



Final Sequestration Report for Fiscal Year 2013

By law, the Congressional Budget Office (CBO) is required to issue a report within 10 days of the end of a session of Congress that provides estimates of the caps on discretionary budget authority in effect for each fiscal year through 2021, although legislation enacted in January provided for a later release date this year.¹ CBO is also required to report whether, by its estimates, enacted legislation has exceeded those caps; if that occurs, a sequestration (a cancellation of budgetary resources) is required. In CBO's estimation, such a sequestration will not be required for 2013. However, the Administration's Office of Management and Budget (OMB) has sole authority to determine whether such a sequestration is required and, if so, exactly how the proportional cuts are to be made. Those determinations are based on OMB's own estimates of federal spending.

The potential sequestration discussed in this report—that is, one that would occur if appropriations exceeded one of the caps on discretionary funding—is different from the sequestration that has been implemented in 2013 as a result of the automatic procedures to restrain discretionary and mandatory spending. Those across-the-board budget reductions remain in effect for 2013 and will also

result in a lowering of the discretionary caps and a sequestration of mandatory spending in the years 2014 through 2021.

Limits on Discretionary Budget Authority for 2013

The American Taxpayer Relief Act of 2012 modified the caps established by the Budget Control Act of 2011 and designated that such caps be applied to “security” and “nonsecurity” budget authority for the current fiscal year.² Those caps on budget authority are currently set at \$1,043 billion—\$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) would lead to an increase in the caps, as would budget authority provided for some types of disaster relief (up to an amount based on historical spending for that purpose) or for certain “program integrity” initiatives.³

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. Subsequently, the American Taxpayer Relief Act of 2012 (P.L. 112-240) lowered the caps for 2013 and 2014 and extended the publication date of the final sequestration report for fiscal year 2013 to March 27, 2013. 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. The security category for 2013 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.

3. Such initiatives are aimed at reducing improper benefit payments in the Disability Insurance and Supplemental Security Income programs, Medicare, Medicaid, and the Children's Health Insurance Program.

Table 1.**Limits on Discretionary Budget Authority for Fiscal Year 2013**

(Millions of dollars)

	Security ^a	Nonsecurity ^a	Total
Caps Set in the Deficit Control Act ^b	684,000	359,000	1,043,000
Adjustments			
Overseas contingency operations ^c	98,683	0	98,683
Emergency requirements ^d	7,042	34,627	41,669
Disaster relief ^e	11,779	0	11,779
Program integrity initiatives ^f	0	483	483
Total	117,504	35,110	152,614
CBO's Estimate of Adjusted Caps for 2013	801,504	394,110	1,195,614
Budget Authority as Estimated by CBO When Legislation Was Enacted	801,504	394,109	1,195,613
Amount by Which Budget Authority Is Above or Below (-) Caps	0	-1	-1

Source: Congressional Budget Office.

- a. For 2013, 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.
- b. The Budget Control Act of 2011 amended the Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act) to reinstate caps on discretionary budget authority. The American Taxpayer Relief Act of 2012 reduced the caps on security and nonsecurity funding for 2013 by \$2 billion each (and reduced the caps on defense and nondefense funding for 2014 by \$4 billion each). In addition, automatic procedures that went into effect on March 1 reduced discretionary funding in 2013 by \$68 billion more, according to estimates from the Office of Management and Budget.
- c. This category consists of funding for war-related activities in Afghanistan or for similar activities.
- d. This category consists mostly of funding for relief and recovery from Hurricane Sandy that was designated as an emergency requirement by the Congress. About \$5 billion in funding related to Hurricane Sandy was declared disaster relief, and about \$3 billion was not declared either as an emergency requirement or as disaster relief.
- e. For the purposes 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; such activities may result from a natural disaster that causes damage of sufficient severity to warrant federal assistance.
- f. Program integrity initiatives identify and reduce overpayments in benefit programs, such as Disability Insurance, Supplemental Security Income, Medicare, Medicaid, and the Children's Health Insurance Program. For 2013, funding for program integrity initiatives thus far has been provided only for Disability Insurance and Supplemental Security Income.

On the basis of legislation enacted to date, such adjustments to the caps on discretionary budget authority for 2013 will total \$152.6 billion, CBO estimates (see Table 1). Most of that amount—\$98.7 billion—results from an increase in the security cap to account for budget authority provided for overseas contingency operations. Other expected adjustments to the caps this year include \$41.7 billion for emergency requirements and \$0.5 billion for program integrity initiatives. In addition, on August 20, 2012, OMB released its estimate of the maximum extent to which the caps for 2013 can be adjusted for disaster relief funding: \$11.8 billion.⁴ Lawmakers have designated that maximum amount in appropriations for this year as funding for disaster relief, and CBO has used that amount as an adjustment to the 2013 cap for the security category (see Table 1).

CBO estimates that with those adjustments, the caps on budget authority for 2013 will be \$801.5 billion for security programs and \$394.1 billion for nonsecurity programs—or a total of \$1.2 trillion. Total appropriations for 2013, as estimated by CBO when they were enacted, were \$1 million below the cap for the nonsecurity category and equal to the cap for the security category; therefore, by CBO's estimates, no sequestration related to the caps will be required.

Limits on Discretionary Budget Authority for 2014 Through 2021

The limits on discretionary budget authority established by the Budget Control Act for 2014 through 2021 apply separately to defense and nondefense programs.⁵ For

2014, the American Taxpayer Relief Act lowered each of those two limits by \$4 billion. In addition, automatic procedures specified in the Budget Control Act will further reduce those limits from 2014 through 2021 (along with reductions in mandatory spending).⁶

CBO has estimated how those automatic enforcement mechanisms will affect the limits on discretionary budget authority for each year through 2021 (see Table 2).⁷ Those calculations can only approximate the eventual outcomes, however, because OMB is ultimately responsible for implementing the automatic reductions on the basis of its own estimates.

As set in the Budget Control Act and subsequently modified by the American Taxpayer Relief Act, the caps on discretionary budget authority would rise gradually from a total of \$1,058 billion in 2014 to \$1,234 billion in 2021. The automatic enforcement procedures that took effect at the beginning of March will reduce the caps over that period. For 2014, the reduction will total \$92 billion (or 8.7 percent), CBO estimates; for 2021, it will fall to \$87 billion (or 7.0 percent) because more of the required reduction will apply to mandatory programs.

The reductions in the caps for defense programs are proportionately larger than the reductions in the caps for nondefense programs. The defense cap will shrink by \$55 billion each year (which translates to a cut of 9.9 percent for 2014 and slightly smaller percentages for subsequent years). The nondefense cap will shrink by \$37 billion (or 7.3 percent) for 2014 and by smaller amounts for later years, CBO estimates. How those reductions will be apportioned among the various budget accounts within the two categories will be determined by future appropriation acts.

4. 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. Of the \$50 billion in total funding related to Hurricane Sandy, about \$5 billion was declared disaster relief; most of the remainder was declared an emergency requirement. See Office of Management and Budget, *OMB Sequestration Update Report to the President and Congress for Fiscal Year 2013* (August 2012), www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/sequestration/sequestration_update_august2012.pdf.

5. The law retained the labels "security" and "nonsecurity" but modified them so that, for 2014 through 2021, 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.

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

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

Table 2.**CBO's Estimate of the Limits on Discretionary Budget Authority for Fiscal Years 2014 to 2021**

(Millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021
Caps Set in the Deficit Control Act ^a								
Defense	552,000	566,000	577,000	590,000	603,000	616,000	630,000	644,000
Nondefense	506,000	520,000	530,000	541,000	553,000	566,000	578,000	590,000
Subtotal	1,058,000	1,086,000	1,107,000	1,131,000	1,156,000	1,182,000	1,208,000	1,234,000
Estimated Effect of Automatic Spending Reductions ^b								
Defense	-54,648	-54,649	-54,649	-54,650	-54,650	-54,650	-54,651	-54,651
Nondefense	-36,977	-36,687	-36,498	-35,982	-35,378	-34,483	-32,979	-32,223
Subtotal	-91,625	-91,336	-91,147	-90,632	-90,028	-89,133	-87,630	-86,874
Estimate of Revised Caps								
Defense	497,352	511,351	522,351	535,350	548,350	561,350	575,349	589,349
Nondefense	469,023	483,313	493,502	505,018	517,622	531,517	545,021	557,777
Total	966,375	994,664	1,015,853	1,040,368	1,065,972	1,092,867	1,120,370	1,147,126

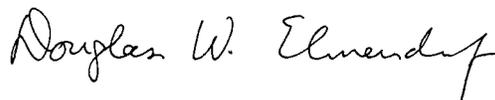
Source: Congressional Budget Office.

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

- a. The Budget Control Act of 2011 amended the Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act) to reinstate caps on discretionary budget authority. The American Taxpayer Relief Act of 2012 reduced the caps on defense and nondefense funding for 2014 by \$4 billion each.
- b. The automatic spending reductions specified in the Budget Control Act are set to reduce the caps on discretionary budget authority for 2014 through 2021. In addition, a sequestration of mandatory spending is scheduled for each year during that period. These estimates reflect CBO's calculations; the Office of Management and Budget is responsible for the official determination of such reductions.

With those reductions, the overall limit on discretionary budget authority will steadily increase from \$966 billion for 2014 to \$1,147 billion for 2021, CBO estimates, an average annual increase of about 2.5 percent. The separate defense and nondefense caps will follow a similar pattern. The cap on discretionary budget authority for the defense category will total \$497 billion for 2014, CBO estimates, and then will gradually rise to \$589 billion for 2021. The cap on nondefense funding will gradually increase from \$469 billion for 2014 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.)

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