



March 13, 2013

Honorable Paul Ryan  
Chairman  
Committee on the Budget  
U.S. House of Representatives  
Washington DC 20515

Dear Mr. Chairman:

As you requested, the Congressional Budget Office (CBO) is providing additional information on how, in its most recent budget projections, the agency allocated the automatic spending reductions that were put in place by the Budget Control Act of 2011 and later modified by the American Taxpayer Relief Act of 2012. In particular, you asked us to explain the amounts included in budget function 920 (known as “allowances”) in those projections.<sup>1</sup>

The Budget Control Act specified procedures to reduce both discretionary spending and mandatory spending between 2013 and 2021 if lawmakers did not enact legislation originating from the Joint Select Committee on Deficit Reduction that would lower projected budget deficits by at least \$1.2 trillion. Because no such legislation was enacted, those procedures went into effect on March 1, 2013 (a later date than was specified in the Budget Control Act because of changes enacted in the American Taxpayer Relief Act). For the current year, the reductions will be accomplished through across-the-board spending cuts (known as sequestration) totaling about \$85 billion, with half of those reductions coming from defense programs and the other half from nondefense programs. For the years beyond 2013, the reductions will be achieved by lowering the caps on discretionary budget authority and through additional sequestrations for mandatory spending. For fiscal years 2014 through 2021, the total of such additional reductions will be about \$109 billion per year.

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1. Budget functions are the broad programmatic categories used to classify federal programs and activities by their purpose or mission; they include, for example, agriculture, energy, and transportation. CBO’s reports on its baseline projections do not generally show spending by budget function; however, the agency provides that additional detail to the House and Senate Committees on the Budget for use in preparing their budget resolutions.

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When CBO published its most recent budget projections in early February (in *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*), the agency included the effects of the sequestration and reduction in the caps on discretionary budget authority spending in the projections of overall mandatory and discretionary spending. However, the agency was not able to allocate those cuts to individual budget functions. For 2013, no detail was available about how the Office of Management and Budget, which is responsible for implementing the sequestration, would apportion the reductions. For 2014 through 2021, cuts to discretionary spending for individual budget functions will depend on the future appropriations actions of the Congress. Therefore, in its budget projections, CBO apportioned the projected reductions in three categories: The reductions for defense are shown in budget function 050 (defense), the reductions for Medicare are shown in budget function 570 (Medicare), and the reductions for all other spending are shown in aggregate in budget function 920 (allowances).

I hope that you find this information helpful. If you have any further questions, please contact me or my staff.

Sincerely,

A handwritten signature in black ink that reads "Douglas W. Elmendorf". The signature is written in a cursive style with a large, prominent 'D' at the beginning.

Douglas W. Elmendorf  
Director

cc: Honorable Chris Van Hollen  
Ranking Member