



Sequestration Update Report: August 2015

The Congressional Budget Office is required by law to issue a report by August 15 of each year that provides estimates of the caps on discretionary budget authority in effect for each fiscal year through 2021.¹ CBO has updated its estimates of the caps for 2015 since it issued its previous report on the topic in January 2015.² In that earlier report, CBO estimated that the appropriations for 2015 did not exceed the caps. CBO's assessment remains unchanged—the discretionary appropriations provided to date for 2015 do not exceed the caps, and thus, by CBO's estimates, a further sequestration (or cancellation of budgetary resources) will not be required as a result of appropriation actions this year. However, the authority to determine whether a sequestration is required and, if so, exactly how to make the necessary cuts in budget authority rests with the Administration's Office of Management and Budget (OMB). That agency, in a report issued in March after enactment of the Department of Homeland Security Appropriations Act, 2015 (Public Law 114-4), also found that, at that time, appropriations for 2015 were at or below the caps.³

1. Budget authority is the authority provided by law to incur financial obligations that will result in immediate or future outlays of federal 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 2015* (January 2015), www.cbo.gov/publication/49889.
3. See Shaun Donovan, Director, Office of Management and Budget, letter to the Honorable John Boehner, Speaker of the House of Representatives, providing estimates for the Department of Homeland Security Appropriations Act, 2015 (March 13, 2015), www.whitehouse.gov/omb/legislative_reports/BEA_reports.

Limits on Discretionary Budget Authority for 2015

The Bipartisan Budget Act of 2013 (P.L. 113-67) modified the caps on defense and nondefense funding for fiscal year 2015 that were established by the Budget Control Act of 2011. Public Law 113-67 reset those limits to total \$1,013.6 billion—\$521.3 billion for defense programs and \$492.4 billion for nondefense programs.

By law, however, the caps are adjusted upward when appropriations are provided for certain purposes. Specifically, budget authority designated as an emergency requirement or provided for overseas contingency operations, such as military activities in Afghanistan, leads to an increase in the caps, as does budget authority provided for some types of disaster relief (as this report explains below) or for certain “program integrity” initiatives.⁴

CBO estimates that, to date, such adjustments to the caps on discretionary budget authority for 2015 have totaled \$87.1 billion (see Table 1). Most of that amount, \$64.4 billion, is an increase in the defense cap to account for budget authority provided for overseas contingency operations. An additional \$0.1 billion of defense funding—for responding to the outbreak of the Ebola virus, as well as for enhanced preparedness activities related to that outbreak—was designated as an emergency requirement. Adjustments to the nondefense cap include \$9.3 billion for overseas contingency operations, \$6.5 billion for disaster relief, \$5.3 billion in additional emergency funding for Ebola preparedness, and

4. Such initiatives may be 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 2015**

Millions of Dollars

	Defense ^a	Nondefense ^a	Total
Caps Established in the Budget Control Act ^b	521,272	492,356	1,013,628
Adjustments			
Overseas contingency operations ^c	64,438	9,257	73,695
Disaster relief ^d	0	6,529	6,529
Emergency requirements ^e	112	5,293	5,405
Program integrity initiatives ^f	0	1,484	1,484
Estimating differences ^g	34	0	34
Subtotal	64,584	22,563	87,147
Adjusted Caps for 2015 (As estimated by CBO)	585,856	514,919	1,100,775
Appropriations for 2015 (As estimated by the Office of Management and Budget) ^h	585,856	511,520	1,097,376

Source: Congressional Budget Office, Office of Management and Budget.

- a. The defense category comprises appropriations designated for budget function 050; the nondefense category comprises all other discretionary appropriations.
- b. The Budget Control Act of 2011 amended the Balanced Budget and Emergency Deficit Control Act of 1985 to reinstate caps on discretionary budget authority. The Bipartisan Budget Act of 2013 canceled automatic spending reductions set to take effect in 2014 and 2015 and set the revised caps on defense and nondefense funding for those years at amounts that were each \$22 billion above what the caps would have been in 2014 and \$9 billion above what they would have been in 2015 if the automatic spending reductions had occurred.
- c. This category consists of funding for war-related activities in Afghanistan or for similar activities.
- d. 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.
- e. This funding was provided by H.R. 83, the Consolidated and Further Continuing Appropriations Act, 2015, for responding to the outbreak of the Ebola virus, as well as for enhanced preparedness activities in response to that outbreak.
- f. Program integrity initiatives identify and reduce overpayments in benefit programs, such as the Disability Insurance and Supplemental Security Income programs, Medicare, Medicaid, and the Children's Health Insurance Program. Thus far in 2015, funding for program integrity initiatives has been provided for Medicare and for the Disability Insurance and Supplemental Security Income programs.
- g. Section 7 of the Consolidated Appropriations Act, 2015, authorized the Office of Management and Budget to increase the caps for 2015 to reflect estimating differences between that agency and CBO.
- h. The Office of Management and Budget's final estimates of enacted discretionary appropriations for fiscal year 2015 can be found in Shaun Donovan, Director, Office of Management and Budget, letter to the Honorable John Boehner, Speaker of the House of Representatives, providing estimates for the Department of Homeland Security Appropriations Act, 2015 (March 13, 2015), www.whitehouse.gov/omb/legislative_reports/BEA_reports.

\$1.5 billion for program integrity initiatives related to Medicare and to the Disability Insurance and Supplemental Security Income programs.

Incorporating those adjustments, CBO estimates that the caps on budget authority for 2015 total \$585.9 billion for defense programs and \$514.9 billion for nondefense programs—about \$1.1 trillion in all. As reported by OMB in March, the total appropriations provided at that time were at or below the caps. No additional

appropriations have been made since then. Therefore, CBO estimates that 2015 funding for both defense and nondefense programs, including all appropriations to date, is equal to or below the applicable cap and thus no sequestration will be required.

The caps could be breached, however, if lawmakers were to provide additional appropriations before the end of September—unless those appropriations fell into one of the categories that cause an adjustment to the caps

Table 2.**Limits on Discretionary Budget Authority for Fiscal Years 2016 Through 2021**

Millions of Dollars

	2016	2017	2018	2019	2020	2021
Caps Originally Set in the Budget Control Act						
Defense	577,000	590,000	603,000	616,000	630,000	644,000
Nondefense	530,000	541,000	553,000	566,000	578,000	590,000
Total	1,107,000	1,131,000	1,156,000	1,182,000	1,208,000	1,234,000
Estimated Effect of Automatic Spending Reductions^a						
Defense	-53,909	-53,932	-53,928	-53,921	-53,914	-53,906
Nondefense	-36,509	-37,325	-37,582	-36,603	-35,326	-34,999
Total	-90,418	-91,257	-91,510	-90,524	-89,240	-88,905
Estimate of Revised Caps						
Defense	523,091	536,068	549,072	562,079	576,086	590,094
Nondefense	493,491	503,675	515,418	529,397	542,674	555,001
Total	1,016,582	1,039,743	1,064,490	1,091,476	1,118,760	1,145,095

Source: Congressional Budget Office.

- a. The automatic spending reductions specified in the Budget Control Act are set to reduce the caps on discretionary budget authority for 2016 through 2021. In addition, a sequestration of mandatory spending is scheduled for each year through 2024. The estimates in this table reflect CBO's calculations; however, the Office of Management and Budget is responsible for the official determination of such reductions.

or were offset by reductions in funding for other programs. If the caps were breached late in the fiscal year, the caps for 2016 would be reduced to compensate for the excess funding in 2015.

Limits on Discretionary Budget Authority for 2016 Through 2021

The Budget Control Act established limits on discretionary budget authority for fiscal years 2016 through 2021 as well as automatic procedures that will reduce the funding allowed for both discretionary and mandatory spending through 2021.⁵ In February, OMB reported that the automatic spending reductions would reduce the defense cap for 2016 by \$54 billion (resulting in a cap of \$523 billion) and the nondefense cap by \$37 billion (resulting in a cap of \$493 billion).⁶

5. Mandatory spending refers to outlays from budget authority that is generally controlled by laws other than appropriation acts. Sequestration of such spending was subsequently extended through 2024.
6. See Office of Management and Budget, *OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2016* (February 2, 2015), <http://go.usa.gov/3H3wz>.

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

The caps on discretionary budget authority originally established by the Budget Control Act were set to rise gradually from a total of \$1,107 billion in 2016 to \$1,234 billion in 2021. However, the automatic procedures will reduce those caps. For 2016, the reduction will total \$90 billion (or 8.2 percent); for 2021, the reduction will be slightly smaller—\$89 billion (or 7.2 percent)—CBO estimates.

Under current law, the reductions in the caps for defense programs will be proportionately larger than the

7. For a detailed analysis of the methods 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), www.cbo.gov/publication/42754.

reductions in the caps for nondefense programs. The defense cap will shrink by \$54 billion each year, which amounts to a cut of 9.3 percent in 2016 and slightly smaller percentages in subsequent years. The nondefense cap will shrink by \$37 billion in 2016—a cut of 6.9 percent—and by similar amounts (and smaller percentages) in later years. How those reductions are apportioned among the various budget accounts within the two categories will be determined by future appropriation acts.

After those reductions are accounted for, the overall limit on discretionary budget authority will steadily increase, from \$1,017 billion in 2016 to \$1,145 billion in 2021—an average annual increase of 2.4 percent. The defense and nondefense caps that add up to that limit will follow a similar pattern over that period. The former will grow from \$523 billion to \$590 billion, CBO estimates, while the latter will increase from \$493 billion to \$555 billion. (Those amounts do not include any adjustments that might be made to accommodate future appropriations for emergencies, overseas contingency operations, disaster relief, or program integrity initiatives.)

Compared with CBO's estimates in January, the aggregate cap for 2016 is slightly higher and those for the succeeding years are slightly lower. CBO's estimates of the defense caps have changed very little; however, the nondefense cap for 2016 as calculated by OMB is about \$500 million more than CBO's estimate in January. Over the 2017–2021 period, CBO's estimates of the nondefense caps are an average of about \$200 million per year less than the amounts estimated in January; CBO has slightly increased its projections of mandatory spending subject to sequestration, thereby reducing the amount of the total reduction applied to nondefense discretionary programs according to the formula delineated in the Budget Control Act.

Disaster Relief

The total increase in the caps to accommodate funding for disaster relief in a given year is limited by law. It cannot exceed the sum of the following two amounts: the average funding provided for disaster relief over the previous 10 years (adjusted to exclude the highest and lowest annual amounts) and the amount, if any, by which the adjusted 10-year average applicable in the previous year exceeded that year's appropriation. Lawmakers designated \$6.5 billion in appropriations for 2015 as funding for disaster relief, and OMB has used that amount as its adjustment to the 2015 cap for nondefense programs (see Table 1).

For 2016, CBO estimates that the maximum potential adjustment for disaster relief is \$14.1 billion. That total consists of:

- The average of \$8.7 billion in funding provided over the 2006–2015 period (excluding the highest and lowest annual amounts) and
- The \$5.4 billion by which disaster funding appropriated in 2015 (\$6.5 billion) was below the adjusted average of \$11.9 billion over the previous 10 years.

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