



March 13, 2015

Honorable Tom Price, M.D.
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Re: Accounting for Automatic Spending Reductions in CBO's Baseline Projections

Dear Mr. Chairman:

As you requested, the Congressional Budget Office is providing an explanation of the amounts included in budget function 920 (known as “allowances”) in its baseline projections.¹ Estimates in that function relate to the caps on discretionary funding as well as some of the required reductions in mandatory spending (a process called sequestration); likewise, both of those effects appear in function 050 (national defense), and the reductions in mandatory spending also affect function 570 (Medicare).²

Discretionary Spending

In CBO's baseline for discretionary spending, budget authority for most accounts is assumed to grow with inflation from the most recent appropriations, as specified in the Balanced Budget and Emergency Deficit Control Act of 1985. However, CBO's baseline also incorporates the caps put in place by the Budget Control Act of 2011 (as later amended), and it

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1. Budget functions are the broad programmatic categories used to classify federal programs and activities by their purpose or mission; they include, for example, agriculture, energy, and transportation. CBO's reports on its baseline projections do not generally show spending by budget function; however, the agency provides that additional detail to the House and Senate Committees on the Budget for use in preparing their budget resolutions.
 2. Mandatory (or direct) spending includes spending for certain benefit programs and other payments to people, businesses, nonprofit institutions, and state and local governments. It is generally governed by statutory criteria and is not normally constrained by the annual appropriation process. Discretionary spending is controlled by annual appropriation acts; policymakers decide each year how much money to provide for a broad array of government activities, including defense, law enforcement, and transportation.

accounts for further reductions in those caps in 2016 through 2021 under the law's automatic enforcement procedures. For spending constrained by the caps, CBO calculates the differences between the defense and nondefense caps and the total amounts of funding projected each year by inflating the current year's appropriation. Those differences, and the corresponding outlay effects, are included in the baseline as aggregate adjustments in order to align the projections with the funding caps, as follows:

- The adjustments for defense discretionary spending are recorded in budget function 050. They reduce projected budget authority by \$152 billion and projected outlays by \$138 billion between 2016 and 2025 in the baseline projections that CBO published in January in *The Budget and Economic Outlook: Fiscal Years 2015 to 2025*.³
- The adjustments for nondefense discretionary spending are recorded in budget function 920. They reduce projected budget authority by \$383 billion and projected outlays by \$342 billion over that 10-year period.

Because the caps will not be in effect after 2021, those totals include an extrapolation through 2025 based on the amount of the adjustments in 2021.

Mandatory Spending

The Budget Control Act also put in place the sequestration of certain mandatory programs through 2021; such procedures have been extended through 2024. Sequestration of mandatory spending will reduce outlays in many functions, but the largest reductions occur in Medicare. The Office of Management and Budget, which is responsible for determining the amount of sequestration, has announced the specific reductions for 2015 and 2016; however, those for 2017 through 2024 have not yet been calculated by the Administration. Therefore, in its budget projections, CBO apportioned its estimates of the future reductions to mandatory spending over that period in three categories:

- The reductions for defense, amounting to \$6 billion for both budget authority and outlays, are shown in budget function 050.

3. The amounts shown in this letter are the adjustments made to the January 2015 baseline. CBO took the same approach in the baseline that it released earlier this month in its *Updated Budget Projections: 2015 to 2025* report, though the amounts of the adjustments differ slightly.


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- The reductions for Medicare total \$144 billion in budget authority and \$148 billion in outlays and are shown in budget function 570. CBO expects that those reductions would have other effects on Medicare spending and receipts that would offset some of the savings; those effects are incorporated in the baseline projections for Medicare.
- The reductions for all other spending over the period, amounting to \$22 billion in budget authority and \$15 billion in outlays, are shown in aggregate in budget function 920.

I hope that you find this information helpful. If you have any further questions, please contact me or my staff.

Sincerely,

for 

Douglas W. Elmendorf
Director

cc: Honorable Chris Van Hollen
Ranking Member