



## Sequestration Update Report: August 2017

By August 15 of each year, the Congressional Budget Office is required by law to issue a report that provides estimates of the caps on discretionary budget authority in effect for each fiscal year through 2021.<sup>1</sup> CBO has slightly revised its estimates of the caps since it issued its previous report on the topic in May.<sup>2</sup> But CBO's assessment in that earlier report—that discretionary appropriations for 2017 do not exceed the caps—remains unchanged. Therefore, by CBO's estimates, a 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 sequestration report issued in May, also found that appropriations for 2017 did not exceed the caps—and no appropriations have been enacted since then.<sup>3</sup>

### Limits on Discretionary Budget Authority for 2017

The Bipartisan Budget Act of 2015 (Public Law 114-74) modified the caps on defense and nondefense funding for fiscal year 2017 that were established by the Budget Control Act of 2011 (P.L. 112-25). Specifically, those limits were reset to total \$1,069.6 billion—\$551.1 billion

for defense programs and \$518.5 billion for nondefense programs.

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

To date, such adjustments to the caps on discretionary budget authority for 2017 have totaled \$118.0 billion (see Table 1). Most of that amount, \$82.9 billion, is an increase in the defense cap to account for budget authority provided for overseas contingency operations. The increases in the nondefense cap are \$20.8 billion for overseas contingency operations, \$8.1 billion for disaster relief, \$4.1 billion for emergency funding primarily to respond to natural disasters, and \$2.0 billion for program integrity initiatives related to Medicare and to the Disability Insurance and Supplemental Security Income programs.

As OMB reported in May, incorporating those adjustments raised the caps on budget authority for 2017 to \$634.0 billion for defense programs and \$553.6 billion for nondefense programs—about \$1.19 trillion in all. OMB also reported that total appropriations for this year were at or below the caps, and no additional appropriations have been made since then. Therefore, at this time, no sequestration will be required.

1. 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 2017* (May 2017), [www.cbo.gov/publication/52704](http://www.cbo.gov/publication/52704).
3. See Office of Management and Budget, *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2017* (May 2017), <http://go.usa.gov/xRQDt> (PDF, 863 KB).

4. Such initiatives may try to reduce 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 2017**

Millions of Dollars

	Defense <sup>a</sup>	Nondefense <sup>a</sup>	Total
Caps Established by the Budget Control Act <sup>b</sup>	551,068	518,531	1,069,599
Adjustments			
Overseas contingency operations <sup>c</sup>	82,934	20,785	103,719
Disaster relief <sup>d</sup>	0	8,129	8,129
Emergency requirements <sup>e</sup>	0	4,148	4,148
Program integrity initiatives <sup>f</sup>	0	1,960	1,960
Estimating differences <sup>g</sup>	3	0	3
Subtotal	82,937	35,022	117,959
Adjusted Caps for 2017	634,005	553,553	1,187,558
Appropriations for 2017 (As estimated by the Office of Management and Budget) <sup>h</sup>	634,005	552,000	1,186,005
<b>Memorandum:</b>			
Discretionary Funding Not Included in Calculations of Caps <sup>i</sup>	0	872	872

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 2015 canceled automatic spending reductions set to take effect in 2017 and set revised caps on defense and nondefense funding for that year at amounts that were each \$15 billion greater than they would have been had the automatic spending reductions occurred.
- c. This category consists mainly of funding for activities in Afghanistan and similar missions.
- d. In this context, 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 formally designated as an emergency requirement pursuant to section 251(b)(2)(A)(i) of the Deficit Control Act and was provided primarily to respond to natural disasters.
- 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. In fiscal year 2017, 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, 2017, authorized the Office of Management and Budget to increase the caps for 2017 to reflect differences between that agency's estimates and CBO's.
- h. The Office of Management and Budget's final estimates of enacted discretionary appropriations for fiscal year 2017 can be found in *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2017* (May 2017), <http://go.usa.gov/xRQDt> (PDF, 863 KB).
- i. A requirement of the 21st Century Cures Act is that discretionary funding for certain activities that it authorizes is not included in calculations of appropriations subject to the caps.

The caps could be breached, however, if lawmakers were to provide additional appropriations for 2017 before the end of September—unless those appropriations fell into one of the categories that cause an adjustment to the caps or were offset by reductions in funding for other programs. If the caps were breached late in fiscal year

2017, the 2018 caps would be reduced to compensate for the excess funding.

### **Limits on Discretionary Budget Authority for 2018 Through 2021**

The Budget Control Act also established limits on discretionary budget authority for fiscal years 2018

Table 2.

**Limits on Discretionary Budget Authority for Fiscal Years 2018 Through 2021**

Millions of Dollars

	2018	2019	2020	2021
<b>Caps Established by the Budget Control Act</b>				
Defense	603,000	616,000	630,000	644,000
Nondefense	553,000	566,000	578,000	590,000
<b>Total</b>	<b>1,156,000</b>	<b>1,182,000</b>	<b>1,208,000</b>	<b>1,234,000</b>
<b>Estimated Effect of Automatic Spending Reductions<sup>a</sup></b>				
Defense	-53,943	-53,975	-53,973	-53,968
Nondefense	-37,251	-36,856	-35,708	-35,416
<b>Total</b>	<b>-91,194</b>	<b>-90,831</b>	<b>-89,681</b>	<b>-89,384</b>
<b>Estimate of Revised Caps</b>				
Defense	549,057	562,025	576,027	590,032
Nondefense	515,749	529,144	542,292	554,584
<b>Total</b>	<b>1,064,806</b>	<b>1,091,169</b>	<b>1,118,319</b>	<b>1,144,616</b>

Source: Congressional Budget Office.

a. The automatic spending reductions specified in the Budget Control Act of 2011 are set to reduce the caps on discretionary budget authority for 2018 through 2021. These estimates reflect CBO's calculations; however, the Office of Management and Budget is responsible for the official determination of such reductions.

through 2021 as well as automatic procedures that will reduce the funding allowed for both discretionary and mandatory spending through 2021.<sup>5</sup> CBO has estimated the extent to which the automatic procedures will affect the caps on discretionary budget authority for each year over the period.<sup>6</sup> CBO's calculations only approximate the eventual outcomes, however; OMB is 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 \$1,156 billion in 2018 to \$1,234 billion in 2021 (see Table 2). However, the automatic procedures will reduce those caps. For 2018, the reduction will total \$91.2 billion (or 7.9 percent);

for 2021, the reduction will be slightly smaller, CBO estimates—\$89.4 billion (or 7.2 percent).

Under current law, the reductions in the caps for defense programs will be larger than the reductions in the caps for nondefense programs. By CBO's estimate, the defense cap will shrink by about \$54 billion each year, which amounts to a cut of 8.9 percent in 2018 and slightly smaller percentages in subsequent years. The nondefense cap will shrink by \$37 billion in 2018—a cut of 6.7 percent—and by declining 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, CBO estimates, the overall limit on discretionary budget authority will be about \$1,065 billion in 2018, about \$5 billion less than the limit (before adjustments) in 2017. The caps will then steadily rise to \$1,145 billion in 2021—an average annual increase of 2.4 percent over that three-year period. The defense and nondefense caps that add up to that limit will follow a similar pattern over the period: The defense cap will grow from \$549 billion in 2018 to \$590 billion in 2021, CBO estimates, and

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 2025.

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

the nondefense cap will increase from \$516 billion to \$555 billion. (Those amounts do not include any adjustments that might be made to accommodate future appropriations for overseas contingency operations, disaster relief, emergencies, or program integrity initiatives.)

CBO's estimates of the caps have changed slightly from its estimates in May. Those changes occurred because CBO has revised its projections of mandatory spending subject to sequestration. Under the formula delineated in the Budget Control Act, such changes result in small revisions to the required reductions in the discretionary caps.

### 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 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 \$8.1 billion in appropriations for 2017 as funding for disaster relief, and OMB has used that amount as its adjustment to the 2017 cap for nondefense programs (see Table 1).

For 2018, CBO estimates that the maximum potential cap adjustment for disaster relief is \$7.4 billion, which equals the average funding provided over the 2008–2017 period (excluding the highest and lowest annual amounts).

This Congressional Budget Office report was prepared in response to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

Avi Lerner prepared the report with guidance from Theresa Gullo and Christina Hawley Anthony.

Robert Sunshine reviewed the report, Benjamin Plotinsky edited it, and Jorge Salazar prepared it for publication. An electronic version is available on CBO's website ([www.cbo.gov/publication/53004](http://www.cbo.gov/publication/53004)).



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