts.

The reduction in direct care resources applies to the costs associated with care provided to eligible beneficiaries at non-VA facilities such as hospitals, community nursing homes, and state homes and to payments made to service providers under the Civilian Health and Medical Program of VA. Documents provided to us indicate that VA will make every effort to manage these programs within existing levels, but if anticipated increased expenses materialize, VA indicated that reprogramming of funds will be required.

The reduction in the capital accounts will come from a deferral of telephone and equipment replacements and a smaller budget for non-recurring maintenance and renovations.

The Chief, Medical Division, Office of Budget and Finance, VA, expected no reductions in medical care provided to beneficiaries as a result of the sequestration. He told us that the reductions should not affect the kinds of medical services provided to beneficiaries and that the same services will still be provided through the same VA facilities and programs.

Other Provisions of Section 256

Section 256(a)(1) specifies how adjustments in automatic spending increase programs are to be computed in a fiscal year following a fiscal year in which a sequester order is issued. This provision has not been implemented yet because fiscal year 1987 adjustments have not been calculated yet.

Section 256(a)(2) requires the permanent cancellation of sequestered budgetary resources with the exception that amounts sequestered in special or trust funds are to remain available in the funds to the extent permitted by law. GAO has countersigned Treasury Warrants cancelling new budgetary resources, as required by this section, for 635 accounts. These warrants cover all of the new budgetary resources whose cancellation is required at this time. A few additional warrants may have to be executed, however, between now and the end of the fiscal year. We also have countersigned Treasury Warrants cancelling the authority to spend unobligated balances in the defense functional area.

Section 256(b) provides that federal administrative expenses shall not be exempt from sequestration notwithstanding any exemption, exception, limitation, or special rule otherwise applicable. We know of no instance in which this special rule was not applied. However, as the budget accounts do not always divide federal administrative expenses and other program expenses clearly and consistently, we can not be sure of the accuracy of each adjustment made under this rule.

Sections 256(c) through 256(f), section 256(j), and section 256(k) contain the special rules covering the programs described in detail elsewhere in this appendix.

Section 256(g) prohibits the reduction of the rate of pay under a statutory pay system and the reduction of elements of military pay. The Office of Personnel Management and the Department of Defense have assured us that no reductions in either type of pay have occurred as a result of the act's implementation and we have encountered no evidence to the contrary.

Section 256(h) exempts from sequestration certain outlays made with respect to the Unemployment Compensation Programs. Benefits under the Federal-State Extended Unemployment Compensation Act of 1970 and Railroad Unemployment Benefits are not exempted by this special rule. The act's effect on these two elements of unemployment compensation is discussed along

with the other entitlement and mandatory spending programs not having special rules.

Section 256(i) provides that Mine Worker Disability Compensation increases are to be treated as automatic spending increases. The President's order complies with this provision.

Section 256(l) provides that obligated balances shall not be subject to reduction except that the President may cancel certain contracts in the national defense functional area by following procedures outlined in section 251(d)(3). In fiscal year 1986, the President elected not to cancel any contracts using the section 251(d)(3) procedure. In our January 21 report, we interpreted section 256(l) as exempting from sequestration outlays from the accounts to finance interest payments to the Washington Metropolitan Area Transit Authority (46-0300-0-1-401) and portions of the Federal Payment to the District of Columbia (20-1700-0-1-852).

**Appendix II
Special Rule Budgetary Accounts,
Programs, Projects, or Activities**

Grant-in-Aid Budgetary Accounts, Programs, Projects, or Activities

Administration on Developmental Disabilities

Administration on Developmental Disabilities
Office of Human Development Services
Department of Health and Human Services
(Budget Identification Code 75-1636-0-1-506)

The Developmental Disabilities program is authorized by the Developmental Disabilities Act of 1984, Public Law 98-527, and is administered by the Office of Human Development Services under the Department of Health and Human Services. The program includes four types of grants.

One type, basic state grants, provides funds to help states and territories develop and implement comprehensive plans for meeting the needs of persons with developmental disabilities. A second type, protection and advocacy grants to states and territories, funds the operation of systems to protect and advocate the rights of persons with developmental disabilities. Under law, both grants are to be based on population, need for services, and state financial need.

The agency developed a formula which allocates two-thirds of the grant monies on the basis of population and financial need and one-third on the basis of need for services. For fiscal year 1986, each state or territory is to receive a statutory minimum of \$300,000 or \$160,000, respectively, for basic state grants. For protection and advocacy grants, each state or territory is to receive a minimum of \$150,000 or \$80,000, respectively.

A third type of grant is made on a competitive basis to universities or their affiliates to help operate facilities that provide diagnostic, evaluation, and treatment services to individuals with developmental disabilities, as well as to train persons providing specialized and generic services to these individuals. The fourth type, special projects grants, is made on a competitive basis for demonstration, research, and evaluation projects to expand or otherwise improve services to persons with developmental disabilities.

Sequestration Action

The Congress appropriated \$2 billion for the Human Development Services account of which \$80,400,000 was for the Developmental Disabilities program. The President's order sequestered \$3,457,000 in six programs, projects, and activities (PPAs). Each was reduced 4.3 percent.

(amounts in thousands)

PPA	Before Sequester	Sequester
State grants	\$53,400	\$2,296
Protection and advocacy grants	14,600	628
Special projects - direct care worker training	100	4
Special projects - other	2,700	116
University affiliated facilities - direct care worker training	100	4
University affiliated facilities - Other	9,500	409
Total	\$80,400	\$3,457

The reduction in the two formula grants to states (basic state grants and protection and advocacy grants) was accomplished by reducing each state's allocation to the level that the state would have received had the original appropriation been at the post-sequester level. However, because the legislation established minimum funding levels, all states and territories were not reduced by the same percentages (see tables 1 and 2). Because the minimum funding levels were allocated between the two parts of the formula, some states reached the minimum level for one part and not the other. As a result, some states (for example, New Mexico and Utah for basic state grants) received more than the minimum even though their percentage reduction was less than most other states and territories. In addition, some states and territories (17 for basic grants and 25 for protection and advocacy grants) were at their minimum funding levels before the sequestration and, therefore, were not reduced. The remaining states and territories were reduced more than the general 4.3 percent (4.7 percent for basic state grants and 5.9 percent for protection and advocacy grants) to achieve the 4.3

percent overall reduction in grant funds. Even though all states and territories were not reduced by the same percentage for the formula grants, these disproportionate reductions do not violate the act because the act does not prescribe how reductions are to be achieved within individual PPAs.

Funds available for discretionary grants were reduced 4.3 percent. Funds for grants to university affiliated facilities are approximately the same, after sequestration, as were available in 1985. Grantees and grant amounts are expected to be approximately the same for 1986 as for 1985.

For both discretionary programs, the amount a particular grantee will receive will depend on, among other factors, the recommendations of the peer review panel and other internal reviewers, the Office of Human Development Services' negotiation with the grantee, and the total funds available.

Appendix III
Grant-in-Aid Budgetary Accounts,
Programs, Projects, or Activities

**Table 1 : Developmental
Disabilities Basic State Grants:
Comparison of Estimated Fiscal
Year 1986 State Allocations Based
on Pre- and Post-Sequester Funding
Levels**

State	Estimated Initial FY 1986 Allocation	Estimated Post-sequester Allocation	Decrease	Percent
Alabama	\$ 1,082,766	\$ 1,031,356	\$ 51,410	4.75
Alaska	300,000	300,000	0	0.00
Arizona	575,823	548,523	27,300	4.74
Arkansas	626,383	596,652	29,731	4.75
California	4,191,833	3,992,988	198,845	4.74
Colorado	499,601	475,919	23,682	4.74
Connecticut	558,234	531,722	26,512	4.75
Delaware	300,000	300,000	0	0.00
District of Columbia	300,000	300,000	0	0.00
Florida	2,048,114	1,950,963	97,151	4.74
Georgia	1,333,807	1,270,505	63,302	4.75
Hawaii	300,000	300,000	0	0.00
Idaho	300,000	300,000	0	0.00
Illinois	2,183,977	2,080,315	103,662	4.75
Indiana	1,230,359	1,171,963	58,396	4.75
Iowa	658,892	627,606	31,286	4.75
Kansas	466,528	444,386	22,142	4.75
Kentucky	1,016,318	968,051	48,267	4.75
Louisiana	1,045,717	996,072	49,645	4.75
Maine	303,653	300,000	3,653	1.20
Maryland	776,308	739,469	36,839	4.75
Massachusetts	1,128,061	1,074,498	53,563	4.75
Michigan	1,973,250	1,879,565	93,685	4.75
Minnesota	851,579	811,163	40,416	4.75
Mississippi	776,884	740,006	36,878	4.75
Missouri	1,113,860	1,060,983	52,877	4.75
Montana	300,000	300,000	0	0.00
Nebraska	338,139	322,089	16,050	4.75
Nevada	300,000	300,000	0	0.00
New Hampshire	300,000	300,000	0	0.00
New Jersey	1,337,384	1,273,891	63,493	4.75

**Appendix III
Grant-in-Aid Budgetary Accounts,
Programs, Projects, or Activities**

State	Estimated Initial FY 1986 Allocation	Estimated Post-sequester Allocation	Decrease	Percent
New Mexico	\$ 329,828	\$ 318,960	\$ 10,868	3.30
New York	3,576,304	3,406,462	169,842	4.75
North Carolina	1,522,760	1,450,477	72,283	4.75
North Dakota	300,000	300,000	0	0.00
Ohio	2,373,076	2,260,410	112,666	4.75
Oklahoma	678,495	646,297	32,198	4.75
Oregon	541,343	515,666	25,677	4.74
Pennsylvania	2,666,156	2,539,545	126,611	4.75
Rhode Island	300,000	300,000	0	0.00
South Carolina	850,545	810,178	40,367	4.75
South Dakota	300,000	300,000	0	0.00
Tennessee	1,201,701	1,144,656	57,045	4.75
Texas	2,937,662	2,798,312	139,350	4.74
Utah	383,190	369,799	13,391	3.49
Vermont	300,000	300,000	0	0.00
Virginia	1,125,560	1,072,133	53,427	4.75
Washington	771,745	735,138	36,607	4.74
West Virginia	605,798	577,009	28,789	4.75
Wisconsin	1,044,973	995,359	49,614	4.75
Wyoming	300,000	300,000	0	0.00
Puerto Rico	1,875,345	1,786,345	89,000	4.75
American Samoa	160,000	160,000	0	0.00
Guam	160,000	160,000	0	0.00
No. Mariana Islands	160,000	160,000	0	0.00
Trust Territories	258,049	248,369	9,680	3.75
Virgin Islands	160,000	160,000	0	0.00
Total	\$53,400,000	\$51,103,800	\$2,296,200	4.30

Source: Office of Human Development Services, Department of Health and Human Services

**Appendix III
Grant-in-Aid Budgetary Accounts,
Programs, Projects, or Activities**

**Table 2 : Developmental
Disabilities Protection and
Advocacy Grants:
Comparison of Estimated Fiscal
Year 1986 State Allocations Based
on Pre-and Post-Sequester Funding
Levels**

State	Estimated Initial FY 1986 Allocation	Estimated Post-sequester Allocation	Decrease	Percent
Alabama	\$ 263,806	\$ 248,347	\$ 15,459	5.9
Alaska	150,000	150,000	0	0.0
Arizona	158,219	151,863	6,356	4.0
Arkansas	152,683	150,000	2,683	1.8
California	1,022,618	962,659	59,959	5.9
Colorado	150,000	150,000	0	0.0
Connecticut	152,120	150,000	2,120	1.4
Delaware	150,000	150,000	0	0.0
District of Columbia	150,000	150,000	0	0.0
Florida	499,672	470,377	29,295	5.9
Georgia	325,171	306,111	19,060	5.9
Hawaii	150,000	150,000	0	0.0
Idaho	150,000	150,000	0	0.0
Illinois	532,343	501,142	31,201	5.9
Indiana	299,920	282,341	17,579	5.9
Iowa	160,517	155,417	5,100	3.2
Kansas	150,000	150,000	0	0.0
Kentucky	247,528	233,024	14,504	5.9
Louisiana	254,819	239,886	14,933	5.9
Maine	150,000	150,000	0	0.0
Maryland	189,287	178,192	11,095	5.9
Massachusetts	274,822	258,718	16,104	5.9
Michigan	480,796	452,620	28,176	5.9
Minnesota	207,599	195,431	12,168	5.9
Mississippi	189,341	178,244	11,097	5.9
Missouri	271,446	255,538	15,908	5.9
Montana	150,000	150,000	0	0.0
Nebraska	150,000	150,000	0	0.0
Nevada	150,000	150,000	0	0.0
New Hampshire	150,000	150,000	0	0.0

**Appendix III
Grant-in-Aid Budgetary Accounts,
Programs, Projects, or Activities**

State	Estimated Initial FY 1986 Allocation	Estimated Post-sequester Allocation	Decrease	Percent
New Jersey	\$ 325,880	\$ 306,782	\$ 19,098	5.9
New Mexico	150,000	150,000	0	0.0
New York	871,048	820,011	51,037	5.9
North Carolina	371,139	349,387	21,752	5.9
North Dakota	150,000	150,000	0	0.0
Ohio	578,233	544,347	33,886	5.9
Oklahoma	165,433	156,963	8,470	5.1
Oregon	150,000	150,000	0	0.0
Pennsylvania	649,430	611,376	38,054	5.9
Rhode Island	150,000	150,000	0	0.0
South Carolina	207,347	195,193	12,154	5.9
South Dakota	150,000	150,000	0	0.0
Tennessee	292,866	275,702	17,164	5.9
Texas	716,671	674,653	42,018	5.9
Utah	150,000	150,000	0	0.0
Vermont	150,000	150,000	0	0.0
Virginia	274,334	258,256	16,078	5.9
Washington	188,283	178,494	9,789	5.2
West Virginia	164,810	161,027	3,783	2.3
Wisconsin	254,609	239,689	14,920	5.9
Wyoming	150,000	150,000	0	0.0
Puerto Rico	457,210	430,410	26,800	5.9
American Samoa	80,000	80,000	0	0.0
Guam	80,000	80,000	0	0.0
No. Mariana Islands	80,000	80,000	0	0.0
Trust Territories	80,000	80,000	0	0.0
Virgin Islands	80,000	80,000	0	0.0
Total	\$14,600,000	\$13,972,200	\$627,800	4.3

Source: Office of Human Development Services, Department of Health and Human Services

Childhood Immunization

Childhood Immunization
Public Health Service
Department of Health and Human Services
(Budget Identification Code 75-0943-0-1-550)

The immunization program is administered by the Public Health Service's Centers for Disease Control. The Centers for Disease Control uses two methods to support research for the prevention or control of vaccine-preventable diseases: (1) project grant support to the states and (2) internal operations at the Centers. Project grants support state and local agencies in planning, developing, and conducting childhood immunization programs. The Centers carry out activities internally that either can be accomplished only at the national level or are more cost-effective to perform centrally.

Sequestration Action

In fiscal year 1986, the Congress appropriated \$471,861,000 for the Disease Control account, of which \$59,594,000 was for the Childhood Immunization program. These funds were divided among three PPAs, and as shown below, \$2,562,000 was sequestered by the President's order.

(amounts in thousands)

PPA	Before Sequester	Sequester
Grants to states	\$47,359	\$2,036
Program operations	8,235	354
Vaccine stockpile	4,000	172
Total	\$59,594	\$2,562

Grants to the states are awarded on a project basis, rather than on a formula basis, and include funding for the procurement of vaccine and state program operations. The \$45 million available for grants after sequestration represents a \$3 million increase over the 1985 amount of \$42 million. However, because of an increase in the cost of vaccine, funds available after sequestration for state operations declined by about 50 percent from the 1985 level.

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(amounts in thousands)

Grants to states	Fiscal Year 1985 Funds	Before Sequester	Sequester
Vaccine	\$26,100	\$36,900	\$ 0
Operations	16,300	10,459	2,036
Total	\$42,400	\$47,359	\$2,036

This disproportionate reduction within the grants to states PPA does not violate the Balanced Budget and Emergency Deficit Control Act of 1985, since the act does not prescribe how reductions will be achieved within individual PPAs.

The other two PPAs are for federal program operations and the vaccine stockpile. Because of the sequestration, the Centers for Disease Control is postponing the 1986 annual U.S. Immunization Survey and is looking for alternate sources to acquire the same data. In addition, less funds will be available to purchase vaccine to reach the 6-month desired level for the vaccine stockpile.

Child Welfare Services

Child Welfare Services
Office of Human Development Services
Department of Health and Human Services
(Budget Identification Code 75-1645-0-1-506)

Sections 420-428 of the Social Security Act authorize programs to help children remain in their homes or, if needed, provide alternative homes for them. The Administration for Children, Youth and Families in the Office of Human Development Services administers a state formula grant program and discretionary grant programs for child welfare personnel training and research and demonstration projects operated by state and local governments and other nonprofit organizations.

Sequestration Action

For fiscal year 1986, the Congress appropriated \$777,237,000 for Family Social Services, including \$222,648,000 for three Child Welfare programs, projects, and activities (PPAs). Under the President's order, 4.3 percent was sequestered from each of the three Child Welfare PPAs, for a total sequester of \$9,574,000.

(amounts in thousands)

PPA	Before sequester	Sequester
Child Welfare Services -- State Formula Grants	\$ 207,000	\$ 8,901
Child Welfare Training Grants	3,823	165
Child Welfare Research and Demonstration Grants	11,825	508
Total	\$ 222,648	\$ 9,574

**Child Welfare Services
State Formula Grants**

This program matches 75 percent of a state's allowable child welfare services expenditures, up to the limit of the state's formula allocation. Under the allocation formula, each state, the District of Columbia, Guam, the Northern Mariana Islands, Puerto Rico, and the Virgin Islands receives a basic \$70,000 grant, plus a portion of the remaining appropriation based on the state's per capita income and population of children under age 21. All jurisdictions receive a share of the first \$141 million appropriated for formula grants: they receive a share of the remaining funds if they implement certain protections for children specified in the Adoption Assistance and Child Welfare Act of 1980 (Public Law 96-272). Funds not allocated to ineligible jurisdictions are reallocated among the eligible jurisdictions.

The Administration for Children, Youth and Families estimated fiscal year 1986 state allocations by applying the funding formula to an appropriation of \$198,099,000, which is the original \$207 million appropriation less the \$8,901,000 sequester. Table 3 compares estimates of fiscal year 1986 post-sequester allocations to estimates based on the original \$207 million appropriation, as provided by an Administration for Children, Youth and Families official. According to this official, both allocation estimates assume that all jurisdictions are eligible to receive a share of appropriations above \$141 million, though the actual number of eligible jurisdictions is not yet known. Due to the effect of the basic \$70,000 allocation to each jurisdiction, percentage reductions varied with allocation amounts: those jurisdictions with larger allocations received larger percentage reductions. For example, the Northern Mariana Islands, with the smallest allocation, was reduced only 1.5 percent, while the states with the three largest allocations (California, Texas, and New York) were cut 4.4 percent. Other reductions ranged from 3.2 to 4.3 percent. Disproportionate reductions in jurisdictions' allocations do not violate the Balanced Budget and Emergency Deficit Control Act of 1985, because the act does not prescribe how reductions are to be achieved within individual PPAs.

**Child Welfare Training and
Research and Demonstration
Grants**

The Training Grant program funds child welfare training projects operated by accredited educational institutions, and the Research and Demonstration Grant program funds research and demonstration projects operated by state and local child welfare agencies, educational institutions, and other nonprofit organizations. Most of these programs' funds are awarded through competitive grants. Applications for Training and Research and Demonstration grants were solicited as part of the Office of Human Development Services' Coordinated Discretionary Funds Program for fiscal year 1986. In addition, some of the Research and Demonstration funds will be used for grants for National Resource Centers for Child Welfare Services.

The effect of the sequester will be to reduce the total amount of funds awarded in fiscal year 1986. According to an official of the Office of Planning and Management, Administration for Children, Youth and Families, most fiscal year 1986 grants for these two programs should be awarded by mid-August 1986.

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**Table 3: Child Welfare Services:
State Formula Grant Program
Allocations, Fiscal Year 1986**

State	Estimated Allocation of Original Appropriation	Estimated Post - sequester Allocation	Decrease	Percent
Alabama	\$ 4,273,236	\$ 4,089,071	184,165	4 3
Alaska	373,195	359,910	13,285	3 6
Arizona	2,929,739	2,804,440	125,299	4 3
Arkansas	2,561,384	2,452,224	109,160	4 3
California	18,058,023	17,269,879	788,144	4 4
Colorado	2,506,187	2,399,446	106,741	4 3
Conneticut	1,864,408	1,785,787	78,621	4 2
Delaware	535,457	515,063	20,394	3 8
District of Columbia	372,458	359,206	13,252	3 6
Florida	8,063,008	7,712,795	350,213	4 3
Georgia	5,897,418	5,642,090	255,328	4 3
Hawaii	938,416	900,366	38,050	4 1
Idaho	1,210,931	1,160,941	49,990	4 1
Illinois	8,948,127	8,559,133	388,994	4 3
Indiana	5,238,523	5,012,064	226,459	4 3
Iowa	2,609,850	2,498,566	111,284	4 3
Kansas	1,995,122	1,910,773	84,349	4 2
Kentucky	3,892,565	3,725,080	167,485	4 3
Louisiana	4,704,003	4,500,964	203,039	4 3
Maine	1,198,372	1,148,933	49,439	4 1
Maryland	3,197,909	3,060,860	137,049	4 3
Massachusetts	4,047,056	3,872,801	174,255	4 3
Michigan	8,035,020	7,686,033	348,987	4 3
Minnesota	3,534,673	3,382,869	151,804	4 3
Mississippi	3,280,401	3,139,738	140,663	4 3
Missouri	4,469,013	4,276,271	192,742	4 3
Montana	885,938	850,188	35,750	4 0
Nebraska	1,479,243	1,417,497	61,746	4 2
Nevada	740,208	710,843	29,365	4 0
New Hampshire	866,827	831,914	34,913	4 0
New Jersey	4,826,814	4,618,394	208,420	4 3

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State	Estimated Allocation of Original Appropriation	Estimated Post - sequester Allocation	Decrease	Percent
New Mexico	\$ 1,645,535	\$ 1,576,503	\$ 69,032	4.2
New York	12,675,194	12,122,900	552,294	4.4
North Carolina	6,037,624	5,776,153	261,471	4.3
North Dakota	678,820	652,144	26,676	3.9
Ohio	9,437,768	9,027,321	410,447	4.3
Oklahoma	3,009,565	2,880,768	128,797	4.3
Oregon	2,413,525	2,310,843	102,682	4.3
Pennsylvania	9,437,049	9,026,633	410,416	4.3
Rhode Island	809,971	777,550	32,421	4.0
South Carolina	3,631,195	3,475,161	156,034	4.3
South Dakota	805,132	772,923	32,209	4.0
Tennessee	4,699,864	4,497,007	202,857	4.3
Texas	14,433,295	13,803,969	629,326	4.4
Utah	2,359,008	2,258,715	100,293	4.3
Vermont	582,031	559,596	22,435	3.9
Virginia	4,561,238	4,364,455	196,783	4.3
Washington	3,480,665	3,331,227	149,438	4.3
West Virginia	2,032,468	1,946,483	85,985	4.2
Wisconsin	4,211,972	4,030,491	181,481	4.3
Wyoming	507,332	488,170	19,162	3.8
Guam	279,234	270,066	9,168	3.3
No. Mariana Is.	105,981	104,404	1,577	1.5
Puerto Rico	5,371,486	5,139,202	232,284	4.3
Virgin Islands	260,524	252,177	8,347	3.2
TOTAL	\$ 207,000,000	\$ 198,099,000	\$ 8,901,000	4.3

Source: Administration for Children, Youth and Families, Department of Health and Human Services

**Community Services
Block Grant**

Community Services Block Grant
Family Support Administration
Department of Health and Human Resources
(Budget Identification Code 75-1635-0-1-506)

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) consolidated several antipoverty programs into a Community Services Block Grant. States have flexibility to use block grant funds from this account to support community action agencies operating programs to help "ameliorate the causes of poverty." Funds from the Community Services account are also used for federal administrative costs and discretionary activities approved by the Secretary of Health and Human Services. The Secretary can reserve not more than 9 percent of this account's appropriation for discretionary activities, such as training projects and ongoing activities of national and regional significance that assist rural housing development, recreational programs, and migrant programs.

Sequestration Action

The Congress appropriated \$370.3 million for the Community Services account for fiscal year 1986, including \$335 million for block grants to the states and other jurisdictions, \$31 million for discretionary activities, and \$4.3 million for federal administration. Under the President's order, 4.3 percent of the funds for each activity in this account, totaling \$15,923,000, was sequestered.

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(amounts in thousands)

PPA	Before sequester	Sequester
Block Grants	\$ 335,000	\$ 14,405
Discretionary Activities:		
Economic Development	18,350	789
Rural Housing and Facilities	3,720	160
National Youth Sports Program	6,130	264
Migrants	2,800	120
Federal Administration	4,300	185
Total	\$ 370,300	\$ 15,923

Block grant funds were allocated to the states according to their proportion of fiscal year 1981 funding under the Economic Opportunity Act of 1964. Under the program's statutory authorization, no state may receive less than 0.25 percent of the total block grant appropriation, and the total allocation to the territories must be at least 0.5 percent of that appropriation.

The Department of Health and Human Services implemented the sequester of block grants by reducing each state's and territory's fiscal year 1986 allocation by 4.3 percent. Part of 21 states' allocations were granted directly to eligible Indian tribes under a formula set out in the program's statutory authorization. Each tribe's grant was cut 4.3 percent. HHS's reductions did not cut any state's grant, or the total allocation to the territories, below the minimum percentages of the block grant appropriation required by the program's authorizing statute.

Family Planning

Family Planning
Public Health Service
Department of Health and Human Services
(Budget Identification Code 75-0350-0-1-550)

The Family Planning program is authorized by title X of the Public Health Service Act. Funds for the program are appropriated to the Health Resources and Services Administration within the Public Health Service, but the program is administered by the Office of Population Affairs through HHS' Regional Health Administrators.

The program makes grants to voluntary family planning projects that offer a broad range of family planning services including instructions on natural family planning methods and infertility services. Other program activities include grants and contracts for training of family planning services personnel, services delivery improvement research, and family planning information and education.

Sequestration Action

In fiscal year 1986, the Congress appropriated \$1.5 billion for the Health Resources and Services account of which \$142.5 million was for the Family Planning program. The President's order sequestered \$6.1 million of the \$142.5 million.

All of the funds for the Family Planning program were included in the same PPA, and reductions were allocated as shown below:

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(amounts in thousands)

Sub-PPA	Before Sequester	Sequester
Services	\$135,793	\$5,839
Training	3,200	138
Research	2,298	99
Information and education	350	15
Evaluation	859	37
Total	\$142,500	\$6,128

Each item was uniformly reduced by 4.3 percent. The 4.3 percent reduction for services was further allocated proportionately among the HHS regions. Regions in turn awarded funds to grantees and contractors.

The sequester will be implemented by reducing the total amount of funds available for grant and contract awards. It is not possible to know in advance how grants will be distributed among the states because family planning projects are discretionary and prospective recipients are therefore not entitled to a particular grant amount. They apply for funding and, if approved, receive all or part of the application amount. The amount of a particular grant or contract depends, among other factors, on the total funds available within its region.

**Low-Income Home
Energy Assistance**

Low-Income Home Energy Assistance
Family Support Administration
Department of Health and Human Services
(Budget Identification Code 75-0420-0-1-609)

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) converted an existing energy assistance program into a Low-Income Home Energy Assistance block grant. States have flexibility to use funds provided by this appropriation for heating and cooling assistance to low-income households, home weatherization assistance, and crisis assistance for energy emergencies.

Sequestration Action

For fiscal year 1986, the Congress appropriated \$2.1 billion for this program, all of which was for block grants to states and other jurisdictions, except \$2.235 million for federal administrative expenses. The President's order reduced this account \$90.3 million, of which \$90.204 million and \$96,000 were for grants to the states and federal administrative expenses, respectively.

HHS implemented the sequester in Low-Income Home Energy Assistance state grants by applying the program's allocation formula to an amount 4.3 percent smaller than the original fiscal year 1986 appropriation. Due to provisions of the program's 1984 reauthorization law (Title VI, Human Services Reauthorization Act of 1984, Public Law 98-558), however, this reallocation reduced some states by more than 4.3 percent of their grants, while other states received no reductions. These disproportionate reductions do not violate the Balanced Budget and Emergency Deficit Control Act of 1985, since the act does not prescribe how reductions are to be achieved within individual PPAs.

The reauthorization law changed the program's allocation formula to one based on each state's share of all states' low-income home energy costs. The law also established minimum "hold harmless" levels for each state and provided that when the formula produces a grant for a particular state that is less than the state's hold harmless level, the funds necessary to bring that state up to that level are to be acquired by reducing the grants of those states in which the difference between the formula level

and the hold harmless level is greatest.¹ Thus, the states that gained the most under the 1984 formula change were required to give up funds to provide a minimum funding level for the states that lost under the change.

The process of funding the hold harmless provision works as follows: assume that State A has the highest ratio of formula level to hold harmless level and was scheduled to receive 3.0 times its hold harmless level; State B has the second highest ratio and was scheduled to receive 2.7 times its hold harmless level; and State C was the third highest and scheduled to receive 2.4 times its hold harmless level. The funds necessary to bring other states up to their hold harmless levels would first be obtained by reducing State A's grant. If reducing State A's grant to the level that gave it 2.7 times its hold harmless level did not free up enough funds for all states at the hold harmless level, the grants to States A and B would be further reduced to the level that gave each 2.4 times their hold harmless levels. If more funds are needed, all three States would be reduced until their ratios equaled that of the fourth highest state. The process continues until all states below their hold harmless levels are brought up to those levels.

When HHS followed the procedure described above to implement the 4.3 percent sequester, the result was:

- (1) Grants to 23 states were not reduced at all. These states were at their hold harmless level before the reduction and stayed at that level after the reduction.
- (2) Grants to 15 states were reduced 11.7 percent. These states had already been reduced below the formula level to bring other states up to their hold harmless levels. After the appropriation was reduced 4.3 percent, grants to these states had to be reduced further to free up the additional funds needed to finance the hold harmless provision. Because of the way the process works, the ratio of the pre-sequester grant to the hold harmless level was the same for each of these states, so their percentage reductions as a result of the sequester were the same.
- (3) Grants to five states were reduced between 4.6 and 10.0 percent. These states were above the hold harmless level before

1. Public Law 98-558 provides that, for fiscal year 1986, no state could receive less than it would have received in 1984 if the fiscal year 1984 Low-Income Home Energy Assistance appropriation had been \$1 975 billion.

the sequester, and continued to exceed the hold harmless level after the 4.3 percent reduction. However, the ratio of the formula level to the hold harmless level was sufficiently high that it was necessary to institute an additional reduction in their grants to finance grants to hold harmless states when the total appropriation was reduced 4.3 percent.

(4) Grants to seven states and the District of Columbia were reduced 4.3 percent. These were the jurisdictions in which, although the formula produced a grant that was larger than the hold harmless, the ratio of the formula grant level to the hold harmless level was relatively small. Thus, although their grants were reduced by the same percentage as the program's appropriation was reduced, they did not have to be reduced further to fund the hold harmless states.

Funds for federal administrative expenses and the territories were also reduced by 4.3 percent. The pre- and post-sequester distributions are shown in table 4.

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**Table 4: Fiscal Year 1986
Reallocation of Low - Income Home
Energy Assistance Block Grants**

State	Original FY 86 Allocation	Post - Sequester Reallocation	Decrease	Percent
Alabama	\$ 20,055,090	\$ 17,710,215	\$ 2,344,875	11.7
Alaska	10,815,202	10,815,202	0	0
Arizona	9,698,881	8,564,871	1,134,010	11.7
Arkansas	15,302,982	13,513,731	1,789,251	11.7
California	107,589,719	95,010,144	12,579,575	11.7
Colorado	31,692,305	31,692,305	0	0.0
Connecticut	41,343,730	41,343,730	0	0.0
Delaware	5,988,766	5,731,249	257,517	4.3
District of Columbia	6,725,747	6,436,540	289,207	4.3
Florida	31,733,142	28,022,848	3,710,294	11.7
Georgia	25,089,914	22,156,358	2,933,556	11.7
Hawaii	2,134,629	2,134,629	0	0.0
Idaho	12,362,111	12,362,111	0	0.0
Illinois	121,420,693	116,199,597	5,221,096	4.3
Indiana	54,545,812	52,200,340	2,345,472	4.3
Iowa	36,719,670	36,719,670	0	0.0
Kansas	18,060,013	17,283,432	776,581	4.3
Kentucky	30,886,082	28,183,302	2,702,780	8.8
Louisiana	20,503,252	18,105,976	2,397,276	11.7
Maine	26,784,147	26,784,147	0	0.0
Maryland	37,470,649	33,089,516	4,381,133	11.7
Massachusetts	82,701,153	82,701,153	0	0.0
Michigan	114,998,162	110,053,236	4,944,926	4.3
Minnesota	78,271,456	78,271,456	0	0.0
Mississippi	17,194,125	15,183,758	2,010,367	11.7
Missouri	50,087,155	47,778,052	2,309,103	4.6
Montana	14,499,970	14,499,970	0	0.0
Nebraska	18,159,286	18,159,286	0	0.0
Nevada	4,555,275	4,022,665	532,610	11.7
New Hampshire	15,653,641	15,653,641	0	0.0
New Jersey	86,626,243	80,250,915	6,375,328	7.4
New Mexico	11,920,234	10,722,624	1,197,610	10.0
New York	250,682,526	250,682,526	0	0.0

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State	Original FY 86 Allocation	Post - Sequester Reallocation	Decrease	Percent
North Carolina	\$ 44,221,026	\$ 39,050,627	\$ 5,170,399	11.7
North Dakota	15,751,355	15,751,355	0	0.0
Ohio	113,925,355	105,815,466	8,109,889	7.1
Oklahoma	18,434,747	16,279,324	2,155,423	11.7
Oregon	24,562,876	24,562,876	0	0.0
Pennsylvania	134,653,488	134,653,488	0	0.0
Rhode Island	13,613,082	13,613,082	0	0.0
South Carolina	15,927,829	14,065,519	1,862,310	11.7
South Dakota	12,792,859	12,792,859	0	0.0
Tennessee	32,329,050	28,549,081	3,779,969	11.7
Texas	52,793,359	46,620,669	6,172,690	11.7
Utah	14,727,489	14,727,489	0	0.0
Vermont	11,732,961	11,732,961	0	0.0
Virginia	41,694,856	39,901,975	1,792,881	4.3
Washington	40,402,548	40,402,548	0	0.0
West Virginia	18,737,280	17,931,576	805,704	4.3
Wisconsin	70,455,549	70,455,549	0	0.0
Wyoming	5,896,563	5,896,563	0	0.0
State Total	\$ 2,094,924,034	\$ 2,004,842,202	\$ 90,081,832	4.3
Territories	2,840,966	2,718,798	122,168	4.3
Federal Admin	2,235,000	2,139,000	96,000	4.3
Total Appropriation	\$ 2,100,000,000	\$ 2,009,700,000	\$ 90,300,000	4.3

Source: Family Support Administration, Department of Health and Human Services

Maternal and Child Health Block Grant

Maternal and Child Health Block Grant
Public Health Service
Department of Health and Human Services
(Budget Identification Code 75-0350-0-1-550)

The Maternal and Child Health Block Grant is authorized by title V of the Social Security Act and administered by the Health Resources and Services Administration within the Public Health Service. It provides funding for state-initiated programs for mothers and children. In addition, 15 percent of its annual appropriation is set aside for grants for special projects of regional or national significance.

The Maternal and Child Health Block Grant allows each state to establish its own program priorities and use its own administrative procedures. All 50 states, Puerto Rico, the District of Columbia, and the five insular areas have been awarded grants. In fiscal year 1986, 384 discretionary projects will be funded under the 15-percent set-aside for special projects of regional or national significance, including 117 training projects; 43 projects for addressing problems in providing services to mothers, children, and handicapped children; 49 genetic projects; 26 hemophilia projects; and 149 demonstration projects targeted on innovative health care models.

Sequestration Action

For fiscal year 1986, the Congress appropriated \$1.5 billion for the Health Resources and Services account, of which \$478 million was for the Maternal and Child Health Block Grant. As shown in the President's order, \$20,554,000 was sequestered in three PPAs--grants to the states, hemophilia centers, and other special projects. Each of the PPAs was reduced 4.3 percent.

The reduction in block grants to states was accomplished by a 4.3-percent reduction in the funds that would have been available to each state. The information letter sent to the states specified the reduction applicable to fiscal year 1986 and stated the intention to take the entire reduction from the states' fourth quarter allocations.

Because hemophilia centers and "other special projects" were established as separate PPAs, both were also reduced by 4.3 percent. Individual special interest areas included within the "other special projects" PPA were reduced by more or less than 4.3 percent depending on their priority. For example, the research area and the genetics area were each reduced \$500,000,

even though the total allocated to genetics was \$2 million more than that allocated to research. These disproportionate reductions do not violate the Balanced Budget and Emergency Deficit Control Act of 1985, since the act does not prescribe how reductions are to be achieved within individual PPAs.

Within the special interest areas (including the hemophilia centers), factors affecting grant awards include the recommendations of the peer review panels, negotiations with the grantees, and the total funds available.

Refugee and Entrant Assistance

Refugee and Entrant Assistance
Family Support Administration
Department of Health and Human Services
(Budget Identification Code 75-0473-0-1-609)

Most funds from the Refugee and Entrant Assistance account are provided to the states, to be used to help refugees become self-sufficient members of American society. Services provided include cash and medical assistance, English and vocational training, and health screening. States are also reimbursed from this account for administering refugee assistance activities. The individual PPAs in this account, and the actions taken in the President's order, are described below.

Sequestration Action

The sequester base for the Refugee and Entrant Assistance account in fiscal year 1986 was \$427,861,000. Under the President's order, each PPA was reduced 4.3 percent, for a total account sequester of \$18,398,000.

(amounts in thousands)

PPA	Before sequester	Sequester
Cash and Medical Assistance	\$ 235,440	10,124
State Administration	35,316	1,519
Social Services	71,700	3,083
Targeted Assistance	50,000	2,150
Educational Assistance for Children	16,600	714
Preventive Health	8,400	361
Voluntary Agency Programs	4,000	172
Federal Administration	6,405	275
Total	\$ 427,861	\$ 18,398

Cash and Medical Assistance
and State Administrative
Expenses

The Cash and Medical Assistance program reimburses states for all or a portion of their costs providing cash and medical assistance to new refugees and for related state administrative expenses. Estimates are prepared of the reimbursable costs each state will incur. Although these estimates are the basis for initial allocations to the states, each state will not necessarily receive the total amount it estimated because actual costs incurred may be less than the amount estimated. Also, reimbursements can be made only to the extent allowed by the total amount appropriated.

To implement the required \$11,643,000 combined reduction for the Cash and Medical Assistance and State Administration PPAs, effective March 1, 1986, HHS's Office of Refugee Resettlement reduced the maximum reimbursement period from 36 to 31 months. It estimated that the reduction to 31 months would result in a 10.2-percent reduction in each state's estimated fiscal year 1986 costs for five assistance activities for which states were being reimbursed through 36 months. The five applicable activities were Aid to Families With Dependent Children, Medicaid, Supplemental Security Income, and state and local general cash and medical assistance. Other assistance activities, mainly special refugee cash and medical assistance, were being reimbursed over shorter periods (less than 31 months) and were not affected by the change.

The Office of Refugee Resettlement reduced estimated fiscal year 1986 Cash and Medical Assistance allocations for 46 states and the District of Columbia. Allocations for three states (Arkansas, Kentucky, and South Dakota) were not reduced because they estimated no costs for the five applicable activities; Alaska is not receiving fiscal year 1986 Cash and Medical Assistance funding; and Guam was not reduced because, according to Office of Refugee Resettlement officials, it is being funded in fiscal year 1986 with prior year funds.

Another exception was for a demonstration project in California, which was cut 9.1 instead of 10.2 percent. Applying the 10.2-percent reduction to all state estimates (including the California demonstration) resulted in a reduction that was approximately \$425,000 larger than required to implement the 4.3-percent sequester. The entire \$425,000 difference was added to the California demonstration project's post-sequester estimate. The California demonstration project involves waiving certain AFDC regulations to allow refugees to accept jobs paying less than California's AFDC benefit level. Cash and Medical Assistance

funds, in turn, are being used for cash grants to refugees to bring their incomes up to the AFDC benefit level.

The Office of Refugee Resettlement divided each state's allocation reduction by seven (the number of months between March 1 and the end of fiscal year 1986), and reduced state allocations for the third quarter of fiscal year 1986 by four-sevenths of the total reduction. It plans to apply the remaining three-sevenths of the reductions to states' fourth quarter fiscal year 1986 allocations.

While the 36-month activities account for approximately 40 percent of all fiscal year 1986 state cost estimates, that proportion varies widely by state. As a result, state reductions as a proportion of their total estimates ranged from 7.2 percent in Pennsylvania (71 percent of whose total estimate is for 36-month activities) to no reduction for the three states which estimated no 36-month costs. (See table 5.) Disproportionate reductions in state funds do not violate the Balanced Budget and Emergency Deficit Control Act of 1985, since the act does not prescribe how reductions are to be achieved within individual PPA's.

Although Cash and Medical Assistance, and State Administration, are separate PPAs within the Refugee and Entrant Assistance account, they were combined for the purpose of distributing funds to the states. Thus, state Cash and Medical Assistance grants include funds for State Administration, to be used according to state administrative cost allocation plans on file with HHS. The proportion of grant funds used to reimburse administrative costs varies from state to state.

Social Services

Most of this program's funds are provided to jurisdictions (the District of Columbia, Guam, and each state except Alaska) for social services to refugees. The basic formula grant allocations are based on a jurisdiction's proportion of the national population of refugees and entrants with less than 3 years residence in the United States, with each jurisdiction receiving at least \$75,000. HHS also provides incentive grants for jurisdictions that support mutual assistance associations (nonprofit groups of refugees and entrants) providing social services to refugees and entrants. These allocations are also based on 3-year refugee populations, with each jurisdiction receiving at least \$5,000. A portion of Social Services funds is also set aside for use by the agency on a discretionary basis.

In May 1986, HHS announced fiscal year 1986 formula grant allocations based on the post-sequester funding level of \$68,617,000. Of this amount, \$55 million was allocated for basic formula grants. An additional \$330,693 was added to six jurisdictions (Delaware, Guam, Montana, Vermont, West Virginia, and Wyoming) to bring them up to the \$75,000 minimum. Another \$2,894,772 was allocated to jurisdictions for refugee and entrant mutual assistance association incentive grants. The remaining \$10,391,535 of Social Services funding was reserved for discretionary use by HHS. Since HHS did not announce how pre-sequester funding would have been distributed, we cannot determine the effect of the sequester on the relative distribution of formula and discretionary funds, or on individual state formula grant allocations.

Targeted Assistance

This program provides formula grants for counties (or groups of counties) with high refugee assistance costs. Counties are required to use grant funds primarily for employment-related services. In 1984, HHS identified the eligible counties, based on refugee population, and limited 1985 eligibility to the counties already eligible. The previous formula allocation, performed in 1983, was done in two parts--\$40 million based on refugee population and cash assistance to refugees, and \$19.1 million to counties with high Cuban and Haitian entrant populations. In fiscal year 1985, 20 states (on behalf of 41 counties or groups of counties) and the District of Columbia were allocated Targeted Assistance funds in proportions the same as they were in fiscal year 1984.

At the time of our review, HHS had not yet announced fiscal year 1986 Targeted Assistance allocations. According to an Office of Refugee Resettlement official, the fiscal year 1986 allocation formula has not yet been determined. Thus, we cannot determine what the impact of the 4.3-percent sequester will be on the state allocation.

Educational Assistance for Children

This program, administered by the Office of Bilingual Education and Minority Language Affairs, Department of Education, provides formula grants to state education agencies for school districts with large numbers of refugee children. The allocation formula is based on state counts of the population of refugee children. At the time of our review, the Department had not yet determined the fiscal year 1986 state allocations for this

program. According to a program official, a notice soliciting state applications for shares of the post-sequester funding level of \$15,886,000 will be published by the end of June 1986.

Preventive Health

This program, administered by the Centers for Disease Control, provides (1) direct medical services to refugees and entrants at overseas refugee camps and United States ports-of-entry and (2) a grant program to assist state and local health agencies in conducting health assessments of new refugees.

To implement the 4.3-percent sequester in this program, fiscal year 1986 Health Assessment Grant funding will be reduced by \$361,000, a 6.2-percent cut from its original fiscal year 1986 appropriation of \$5,850,000. Refugee and entrant assistance funds for direct Centers for Disease Control activities and administrative expenses of the Centers for Disease Control and the Office of Refugee Health, Office of the Assistant Secretary for Health, will not be cut. State applications for fiscal year 1986 Health Assessment Grants were being examined at the time of our review, and awards were expected to be announced in July 1986. According to Office of Refugee Health officials, cuts in an individual state's grant will come from funds set aside for use at the state's discretion.

Voluntary Agency Programs

This program provides matching grants to voluntary agencies for contributions to refugees. According to data provided by the Office of Refugee Resettlement, grants totaling \$3,766,968 have been awarded to four voluntary agencies for fiscal year 1986--below the post-sequester funding level of \$3,828,000. In addition, HHS has reduced the maximum allowable match by 4.3 percent, from \$1,000 to \$957 per refugee.

Appendix III
Grant-in-Aid Budgetary Accounts,
Programs Projects, or Activities

**Table 5: Office of Refugee
Resettlement:
Cash and Medical Assistance
Program Estimated Fiscal Year
1986 Reductions**

State	Total FY 86 State Estimate	Estimate for 36-Month Assistance	Estimated Decrease	Pct. of Total Est
Alabama	\$ 570,000	\$ 20,000	\$ 2,000	0.4
Alaska ¹	N/A	N/A	N/A	N/A
Arizona	1,528,975	36,000	3,700	0.2
Arkansas	168,877	0	0	0.0
California	125,166,742	77,673,742	7,497,900	6.0
Colorado	2,730,217	754,946	77,000	2.8
Connecticut	3,379,224	420,000	42,800	1.3
Delaware	23,332	5,232	500	2.1
District of Columbia	1,442,600	156,300	15,900	1.1
Florida	3,421,985	278,795	28,400	0.8
Georgia	2,007,524	280,713	28,600	1.4
Hawaii	1,710,595	538,880	55,000	3.2
Idaho	767,473	30,840	3,100	0.4
Illinois	11,670,000	1,720,000	175,400	1.5
Indiana	282,214	133,698	13,600	4.8
Iowa ²	3,413,226	286,128	29,200	0.9
Kansas	2,351,418	936,518	95,500	4.1
Kentucky	410,000	0	0	0.0
Louisiana	1,419,448	112,320	11,500	0.8
Maine	769,803	81,200	8,300	1.1
Maryland	1,937,837	653,053	66,600	3.4
Massachusetts	14,921,025	5,862,402	598,000	4.0
Michigan	5,112,124	1,410,332	143,900	2.8
Minnesota	13,843,496	4,582,486	467,400	3.4
Mississippi	525,200	8,976	900	0.2
Missouri	1,394,640	485,640	49,500	3.5
Montana	440,302	91,690	9,400	2.1
Nebraska	428,807	82,375	8,400	2.0
Nevada	345,414	42,677	4,400	1.3
New Hampshire	405,919	12,482	1,300	0.3
New Jersey	3,842,534	1,267,465	129,300	3.4

**Appendix III
Grant-in-Aid Budgetary Accounts,
Programs Projects, or Activities**

	Total FY 86 State Estimate	Estimate for 36-Month Assistance	Estimated Decrease	Pct of Total Est
New Mexico	\$ 512,500	\$ 61,000	\$ 6,200	1.2
New York	26,235,756	4,459,600	454,900	1.7
North Carolina	975,840	23,659	2,400	0.2
North Dakota	719,856	43,423	4,400	0.6
Ohio	3,545,350	1,591,463	162,300	4.6
Oklahoma	811,996	101,080	10,300	1.3
Oregon	10,270,000	866,000	88,300	0.9
Pennsylvania	7,294,300	5,154,300	525,700	7.2
Rhode Island	2,825,348	906,197	92,400	3.3
South Carolina	283,100	5,700	600	0.2
South Dakota	152,153	0	0	0.0
Tennessee	528,000	72,200	7,400	1.4
Texas	4,348,010	349,394	35,600	0.8
Utah	2,463,350	436,150	44,500	1.8
Vermont	467,302	36,480	3,700	0.8
Virginia	6,199,739	940,093	95,900	1.5
Washington	17,605,025	3,584,000	365,600	2.1
West Virginia	42,547	5,904	600	1.4
Wisconsin	4,116,300	1,694,800	172,900	4.2
Wyoming	60,000	18,000	1,800	3.0
Guam ³	27,618	10,550	0	0.0
Total ⁴	\$ 295,915,041	\$ 118,324,883	\$ 11,643,000	3.9

Memorandum

California

Regular	\$ 86,216,000	\$ 38,723,000	\$ 3,950,800	4.6
Demonstration	38,950,742	38,950,742	3,547,100	9.1
Total	\$ 125,166,742	\$ 77,673,742	\$ 7,497,900	6.0

1 - Alaska is not eligible for Cash and Medical Assistance funding in fiscal year 1986

2 - Iowa's reduction has been reduced to \$12,000

3 - Guam's estimate was not reduced because it is being funded with prior fiscal year funds carried over to fiscal year 1986

4 - The totals of all state estimates add up to more than the original fiscal year 1986 appropriation for Cash and Medical Assistance (including State Administration) of \$270,756,000

Source: Office of Refugee Resettlement, Family Support Administration, Department of Health and Human Services

**Social Services Block
Grant**

Social Services Block Grant
Office of Human Development Services
Department of Health and Human Services
(Budget Identification Code 75-1634-0-1-506)

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) consolidated three social service grant programs under Title XX of the Social Security Act into a Social Services Block Grant. States have flexibility to use funds from this account for a variety of social services, including day care services, adoption and foster care services, protective services for children and adults, and family planning.

Sequestration Action

The Congress appropriated \$2.7 billion for Social Services Block Grants to the states and other jurisdictions in fiscal year 1986. State grants are allocated using a population-based formula in the authorizing statute. A separate statutory formula is used to allocate funds to Puerto Rico, Guam, the Virgin Islands, and the Northern Mariana Islands. Under the President's order, \$116.1 million was sequestered.

The sequester was implemented by reducing each jurisdiction's fiscal year 1986 allocation by 4.3 percent. Thus, each jurisdiction's proportion of overall block grant funding was the same as before the sequester. An official of the Office of Human Development Services advised us that no specific written instructions were issued on how the cuts were to be accomplished. However, the states were notified of the reductions in April 1986 award letters making the third quarter fiscal year 1986 block grant allotments.

**Appendix III
Grant-in-Aid Budgetary Accounts,
Programs Projects, or Activities**

Entitlement Budgetary Accounts, Programs, Projects, or Activities

Table 6: FY 1986 Treatment of Accounts Classified as Entitlements by the House Budget Committee: Accounts Subject to General Sequester
(amounts in thousands)

Account Number	Agency	Title	Budget Authority	Sequester
14-5132-0-2-302	Interior	Bureau of Land Management, Range Improvements	\$ 10,000	\$ 430
12-4336-0-3-351	Agriculture	Commodity Credit Corporation ¹	a/	a/
69-0150-0-1-402	Transportation	Payments to Air Carriers	28,000	1,204
91-0240-0-1-502	Education	Higher Education Facilities Loans and Insurance	120	5
91-4250-0-3-502	Education	College Housing Loans Fund	60,000	2,580
75-1634-0-1-506	HHS	Social Services Block Grant	2,700,000	116,100
24-0206-0-1-551	OPM	Govt. Payments for Annuity, Employees Health Benefits	1,606,165	69,065
16-0326-0-1-603	Labor	Federal Unemployment Benefits and Allowances (Redwood)	5,000	215 ²
20-8042-0-7-603	Labor	Unemployment Insurance (Railroad and Federal Extended) ³	204,274	8,784
75-0412-0-1-609	HHS	Assistance Payments (Child Support Enforcement Collections) ¹	160,000	6,880
75-0430-0-1-609	HHS	Child Support Enforcement ¹	610,419	26,248
75-5734-0-2-609	HHS	Payments to States From Receipts for Child Support	450	19
36-0155-0-1-701	VA	Burial Benefits and Misc. Assistance	134,900	5,801
36-0137-0-1-702	VA	Readjustment Benefits	917,000	39,431
36-4114-0-3-702	VA	Vocational Rehabilitation Revolving Fund	1,067	46
36-4118-0-3-702	VA	Education Loan Fund	50	2
36-4025-0-3-704	VA	Veterans Housing Loan Guarantee Revolving Fund	11,986,522	515,420
10-0200-0-1-752	Judiciary	Salaries of Judges	18,300	787
15-0311-0-1-752	Justice	Fees and Expenses of Witnesses	47,400	2,038
20-8111-0-7-851	Treasury	State & Local Government Fiscal Assistance Trust Fund	4,185,000	179,955
12-9921-0-2-852	Agriculture	Forest Service Permanent Appropriation	227,618	9,788
14-0418-0-1-852	Interior	Payments to US Territories, Fiscal Assistance	60,000	2,580
14-9921-0-2-852	Interior	Misc. Permanent Appropriations (Other General Purpose)	79,069	3,400
14-9922-0-2-852	Interior	Bureau of Reclamation, Misc. Permanent Appropriations	350	15
20-9922-0-2-852	Treasury	US Customs Service, Misc. Permanent Appropriations	20,449	879
89-5105-0-2-852	Energy	Payments to States Under Federal Power Act	570	25
20-5737-0-2-852	Treasury	IRS Collections for Puerto Rico	245,000	10,535
96-9921-0-2-999	Defense	Corps of Engineers, Permanent Appropriations	9,000	387

1 Special rule provides how reduction is to be made but does not affect amount

2 Sequestered funds are taken from account number 16-0327-0-1-603, advances to the unemployment trust fund and other funds

3 Special rule exempts one portion but allows sequestering of another portion of the account

a/ The sequester baseline is comprised of estimates of spending authority, loan authority and loan limitations which cannot be added together to obtain a meaningful number for total budgetary resources. The sequester baselines are \$18,902,938 for 401 (c) Authority, \$13,345,000 for Direct Loan Limitation, and \$5,500,000 for Guaranteed Loan Limitation. The sequester amounts are \$812,826, \$573,835, and \$236,500 respectively (all dollar figures are in thousands). The National Wool Act is not included here but is included under accounts containing automatic spending increase programs.

**Appendix IV
Entitlement Budgetary Accounts,
Programs, Projects, or Activities**

**Table 7: FY 1986 Treatment of Accounts Classified as Entitlements by the House Budget Committee:
Accounts Containing Automatic Spending Increase Programs**
(dollar amounts in thousands)

Account Number	Agency	Title	ASI Sequester ¹	Other Sequester ²
12-5210-0-2-351	Agriculture	National Wool Act	\$ 10,300	\$ 0
69-0241-0-1-403	Transportation	Retired Pay Coast Guard	9,150	1,161
91-0301-0-1-506	Education	Rehabilitation Services and Handicapped Research	44,852	7,387
75-0379-0-1-551	HHS	Retirement Pay and Benefits for Commissioned Officers	2,287	421
16-1521-0-1-600	Labor	Special Benefits	15,000	7,843
16-9971-0-7-601	Labor	Special Workers Compensation Expenses	0	113
20-8144-0-7-601	Labor	Black Lung Disability Trust Fund	0	6,618
60-80 1-0-7-601	RRB	Rail Industry Pension Fund	18,000	1,127
75-0409-0-1-601	HHS	Special Benefits for Disabled Coal Miners	0	208
10-8110-0-7-602	Judiciary	Judicial Survivors Annuity Fund	0	0
19-8186-0-7-602	State	Foreign Service Retirement and Disability Fund	5,850	0
23-8115-0-7-602	Legislative	Tax Court Judges Survivors and Annuity Fund	0	0
24-8135-0-7-602	OPM	Civil Service Retirement and Disability Fund	534,500	2,331
97-8097-0-7-602	DOD	Military Retirement Fund	432,250	0
12-3502-0-1-605	Agriculture	Special Milk Program	0	0

1 Amounts shown are estimated FY 86 funds sequestered as a result of cancelling automatic spending increases

2 Funds sequestered for administrative expenses and non-cash benefits such as medical or rehabilitation services.

**Table 8: FY 1986 Treatment of Accounts Classified as Entitlements by the House Budget Committee:
Accounts With Size of Sequester Controlled by Special Rules**

Account Number	Agency	Title
91-0230-0-1-502	Education	Guaranteed Student Loans
75-1645-0-1-506	HHS	Family Social Services
20-8005-0-7-571	HHS	Hospital Insurance
20-8004-0-7-571	HHS	Supplementary Medical Insurance

**Appendix IV
Entitlement Budgetary Accounts,
Programs, Projects, or Activities**

**Table 9: FY 1986 Treatment of Accounts Classified as Entitlements by the House Budget Committee:
Accounts That Were Generally Exempt from Sequester:**

Account Number	Agency	Title	Sequester
97-0102-0-1-051	Defense	Operations and Maintenance Claims, Defense	None
97-4090-0-3-051	Defense	Homeowners Assistance Fund, Defense	None
14-9971-0-7-302	Interior	Miscellaneous Trust Funds -- Bureau of Land Management	None
14-9973-0-7-452	Interior	Bureau of Indian Affairs Miscellaneous Trust Fund	None
75-0512-0-1-551	HHS	Grants to States for Medicaid	None
24-8445-0-8-551	OPM	Retired Employees Health Benefit Fund	None
24-8440-0-8-551	OPM	Employees Health Benefits Fund	None
75-4430-0-3-551	HHS	Medical Facilities Guaranteed Loan Fund	None
75-4305-0-3-553	HHS	Health Prof Graduate Student Loan Insurance Fund	None
75-4306-0-3-553	HHS	Nurse Training Fund	None
75-4307-0-3-553	HHS	Health Education Loans	None
60-8010-0-7-601	RRB	Teir I Railroad Social Security Equivalent Benefit	Administration
16-4204-0-3-601	Labor	Pension Benefit Guarantee Corporation	Administration
24-8424-0-8-602	OPM	Employees Life Insurance Fund	None
20-8042-0-7-603	Labor	Unemployment Trust Fund (Unemployment Compensation) ¹	None
69-0707-0-1-603	Transportation	Conrail Labor Protection Act	None
12-3539-0-1-605	Agriculture	Child Nutrition	Administration
75-0412-0-1-609	HHS	Assistance Payments (except child support collections)	Administration
20-0906-0-1-609	Treasury	Payment Where EITC Exceeds Liability for Tax	None
75-0406-0-1-609	HHS	Supplemental Security Income	Administration
20-8006-0-7-651	HHS	Federal Old Age Survivors Insurance Trust Fund	Administration
20-8007-0-7-651	HHS	Federal Disability Insurance Trust Fund	Administration
36-0120-0-1-701	VA	Veterans Insurance and Indemnities	Policy Loans
36-0153-0-1-701	VA	Veterans Compensation	None
36-0154-0-1-701	VA	Veterans Pension	None
36-0200-0-1-701	VA	Reinstated Entitlement Program Under P. L. 97-377	None
36-4009-0-3-701	VA	Servicemen's Group Life Insurance	None
36-4010-0-3-701	VA	Veterans Reopened Insurance Fund	Policy Loans
36-4012-0-3-701	VA	Service Disabled Veterans Insurance Fund	Policy Loans
36-8132-0-7-701	VA	National Service Life Insurance Fund	Policy Loans
36-8150-0-7-701	VA	U S Government Life Insurance Fund	Policy Loans
36-8455-0-8-701	VA	Veterans Special Life Insurance Fund	Policy Loans

**Appendix IV
Entitlement Budgetary Accounts,
Programs, Projects, or Activities**

**Table 9: FY 1986 Treatment of Accounts Classified as Entitlements by the House Budget Committee:
Accounts That Were Generally Exempt from Sequester:
(continued)**

Account Number	Agency	Title	Sequester
36-8133-0-7-702	VA	Post Vietnam Era Education Account	None
97-8098-0-7-702	Defense	Education Benefits Fund	None
84-8930-0-7-705	Defense	Soldiers and Airmen's Home Payment of Claim	None
20-1407-0-1-751	Treasury	Secret Service Contribution for Annuity	None
00-0100-0-1-801	Senate	Compensation of Members, Senate	None
00-0200-0-1-801	House	Compensation of Members, House	None
20-5081-0-2-806	Treasury	Presidential Election Campaign	None
20-1895-0-1-806	Treasury	Claims, Judgements, and Relief Acts	None
20-0550-0-1-901	Treasury	Interest on Public Debt	None
99-9990-8-7-902	Treasury	Interest Received by Budget Trust Funds	None
20-0904-0-1-908	Treasury	Refunding IRS Collections, Interest	None
89-9990-8-1-908	Energy	Miscellaneous Interest	None
99-9990-8-7-952	--	Employer Share, Employee Retirement	None

1 Special rule exempts one portion but allows sequestering of another portion of the account

Salaries of Judges

Salaries of Judges
The Judiciary
(Budget Identification Code 10-0200-0-1-752)

Funds appropriated under this account are used to pay the salaries and related personnel benefits of all U.S. circuit and district court judges, judges of the U. S. Claims Court, bankruptcy judges, and all justices and judges who have retired from office or from regular active service.

Sequestration Action

Salaries of Article III judges are exempt from sequestration, but salaries of bankruptcy and U.S. Claims Court judges are not. Of the \$103 million appropriated for this account in fiscal year 1986, \$18.3 million was for salaries of bankruptcy and U.S. Claims Court judges, and \$787,000 was sequestered as a result of the President's order.

Subsequent to the President's order, the Director of the Administrative Office, at the direction of the Judicial Conference, requested authority to reprogram \$787,000 from the budgeted salaries for Article III judges to the budgeted salaries for bankruptcy judges. According to the Director, the Judiciary did not need the \$787,000 for Article III judges because vacant positions had not been filled. He stated that the funds were instead needed to ensure that bankruptcy judge vacancies would be filled when they occurred because of the large bankruptcy caseload. Both the House and Senate appropriations subcommittees approved the reprogramming request.

In its fiscal year 1987 budget, the Judiciary is requesting that the Congress restore the sequestered amount of \$787,000 to the Salaries of Judges appropriation account.

**Forest Service
Permanent
Appropriations**

Forest Service Permanent Appropriations
Department of Agriculture
(Budget Identification Code 12-9921-0-2-852)

The Forest Service is responsible for administering payments for three programs funded by this account. Under these programs, the Forest Service provides annual payments to (1) the state of Minnesota for lands in the Boundary Waters Canoe Area, (2) counties in which national grasslands and land utilization projects are located, and (3) states for the sale of national timber and other forest products within such states. This is a permanent appropriation account from which program payments are made as follows:

- At the close of each fiscal year, the state of Minnesota is paid 0.75 percent of the appraised value of certain Superior National Forest land in the counties of Cook, Lake, and St. Louis, for distribution to these counties. A payment of \$537,011, based on the fiscal year 1985 appraisal, was made on October 1, 1985, with a final adjustment of an additional \$179,004 made on December 2, 1985.
- Of the net revenues received for the use of national grasslands, 25 percent is paid to the counties in which such lands are situated, for school and road purposes. Payments from receipts collected during calendar year 1985, totaling almost \$16 million have not yet been made.
- With several exceptions, 25 percent of all monies received from the national forests during the fiscal year (sales of timber, wood residue, and other forest products) is paid to the states in which the forests are located, to benefit public schools and roads in the county or counties within the national forest. Payments of \$154 million from receipts collected during fiscal year 1985 were made on October 1, 1985, and adjustment payments of an additional \$59 million were made on December 2, 1985.

Sequestration Action

Under the President's order, \$9,788,000 was sequestered for this account based on the three programs' combined payments. The estimate for payments to the state of Minnesota was \$716,000 and the estimate for payments to counties and states were \$14,661,000 and \$212,241,000, respectively.

Although the sequestration was based on the appropriations for each program, OMB and USDA determined that the entire sequestration had to be absorbed by one program, payments to counties. This was because all the sequestrable resources for the other two programs were considered to have been paid out before the issuance of the February 1, 1986, Presidential order.

OMB's treatment of this account is based on its practice, in special fund accounts such as this, of recognizing the authority to make payments as new budgetary resources of the fiscal year in which payments are actually made, rather than of the fiscal year when funds are collected or otherwise made available for payment. This practice is the basis for OMB's conclusion that the payment of funds in early fiscal year 1986 for two activities within this account required that the other budget account activity within the same account make up the amount of any sequestration thereby foregone.

On May 5, 1986, we informed OMB of our view that the budgetary resources in question should be attributable to the fiscal year in which receipts are collected, rather than to the fiscal year in which payments are actually made. The resources in question here arise as of the time receipts are collected, regardless of the timing of the outlays. Thus, we informed OMB that amounts payable in 1986 from fiscal year 1985 budgetary resources should not have been sequestered. On June 12, 1986, we reported the sequestration of fiscal year 1985 resources as an improper deferral of budget authority

**Rural Development
Insurance Fund**

Rural Development Insurance Fund
Farmers Home Administration
Department of Agriculture
(Budget Identification Code 12-4155-0-3-452)

The Farmers Home Administration, United States Department of Agriculture, is responsible for administering the Rural Development Insurance Fund. The fund is used to make direct loans for the water and waste disposal program and the community facilities program. It is also used to guarantee loans for business and industrial development.

In its fiscal year 1986 proposed budget, the Administration recommended that no further loans be made or guaranteed for these programs. However, the Congress did not accept the Administration's recommendations. It decided to continue rural development insurance fund programs through fiscal year 1986 and provided \$540 million in new loan obligational authority.

Sequestration Action

The Congress appropriated \$560,005,000 for interest subsidies and losses on prior year loans which was exempt from sequestration under section 255(g)(2) of the act. In accordance with the President's order, 4.3 percent of the fund's \$440 million fiscal year 1986 direct loan authority and 4.3 percent of the fund's \$100 million of fiscal year 1986 loan guarantee authority was sequestered as shown below.

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(amounts in thousands)

PPA	Before Sequester	Sequester
Water and Waste Disposal	\$340,000	\$14,620
Community Facilities	100,000	4,300
Guaranteed Business Industrial Development	100,000	4,300
Total	\$540,000	\$23,220

The Deputy Director, Office of Budget, Department of Agriculture, told us that the programs' requirements could not be estimated in advance. He said that loans are made or guaranteed as applications are received and approved.

**Corps of Engineers-
Civil**

Permanent Appropriations
Corps of Engineers-Civil
Department of Defense
(Budget Identification Code 96-9921-0-2-999)

This is a permanent appropriation account that funds activities of the civil works program of the Corps. Receipts come from the following sources:

- Fees that are paid by hydraulic mine operators in the Sacramento and San Joaquin basins for depositing mine debris in restraining works are used for maintenance of the works.
- License fees levied by the Department of Energy for private construction, operation, and maintenance of dams, conduits, and reservoirs. One-half of these funds are used for maintenance and operation of federal dams and other navigation structures, and for improvement of navigable waters. License fees are also levied by the Department of Energy for benefits accruing as a direct result of headwater improvements by federal projects. All of these funds are used for maintenance and operation of federal dams and other navigation structures, and for improvement of navigable waters.
- Lease of federal lands acquired for flood control, navigation, and related purposes. Three-fourths of these funds are paid to the state in which such property is situated and used for public schools, roads, or other expenses of county government.

Fees paid by hydraulic mine operators are collected by the Corps and available for its use during the year. However, the license fees and receipts from leasing federal lands are credited to this account on the last day of the fiscal year and carried forward into the next fiscal year. They are made available for subsequent fiscal year outlays under a permanent appropriation. A breakdown of the \$9 million fiscal year 1986 budgetary base for the three activities funded by this account follows.

(amounts in thousands)

Activity	Before Sequestration
Hydraulic mining in California, Debris Fund	\$ 48
Maintenance and operation of dams and other improvements of navigable waters	2,952
Payments to states	6,000
Total	\$9,000

Sequestration Action

In implementing the President's order, it was the Corps' policy to apply the 4.3-percent reduction uniformly to the amount appropriated for each account in its civil works program and to each program, project, and activity within each account. However, for its permanent appropriation account, the Corps is sequestering \$389,000--\$2,000 more than required under Public Law 99-177.

The Chief of the Corps' Program Development Branch advised us that OMB requested the Corps to sequester the additional \$2,000 because it wanted to show an actual reduction in outlays in fiscal year 1986 from those collections received during the year. In its January 21, 1986, report GAO adopted the OMB/CBO estimate that the sequestration of funds in this account would already result in \$2,000 of fiscal year 1986 outlay reductions, even without the increased sequestration by the Corps. We know of no authority for the Corps of Engineers to increase the sequestration from the amount specified in the January 21, 1986, GAO report.

College Housing Loans

College Housing Loans
Office of Postsecondary Education
Department of Education
(Budget Identification Code 91-4250-0-3-502)

This program was authorized by the Housing Act of 1950 to provide loans at 3 percent interest to colleges, universities, certain other postsecondary schools, and eligible college housing agencies for the construction, renovation, or acquisition of student and faculty housing and related facilities. Such loans may be as much as \$3.5 million and must normally be repaid within 30 years. For fiscal year 1986, \$60 million in new direct loan authority was provided. However, supplemental language has been proposed by the Administration to withdraw the direct loan authority for fiscal year 1986.

Sequestration Action

The Department of Education sequestered \$2,580,000 (4.3 percent) of the \$60 million direct loan limitation authority for fiscal year 1986 in accordance with the President's Sequestration Order. This leaves \$57,420,000 available for loans. A Department budget analyst told us that the Congress is not expected to consider the supplemental language until August.

Because no loans have yet been made in fiscal year 1986, program changes that will result from the act's reductions are not known. If the Congress does not withdraw the loan authority, the loans will be awarded competitively in September 1986. As a result of the sequestration, fewer institutions would receive loans since most applicants request the \$3.5 million maximum. The Department decided against reducing the \$3.5 million maximum award to accommodate more awards. According to Department officials, reductions in this account will not result in the loss of entitlement or changes in the relative priority of applicants.

**Higher Education
Facilities Loans and
Insurance**

Higher Education Facilities Loans and Insurance
Office of Postsecondary Education
Department of Education
(Budget Identification Code 91-0240-0-1-502)

The Higher Education Act of 1965 authorizes direct loans at 4 percent interest, repayable within 50 years, to colleges and universities for the construction, reconstruction, or renovation of academic facilities. No new loan commitments have been made since 1981.

Sequestration Action

The sequester base for this account covered administrative expenses for the program (\$120,000), resulting in a sequester of \$5,000. Because no new loan commitments will be made in fiscal year 1986 in accordance with current legislation restrictions, no program changes will be made, and no loss of entitlement or change in relative priority will occur. The sequestration of \$5,000 from administrative expenses will be applied to the facilities management portion of the expenses to be incurred in administering a loan portfolio of about 600 accounts and will have no impact on program operations. This action is limited to fiscal year 1986. No directives were issued, no alternative reduction methods were considered, and the actual savings will be equal to the amount sequestered.

**Rehabilitation
Services and
Handicapped Research**

Rehabilitation Services and Handicapped Research
Office of Special Education and Rehabilitative Services
Department of Education
(Budget Identification Code 91-0301-0-1-506)

The Rehabilitation Services and Handicapped Research program provides funds and services to (1) employ more physically and mentally handicapped persons, (2) expand vocational rehabilitation to the severely disabled, (3) support community centers in their efforts to help the severely disabled live more independently, and (4) operate research and training programs.

Sequestration Action

The Congress appropriated \$1,362,000,000 for this program of which \$1,190,000,000 was for vocational rehabilitation grants to the states and the remainder was to be divided among eight special purpose program categories. Under the President's order, \$52,239,000 was sequestered.

(amounts in thousands)

Program Category	Before Sequester	Sequester
Vocational rehabilitation state grants	\$1,190,000	\$44,852
Special purpose funds:		
Client assistance	6,700	288
Innovation and expansion	9,000	387
Service projects	40,000	1,719
Hellen Keller Center	4,300	185
Independent living	39,000	1,677
Training	27,000	1,162
National Institute of Handicapped Research	44,000	1,892
Evaluation	2,000 ^a	77
Total	\$1,362,000	\$52,239

^a Reduced to \$1,800,000 after deducting \$200,000 as required by section 515 of the Treasury-Postal Service Appropriations Act, 1986

Section 257(1)(B) defines vocational rehabilitation as an automatic spending increase program. Under the provisions of sections 251(a)(3)(C) and 255(f), the maximum permissible sequester in this program is the increase scheduled to occur as a result of the indexed adjustment. The entire amount of the scheduled increase, \$44,852,000, or 3.8 percent of the total amount appropriated for basic state grants, was sequestered. The sequester of the vocational rehabilitation state allotments was distributed proportionally among the states so that their percentage of the total allotments remained the same. As a result of the sequester, the Department believes the states may serve fewer clients, serve a different mix of clients, or provide a different level or different mix of services.

For each of the eight special purpose categories in this account, 4.3 percent of the amount appropriated was sequestered. Within three of them--client assistance, innovation and expansion, and the comprehensive services portion of the independent living category--funds are distributed to states through formula grants. In each of these, the amount sequestered was subtracted from the appropriated amounts before applying the distribution formula. The formula for each of the three mandates a minimum grant level. Therefore, the reductions for individual grantees were not a uniform 4.3 percent.

In the client assistance category, 23 grantees were already at the minimum level. Thus, the remaining grantees' allotments were reduced by 5.1 percent to achieve an overall 4.3-percent reduction (table 10). In the innovation and expansion category, 19 grantees were already at the minimum level. Thus, 37 grantees' allotments were reduced by 4.8 percent; and one was reduced by 0.4 percent to achieve an overall 4.3-percent reduction (table 11). In the independent living category, 46 grantees were already at the minimum level; the remaining grantees' allotments were reduced between 1.3 and 44.8 percent to achieve an overall 4.3 percent reduction (table 12).

Reductions in the other five special purpose categories will have varying impacts on program operations. The Service Projects activity and the Helen Keller Center activity are expected to serve about 3.9 percent fewer clients while the number of grant awards in the National Institute of Handicapped Research and Training activities are expected to be reduced by 9 percent and 4 percent, respectively. In the Evaluation activity it is expected

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that the scope of one or more of the six studies planned for the year will be reduced somewhat.

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**Table 10 : Rehabilitation Services
and Handicapped Research:
Client Assistance
Estimated Fiscal Year 1986 State
Allocations**

State	Estimated Initial FY 1986 Allocation	Estimated Post- Sequester Allocation	Decrease	Percent
Alabama	\$ 101,659	\$ 96,478	\$ 5,181	5 1
Alaska	50,000	50,000	0	0 0
Arizona	77,786	73,821	3,965	5 1
Arkansas	59,849	56,798	3,051	5 1
California	652,812	619,536	33,276	5 1
Colorado	80,971	76,844	4,127	5 1
Connecticut	80,359	76,263	4,096	5 1
Delaware	50,000	50,000	0	0 0
District of Columbia	50,000	50,000	0	0 0
Florida	279,653	265,398	14,255	5 1
Georgia	148,718	141,138	7,580	5 1
Hawaii	50,000	50,000	0	0 0
Idaho	50,000	50,000	0	0 0
Illinois	293,284	278,334	14,950	5 1
Indiana	140,081	132,941	7,140	5 1
Iowa	74,143	70,363	3,780	5 1
Kansas	62,117	58,950	3,167	5 1
Kentucky	94,857	90,022	4,835	5 1
Louisiana	113,685	107,890	5,795	5 1
Maine	50,000	50,000	0	0 0
Maryland	110,806	105,158	5,648	5 1
Massachusetts	147,725	140,195	7,530	5 1
Michigan	231,218	219,432	11,786	5 1
Minnesota	106,042	100,636	5,406	5 1
Mississippi	66,193	62,819	3,374	5 1
Missouri	127,597	121,093	6,504	5 1
Montana	50,000	50,000	0	0 0
Nebraska	50,000	50,000	0	0 0
Nevada	50,000	50,000	0	0 0
New Hampshire	50,000	50,000	0	0 0
New Jersey	191,471	181,711	9,760	5 1

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State	Estimated Initial FY 1986 Allocation	Estimated Post- Sequester Allocation	Decrease	Percent
New Mexico	\$ 50,000	\$ 50,000	\$ 0	0 0
New York	451,862	428,829	23,033	5 1
North Carolina	157,075	149,069	8,006	5 1
North Dakota	50,000	50,000	0	0 0
Ohio	273,946	259,982	13,964	5 1
Oklahoma	84,028	79,745	4,283	5 1
Oregon	68,130	64,657	3,473	5 1
Pennsylvania	303,220	287,764	15,456	5 1
Rhode Island	50,000	50,000	0	0 0
South Carolina	84,079	79,793	4,286	5 1
South Dakota	50,000	50,000	0	0 0
Tennessee	120,182	114,056	6,126	5 1
Texas	407,377	386,611	20,766	5 1
Utah	50,000	50,000	0	0 0
Vermont	50,000	50,000	0	0 0
Virginia	143,597	136,278	7,319	5 1
Washington	110,806	105,158	5,648	5 1
West Virginia	50,000	50,000	0	0 0
Wisconsin	121,431	115,241	6,190	5 1
Wyoming	50,000	50,000	0	0 0
American Samoa	30,000	30,000	0	0 0
Guam	30,000	30,000	0	0 0
Northern Mariana Is	30,000	30,000	0	0 0
Puerto Rico	83,238	78,996	4,242	5 1
Trust Territories	30,000	30,000	0	0 0
Virgin Islands	30,000	30,000	0	0 0
Total	\$6,699,997	\$6,411,999	\$287,998	4.3

Source Division of Special Education and Rehabilitative Services Analysis, Department of Education

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Table 11 : Rehabilitation Services
and Handicapped Research:
Innovation and Expansion Grants
Estimated Fiscal Year 1986 State
Allocations

State	Estimated Initial FY 1986 Allocation	Estimated Post- Sequester Allocation	Decrease	Percent
Alabama	\$ 140,635	\$ 133,835	\$ 6,800	4.8
Alaska	50,000	50,000	0	0.0
Arizona	107,609	102,406	5,203	4.8
Arkansas	82,795	78,792	4,003	4.8
California	903,096	859,429	43,667	4.8
Colorado	112,015	106,598	5,417	4.8
Connecticut	111,169	105,793	5,376	4.8
Delaware	50,000	50,000	0	0.0
District of Columbia	50,000	50,000	0	0.0
Florida	386,870	368,164	18,706	4.8
Georgia	205,736	195,788	9,948	4.8
Hawaii	50,000	50,000	0	0.0
Idaho	50,000	50,000	0	0.0
Illinois	405,727	386,109	19,618	4.8
Indiana	193,787	184,417	9,370	4.8
Iowa	102,568	97,609	4,959	4.8
Kansas	85,932	81,777	4,155	4.8
Kentucky	131,224	124,879	6,345	4.8
Louisiana	157,272	149,667	7,605	4.8
Maine	50,000	50,000	0	0.0
Maryland	153,289	145,877	7,412	4.8
Massachusetts	204,361	194,480	9,881	4.8
Michigan	319,865	304,399	15,466	4.8
Minnesota	146,698	139,604	7,094	4.8
Mississippi	91,571	87,144	4,427	4.8
Missouri	176,516	167,981	8,535	4.8
Montana	50,000	50,000	0	0.0
Nebraska	56,606	53,869	2,737	4.8
Nevada	50,000	50,000	0	0.0
New Hampshire	50,000	50,000	0	0.0
New Jersey	264,880	252,073	12,807	4.8

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State	Estimated Initial FY 1986 Allocation	Estimated Post- Sequester Allocation	Decrease	Percent
New Mexico	\$ 50,192	\$ 50,000	\$ 192	0.4
New York	625,103	594,878	30,225	4.8
North Carolina	217,297	206,790	10,507	4.8
North Dakota	50,000	50,000	0	0.0
Ohio	378,974	360,650	18,324	4.8
Oklahoma	116,244	110,624	5,620	4.8
Oregon	94,250	89,693	4,557	4.8
Pennsylvania	419,473	399,191	20,282	4.8
Rhode Island	50,000	50,000	0	0.0
South Carolina	116,315	110,691	5,624	4.8
South Dakota	50,000	50,000	0	0.0
Tennessee	166,260	158,221	8,039	4.8
Texas	563,562	536,313	27,249	4.8
Utah	58,228	55,412	2,816	4.8
Vermont	50,000	50,000	0	0.0
Virginia	198,651	189,046	9,605	4.8
Washington	153,289	145,877	7,412	4.8
West Virginia	68,802	65,475	3,327	4.8
Wisconsin	167,987	159,864	8,123	4.8
Wyoming	50,000	50,000	0	0.0
American Samoa	50,000	50,000	0	0.0
Guam	50,000	50,000	0	0.0
Northern Mariana Is	50,000	50,000	0	0.0
Puerto Rico	115,152	109,584	5,568	4.8
Trust Territories	50,000	50,000	0	0.0
Virgin Islands	50,000	50,000	0	0.0
Total	\$ 9,000,000	\$8,612,999	\$387,001	4.3

Source: Division of Special Education and Rehabilitative Services Analysis, Department of Education

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**Table 12 : Rehabilitation Services
and Handicapped Research:
Independent Living State Grants
Estimated Fiscal Year 1986 State
Allocations**

State	Estimated Initial FY 1986 Allocation	Estimated Post- Sequester Allocation	Decrease	Percent
Alabama	\$ 200,000	\$ 200,000	\$ 0	0 0
Alaska	200,000	200,000	0	0 0
Arizona	200,000	200,000	0	0 0
Arkansas	200,000	200,000	0	0 0
California	473,234	261,210	212,024	44 8
Colorado	200,000	200,000	0	0 0
Connecticut	200,000	200,000	0	0 0
Delaware	200,000	200,000	0	0 0
District of Columbia	200,000	200,000	0	0 0
Florida	202,725	200,000	2,725	1 3
Georgia	200,000	200,000	0	0 0
Hawaii	200,000	200,000	0	0 0
Idaho	200,000	200,000	0	0 0
Illinois	212,606	200,000	12,606	5 9
Indiana	200,000	200,000	0	0 0
Iowa	200,000	200,000	0	0 0
Kansas	200,000	200,000	0	0 0
Kentucky	200,000	200,000	0	0 0
Louisiana	200,000	200,000	0	0 0
Maine	200,000	200,000	0	0 0
Maryland	200,000	200,000	0	0 0
Massachusetts	200,000	200,000	0	0 0
Michigan	200,000	200,000	0	0 0
Minnesota	200,000	200,000	0	0 0
Mississippi	200,000	200,000	0	0 0
Missouri	200,000	200,000	0	0 0
Montana	200,000	200,000	0	0 0
Nebraska	200,000	200,000	0	0 0
Nevada	200,000	200,000	0	0 0
New Hampshire	200,000	200,000	0	0 0
New Jersey	200,000	200,000	0	0 0

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State	Estimated Initial FY 1986 Allocation	Estimated Post- Sequester Allocation	Decrease	Percent
New Mexico	\$ 200,000	\$ 200,000	\$ 0	0 0
New York	327,562	200,000	127,562	38 9
North Carolina	200,000	200,000	0	0 0
North Dakota	200,000	200,000	0	0 0
Ohio	200,000	200,000	0	0 0
Oklahoma	200,000	200,000	0	0 0
Oregon	200,000	200,000	0	0 0
Pennsylvania	219,809	200,000	19,809	9 0
Rhode Island	200,000	200,000	0	0 0
South Carolina	200,000	200,000	0	0 0
South Dakota	200,000	200,000	0	0 0
Tennessee	200,000	200,000	0	0 0
Texas	295,314	200,000	95,314	32 3
Utah	200,000	200,000	0	0 0
Vermont	200,000	200,000	0	0 0
Virginia	200,000	200,000	0	0 0
Washington	200,000	200,000	0	0 0
West Virginia	200,000	200,000	0	0 0
Wisconsin	200,000	200,000	0	0 0
Wyoming	200,000	200,000	0	0 0
American Samoa	13,750	13,158	592	4 3
Guam	13,750	13,158	592	4 3
Northern Mariana Is	13,750	13,158	592	4 3
Puerto Rico	200,000	200,000	0	0 0
Trust Territories	13,750	13,158	592	4 3
Virgin Islands	13,750	13,158	592	4 3
Total	\$11,000,000	\$10,527,000	\$473,000	4.3

Source: Division of Special Education and Rehabilitative Services Analysis, Department of Education

**Payments to States
Under Federal Power
Act**

Payments to States Under Federal Power Act
Federal Energy Regulatory Commission
Department of Energy
(Budget Identification Code 89-5105-0-2-852)

This is a permanent appropriation that funds payments to states under the Federal Power Act. The states are paid 37.5 percent of the receipts collected from licenses issued by the Federal Energy Regulatory Commission for the occupancy and use of national forests and public lands within their boundaries.

Sequestration Action

Under the President's sequestration order, fiscal year 1986 payments to states were reduced by 4.3 percent. The agency reduced total funds available for distribution in 1986 by \$45,000, from \$1.052 million to \$1.007 million. The Chief of the Budget Branch, Office of Program Management, said that the fiscal year 1986 payment distribution to the states is based on the collection of receipts in fiscal year 1985 that were apportioned and are being paid out in fiscal year 1986. For the reasons set forth in our discussion of the Forest Service Permanent Appropriations account, we disagree with the sequestration of payments made from fiscal year 1985 budgetary resources.

**Child Support
Enforcement:
Payments to States
from Receipts for Child
Support**

Child Support Enforcement: Payments to
States from Receipts for Child Support
Social Security Administration
Department of Health and Human Services
(Budget Identification Code 75-5734-0-2-609)

Payments from the account Payments to States from Receipts for Child Support are for amounts collected by the Internal Revenue Service, under the Child Support Enforcement program, as authorized by section 452(b) of the Social Security Act. The account is maintained and funds are disbursed by the Social Security Administration.

Under this program, individuals initiate claims to their state child support agencies for assets to which they believe they are entitled. The state agencies identify the assets involved and file claims on the behalf of the initiators with HHS's Office of Child Support Enforcement, which certifies the claims for collection by the Internal Revenue Service. The Service attaches the assets and converts them to money. The collections are deposited in the account and disbursed to the state agencies. The state agencies distribute the collections as required by section 457 of the Social Security Act.

Sequestration Action

Budgetary resources were estimated to be \$450,000 for the Payments to States from Receipts for Child Support account in fiscal year 1986. As shown in the President's Sequestration Order, \$19,000 was sequestered.

Implementing instructions to the states have not been issued to accomplish the reduction. According to an HHS official, the sequester will be implemented, if and when the collections by the Internal Revenue Service exceed \$431,000, by delaying payment for the next \$19,000 collected and subsequently paying out additional collections on a first-in, first-out basis. Any collection held back for the fiscal year 1986 sequester will be paid out in the first quarter of fiscal year 1987.

**Bureau of Land
Management
Miscellaneous
Permanent
Appropriations**

Miscellaneous Permanent Appropriations
Bureau of Land Management
Department of the Interior
(Budget Identification Code 14-9921-0-2-852)

Funds for activities of this account are provided by receipts collected from the sale, lease, or use of public lands and resources. The Bureau of Land Management distributes the funds to states and counties in accordance with various laws that specify the percentages to be paid and, in some cases, how the states and counties must use the funds. The funds are permanently appropriated by statute. The following payments are made from this account:

- Payments in lieu of taxes are made to Coos and Douglas Counties in Oregon out of receipts from the Coos Bay Wagon Road grant lands in Oregon. These payments are used for schools, roads, highways, bridges, and port districts.
- Payment of 50 percent of the receipts of Oregon and California grant land timber sales are made to the counties in which the lands are situated for use as county funds.
- States are paid 5 percent of the net proceeds from the sale of public land and public land products. These payments are to be used for educational purposes or for construction of public roads and improvements.
- States are paid 50 percent of the grazing fee receipts from public lands outside of organized grazing districts and 12-1/2 percent of the grazing fee receipts from lands within organized grazing district boundaries. Also, states are paid specifically determined amounts from grazing fee receipts from miscellaneous lands within grazing districts when payment is not feasible on a percentage basis.
- Alaska is paid 50 percent of the receipts from sales, bonuses, royalties, and rentals that result from the leasing of oil and gas in the National Petroleum Reserve in Alaska. The funds are to be used by the state in the planning, construction, maintenance, and operation of essential public facilities and other necessary provisions of public service.
- Twenty-five percent of the revenues received from the use of National Grasslands, including mineral leasing, are paid to the counties in which such lands are located.

- Payments are made to Nevada from receipts on land sales pursuant to the Burton-Santini Act of 1980, Public Law 96-586. This act directed that 5 percent of the annual proceeds from the sale of certain lands in Nevada be returned to the state and that 10 percent of the proceeds be returned to the county or municipality in which the land sales occur. The funds returned to the state are to be used for the state's general education program, and the monies returned to the county or municipality are to be used for acquisition and development of recreational lands and facilities.

Sequestration Action

Under the President's order, \$3.4 million was sequestered, based on 4.3 percent of estimated budgetary resources of \$79,069,000 for all the activities under this account. Most of the funds in this account are actually received by the U.S. Treasury in one fiscal year and then credited to the account's respective activities in the beginning of the next fiscal year, to be used for payment during the subsequent fiscal year.

In Interior's Report on Budget Execution for the period ending March 31, 1986, only five of the nine activities for this account showed sequestered amounts. We were told that the agency considered all funds for the remaining four activities to have been obligated because of payments made in the beginning of fiscal year 1986. As a result, OMB told Interior's Director, Office of Budget, that the agency could sequester the entire \$3.4 million from whatever unobligated funds remained available in the account rather than sequestering 4.3 percent of the funds appropriated for each activity. Interior's Director, Office of Budget, advised us, however, that amounts sequestered in fiscal year 1986 would be made available for outlays in fiscal year 1987.

As with the Forest Service Permanent Appropriations account, OMB's treatment of this account is based on its practice in special fund accounts, such as this, to recognize the authority to make payments as new budgetary resources of the fiscal year in which payments are actually made, rather than of the fiscal year when funds are collected and made available for payment. This practice is the basis for OMB's conclusion that the payment of funds in early fiscal year 1986 for several activities within the account required that other budget account activities make up the amount of any sequestration thereby foregone.

On May 5, 1986, we informed OMB of our view that the budgetary resources in question should be attributable to the fiscal year in which receipts are collected, rather than to the fiscal year in which payments are actually made. Thus, we informed OMB that amounts payable in 1986 from fiscal year 1985 budgetary resources should not have been sequestered. On June 12, 1986, we reported the sequestration of fiscal year 1985 resources as an improper deferral of budget authority.

**Bureau of Land
Management
Range Improvements**

Range Improvements
Bureau of Land Management
Department of the Interior
(Budget Identification Code 14-5132-0-2-302)

This account provides funds for rehabilitation, protection, and acquisition of lands, and improvements of federal rangelands under section 401 of the Federal Land Policy and Management Act of 1976. An appropriation of \$10,000,000 was provided for fiscal year 1986, to be paid from certain grazing and mineral leasing fee receipts collected in the prior fiscal year and from general revenues to the extent that receipts are insufficient to fund the full amount of the appropriation.

Sequestration Action

Under the President's order, \$430,000 was sequestered from this account. Because part of the revenues for the account are derived from public lands receipts and part from general revenues, the Department has attributed sequestered amounts to both special and general funds, \$385,000 and \$72,000, respectively. According to an official in the Department's Office of Budget, the agency considers that only the special fund portion of sequestered resources will be available for outlays in fiscal year 1987 under section 256(a)(2) of the act. The official also stated that, in order to net sequestered amounts against appropriate collections, the Department is planning to have fiscal year 1986 receipts credited to the account before the last day of fiscal year 1986; such receipts would not normally be credited until the first day of fiscal year 1987.

**Bureau of
Reclamation
Miscellaneous
Permanent
Appropriations**

Miscellaneous Permanent Appropriations
Bureau of Reclamation
Department of the Interior
(Budget Identification Code 14-9922-0-2-852)

The Bureau of Reclamation assists non-federal entities and other federal agencies in developing and conserving the nation's water resources for municipal and industrial, agricultural, hydroelectric power, and recreational uses by means of environmentally and economically sound water projects.

Funds for activities of this account are provided from the operation of the North Platte project powerplants, leasing of grazing and farm lands, sale or use of townsites, and sale or rental of surplus water. Revenue is also collected from the leasing of Klamath project reserved federal lands within the boundaries of certain national wildlife refuges. In addition, overcollections received are refunded and unapplied deposits are returned.

This is a permanent appropriation account from which the following disbursements are made.

- Payments for the operation, maintenance, and replacement of North Platte project works operated and maintained by the federal government and to supplement funds advanced by the water users to meet annual costs of operation and maintenance.
- Payments to the Farmers' Irrigation District, North Platte project, on behalf of the Northport Irrigation District for water carriage.
- Payments to local units, Klamath Reclamation Area, to credit or pay the Tule Lake Irrigation District amounts already committed and to make funds available annually to counties in which wildlife refuges are located.
- Refunds for overcollections and unapplied deposits.

Sequestration Action

Under the President's order, 4.3 percent of the total appropriation of \$350,000, or \$15,000, was sequestered in this account.

Although \$15,000 in budget authority was sequestered, the Department expects that fiscal year 1986 outlays will be reduced by only \$7,000. We were told by the Bureau's budget analyst that prior year unobligated balances of \$193,000 will be obligated and expended before obligating and expending present year authorized funds. Thus, in the absence of the sequester order, only \$157,000 of fiscal year 1986 budget authority would have been obligated in fiscal year 1986, and only this amount would be subject to reduction as a result of the sequester. The budget analyst also said that he expects that all fiscal year 1986 unobligated balances, including those arising as a result of the sequester, would be available for obligation in fiscal year 1987.

As was the case with the Forest Service Permanent Appropriations account, most of the funds in this account are actually received in one fiscal year and then credited to the account's respective activities at the beginning of the next fiscal year. For the reasons set forth in our discussion of the Forest Service Permanent Appropriations account, we disagree with the sequestration of payments made from fiscal year 1985 budgetary resources.

**Payments to the
United States
Territories**

Payments to the United States Territories, Fiscal Assistance
Office of Territorial and International Affairs
Department of the Interior
(Budget Identification Code 14-0418-0-1-852)

This account includes two permanent indefinite appropriations providing for advances to Guam and the U.S. Virgin Islands for certain tax revenues anticipated to be collected by the U.S. Treasury in the subsequent fiscal year. For the Virgin Islands, these are excise taxes, collected primarily on the export of rum. For Guam, these are primarily income taxes of mainland personnel living on Guam, including military retirees and dependents. These estimated revenues are required to be paid to Guam and the Virgin Islands before the start of the fiscal year of collection.

Sequestration Action

The amounts appropriated to this account in any given fiscal year are the estimated receipts to be collected by the federal government during the subsequent fiscal year. The payment to Guam and the Virgin Islands occurs on September 30, just prior to the beginning of the subsequent fiscal year. Thus, the budget base against which the fiscal year 1986 sequester was calculated, \$60 million, is the estimated receipts during fiscal year 1987, which, absent the sequestration, would have been paid out on September 30, 1986.

When actual collections in any given fiscal year are tabulated, a subsequent year's appropriation is required to be adjusted to account for any difference between the actual amount collected and the estimate upon which the prior appropriation was based. Thus, if actual fiscal year 1987 collections are \$61 million, the extra \$1 million will be appropriated to this account in fiscal year 1988, together with whatever is then being estimated as fiscal year 1989 revenues.

The 1986 sequestration was \$2.58 million, 4.3 percent of the \$60 million appropriation. The initial effect of the sequester is to reduce the September 30, 1986, payment by \$2.58 million. However, if actual fiscal year 1987 collections turn out to be \$60 million, the adjustment to reflect the difference between actual collections and previous payments will have the effect of restoring the sequestered \$2.58 million in fiscal year 1988.

**Fees and Expenses of
Witnesses**

Fees and Expenses of Witnesses
Department of Justice
(Budget Identification Code 15-0311-0-1-752)

The Department of Justice's Fees and Expenses of Witnesses account funds five activities: fact witnesses, expert witnesses, mental competency examinations, the victim compensation fund, and protection of witnesses.

Sequestration Action

Of the \$47.4 million appropriated for this account in fiscal year 1986, \$2,038,000 was sequestered as a result of the President's order. According to the Department of Justice's Acting Budget Director, funds for each of the five activities under this account were cut 4.3 percent.

However, because of significant increases in the use of expert witnesses in recent years by the legal divisions and the U.S. attorneys' offices, the Department of Justice did not want to make reductions in this activity. Therefore, it requested and received approval to reprogram \$647,000 from the fact-witnesses activity to the expert-witnesses activity. The reprogrammed amount, in effect, replaces the 4.3 percent sequestered for the expert-witnesses activity. The Acting Budget Director said the fact-witnesses activity can absorb the additional reduction because there has been a decrease in the planned use of fact witnesses by the legal divisions and U.S. attorneys' offices.

There were no directives issued to the legal divisions and U.S. attorney offices on how the cuts were to be achieved. None of the activities within the program are being eliminated and no reduction in the rates paid to witnesses is planned.

**Extended
Unemployment
Benefits**

Extended Unemployment Benefits
Employment and Training Administration
Department of Labor
(Budget Identification Code 20-8042-0-7-603)

This program provides 13 weeks of income support to those temporarily out of work in certain states after their regular or normal unemployment benefits have expired. In order to obtain benefits, the insured unemployment rate in the jurisdiction must be 6 percent or higher. Thus far in fiscal year 1986, Alaska, Idaho, and Puerto Rico have insured unemployment rates high enough to qualify them for the program. West Virginia is expected to become eligible before the end of the fiscal year.

Unlike regular unemployment benefits, for which the states pay the full cost, extended unemployment benefits are paid half by the states and half by the federal government. Federal costs for this activity are financed through the unemployment trust fund from federal unemployment payroll tax receipts. State costs are also financed through the unemployment trust fund but from state unemployment payroll tax receipts.

Sequestration Action

Fiscal year 1986 outlays for this program were estimated to total \$23.85 million in the absence of the sequestration action. The President's order required reduction of 4.3 percent or \$1,026,000. The Director, Office of Legislation and Actuarial Services, Unemployment Insurance, Employment and Training Administration stated that to achieve the required 4.3-percent reduction in the total fiscal year 1986 federal costs for extended benefits, the federal share of the benefits will be reduced by 6.1 percent for payments made during the last 7 months of the fiscal year. The Director added that states have the option to offset any reductions in the federal share of benefit payments through increases in their own share or to allow the benefit payments to be reduced. The three jurisdictions currently providing extended benefits have elected to offset the federal reduction with their own funds, thereby allowing recipients to continue to receive normal benefit payments.

According to the Director, Office of Legislation and Actuarial Services, the jurisdictions' use of funds from their accounts in the unemployment trust fund to cover the reduced federal share of extended benefits means that only a small portion of the sequestered amount, if any, will be realized as a reduction in outlays.

**Federal
Unemployment
Benefits (Redwood)**

Federal Unemployment Benefits (Redwood)
Employment and Training Administration
Department of Labor
(Budget Identification Code 16-0326-0-1-603)

This account finances unemployment benefits to those eligible under the Redwood National Park Expansion Act of 1978. The program provides for layoff, severance, and vacation replacement benefits to individuals who were deprived of employment as a result of the expansion of the Redwood National forests.

Sequestration Action

Fiscal year 1986 budget authority of \$5 million for this activity was reduced by 4.3 percent or \$215,000. The Director, Office of Legislation and Actuarial Services, Department of Labor, told us that after they subtracted the sequestered amount, they estimated that the remaining funds would be sufficient to continue paying full benefits without reduction during fiscal year 1986. Thus, Labor made no changes to the program. We were also told that had the reduction not been made, the account would have ended the fiscal year with a reserve balance.

**Railroad
Unemployment
Insurance**

Railroad Unemployment Insurance
Employment and Training Administration
Department of Labor
(Budget Identification Code 20-8042-0-7-603)

The Railroad Unemployment Insurance Act established a national railroad unemployment and sickness benefit system. The system receives, adjudicates, and pays claims for daily benefits for unemployed, sick, and injured railroad employees. Under the program, an employee must have earned at least \$1,500 in railroad wages and new employees must have worked for a railroad at least five months in a calendar year to be a qualified employee in the applicable benefit year.

Sequestration Action

The fiscal year 1986 estimate of budgetary resources for railroad unemployment insurance benefits was \$180,424,000 and this was reduced by 4.3 percent or \$7,758,000 under the President's order. This, in effect, imposed a spending cap for unemployment benefits for fiscal year 1986 of \$172,666,000. The Budget Officer of Fiscal Operations, Railroad Retirement Board, told us that, within this spending cap, sufficient funds would be available to continue full benefit payments even after the required amount was sequestered. Therefore, no changes were made in the program.

**Special Workers'
Compensation
Expenses**

Special Workers' Compensation Expenses
Employment Standards Administration
Department of Labor
(Budget Identification Code 16-9971-0-7-601)

Payments are made from this account for additional compensation for second injuries. When a second injury, combined with a previous disability, results in permanent partial disability, permanent total disability, or death, the employer provides compensation only for the disability caused by the second injury. The fund also pays one-half of the increased benefits provided under the Longshore and Harbor Workers' Compensation Act, as amended, for persons on the rolls prior to 1972. In addition, maintenance payments are made to disabled employees undergoing vocational rehabilitation to enable them to return to their occupations, and the costs of necessary rehabilitation services not otherwise available to disabled workers are defrayed.

Sequestration Action

The fiscal year 1986 outlays authorized from this account are:

- \$75,377,000 which was earmarked for cash benefit payments and is exempt from sequestration under sections 255(f) and 257(1) of the act,
- \$406,000 for administrative costs, of which 4.3 percent or \$17,000 was sequestered, and
- \$2,217,000 for medical benefits, of which 4.3 percent or \$96,000 was sequestered.

Thus, of the \$78 million in budget authority for this account, \$2,623,000 was subject to sequestration.

The Chief, Division of Financial Management, told us that because the reduction was minimal and the latest outlay projections indicated that the account would remain within sequestered limits, reductions were not made in medical benefit payments. Thus, she said no program change were made or required.

**Department of Labor
Special Benefits**

Special Benefits
Employment Standards Administration
Department of Labor
(Budget Identification Code 16-1521-0-1-600)

This account provides compensation to civilian employees of the United States for disability due to personal injury sustained while in the performance of duty or due to employment-related disease. It also provides for the payment of benefits to dependents if the injury or disease causes the employee's death. If needed, other medical services including rehabilitation, supervision of medical care, and counseling are provided. In addition, the account finances one-half of the increased benefits provided under the Longshore and Harbor Workers' Compensation Act, as amended, for persons on the rolls prior to 1972.

Sequestration Action

Fiscal year 1986 obligations from this account are estimated to be \$1,144.5 million of which \$855 million is estimated to be received as reimbursements during the fiscal year for costs incurred on behalf of other federal agencies. The remaining outlays are to be made from an appropriation of \$259,500,000, of which

- \$62,116,000 is for benefit payments exempt from sequestration under sections 255(f) and 257(1) of the Balanced Budget and Emergency Deficit Control Act of 1985,
- \$15,000,000 is for a cost of living increase that under section 251(a) (3) (C) of the act was sequestered in its entirety, and
- \$182,384,000 is for medical benefits of which 4.3 percent, or \$7,843,000, was sequestered.

The Director of Internal Management Control, Employment Standards Administration, stated that the 4.3-percent reduction for medical benefits is an annual amount which must be absorbed within a 7-month period. Thus, to achieve an overall 4.3-percent reduction, beginning March 1, 1986, the Department began reducing all payments for medical benefits by 7.37 percent. He advised us that all affected civilian employees were notified of the reductions. Also, letters were sent to medical providers and beneficiaries advising them of the program changes.

The Chief, Division of Financial Management, told us that medical providers were required to accept the reduced payments as payments in full for the services without redress to recover the reduction. She stated that the reductions will not result in any change of priority or loss of entitlement. She also told us that from March 6 through May 1, a total of 376,297 payments were reduced by 7.37 percent, yielding savings of \$2.6 million. At that rate the sequestered amount of \$7.8 million will be saved.

One alternative considered by the Department was to continue paying bills in full until the program funds were exhausted. The Department, however, rejected this alternative and implemented the guidance provided by the President's order which stated that the reductions for these types of entitlement programs would be made by modifying the calculation of each payment to the extent necessary to reduce the total obligations by the sequestered amount.

**Payments to Air
Carriers**

Payments to Air Carriers
Office of the Secretary
Department of Transportation
(Budget Identification Code 69-0150-0-1-402)

Subsidies under this program are paid to selected airlines--primarily commuter carriers--to provide a guaranteed level of air service. For carriers to be eligible, the communities they serve must meet criteria established by the Department of Transportation for essential air service. If these communities are entitled to a minimum level of service, the Department is required to subsidize that minimum service if no carrier will provide the service subsidy free. All air carriers are eligible to receive subsidies. During fiscal year 1985, 40 communities in Alaska and 104 communities in the other 49 states received subsidized air service. This service was provided by 51 air carriers.

Sequestration Action

In accordance with the President's order, \$1,204,000 of the \$28,000,000 appropriated for this account in fiscal year 1986 was sequestered.

The Director of Operations, Office of the Secretary, stated that the sequestration did not require any changes in payments to the air carriers program because the funds remaining after sequestration were adequate to fund the program fully throughout the fiscal year. He explained that reserve funds, in the form of unobligated budget authority available at the start of the fiscal year, amounted to \$16,074,000, which was sufficient to cover any reduction caused by the sequestration order.

**Customs Service
Miscellaneous
Permanent
Appropriations**

Miscellaneous Permanent Appropriations
United States Customs Service
Department of the Treasury
(Budget Identification Code 20-9922-0-2-852)

The Customs Service's Miscellaneous Permanent Appropriations account is basically a repository for customs duties, taxes, and fees collected in Puerto Rico. The Customs Service subtracts the costs of its activities in Puerto Rico from the account and the remainder of the account for each fiscal year is transferred to the Treasury of Puerto Rico.

Sequestration Action

The President's order sequestered \$4,515,000 of the estimated \$105 million to be appropriated from this account. The Customs Service's Budget Director and Chief of the Budget Formulation Branch stated that the amount the Customs Service retains for the services it provides in Puerto Rico was subtracted from the \$100,485,000 remaining after the sequester. Thus, in effect, the administrative costs being incurred by the Customs Service are not being reduced. This action does not violate the Balanced Budget and Emergency Deficit Control Act of 1985 because this entire account is one PPA and the act does not prescribe how reductions are to be achieved within individual PPAs.

Reductions are being applied to the second, third, and fourth quarter apportionments to Puerto Rico. The Customs Service officials stated that the sequestered amounts are being placed in a suspense account and will be transferred to Puerto Rico as part of the fiscal year 1987 first quarter apportionment.

**Internal Revenue
Collections for Puerto
Rico**

Internal Revenue Collections for Puerto Rico
Internal Revenue Service
Department of the Treasury
(Budget Identification Code 20-5737-0-2-852)

Excise taxes collected under the Internal Revenue laws of the United States on articles produced in Puerto Rico and either transported to the United States or consumed on the island are paid to the Treasury of Puerto Rico. The Internal Revenue Service is responsible for processing, accounting for, and transferring excise taxes to Puerto Rico. The Puerto Rico establishments, engaged in the manufacture and processing of the products subject to the excise tax, file returns with the Internal Revenue Service and make tax deposits with the U.S. Treasury. Each month the Internal Revenue Service transfers the taxes collected in the previous month, less refunds and related administrative expenses, to the Treasury of Puerto Rico.

Sequestration Action

The President's order required the sequestration of 4.3 percent of the budget authority of \$245 million, or \$10,535,000. On May 1, 1986, the Director, Returns Processing and Accounting Division, Internal Revenue Service, issued instructions to start sequestering funds in the account. The instructions provided that the 4.3 percent reduction would be applied to (1) the amount of funds already transferred to Puerto Rico for October 1985 through March 1986 and (2) the amount--before sequestration--scheduled to be transferred to Puerto Rico for April 1986. The sum of these two computations were to be withheld from the April 1986 payment to Puerto Rico. Thereafter, 4.3 percent was to be withheld from each monthly payment to Puerto Rico. The instructions also stated that the sequestered amounts are to be held in the account until further notice. Based on these instructions, on May 9, 1986, the Internal Revenue Service sequestered \$4,667,386.69 from the payment to Puerto Rico for April excise tax collections. This represented 4.3 percent of \$108,543,876.64 excise collections from October 1985 through April 1986.

**State and Local
Government Fiscal
Assistance**

State and Local Government Fiscal Assistance Trust Fund
Office of Revenue Sharing
Department of the Treasury
(Budget Identification Code 20-8111-0-7-851)

This account funds payments to local governments under the general revenue sharing program. The program, by law, established \$200 annually as the smallest entitlement amount for governmental units below the county level.

Sequestration Action

The fiscal year 1986 budgetary resources of \$4.185 billion for this account were reduced by 4.3 percent, or nearly \$180 million, under the President's order. The Deputy Assistant Secretary for State and Local Finance, Department of the Treasury, told us that the reduction was first subtracted from the budget authority and that allotments were then made to local governments. He said that Treasury considered another method for implementing the sequestration which would have applied the reductions to each local government after allotments of the full budget authority had been made. He added, however, that either method would have resulted in some local governments receiving no payment. For instance, those local governments whose allotments were at or slightly above \$200 would have lost all funding if their allotments had fallen below \$200 when the 4.3-percent reduction was applied to either the total budget authority or to each allotment.

He also said that the changes made were limited to fiscal year 1986. Notification of the reductions was made to local governments when the third quarter revenue sharing payments were made in April 1986. In addition, he said that savings from the reductions will equal the 4.3 percent sequestered.

**Government Payment
for Annuitants,
Employees Health
Benefits**

Government Payment for Annuitants,
Employees Health Benefits
Office of Personnel Management
(Budget Identification Code 24-0206-0-1-551)

This appropriation covers the government's (1) share of the cost of health insurance for 1.5 million annuitants as defined in sections 8901 and 8906 of title 5, U.S. Code; (2) share of the cost of health insurance for 40,000 annuitants (who were retired when the federal employees health benefits law became effective), as defined in the Retired Federal Employees Health Benefits Act of 1960; and (3) contribution for payment of administrative expenses incurred by the Office of Personnel Management in administering the program.

Sequestration Action

The Assistant Director for Financial Control and Management, Compensation Group, Office of Personnel Management, told us that reductions in fiscal year 1986 would not affect program operations and no program changes would be made (health benefits would not be reduced and premiums would not be increased). As a result, he said there will be no changes in the relative priority of and no loss of benefits to entitled persons.

The official explained that the program had 1986 budget authority of \$1.6 billion and estimated obligations of \$1.44 billion, with the balance of \$160 million designated as reserve. The agency sequestered 4.3 percent of the \$1.6 billion budget authority--\$69 million--and subtracted the sequestered amount from the reserve, leaving program funds needed for 1986 intact. The effect of the act was to reduce the reserve below the level that was initially established by the agency for fiscal year 1986.

The official also told us that:

- The decision to fund the reduction from the reserve was limited to fiscal year 1986.
- No directives on the program were issued because no program changes were made.
- No alternative program changes were considered.
- Although the effect on budget authority will be the same as shown in the January 15, 1986, OMB/CBO sequestration

**Appendix IV
Entitlement Budgetary Accounts,
Programs, Projects, or Activities**

report (as incorporated into the January 21, 1986, GAO report), because the sequestration was handled by reducing the reserve, there will be no effect on fiscal year 1986 outlays.

**Burial Benefits and
Miscellaneous
Assistance**

Burial Benefits and Miscellaneous Assistance
Department of Veterans Benefits
Veterans Administration
(Budget Identification Code 36-0155-0-1-701)

This account provides funds for the payment of burial benefits, including burial allowances, plots, flags, and headstones, and for other assistance such as retired officers' pay, adjusted service credits and certificates, and payment of premiums due on commercial life insurance policies. In its fiscal year 1986 appropriation, the Congress treated it as one of three activities in the Veterans Administration's (VA's) Compensation and Pensions account. The other activities were compensation and pensions, which were specifically exempted from sequestration by section 255(b) of the act. (For fiscal year 1986--and again for fiscal year 1987--VA proposed that these activities be financed by three separate appropriation accounts, and, as a result, the fiscal year 1986 Budget Appendix showed them as separate accounts.)

Sequestration Action

The sequester base for this account was \$134,900,000, of which 4.3 percent, or \$5,801,000, was sequestered in accordance with the President's order. The burial benefits and miscellaneous assistance account consists of 10 activities which were reduced on a uniform basis.

For activities of a benefit nature, such as burial flags and headstones/markers, \$1.3 million was sequestered. The sequestration may not reduce outlays, however, because most of these activities involved the acquisition of items through contracts which had already been negotiated. The Chief, Benefits Division, Office of Budget and Finance, told us that VA received approval from the Congress to move \$1.3 million from the pensions activity to fully fund these benefit activities. The net effect is that obligations for these activities will not be reduced.

For those activities of an allowance nature, such as funeral expenses and burial plots, VA sequestered \$4.5 million and instituted reduced dollar reimbursement rates. These dollar rate reductions, occurring between March 1 and September 30, 1986, amount to a 7.75-percent reduction during the sequestration period.

The changes made by VA are limited to fiscal year 1986. The reductions were announced in the Federal Register on March 19, 1986, and instructions were distributed to field locations during the same month. The Chief of the Benefits Division told us that entitlement and eligibility criteria for each activity has not been changed.

VA considered three alternative program changes to respond to the sequester, each of which was rejected. One involved paying allowances and benefits at current levels until the funds were exhausted and then closing the program for the remainder of the period. Another was to institute the reductions based on the date on which funds were obligated, rather than on the date on which applications were submitted or the death occurred. The Chief of the Benefits Division said that these two alternatives were not in line with guidance provided by the President's order for implementing reductions in entitlement programs and, therefore, were not adopted.

The third alternative would have achieved the sequestered savings by reducing the activities classified as allowances by 10 percent to allow VA to continue to fully support the activities classified as benefits. VA's General Counsel, however, determined that some activities could not be reduced by more than the sequestration rate in order to offset lesser reductions in other activities. Thus, VA sought congressional approval to move funds from the pensions activity to the burial benefits account in order to fully fund the activities classified as benefits.

The Chief of the Benefits Division stated that there is no reason to believe that the 7.75-percent reduction will not produce the \$4.5 million in savings required in the allowances activities.

Readjustment Benefits

Readjustment Benefits Veterans Administration (Budget Identification Code 36-0137-0-1-702)

This appropriation finances the education and training of veterans and servicepersons whose service was between February 1, 1955, and December 31, 1976 (post-Korean conflict veterans and Vietnam era veterans). It also finances educational assistance allowances for certain peacetime veterans and for eligible dependents of those veterans. In addition, certain disabled veterans are provided with vocational rehabilitation, specially adapted housing grants, and grants for automobiles with approved adaptive equipment.

Sequestration Action

The fiscal year 1986 sequester for this account was \$917 million, which was reduced by 4.3 percent, or \$39,431,000, in accordance with the President's order. The Chief, Benefits Division, Office of Budget and Finance, VA, told us that benefit payments for each of the account's activities will be reduced between 7 and 9 percent between March 1 and September 30, 1986, to meet the required reduction. However, he explained that the subsistence subactivity of the vocational rehabilitation assistance activity was reduced by 13.1 percent. This occurred because funds for the only other subactivity--tuition, fees, and books--had been expended at the beginning of the fiscal year and could not be sequestered.

This disproportionate reduction in subactivities does not conflict with the Balanced Budget and Emergency Deficit Control Act of 1985 because the act does not prescribe how reductions will be achieved within individual PPAs. The Chief of the Benefits Division said that the action taken by VA complies with section 252(e) of the act which prohibits the denial of eligibility for benefits. These changes are limited to fiscal year 1986.

VA posted these reductions in the Federal Register on March 19, 1986. In addition, VA issued instructions detailing the changes to its field organizations during March.

VA considered two alternative program changes, but each was rejected. One was based on the concept of maintaining present payment rates until funds were exhausted. The other would have begun reductions at the time training occurred rather than at the time the obligations were made.

In rejecting both alternatives, the Chief of the Benefits Division said they were guided by the President's order which stated that the reductions for these types of entitlement programs would be made by modifying the calculation of each payment to the extent necessary to reduce the total obligations by the sequestered amount.

He said that it is not possible, at this time, to determine if the reductions will achieve the desired savings. He did add that based on current available data, there is no reason to assume that the percentage reductions will not achieve the sequestered savings of \$40 million for this account.

**Vocational
Rehabilitation
Revolving Fund**

Vocational Rehabilitation Revolving Fund
Department of Veterans Benefits
Veterans Administration
(Budget Identification Code 36-4114-0-3-702)

The vocational rehabilitation revolving fund finances loans to disabled veterans who are enrolled in a program of vocational rehabilitation. An interest-free loan of up to \$620 is provided when, in the opinion of the rehabilitation counselor, the veteran is temporarily in need of additional assistance to meet expenses related to training. The \$620 reflects two times the maximum monthly vocational rehabilitation subsistence allowance paid to a single veteran.

Sequestration Action

The Vocational Rehabilitation Revolving Fund had a fiscal year 1986 sequester base of \$1,067,000, of which 4.3 percent, or \$46,000, was sequestered in accordance with the President's order. The Chief, Benefits Division, Office of Budget and Finance, VA, told us that because the monthly vocational rehabilitation subsistence allowance was reduced from \$310 to \$269 as a result of the act, VA also reduced the maximum amount of the vocational rehabilitation loan from \$620 to \$538. He said that this reduction amounted to 13.1 percent for the period March 1 to September 30, 1986.

He said that these changes will be limited to fiscal year 1986, that the reductions were posted in the Federal Register on March 19, 1986, and that VA field installations were notified in March of the reductions. He added that the program changes did not alter the relative priority of recipients nor did any recipient lose entitlement. VA did not consider any workable alternative program changes. The Chief, Benefits Division, also stated that based on current available data, there is no reason to believe the percentage reductions will not achieve the sequestered savings.

**Veterans
Administration
Education Loan Fund**

Education Loan Fund
Department of Veterans Benefits
Veterans Administration
(Budget Identification Code 36-4118-0-3-702)

This fund provides loans of up to \$2,500 to veterans who are eligible for training benefits under Chapter 34, Title 38, U.S. Code and who are without sufficient funds to meet their education-related expenses.

Sequestration Action

The fiscal year 1986, sequester base for this account totaled \$50,000. Under the President's order, this account was reduced by \$2,000 to \$48,000. The Chief, Benefits Division, Office of Budget and Finance, VA, told us that VA had experienced a significant increase in loan activity during February and March. By early May, only \$1,962 remained unobligated. Therefore, VA has stopped processing applications for new loans.

According to the Chief of the Benefits Division, VA's General Counsel did not consider the lack of funds as denying eligibility. From their perspective, neither the eligibility criteria nor the applicants' eligibility were changed; thus, their eligibility was not denied. Rather, additional loans could not be made simply due to a lack of available funds.

VA considered limiting loans to less than \$200, an amount arrived at by dividing the \$1,962 unobligated at the time by the estimated number of applicants for the remainder of the fiscal year. VA rejected this alternative on the basis that approving loans for less than \$200 was contrary to previous policy and considered economically inefficient to administer.

On May 9, public notice of the situation was published in the Federal Register. Instructions on processing education loans were also sent to VA regional offices. The reduction will apply to fiscal year 1986, and actual savings will equal the amount sequestered.

**Veterans
Administration
Loan Guaranty
Revolving Fund**

Loan Guaranty Revolving Fund
Department of Veterans Benefits
Veterans Administration
(Budget Identification Code 36-4025-0-3-704)

The purpose of the VA home loan guaranty program is to facilitate the extension of mortgage credit on favorable terms by private lenders to eligible veterans. The resources of the loan guaranty revolving fund are available for expenses for property acquisitions, payment of participation sales insufficiencies, and other loan guaranty and insurance operations.

Sequestration Action

The fiscal year 1986 sequestration in this account was \$515,420,000, based on an estimate of new loan guaranty commitments of \$11,986,522,000. This effectively resulted in a loan guaranty limitation of \$11,471,102,000. Legislation passed by the Congress on March 7 (Public Law 99-255) and May 23 (Public Law 99-322) increased the loan limitation to \$40 billion, less a sequestration of \$1,720,000,000, leaving \$38,280,000,000 available for loan guaranties. The Congress approved the increase because the sharp decline in home loan interest rates prompted an increasing demand for new and refinanced VA loans.

The Chief, Benefits Division, Office of Budget and Finance, VA, told us that with the increase of the loan limitation, no changes have been made to the program and none are anticipated. He also told us that three alternatives were considered before the Congress increased the loan limitation: (1) install a loan cap of \$90,000, (2) temporarily suspend refinancing, and (3) deny reinstatement of loan eligibility. Establishing the loan cap would have severely restricted home purchases in high-cost areas. Suspending refinancings and denying reinstatement of loan eligibility would have limited the remaining loan commitments to first-time home purchasers. Implementation of these proposals would have altered the current composition of the program and would still have left doubts as to whether the program could have operated through the year within the limit of \$11,471,102,000.

As the program is now operating, no change in eligibility, priority, or entitlement will occur.

Objectives, Scope, and Methodology

Our objectives for this review were to determine whether the President's February 1, 1986, Sequestration Order followed certain of the special rules contained in the act and to report on how the dollar reductions are to be accomplished in specified accounts. Specifically, we were asked:

- whether the President's order complied with section 255, which exempts certain programs and activities from sequestration, and section 256, which sets certain exemptions, limitations, and special rules to be followed in the sequestration process;
- how reductions in certain grant-in-aid programs were allocated among the states and whether the implementation of the reductions in those programs was consistent with section 252(e), which provides for no changes in the relative priorities in the federal budget and that no person loses eligibility for benefits; and
- how reductions are being accomplished for entitlement and mandatory spending programs without special rules and whether these reductions were achieved in a manner consistent with section 252(e).

We reviewed the reductions made in selected budgetary accounts of 10 departments and 2 independent agencies in the Executive Branch and 1 account in the Judiciary. For each account or PPA within an account, we documented how the President's order was implemented by interviewing agency officials and examining agencies' files, documents, and records. We evaluated whether actions taken were in accordance with sections 252(e), 255, and 256. For those accounts or PPAs involving grants to states, we reviewed the state allocations before and after the sequester. In addition, we reviewed the appropriateness of the reductions made in a number of special or trust funds. Summaries of the implementation of the President's order for each of the accounts or PPAs we reviewed are included in appendixes II, III, and IV.

Our review was conducted in Washington, D. C. during April, May, and June 1986. The results of our work on each account or PPA were discussed with agency officials. We performed our work in accordance with generally accepted government auditing standards.

Appendix V
Objectives, Scope, and Methodology

Reductions by Agency and Program

Table 13: Sequestrations for Fiscal Year 1986 by Agency
(in billions of dollars)

Department or Other Unit	Spending Authority a/	Direct Loan Obligation	Loan Guarantees	Estimated Outlays
Legislative Branch	0.1			0.1
The Judiciary	b/			b/
Executive Office of the President	b/			b/
Funds appropriated to the President	0.6	0.3	b/	0.3
Agriculture	1.3	1.1	0.5	1.3 c/
Commerce	0.1	b/	b/	0.1
Defense-Military	13.6			5.2
Defense-Civil	0.6			0.5
Education	0.7	b/		0.2
Energy	0.6			0.3
Health and Human Services	1.3	b/		1.0
Housing and Urban Development	0.7	b/	5.5	b/
Interior	0.3	b/	b/	0.2
Justice	0.2			0.1
Labor	0.4			0.2
State	0.1	b/		0.1
Transportation	1.8	b/	b/	0.4
Treasury	0.4			0.4
Environmental Protection Agency	0.1	b/		b/
General Services Administration	0.1			b/
National Aeronautics and Space Admin	0.3			0.2
Office of Personnel Management	0.6			0.6
Small Business Administration	b/	0.1	0.2	b/
Veterans Administration	0.2	b/	0.5	0.2
Other Independent Agencies	0.4	0.1	0.5	0.3
Total	24.6	1.6	7.3	11.7

Sources: Congressional Budget Office and Office of Management and Budget, as adjusted by the General Accounting Office

a/ Includes new budget authority for 1986, unobligated balances from budget authority provided in previous years (Defense-Military and other function 050 programs), obligation limitations, and other spending authority for 1986

b/ Less than \$50 million

c/ Includes \$0.4 billion in estimated 1987 outlay savings for Commodity Credit Corporation (CCC) programs

Table 14: Defense Program Sequestrations for Fiscal Year 1986
(in billions of dollars)

Function	Spending Authority a/	Estimated Outlays
Department of Defense Military:		
Military personnel	0.2	0.2
Operation and maintenance	3.9	2.9
Procurement	6.9	0.9
Research, development, test, and evaluation	1.9	0.9
Military construction	0.5	0.1
Family housing and other	0.2	0.1
Subtotal, DoD	13.6	5.2
Atomic energy defense activities	0.4	0.2
Other defense-related activities b/	0.1	c/
Total	14.1	5.5

Sources: Congressional Budget Office and Office of Management and Budget, as adjusted by the General Accounting Office

a/ Includes new budget authority for 1986 and unobligated balances from budget authority provided in previous years

b/ Includes the function 050 portion of Federal Emergency Management Agency budget accounts which are reduced at the same rate as nondefense programs

c/ Less than \$50 million

Appendix VI
Reductions by Agency and Program

Table 15: Non-defense Program Sequestrations for Fiscal Year 1986
(in billions of dollars)

Function	Spending Authority <u>a/</u>	Direct Loan Obligation	Loan Guarantees	Estimated Outlays
International affairs	0.9	0.3	0.5	0.5
General science, space and technology	0.4			0.3
Energy	0.3	0.2	0.1	0.1
Natural resources and environment	0.6	<u>b/</u>		0.4
Agriculture	0.9	0.7	0.3	1.0 <u>c/</u>
Commerce and housing credit	0.2	0.2	5.7	0.2
Transportation	1.9	<u>b/</u>	<u>b/</u>	0.4
Community and regional development	0.2	0.1	<u>b/</u>	0.1
Education, training, employment, and social services	1.2	<u>b/</u>		0.4
Health	0.5	<u>b/</u>		0.3
Medicare	0.4			0.4
Income security	1.8	<u>b/</u>		1.3
Social security	0.1			0.1
Veterans benefits and services	0.2	<u>b/</u>	0.5	0.2
Administration of justice	0.3			0.3
General government	0.3			0.3
General purpose fiscal assistance	0.3			0.2
Total	10.5	1.6	7.3	6.3

Sources: Congressional Budget Office and Office of Management and Budget, as adjusted by the General Accounting Office

a/ Includes new budget authority, obligation limitations, and other spending authority for 1986

b/ Less than \$50 million

c/ Includes \$0.4 billion in estimated 1987 outlay savings for Commodity Credit Corporation (CCC) programs

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