



## Sequestration Update Report: August 2014

By law, the Congressional Budget Office (CBO) is required 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.<sup>1</sup> Minor adjustments to the caps for 2014 have been made since CBO's previous report on the topic, which was published in January 2014.<sup>2</sup> In that earlier report, CBO estimated that the appropriations for 2014 did not exceed the caps. CBO's assessment remains unchanged—the discretionary appropriations provided for 2014 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. The Administration's Office of Management and Budget (OMB) has sole authority to determine whether a further sequestration is required; its sequestration report issued in February 2014 also found that appropriations for 2014 were at or below the caps, and the only subsequent appropriation was designated an emergency requirement and thus could not cause a breach of the caps.<sup>3</sup>

### Limits on Discretionary Budget Authority for 2014

The Bipartisan Budget Act of 2013 (Public Law 113-67) modified the caps on defense and nondefense funding for fiscal year 2014 that were established by the Budget Control Act of 2011; P.L. 113-67 reset those caps to total \$1,012 billion—\$520 billion for defense programs and \$492 billion for nondefense programs.

The annual limits on funding 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 military activities 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 for certain “program integrity” initiatives.<sup>4</sup> Also, section 7 of the Consolidated Appropriations Act, 2014 (P.L. 113-76) authorized OMB to increase the caps for 2014 to reflect estimating differences between that agency and CBO.

To date, such adjustments to the caps on discretionary budget authority for 2014 have totaled \$98.9 billion, CBO estimates (see Table 1). Most of that amount, \$85.4 billion, is an increase in the defense cap to account for budget authority provided for overseas contingency operations. An additional \$0.2 billion of funding—provided in P.L. 113-145 for Israel's Iron Dome defense system—was designated as an emergency requirement, and OMB has increased the defense cap by another

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 through fiscal year 2021. 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 2014* (January 2014), [www.cbo.gov/publication/45013](http://www.cbo.gov/publication/45013).
3. See Office of Management and Budget, *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2014* (February 2014), <http://go.usa.gov/PhN3>.

4. 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 2014**

Millions of Dollars

	Defense <sup>a</sup>	Nondefense <sup>a</sup>	Total
Caps Established in the Budget Control Act <sup>b</sup>	520,464	491,773	1,012,237
Adjustments			
Overseas contingency operations <sup>c</sup>	85,419	6,518	91,937
Disaster relief <sup>d</sup>	0	5,626	5,626
Program integrity initiatives <sup>e</sup>	0	924	924
Emergency requirements <sup>f</sup>	225	0	225
Estimating differences <sup>g</sup>	182	0	182
Subtotal	85,826	13,068	98,894
CBO's Estimate of Adjusted Caps for 2014	606,290	504,841	1,111,131
Appropriations for 2014 (As estimated by the Office of Management and Budget) <sup>h</sup>	606,290	502,833	1,109,123

Sources: 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 set the revised caps on defense and nondefense funding for that year at amounts that were each \$22 billion above what the caps would have been if the automatic spending reductions had occurred.
- c. This category consists of funding for military activities in Afghanistan and 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. 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. For 2014, funding for program integrity initiatives thus far has been provided only for Disability Insurance and Supplemental Security Income.
- f. The Emergency Supplemental Appropriation Resolution, 2014, provided the Department of Defense with an additional \$225 million in discretionary budget authority to assist the government of Israel with procurement of the Iron Dome defense system.
- g. Section 7 of the Consolidated Appropriations Act, 2014, authorized the Office of Management and Budget to increase the caps for 2014 to reflect estimating differences between that agency and CBO.
- h. The Office of Management and Budget's estimates can be found in *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2014* (February 2014), <http://go.usa.gov/PhN3>; however, that report does not include the \$225 million in emergency supplemental appropriations that were provided in August.

\$0.2 billion to account for differences between its estimates and those of CBO. Adjustments to the nondefense cap this year include \$6.5 billion for overseas contingency operations, \$5.6 billion for disaster relief, and \$0.9 billion for program integrity initiatives.

With those adjustments, the caps on budget authority for 2014 total \$606.3 billion for defense programs and \$504.8 billion for nondefense programs—about \$1.1 trillion in all, CBO estimates. By OMB's estimation, as reported in February, the total

appropriations provided for this year are at or below those caps; therefore, CBO expects that no additional sequestration will be required.

The caps could still be breached, however, if lawmakers were to provide supplemental appropriations by the end of September—unless the additional funding fell into one of the categories that result in 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 2014 were breached late in

the fiscal year, the caps for 2015 would be reduced to compensate for any excess funding provided this year.

## Limits on Discretionary Budget Authority for 2015 Through 2021

The Budget Control Act also established limits on discretionary budget authority for fiscal years 2015 through 2021, and it provided for automatic procedures that reduce the funding allowed for both discretionary and mandatory spending through 2021.<sup>5</sup> The Bipartisan Budget Act canceled the automatic reductions in discretionary spending for 2014 and 2015 imposed by the Budget Control Act and set new caps for 2015 that are, in total, \$18.5 billion above what the limits would have been if the automatic spending reductions had occurred; the new caps are \$521 billion for defense programs and \$492 billion for nondefense programs.

CBO has estimated how the automatic reductions will affect the limits on discretionary budget authority for each year from 2016 through 2021 (see Table 2).<sup>6</sup> 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.

As established by the Budget Control Act, the caps on discretionary budget authority were set to rise gradually from a total of \$1,107 billion in 2016 to \$1,234 billion in 2021. However, the automatic enforcement procedures will reduce the caps in each year over that period. For 2016, the reduction will total \$92 billion (or 8.3 percent), CBO estimates; for 2021, the reduction will fall to \$89 billion (or 7.2 percent).<sup>7</sup>

Under current law, the reductions in the caps for defense programs will be proportionately larger than the reductions in the caps for nondefense programs. The defense cap will shrink by \$54 billion each year, which translates to a cut of 9.4 percent for 2016 and slightly smaller

percentages for subsequent years. The nondefense cap will shrink by \$38 billion (or 7.1 percent) for 2016 and by smaller amounts for later years. How those reductions will be apportioned among the various budget accounts within the two categories will be determined by future appropriation acts.

With those reductions, the limits on discretionary budget authority for defense and nondefense programs alike will change only slightly from 2015 to 2016 and then steadily increase through 2021.

- The overall limit will increase from \$1,014 billion for 2015 to \$1,015 billion for 2016 and then rise by an average of 2.4 percent per year to \$1,145 billion for 2021.
- The cap on discretionary budget authority for the defense category will grow from \$521 billion for 2015 to \$523 billion for 2016 and then to \$590 billion for 2021, CBO estimates.
- The cap on nondefense funding will be \$492 billion in 2015 and 2016 and then rise to an estimated \$555 billion for 2021.

Those figures do not include any adjustments that might be made to accommodate future 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 disaster relief cannot exceed the average funding provided for that reason over the previous 10 years (excluding the highest and lowest annual amounts) plus any amount by which

5. Mandatory spending refers to outlays from budget authority that is controlled by laws other than appropriation acts. Sequestration of such spending was subsequently extended through 2024.

6. 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), [www.cbo.gov/publication/42754](http://www.cbo.gov/publication/42754).

7. The automatic spending reductions to mandatory and discretionary spending are based on a formula specified in the Budget Control Act for how to allocate the cuts between those two categories. The amount of the automatic reductions for each category and thus the actual cap levels for 2016 through 2021, therefore, will depend on OMB's calculation of the amount of mandatory spending subject to sequestration in those years.

**Table 2.****Limits on Discretionary Budget Authority for Fiscal Years 2015 to 2021**

Millions of Dollars

	2015	2016	2017	2018	2019	2020	2021
Caps Originally Set in the Budget Control Act							
Defense	566,000	577,000	590,000	603,000	616,000	630,000	644,000
Nondefense	520,000	530,000	541,000	553,000	566,000	578,000	590,000
Total	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 <sup>a</sup>							
Defense	-53,954	-53,976	-53,975	-53,968	-53,959	-53,950	-53,941
Nondefense	-36,870	-37,704	-37,468	-37,519	-36,518	-35,233	-34,951
Total	-90,824	-91,680	-91,443	-91,487	-90,477	-89,183	-88,892
Changes Enacted in the Bipartisan Budget Act of 2013							
Defense	9,226	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nondefense	9,226	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	18,452	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Estimate of Revised Caps							
Defense	521,272	523,024	536,025	549,032	562,041	576,050	590,059
Nondefense	492,356	492,296	503,532	515,481	529,482	542,767	555,049
Total	1,013,628	1,015,320	1,039,557	1,064,513	1,091,523	1,118,817	1,145,108

Source: Congressional Budget Office.

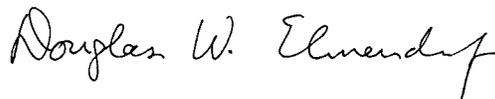
Note: n.a. = not applicable.

- 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. (The Bipartisan Budget Act of 2013 canceled the automatic spending reductions for 2014 and 2015 and set new, revised caps for those years.) In addition, a sequestration of mandatory spending is scheduled for each year from 2014 through 2024. These estimates reflect CBO's calculations; however, the Office of Management and Budget is responsible for the official determination of such reductions.

the prior year's appropriation was below the maximum allowable cap adjustment for that year.

Lawmakers designated \$5.6 billion in appropriations for 2014 as funding for disaster relief, and OMB has used that amount as its adjustment to the 2014 cap for non-defense programs (see Table 1). Those appropriations are \$6.5 billion below the maximum adjustment for the year, thus increasing the allowable adjustment for 2015 by that amount. For 2015, CBO estimates that the maximum potential adjustment for disaster relief is \$18.4 billion. That total includes the \$6.5 billion that was unused in 2014 as well as the average of \$11.9 billion based on funding provided over the 2005–2014 period (excluding the highest and lowest annual amounts).

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