



## Final Sequestration Report for Fiscal Year 2018

In general, after a session of Congress ends, the Congressional Budget Office is required to issue a report that provides estimates of the limits (often called caps) on discretionary budget authority that are in effect for each fiscal year through 2021.<sup>1</sup> CBO also must report whether, according to its estimates, enacted legislation for the current fiscal year has exceeded those caps. If so, a sequestration (that is, a cancellation of budgetary resources) would be required.

Normally, CBO's final sequestration report would be issued 10 days after the end of a session of Congress. However, because the appropriations for fiscal year 2018 were not final at the end of the first session of the 115th Congress on December 29, 2017, the deadline was extended until 10 days after the Consolidated Appropriations Act, 2018 (Public Law 115-141), was signed into law on March 23, 2018.<sup>2</sup>

In CBO's estimation, a sequestration will not be required for 2018. 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). Those determinations are based on OMB's own estimates of federal spending.

### Limits on Discretionary Budget Authority for 2018

The Bipartisan Budget Act of 2018 (P.L. 115-123) modified the caps on defense and nondefense funding for fiscal year 2018 that were originally established by the Budget Control Act of 2011 (P.L. 112-25). P.L. 115-123 reset those limits to total \$1,208 billion—\$629 billion for defense programs and \$579 billion for nondefense programs.

By law, however, the caps are adjusted upward when appropriations are provided for certain purposes. Specifically, budget authority that is 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 explained below) or for certain program integrity initiatives.<sup>3</sup>

To date, CBO estimates, such adjustments to the caps on discretionary budget authority for 2018 have totaled \$213.0 billion (see Table 1). Most of that amount, \$119.8 billion, is an increase to the nondefense cap to account for budget authority provided for emergency requirements. Additional adjustments to the non-defense cap total an estimated \$12.0 billion for overseas contingency operations, \$7.4 billion for disaster relief, and \$1.9 billion for program integrity initiatives

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.
2. Section 1001 of the Further Additional Continuing Appropriations Act, 2018 (Division A of P.L. 115-96), delayed the publication date until 10 days after the date of expiration of the Continuing Appropriations Act, 2018 (Division D of P.L. 115-56). That authority was subsequently extended by several laws, most recently the Bipartisan Budget Act of 2018 (P.L. 115-123) until March 23, 2018, the same date that the Consolidated Appropriations Act, 2018, was enacted.

3. Program integrity initiatives seek to identify and reduce overpayments in benefit programs, such as Disability Insurance, Supplemental Security Income, Medicare, Medicaid, and the Children's Health Insurance Program.

Note: All years referred to are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end. Numbers may not sum to totals because of rounding.

Table 1.

### Limits on Discretionary Budget Authority for Fiscal Year 2018

Millions of Dollars

	Defense <sup>a</sup>	Nondefense <sup>a</sup>	Total
Caps Established in the Bipartisan Budget Act of 2018 <sup>b</sup>	629,000	579,000	1,208,000
Adjustments			
Emergency requirements <sup>c</sup>	5,856	119,783	125,639
Overseas contingency operations <sup>d</sup>	66,079	12,018	78,097
Disaster relief <sup>e</sup>	0	7,366	7,366
Program integrity initiatives <sup>f</sup>	0	1,896	1,896
Total Adjustments	71,935	141,063	212,998
Adjusted Caps for 2018	700,935	720,063	1,420,998
Appropriations for 2018 Subject to the Caps (As of April 2, 2018)	700,935	720,063	1,420,998
<b>Memorandum:</b>			
Discretionary Funding Not Included in Calculation of Caps <sup>g</sup>	0	1,056	1,056

Source: Congressional Budget Office.

- The defense category (statutorily, the revised security category) comprises appropriations designated for budget function 050; all other discretionary appropriations are in the nondefense category (statutorily, the revised nonsecurity category).
- The Bipartisan Budget Act of 2018 canceled automatic spending reductions set to take effect in 2018 and set revised caps on defense and nondefense funding for that year at amounts that were a combined \$143 billion above what the caps would have been if the automatic spending reductions had occurred.
- Funding formally designated pursuant to section 251(b)(2)(A)(i) of the Balanced Budget and Deficit Control Act of 1985.
- This category consists of funding primarily for military activities in Afghanistan and similar missions.
- 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, as amended. Such activities may result from a natural disaster that causes damage of sufficient severity to warrant federal assistance.
- Program integrity initiatives seek to identify and reduce overpayments in benefit programs, such as Disability Insurance, Supplemental Security Income, Medicare, Medicaid, and the Children's Health Insurance Program.
- The 21st Century Cures Act requires discretionary funding for certain authorized activities to be excluded from calculations of appropriations subject to the caps. That funding totals \$1,056 million for nondefense programs for 2018, CBO estimates.

related to Medicare and to the Disability Insurance and Supplemental Security Income programs. The increases in the defense cap for 2018 are \$5.9 billion for emergency requirements and \$66.1 billion for overseas contingency operations, CBO estimates.

After those adjustments are made, the caps on budget authority for 2018 will total an estimated \$700.9 billion for defense programs and \$720.1 billion for nondefense programs—about \$1,421 billion in all. According to CBO's estimates, appropriations for 2018 that are subject to the caps are equal to those amounts; therefore, no sequestration will be required.<sup>4</sup>

The caps could be breached, however, if lawmakers provided additional appropriations for 2018 before the end of September—without modifying the caps—unless those appropriations either fell into a category that causes an adjustment to the caps or were offset by reductions in funding for other programs. If the caps were breached late in fiscal year 2018, the 2019 caps would be reduced to compensate for the excess funding.

### Limits on Discretionary Budget Authority for 2019 Through 2021

The Budget Control Act of 2011 also established limits on discretionary budget authority for fiscal years 2019 through 2021 as well as automatic procedures to reduce the funding allowed for discretionary and mandatory spending through 2021.<sup>5</sup> The Bipartisan Budget Act of 2018 canceled the automatic reductions in discretionary funding for 2019 and set new caps for 2019 that are \$152 billion higher than they would have been if the automatic reductions had occurred. Those caps are \$647 billion for defense programs and \$597 for non-defense programs (see Table 2).

CBO has estimated the extent to which the automatic procedures will affect the caps on discretionary budget

- The 21st Century Cures Act (P.L. 114-255) requires discretionary funding for certain authorized activities to be excluded from calculations of appropriations constrained by the caps. That funding totals \$1.1 billion for nondefense programs for 2018, CBO estimates.
- Mandatory spending refers to outlays from budget authority that is generally controlled by laws other than appropriation acts. The automatic reductions in such spending were subsequently extended through 2027.

authority for 2020 and 2021.<sup>6</sup> CBO's calculations, however, only approximate the eventual outcomes; OMB ultimately is responsible for implementing the automatic reductions on the basis of its own estimates.

The caps on discretionary budget authority established in the Budget Control Act of 2011 were set to total \$1,208 billion in 2020 and \$1,234 billion in 2021. However, the automatic procedures will reduce those caps. For 2020, the reduction will total \$90 billion (or 7.4 percent), CBO estimates; for 2021, the reduction will be slightly smaller—\$89 billion (or 7.2 percent).

Under current law, the reductions for 2020 and 2021 in the caps for defense programs will be proportionately larger than the reductions in the caps for nondefense programs. By CBO's estimate, the defense cap will shrink by \$54 billion (or about 8.5 percent) each year. The nondefense cap will shrink by \$36 billion in 2020 and \$35 billion in 2021—cuts of about 6 percent. The apportionment of those reductions 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 drop precipitously, from \$1,244 billion for 2019 to \$1,118 billion for 2020—a decrease of about 10 percent. The cap for defense appropriations will decrease from \$647 billion to \$576 billion, and the nondefense cap will shrink from \$597 billion to \$542 billion, CBO estimates.

From 2020 to 2021, according to CBO's estimates, the caps will increase by about 2 percent to \$590 billion for defense appropriations and to \$555 billion for non-defense funding. Those amounts do not include any adjustments that might be made to accommodate future appropriations for emergencies, overseas contingency operations, disaster relief, wildfire suppression, or program integrity initiatives.<sup>7</sup>

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).

7. The Bipartisan Budget Act of 2018 included certain funding provided for reemployment services to the program integrity initiatives that are not constrained by the caps for 2019 through 2021. In addition, beginning in 2020, the Consolidated Appropriations Act, 2018, established wildfire suppression as a category of spending that will lead to an increase in the nondefense caps.

Table 2.

### Limits on Discretionary Budget Authority for Fiscal Years 2019 Through 2021

Millions of Dollars

	2019	2020	2021
<b>Caps Established in the Budget Control Act of 2011</b>			
Defense	616,000	630,000	644,000
Nondefense	566,000	578,000	590,000
<b>Total</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	-53,858	-53,905	-53,901
Nondefense	-35,657	-35,929	-35,454
<b>Total</b>	<b>-89,515</b>	<b>-89,834</b>	<b>-89,355</b>
<b>Changes Enacted in the Bipartisan Budget Act of 2018</b>			
Defense	84,858	n.a.	n.a.
Nondefense	66,657	n.a.	n.a.
<b>Total</b>	<b>151,515</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Estimate of Revised Caps</b>			
Defense	647,000	576,095	590,099
Nondefense	597,000	542,071	554,546
<b>Total</b>	<b>1,244,000</b>	<b>1,118,166</b>	<b>1,144,645</b>

Source: Congressional Budget Office.

n.a. = not applicable.

a. The automatic spending reductions specified in the Budget Control Act of 2011 are set to reduce the caps on discretionary budget authority for 2020 and 2021. Although these estimates reflect CBO's calculations, the Office of Management and Budget is responsible for the official determination of such reductions.

CBO's estimate of the aggregate cap for 2020 is slightly lower, and that for 2021 is slightly higher, than its August 2017 estimates because the agency has revised its projections of mandatory spending subject to sequestration.<sup>8</sup> Under the formula delineated in the Budget Control Act of 2011, that change resulted in small adjustments to the total required reduction 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. For 2018, such an increase cannot exceed the sum of two amounts: the average funding provided for disaster

8. See Congressional Budget Office, *Sequestration Update Report: August 2017* (August 2017), [www.cbo.gov/publication/53004](http://www.cbo.gov/publication/53004).

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. For 2018, CBO estimates, the maximum potential adjustment for disaster relief is equal to the adjusted 10-year average of \$7.4 billion, and lawmakers designated that maximum amount in appropriations for 2018 as funding for disaster relief.

The Consolidated Appropriations Act, 2018, increased the yearly allowable adjustment for disaster relief, beginning in 2019. In addition to the rolling 10-year average (excluding the highest and lowest annual amounts), the adjustment will include 5 percent of amounts designated for emergency requirements and appropriated for major disasters declared pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 93-288), as amended. The allowable adjustments also will include the cumulative amount by which the new cap exceeds the amounts appropriated for each year after 2018.

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. Previous editions are available at <https://go.usa.gov/xQCKb>. 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, Christina Hawley Anthony, and Adam Wilson. Mark Hadley and Robert Sunshine reviewed the report, Kate Kelly edited it, and Casey Labrack prepared it for publication. An electronic version is available on CBO's website ([www.cbo.gov/publication/53696](http://www.cbo.gov/publication/53696)).



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