



## Sequestration Update Report: August 2012

By law, the Congressional Budget Office (CBO) is required to issue a report by August 15 each year that provides estimates of the caps on discretionary budget authority in effect for each fiscal year through 2021.<sup>1</sup> No additional appropriations or substantive changes to the caps have occurred since CBO's previous sequestration report, which was published in January 2012, and no sequestration (cancellation of budgetary resources) was required this fiscal year.<sup>2</sup> CBO continues to estimate that the discretionary appropriations provided for 2012 do not exceed the caps and thus that, as of now, no further cap adjustments pursuant to the Budget Control Act of 2011 will be required as a result of appropriation actions this year.

### Limits on Discretionary Budget Authority for 2012

The Budget Control Act set caps for 2012 on what it designated as "security" and "nonsecurity" budget authority for the current fiscal year. The security category com-

prises discretionary appropriations for the Departments of Defense, Homeland Security, and Veterans Affairs; the National Nuclear Security Administration; the intelligence community management account (Treasury account 95-0401-0-1-054); and discretionary accounts related to international affairs (budget function 150). The nonsecurity category comprises all other discretionary appropriations. The Budget Control Act set the caps on budget authority for this year at \$684 billion for security programs and \$359 billion for nonsecurity programs.

Under the law, those limits are adjusted when appropriations are provided for certain purposes. Specifically, budget authority designated as an emergency requirement or provided for overseas contingency operations (such as the war in Afghanistan) leads to an increase in the caps, as does budget authority provided for some types of disaster relief (up to an amount based on historical spending for that purpose) or provided for certain "program integrity" initiatives.<sup>3</sup>

To date, such adjustments to the caps on discretionary budget authority for 2012 have totaled \$137.5 billion (see Table 1).<sup>4</sup> Most of that amount—\$126.5 billion—resulted from an increase in the security cap to account for budget authority provided for overseas contingency operations. Other adjustments to the caps this year consisted of \$10.5 billion for disaster relief and \$0.5 billion for program integrity initiatives.

1. The Budget Control Act of 2011 (Public Law 112-25) amended the Balanced Budget and Emergency Deficit Control Act of 1985 to reinstate caps on discretionary budget authority. Budget authority is the authority provided by law to incur financial obligations that will result in immediate or future outlays of federal government funds. Discretionary budget authority is provided and controlled by appropriation acts. All of the years referred to in this report are federal fiscal years, which run from October 1 to September 30.
2. See Congressional Budget Office, *Final Sequestration Report for Fiscal Year 2012* (January 2012). Since that report was issued, CBO has lowered its estimate of the 2012 cap on budget authority for security programs by \$1 million to match the amount calculated by the Office of Management and Budget, which is responsible for determining the caps. See Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2013: Analytical Perspectives* (February 2012), p. 160, [www.whitehouse.gov/omb/budget/Analytical\\_Perspectives](http://www.whitehouse.gov/omb/budget/Analytical_Perspectives).

3. Such initiatives are aimed at reducing improper benefit payments by the Disability Insurance and Supplemental Security Income programs, Medicare, Medicaid, and the Children's Health Insurance Program.
4. See Office of Management and Budget, *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2012* (January 2012), p. 5, [www.whitehouse.gov/sites/default/files/omb/assets/legislative\\_reports/sequestration/sequestration\\_final\\_jan2012.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/sequestration/sequestration_final_jan2012.pdf).

**Table 1.****Limits on Discretionary Budget Authority for Fiscal Year 2012**

(Millions of dollars)

	Security <sup>a</sup>	Nonsecurity <sup>a</sup>	Total
Caps for 2012 Set in the Budget Control Act	684,000	359,000	1,043,000
Adjustments			
Overseas contingency operations <sup>b</sup>	126,543	0	126,543
Disaster relief <sup>c</sup>	6,400	4,053	10,453
Program integrity initiatives <sup>d</sup>	0	483	483
Total	132,943	4,536	137,479
Adjusted Caps for 2012	816,943	363,536	1,180,479
Appropriations for 2012 (As of August 2012)	816,943	363,536	1,180,479

Sources: Congressional Budget Office; Office of Management and Budget.

- For 2012 only, the security category comprises discretionary appropriations for the Departments of Defense, Homeland Security, and Veterans Affairs; the National Nuclear Security Administration; the intelligence community management account (Treasury account 95-0401-0-1-054); and discretionary accounts related to international affairs (budget function 150). The nonsecurity category comprises all other discretionary appropriations.
- Funding provided for war-related activities in Afghanistan or for similar activities.
- For the purpose of adjustments to the cap, “disaster relief” refers to activities carried out pursuant to section 102(2) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. §5122(2); such activities may result from a natural disaster that causes damage of sufficient severity to warrant federal assistance.
- Program integrity initiatives aim to reduce improper benefit payments by the Disability Insurance and Supplemental Security Income programs, Medicare, Medicaid, and the Children’s Health Insurance Program. For 2012, such funding was provided only for Disability Insurance and Supplemental Security Income.

With those adjustments, the caps on budget authority for 2012 have risen to \$816.9 billion for security programs and \$363.5 billion for nonsecurity programs—or a total of roughly \$1.2 trillion. The total appropriations provided for this year were equal to those caps; therefore, no sequestration was required as a result of those appropriations. The caps could still be breached, however, if lawmakers provided any supplemental appropriations in August or September—unless the additional funding fell into one of the categories that cause an adjustment to the caps or unless it was offset by reductions in funding for other programs (such as rescissions of unobligated budget authority). If the caps for 2012 were breached late in the fiscal year, the caps for 2013 would be reduced to compensate for the excess funding this year.

CBO’s estimates do not govern the outcome, however. The Administration’s Office of Management and Budget (OMB) has sole authority to determine whether a sequestration or other adjustments pursuant to the Budget Control Act are required in any year and, if a sequestration is necessary, exactly how the proportional cuts are to

be made. Those determinations are based on OMB’s own estimates of federal spending.

### Limits on Discretionary Budget Authority for 2013 Through 2021

The Budget Control Act also established limits on discretionary budget authority for 2013 through 2021. Initially, the law designated one cap for all discretionary budget authority after 2013; however, because lawmakers did not enact legislation originating from the Joint Select Committee on Deficit Reduction that would reduce projected deficits by at least \$1.2 trillion, the original caps were reset to apply separately to defense and non-defense programs for 2013 through 2021.<sup>5</sup> In addition, automatic procedures will go into effect to reduce both

- The law retained the labels “security” and “nonsecurity” but modified them so that, after 2012, the security category consists of budget authority for defense programs (budget function 050) and the nonsecurity category includes all other discretionary budget authority covered by the caps.

**Table 2.****CBO's Estimates of the Limits on Discretionary Budget Authority for Fiscal Years 2013 Through 2021**

(Millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Caps Set in the Budget Control Act <sup>a</sup>									
Defense	546,000	556,000	566,000	577,000	590,000	603,000	616,000	630,000	644,000
Nondefense	501,000	510,000	520,000	530,000	541,000	553,000	566,000	578,000	590,000
<b>Total</b>	<b>1,047,000</b>	<b>1,066,000</b>	<b>1,086,000</b>	<b>1,107,000</b>	<b>1,131,000</b>	<b>1,156,000</b>	<b>1,182,000</b>	<b>1,208,000</b>	<b>1,234,000</b>
Effect of Automatic Enforcement Procedures <sup>b</sup>									
Defense	n.a.	-54,649	-54,649	-54,649	-54,650	-54,650	-54,651	-54,651	-54,651
Nondefense	n.a.	-38,340	-37,584	-36,800	-36,378	-35,504	-34,421	-32,905	-31,976
<b>Total</b>	<b>n.a.</b>	<b>-92,989</b>	<b>-92,233</b>	<b>-91,448</b>	<b>-91,028</b>	<b>-90,153</b>	<b>-89,072</b>	<b>-87,555</b>	<b>-86,626</b>
Revised Caps									
Defense	546,000	501,351	511,351	522,351	535,350	548,350	561,349	575,349	589,349
Nondefense	501,000	471,660	482,416	493,200	504,622	517,496	531,579	545,095	558,024
<b>Total</b>	<b>1,047,000</b>	<b>973,011</b>	<b>993,767</b>	<b>1,015,552</b>	<b>1,039,972</b>	<b>1,065,847</b>	<b>1,092,928</b>	<b>1,120,445</b>	<b>1,147,374</b>

Source: Congressional Budget Office.

Notes: Numbers in the table may not add up to totals because of rounding.

n.a. = not applicable.

- a. Because lawmakers did not enact legislation originating from the Joint Select Committee on Deficit Reduction that would reduce projected deficits by at least \$1.2 trillion, the original caps—which applied to “security” and “nonsecurity” budget authority for 2013 and total discretionary budget authority for 2014 through 2021—were reset to apply separately to defense (budget function 050) and non-defense programs for 2013 through 2021.
- b. The automatic enforcement procedures contained in the Budget Control Act are set to reduce the caps on discretionary budget authority for 2014 through 2021. Funding provided in 2013 is subject to sequestration, but such sequestration is independent of the caps; if it is carried out, it will reduce discretionary budget authority for 2013 by \$93,766 million, CBO estimates. In addition, a sequestration of mandatory spending is scheduled for each year between 2013 and 2021.

discretionary and mandatory spending during that period.<sup>6</sup> In the case of discretionary spending, the cuts will involve different mechanisms:

- For 2013, the reductions in discretionary spending will be enforced through a sequestration of budgetary resources; no change will be made to the caps.<sup>7</sup>

- For 2014 through 2021, the reductions are to be carried out by lowering the caps on discretionary budget authority specified in the Budget Control Act.

CBO has estimated how those automatic enforcement mechanisms would affect the limits on discretionary budget authority for each year through 2021 (see Table 2).<sup>8</sup> That analysis can only approximate the eventual outcomes, however, given that OMB is ultimately responsible for implementing any such automatic reductions on the basis of its own estimates.

6. Mandatory spending consists of outlays from budget authority that is controlled by laws other than appropriation acts.

7. Budgetary resources consist of all sources of authority provided to federal agencies that permit them to incur financial obligations. Such resources include new budget authority, unobligated balances, direct spending authority, and obligation limitations.

8. For a detailed analysis of the procedures that CBO uses to calculate automatic reductions, see Congressional Budget Office, *Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act* (September 2011).

### Fiscal Year 2013

Because the automatic enforcement procedures will not affect the caps for 2013, the overall limit on discretionary budget authority for that year is still \$1,047 billion—\$546 billion for defense budget authority and \$501 billion for nondefense budget authority, the amounts specified in the Budget Control Act. Even if the funding provided for 2013 was equal to or below those caps, it would be subject to sequestration, although the caps would remain unchanged. In CBO's estimation, total discretionary budget authority for 2013 would be reduced by nearly \$94 billion through that sequestration.<sup>9</sup>

### Fiscal Years 2014 Through 2021

As originally set by the Budget Control Act, the caps on discretionary budget authority would rise gradually from a total of \$1,066 billion in 2014 to \$1,234 billion in 2021. However, the automatic enforcement procedures, if implemented, would reduce the caps for the 2014–2021 period. For 2014, the reduction would total \$93 billion (or 8.7 percent), CBO estimates; for 2021, it would fall to \$87 billion (or 7.0 percent).

The reductions in the caps for defense programs would be proportionately larger than the reductions in the caps for nondefense programs. The defense cap would shrink by \$55 billion each year (which translates to a cut of 9.8 percent for 2014 and smaller percentages for subsequent years). The nondefense cap would shrink by \$38 billion (or 7.5 percent) for 2014 and by smaller amounts for later years, CBO estimates. How those reductions would be apportioned among the various budget accounts within the two categories would be determined by future appropriation acts.

With those reductions, the overall limit on discretionary budget authority would decline from \$1,047 billion for 2013 (although sequestration would result in funding

below that amount) to \$973 billion for 2014 and then would steadily increase, reaching \$1,147 billion for 2021. The separate defense and nondefense caps would follow a similar pattern. The cap on discretionary budget authority for the defense category would fall from \$546 billion for 2013 (although appropriations under that cap would still be subject to sequestration) to \$501 billion for 2014, CBO estimates, and then would gradually rise to \$589 billion for 2021. The cap on nondefense funding would decrease from \$501 billion for 2013 (although that funding too would be subject to sequestration) to \$472 billion for 2014, before gradually increasing to \$558 billion for 2021. (Those figures do not include any adjustments that might be made to accommodate appropriations for emergencies, overseas contingency operations, disaster relief, or program integrity initiatives.)

### Disaster Relief

Under the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by the Budget Control Act, the limits on discretionary budget authority can be increased to reflect funding for disaster relief. However, the total increase in the caps in any year for that reason cannot exceed the average funding provided for disaster relief over the previous 10 years (excluding the highest and lowest annual amounts) plus any amount by which the prior year's appropriation was below the maximum allowable cap adjustment for that year.

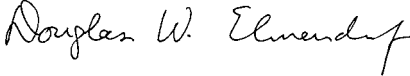
On September 1, 2011, OMB released its preview estimate of the maximum extent to which the caps for 2012 can be adjusted for disaster relief funding: \$11.3 billion.<sup>10</sup> Lawmakers designated about \$10.5 billion in appropriations for this year as funding for disaster relief, and OMB has used that amount as its adjustment to the 2012 caps—\$6.4 billion for the security category and \$4.1 billion for the nonsecurity category (see Table 1 on page 2). That total is \$0.8 billion below the maximum allowable adjustment for the year.

9. On July 31, 2012, the Administration exercised its authority under section 255(f) of the Budget Control Act to exempt military personnel accounts from sequestration. See the letter from Jeffrey D. Zients, Acting Director, Office of Management and Budget, to Joseph R. Biden Jr., President, U.S. Senate, [www.whitehouse.gov/sites/default/files/omb/legislative/letters/military-personnel-letter-biden.pdf](http://www.whitehouse.gov/sites/default/files/omb/legislative/letters/military-personnel-letter-biden.pdf).

10. See Office of Management and Budget, *OMB Report on Disaster Relief Funding to the Committees on Appropriations and the Budget of the U.S. House of Representatives and the Senate* (September 2011), [www.whitehouse.gov/sites/default/files/omb/assets/legislative\\_reports/disaster\\_relief\\_report\\_sept2011.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/disaster_relief_report_sept2011.pdf).

For 2013, CBO estimates that the maximum potential adjustment for disaster relief is \$11.8 billion. That total is based on OMB's estimates of previous appropriations for disaster relief and on the amount provided for 2012; the maximum adjustment for 2013 will change if additional appropriations for disaster relief are provided before the end of this fiscal year.

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