



Final Sequestration Report for Fiscal Year 2014

After the end of a session of Congress, the Congressional Budget Office (CBO) 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 2021.¹ CBO is also required to report whether, according to its estimates, enacted legislation has exceeded those caps; if the caps were exceeded, a sequestration (a cancellation of budgetary resources) would be required. In CBO's estimation, such a sequestration will not be required for 2014. However, the Administration's Office of Management and Budget (OMB) has sole authority to determine whether such a sequestration is required and, if so, exactly how the proportional cuts are to be made. Those determinations are based on OMB's own estimates of federal spending.

Normally, CBO's final sequestration report would be issued 10 days after the end of the session; however, because enactment of final appropriations for fiscal year 2014 was imminent on January 13, the end of that 10-day window for the most recent session, CBO wrote to the budget committees on January 13 stating that no sequestration would be required under the continuing resolution in place at that time and that a final report would be issued after 2014 appropriations were enacted.² This is that final report.

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.

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. The 2013 law set those caps to total \$1,012 billion—\$520 billion for defense programs and \$492 billion for nondefense programs.

By statute, 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.³

To date, CBO estimates, such adjustments to the caps on discretionary budget authority for 2014 total \$98.5 billion (see Table 1). Most of that amount—\$85.4 billion—is an increase to the cap on defense appropriations to account for budget authority provided

2. See Congressional Budget Office, letter to the Honorable Patty Murray regarding its report on appropriations and sequestration for fiscal year 2014 (January 13, 2014) www.cbo.gov/publication/45014.
3. 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 ^a	Nondefense ^a	Total
Caps Established in the Budget Control Act ^b	520,464	491,773	1,012,237
Adjustments			
Overseas contingency operations ^c	85,418	6,520	91,938
Disaster relief ^d	0	5,626	5,626
Program integrity initiatives ^e	0	924	924
Subtotal	85,418	13,070	98,488
Adjusted Caps for 2014	605,882	504,843	1,110,725
Appropriations for 2014 (As of January 2014) ^f	605,882	504,843	1,110,725

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 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 war-related 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. CBO's estimate of discretionary appropriations for fiscal year 2014, including the Consolidated Appropriations Act, 2014 (Public Law 113-76).

for overseas contingency operations. By CBO's estimate, adjustments to the cap on nondefense funding include increases of \$6.5 billion for overseas contingency operations, \$5.6 billion for disaster relief, and \$0.9 billion for program integrity initiatives for Disability Insurance and Supplemental Security Income.

With those adjustments, the caps on budget authority for 2014 total an estimated \$605.9 billion for defense programs and \$504.8 billion for nondefense programs—about \$1.1 trillion in all. According to CBO's estimates, appropriations for the defense and nondefense categories in 2014 are equal to the caps for those categories, and therefore, no sequestration will be required as a result of those appropriations.

The caps could 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 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; in addition, that legislation provided for automatic procedures that reduce the funding allowed for both discretionary and mandatory spending through 2021.⁴ The

4. Mandatory spending refers to outlays from budget authority that is controlled by laws other than appropriation acts. Sequestration of such spending has been extended through 2023 by the Bipartisan Budget Act.

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 ^a							
Defense	-53,954	-53,937	-53,945	-53,939	-53,931	-53,924	-53,915
Nondefense	-36,870	-37,080	-36,875	-36,871	-35,957	-34,644	-34,084
Total	-90,824	-91,017	-90,820	-90,810	-89,888	-88,568	-87,999
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	523,063	536,055	549,061	562,069	576,076	590,085
Nondefense	492,356	492,920	504,125	516,129	530,043	543,356	555,916
Total	1,013,628	1,015,983	1,040,180	1,065,190	1,092,112	1,119,432	1,146,001

Source: Congressional Budget Office.

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

- 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 caps for those years). In addition, a sequestration of mandatory spending is scheduled for each year from 2014 through 2023. These estimates reflect CBO's calculations; however, the Office of Management and Budget is responsible for the official determination of such reductions.

Bipartisan Budget Act canceled the automatic reductions in discretionary spending set by the Budget Control Act for 2014 and 2015 and set new caps for 2015 that are a total of \$18.5 billion above what the limits would have been if the automatic spending reductions had occurred; the act established new caps of \$521 billion for defense programs and \$492 billion for nondefense programs.

CBO has estimated how the automatic enforcement mechanisms will affect the limits on discretionary budget authority for each year from 2016 through 2021 (see Table 2).⁵ 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.

5. 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.

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 established by that law will reduce the caps for the 2016–2021 period. For 2016, the reduction will total \$91 billion (or 8.2 percent), CBO estimates; for 2021, it will fall to \$88 billion (or 7.1 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. The defense cap will shrink by \$54 billion each year (which translates to a cut of 9.3 percent for 2016 and slightly smaller percentages for subsequent years). The nondefense cap will shrink by \$37 billion (or 7.0 percent) for 2016 and by smaller amounts for later years. How those reductions would 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 increase slightly from \$1,014 billion for 2015 to \$1,016 billion for 2016 and then steadily increase to \$1,146 billion for 2021; the average annual increase in the total cap from 2016 to 2021 would be 2.4 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 \$521 billion for 2015 to \$523 billion in 2016 and then to \$590 billion for 2021, CBO estimates. The cap on nondefense funding will inch up from \$492 billion for 2015 to \$493 billion for 2016 and then rise to an estimated \$556 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.)

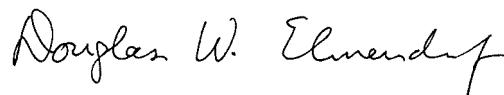
Disaster Relief

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 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 \$5.6 billion in appropriations for 2014 as funding for disaster relief, and CBO has used that amount as its adjustment to the 2014 cap for non-defense programs. That total is \$6.5 billion below the maximum allowable adjustment for the year, which 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

