



Final Sequestration Report for Fiscal Year 2017

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 2021.¹ As part of that requirement, 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. This year, however, because appropriations for fiscal year 2017 had not been finalized when the 114th Congress ended on January 3, 2017, the deadline was extended to 10 days after 2017 appropriations were enacted. Those final appropriations were enacted in the Consolidated Appropriations Act, 2017 (Public Law 115-31), which was signed into law on May 5.

In CBO's estimation, a sequestration will not be required for 2017. 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 2017

The Bipartisan Budget Act of 2015 (P.L. 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). P.L. 114-74 reset those limits 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. 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.²

To date, CBO estimates, 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. Estimated adjustments to the nondefense cap include \$20.8 billion for overseas contingency operations, \$8.1 billion for disaster relief, \$4.1 billion for emergency funding for natural disaster preparedness, and \$2.0 billion for program integrity initiatives related to Medicare and to the Disability Insurance and Supplemental Security Income programs.

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 and are designated by the calendar year in which they end.

2. 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 2017

Millions of Dollars

	Defense ^a	Nondefense ^a	Total
Caps Established in the Bipartisan Budget Act of 2015 ^b	551,068	518,531	1,069,599
Adjustments			
Overseas contingency operations ^c	82,932	20,785	103,717
Disaster relief ^d	0	8,129	8,129
Emergency requirements ^e	0	4,148	4,148
Program integrity initiatives ^f	0	1,960	1,960
Subtotal	82,932	35,022	117,954
Adjusted Caps for 2017	634,000	553,553	1,187,553
Appropriations for 2017 (as of May 5, 2017) That Are Subject to the Caps	634,000	553,553	1,187,553
Memorandum:			
Discretionary Funding Provided Pursuant to the 21st Century Cures Act ^g	0	872	872

Source: Congressional Budget Office.

- 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 above the amount the caps would have been had the automatic spending reductions occurred.
- c. This category consists of funding primarily for activities in Afghanistan and similar missions.
- 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 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. Discretionary funding for certain activities authorized by the 21st Century Cures Act is not included in calculations of appropriations subject to the caps.

After those adjustments are made, the caps on budget authority for 2017 will total an estimated \$634.0 billion for defense programs and \$553.6 billion for nondefense programs—about \$1.19 trillion in all. According to CBO's estimates, appropriations for defense and non-defense programs in 2017 are equal to those caps; therefore, no sequestration will be required.

The caps could be breached, however, if lawmakers provided 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 through 2021 as well as automatic procedures that will reduce the

Table 2.

Limits on Discretionary Budget Authority for Fiscal Years 2018 to 2021

Millions of Dollars

	2018	2019	2020	2021
Caps Established in the Budget Control Act				
Defense	603,000	616,000	630,000	644,000
Nondefense	553,000	566,000	578,000	590,000
Total	1,156,000	1,182,000	1,208,000	1,234,000
Estimated Effect of Automatic Spending Reductions^a				
Defense	-53,976	-53,975	-53,972	-53,969
Nondefense	-37,334	-36,798	-35,712	-35,405
Total	-91,310	-90,773	-89,684	-89,374
Estimate of Revised Caps				
Defense	549,024	562,025	576,028	590,031
Nondefense	515,666	529,202	542,288	554,595
Total	1,064,690	1,091,227	1,118,316	1,144,626

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. In addition, a sequestration of mandatory spending is scheduled for each year through 2025. These estimates reflect CBO's calculations; however, the Office of Management and Budget is responsible for the official determination of such reductions.

funding allowed for both discretionary and mandatory spending through 2021.³ CBO has estimated the extent to which the automatic procedures will affect the caps on discretionary budget authority for each year over the period (see Table 2).⁴ 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 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. However, the automatic procedures will reduce those caps. For 2018, the reduction will total \$91 billion (or 7.9 percent), CBO estimates; for

2021, the reduction will be slightly smaller—\$89 billion (or 7.2 percent).

Under current law, the reductions 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 about \$54 billion each year, which amounts to a cut of 9.0 percent in 2018 and slightly smaller percentages in subsequent years. The nondefense cap will shrink by \$37 billion in 2018—a cut of 6.8 percent—and by declining amounts (and smaller percentages) in later years. 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 steadily rise from \$1,065 billion in 2018 to \$1,145 billion for 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 the period: The defense cap will grow from \$549 billion to \$590 billion, CBO estimates, and that for nondefense appropriations

3. 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.

4. 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.

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 aggregate caps for 2018 are slightly higher and those for 2019 through 2021 are slightly lower than its estimates of last August. Those changes occurred because CBO has revised its projections of mandatory spending subject to sequestration. Under the formula delineated in the Budget Control Act, 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. 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. For 2017, CBO estimates, the maximum potential adjustment for disaster relief is \$8.1 billion, as follows:

- The average funding provided over the 2007–2016 period (excluding the highest and lowest annual amounts) of \$7.0 billion; and
- The \$1.1 billion by which disaster funding appropriated in 2016 was below its adjusted average of \$8.7 billion over the previous 10 years.

Lawmakers designated \$8.1 billion in appropriations for 2017 as funding for disaster relief—an amount equal to the maximum potential adjustment.

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.

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Robert Sunshine reviewed the report, Kate Kelly edited it, and Jorge Salazar prepared it for publication. An electronic version is available on CBO's website (www.cbo.gov/publication/52704).



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