



Sequestration Update Report: August 2013

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 2021.¹ No additional appropriations or substantive changes to the caps have occurred since CBO's previous report on the topic, which was published in March 2013.² Consequently, CBO continues to estimate that the discretionary appropriations provided for 2013 do not exceed the caps and thus that, through the end of July, a further sequestration (or cancellation of budgetary resources) will not be required as a result of appropriation actions this year. (The sequestration that was triggered by the automatic enforcement procedures of the Budget Control Act of 2011 remains in effect, however.) 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 April 2013 also found that appropriations for 2013 were at or below the caps.³

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 2013* (March 2013), www.cbo.gov/publication/44021.
3. See Office of Management and Budget, *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2013* (April 2013), www.whitehouse.gov/omb/legislative_reports/sequestration.

Limits on Discretionary Budget Authority for 2013

The Budget Control Act of 2011 established separate caps on what it designated as “security” and “nonsecurity” budget authority, and the American Taxpayer Relief Act of 2012 modified those caps for fiscal year 2013.⁴ The security category comprises discretionary appropriations for the Departments of Defense, Homeland Security, and Veterans Affairs; the National Nuclear Security Administration; the intelligence community management account (Treasury account 95-0401-0-1-054); and discretionary accounts related to international affairs (budget function 150). The nonsecurity category comprises all other discretionary appropriations. Those caps on budget authority for 2013 are currently set at \$1,043 billion—\$684 billion for security programs and \$359 billion for nonsecurity programs (see Table 1). Separately, automatic spending reductions triggered under the Budget Control Act went into effect on March 1, reducing discretionary funding (but not the caps) by \$64 billion (including cuts to programs not subject to the caps), according to estimates from OMB.

Under the law, 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 the war in Afghanistan) would lead to an increase in the caps, as would budget authority provided for some types of disaster relief (up to an amount based

4. The American Taxpayer Relief Act also reduced the caps on defense and nondefense funding for 2014 by \$4 billion each.

Table 1.**Limits on Discretionary Budget Authority for Fiscal Year 2013**

(Millions of dollars)

| | Security ^a | Nonsecurity ^a | Total |
|--|-----------------------|--------------------------|-----------|
| Caps Set in the Deficit Control Act ^b | 684,000 | 359,000 | 1,043,000 |
| Adjustments | | | |
| Overseas contingency operations ^c | 98,682 | 0 | 98,682 |
| Emergency requirements ^d | 7,042 | 34,627 | 41,669 |
| Disaster relief ^e | 11,779 | 0 | 11,779 |
| Program integrity initiatives ^f | 0 | 483 | 483 |
| Subtotal | 117,503 | 35,110 | 152,613 |
| Adjusted Caps for 2013 | 801,503 | 394,110 | 1,195,613 |
| Appropriations for 2013 (As of August 2013) ^g | 801,500 | 394,109 | 1,195,609 |

Source: Congressional Budget Office.

- a. For 2013, the security category comprises discretionary appropriations for the Departments of Defense, Homeland Security, and Veterans Affairs; the National Nuclear Security Administration; the intelligence community management account (Treasury account 95-0401-0-1-054); and discretionary accounts related to international affairs (budget function 150). The nonsecurity 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 American Taxpayer Relief Act of 2012 reduced the caps on security and nonsecurity funding for 2013 by \$2 billion each (and reduced the caps on defense and nondefense funding for 2014 by \$4 billion each).
- c. This category consists of funding for war-related activities in Afghanistan or for similar activities.
- d. This category consists mostly of funding for relief and recovery from Hurricane Sandy that was designated as an emergency requirement by the Congress. About \$5 billion in funding related to Hurricane Sandy was declared disaster relief, and about \$3 billion was not declared either as an emergency requirement or as disaster relief.
- e. 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.
- 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. For 2013, funding for program integrity initiatives thus far has been provided only for Disability Insurance and Supplemental Security Income.
- g. The amounts are estimated by the Office of Management and Budget and do not include the effects of the automatic spending reductions that went into effect on March 1 and reduced discretionary funding in 2013 by \$64 billion.

on historical spending for that purpose) or provided for certain “program integrity” initiatives.⁵

To date, such adjustments to the caps on discretionary budget authority for 2013 have totaled \$152.6 billion.⁶ Most of that amount, \$98.7 billion, resulted from an increase in the security cap to account for budget authority provided for overseas contingency operations. Other adjustments to the caps this year included \$41.7 billion for emergency requirements and \$11.8 billion for disaster relief.⁷ Finally, an additional adjustment was made to reflect nearly \$0.5 billion in funding for program integrity initiatives.

With those adjustments, the caps on budget authority for 2013 have risen to \$801.5 billion for security programs and \$394.1 billion for nonsecurity programs—totaling roughly \$1.2 trillion. The total appropriations provided for this year are slightly below those caps; therefore, no additional sequestration was required as a result of those appropriations. The caps could still be breached, however, if lawmakers were to provide any supplemental appropriations by the end of September—unless the additional funding fell into one of the categories that cause 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 2013 were breached late in the fiscal year, the caps for 2014 would be reduced to compensate for any excess funding provided this year.

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5. 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.
 6. The automatic spending reductions specified by the Budget Control Act subsequently decreased funding provided for the affected programs; however, adjustments to the caps and the amounts of appropriations that are compared with the caps are based on the amounts that were provided at the time the appropriations were made.
 7. Those adjustments consist mostly of funding for relief and recovery from Hurricane Sandy. Of the \$50 billion in total funding related to Sandy, about \$42 billion was declared an emergency requirement and \$5 billion was declared disaster relief. The disaster relief funding for 2013 is in the security category, and the emergency funding this year is split between the security and non-security categories.

Limits on Discretionary Budget Authority for 2014 Through 2021

The Budget Control Act also established limits on discretionary budget authority for fiscal years 2014 through 2021. The law modified the activities categorized as “security” and “nonsecurity” after 2013; beginning in 2014, the security category consists of budget authority for defense programs (budget function 050), and the nonsecurity category includes all other discretionary budget authority covered by the caps. In addition, automatic procedures have been triggered under the provisions of the Budget Control Act to lower the caps on discretionary spending and to sequester funding for nonexempt mandatory programs.⁸

OMB has already specified the caps for 2014, and CBO has estimated how the automatic enforcement mechanisms will affect the limits on discretionary budget authority for each year from 2015 through 2021 (see Table 2). CBO’s calculations can only approximate the eventual outcomes, however, because OMB is ultimately responsible for implementing the automatic reductions on the basis of its own estimates.

As established by the Budget Control Act and modified by the American Taxpayer Relief Act, the caps on discretionary budget authority were set to rise gradually from a total of \$1,058 billion in 2014 to \$1,234 billion in 2021. However, the automatic enforcement procedures will reduce the caps in each year over the 2014–2021 period. For 2014, OMB has calculated a reduction of \$91 billion (or 8.6 percent); for 2021, CBO estimates the reduction will fall to \$87 billion (or 7.1 percent).⁹

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

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8. Mandatory spending refers to outlays from budget authority that is controlled by laws other than appropriation acts.
 9. The automatic spending reductions to mandatory and discretionary spending are based on a formula specified in the Budget Control Act about how to allocate the cuts between those two categories. For a detailed analysis of the procedures that CBO uses to estimate the size of the 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. The actual cap levels for 2015 through 2021 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 2014 to 2021**

(Millions of dollars)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Caps Set in the Deficit Control Act ^a | | | | | | | | |
| Defense | 552,000 | 566,000 | 577,000 | 590,000 | 603,000 | 616,000 | 630,000 | 644,000 |
| Nondefense | 506,000 | 520,000 | 530,000 | 541,000 | 553,000 | 566,000 | 578,000 | 590,000 |
| Total | 1,058,000 | 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 ^b | | | | | | | | |
| Defense | -53,918 | -53,954 | -53,949 | -53,940 | -53,928 | -53,914 | -53,902 | -53,890 |
| Nondefense | -36,609 | -36,870 | -36,722 | -36,712 | -36,343 | -35,388 | -34,029 | -33,353 |
| Total | -90,527 | -90,824 | -90,671 | -90,651 | -90,271 | -89,302 | -87,931 | -87,243 |
| Estimate of Revised Caps | | | | | | | | |
| Defense | 498,082 | 512,046 | 523,051 | 536,060 | 549,072 | 562,086 | 576,098 | 590,110 |
| Nondefense | 469,391 | 483,130 | 493,278 | 504,288 | 516,657 | 530,612 | 543,971 | 556,647 |
| Total | 967,473 | 995,176 | 1,016,329 | 1,040,349 | 1,065,729 | 1,092,698 | 1,120,069 | 1,146,757 |

Source: Congressional Budget Office.

Note: Numbers in the table may not add up to totals because of rounding.

- The Budget Control Act of 2011 amended the Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act) to reinstate caps on discretionary budget authority. The American Taxpayer Relief Act of 2012 reduced the caps on defense and nondefense funding for 2014 by \$4 billion each.
- The automatic spending reductions specified in the Budget Control Act are set to reduce the caps on discretionary budget authority for 2014 through 2021. In addition, a sequestration of mandatory spending is scheduled for each year during that period. The Office of Management and Budget has reported the reductions for 2014. See Office of Management and Budget, *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2013* (April 2013; corrected May 2013), www.whitehouse.gov/omb/legislative_reports/sequestration. For 2015 to 2021, the estimates reflect CBO's calculations; however, the Office of Management and Budget is responsible for the official determination of such reductions.

the reductions for nondefense programs. The defense cap will shrink by \$54 billion each year (which translates to a cut of 9.8 percent for 2014 and slightly smaller percentages for subsequent years). The nondefense cap will shrink by \$37 billion (or 7.2 percent) for 2014 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 overall limit on discretionary budget authority will steadily increase from \$967 billion for 2014 to \$1,147 billion for 2021, for an average annual increase of 2.5 percent. The separate defense and nondefense caps will follow a similar pattern. The cap on discretionary budget authority for the defense category will grow from \$498 billion for 2014 to \$590 billion for 2021, CBO estimates. The cap on nondefense funding

will increase from \$469 billion for 2014 to an estimated \$557 billion for 2021. (Those figures do not include any adjustments that might be made to accommodate appropriations for emergencies, overseas contingency operations, disaster relief, or program integrity initiatives.)

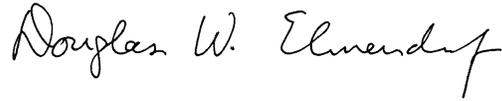
Disaster Relief

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 that reason cannot exceed the average funding provided for disaster relief over the previous 10 years (excluding the highest and lowest annual amounts) plus any amount by which the prior year's appropriation was below the maximum allowable cap adjustment for that year.

Lawmakers designated \$11.8 billion in appropriations for this year as funding for disaster relief, and OMB has used that amount as its adjustment to the 2013 caps—all within the security category (see Table 1). That total is the maximum allowable adjustment for the year.

For 2014, CBO estimates that the maximum potential adjustment for disaster relief is \$12.1 billion. That total is based on appropriations for disaster relief over the 2004–2013 period.

Avi Lerner of CBO's Budget Analysis Division prepared this report with guidance from Peter Fontaine, Theresa Gullo, and Jeffrey Holland. This report and other CBO publications are available on the agency's website (www.cbo.gov).



Douglas W. Elmendorf
Director

