



## Sequestration Update Report: August 2016

**T**he Congressional Budget Office is required by law 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.<sup>1</sup> CBO has slightly revised its estimates of the caps for 2016 since it issued its previous report on the topic in December 2015.<sup>2</sup> In that earlier report, CBO estimated that the appropriations for 2016 did not exceed the caps; CBO's assessment remains unchanged—the discretionary appropriations provided to date for 2016 do not exceed the caps, and thus, by CBO's estimates, a further sequestration (or cancellation of budgetary resources) will not be required as a result of appropriation actions this year.

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). That agency, in its sequestration report issued in January 2016, also found that, at that time, appropriations for 2016 were at or below the caps.<sup>3</sup>

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 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 2016* (December 2015), [www.cbo.gov/publication/51038](http://www.cbo.gov/publication/51038).
3. See Office of Management and Budget, *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2016* (January 2016), <http://go.usa.gov/xgazm>.

### Limits on Discretionary Budget Authority for 2016

The Bipartisan Budget Act of 2015 (Public Law 114-74) modified the caps on defense and nondefense funding for fiscal year 2016 that were established by the Budget Control Act of 2011 (P.L. 112-25). Public Law 114-74 reset those limits to total \$1,066.6 billion—\$548.1 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 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 this report explains below) or for certain “program integrity” initiatives.<sup>4</sup>

To date, such adjustments to the caps on discretionary budget authority for 2016 have totaled \$83.3 billion (see Table 1). Most of that amount, \$58.8 billion, is an increase in the defense cap to account for budget authority provided for overseas contingency operations. Adjustments to the nondefense cap include \$14.9 billion for overseas contingency operations, \$7.1 billion for disaster relief, and \$1.5 billion for program integrity initiatives related to Medicare and to the Disability Insurance and Supplemental Security Income programs.

4. 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 2016**

Millions of Dollars

	Defense <sup>a</sup>	Nondefense <sup>a</sup>	Total
Caps Established by the Bipartisan Budget Act of 2015 <sup>b</sup>	548,091	518,491	1,066,582
Adjustments			
Overseas contingency operations <sup>c</sup>	58,800	14,886	73,686
Disaster relief <sup>d</sup>	0	7,143	7,143
Program integrity initiatives <sup>e</sup>	0	1,523	1,523
Emergency requirements <sup>f</sup>	0	785	785
Estimating differences <sup>g</sup>	0	154	154
Subtotal	58,800	24,491	83,291
Adjusted Caps for 2016	606,891	542,982	1,149,873
Appropriations for 2016 (As estimated by the Office of Management and Budget) <sup>h</sup>	606,890	542,982	1,149,872

Sources: Congressional Budget Office; Office of Management and Budget.

- 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 2016 and set revised caps on defense and nondefense funding for that year at amounts that were each \$25 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 or for 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. As of August 2016, funding for program integrity initiatives has been provided for Medicare and for the Disability Insurance and Supplemental Security Income programs.
- f. This emergency funding was provided for wildfire suppression activities and to increase the United States' quota in the International Monetary Fund.
- g. Section 7 of the Consolidated Appropriations Act, 2016, authorized the Office of Management and Budget to increase the caps for 2016 to reflect estimating differences between that agency and CBO.
- h. The Office of Management and Budget's final estimates of enacted discretionary appropriations for fiscal year 2016 can be found in *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2016* (January 2016), <http://go.usa.gov/xgazm>.

As reported by OMB in January, incorporating those adjustments raised the caps on budget authority for 2016 to \$606.9 billion for defense programs and \$543.0 billion for nondefense programs—about \$1.15 trillion in all. The total appropriations provided at that time were at or slightly below the caps, and no additional appropriations have been made since then. Hence, CBO estimates that 2016 funding for both defense and nondefense programs is equal to or below the applicable cap and that no sequestration will be required.

The caps could be breached, however, if lawmakers were to provide additional appropriations for 2016 before the end of September—unless those appropriations fell into one of the categories that cause an adjustment to the caps or they were offset by reductions in funding for other programs. If the caps were breached late in the fiscal year, the caps for 2017 would be reduced to compensate for the excess funding in 2016.

Table 2.

**Limits on Discretionary Budget Authority for Fiscal Years 2017 Through 2021**

Millions of Dollars

	2017	2018	2019	2020	2021
<b>Caps Originally Set in the Budget Control Act</b>					
Defense	590,000	603,000	616,000	630,000	644,000
Nondefense	541,000	553,000	566,000	578,000	590,000
<b>Total</b>	<b>1,131,000</b>	<b>1,156,000</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	-53,932	-53,961	-53,959	-53,956	-53,953
Nondefense	-37,469	-37,607	-36,624	-35,580	-35,366
<b>Total</b>	<b>-91,401</b>	<b>-91,568</b>	<b>-90,583</b>	<b>-89,536</b>	<b>-89,319</b>
<b>Changes Enacted in the Bipartisan Budget Act of 2015</b>					
Defense	15,000	n.a.	n.a.	n.a.	n.a.
Nondefense	15,000	n.a.	n.a.	n.a.	n.a.
<b>Total</b>	<b>30,000</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Estimate of Revised Caps</b>					
Defense	551,068	549,039	562,041	576,044	590,047
Nondefense	518,531	515,393	529,376	542,420	554,634
<b>Total</b>	<b>1,069,599</b>	<b>1,064,432</b>	<b>1,091,417</b>	<b>1,118,464</b>	<b>1,144,681</b>

Source: Congressional Budget Office.

a. The automatic spending reductions specified in the Budget Control Act are set to reduce the caps on discretionary budget authority for 2018 through 2021. (The Bipartisan Budget Act of 2015 canceled the automatic spending reductions for 2016 and 2017 and set new, revised caps for those years.) 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.

**Limits on Discretionary Budget Authority for 2017 Through 2021**

The Budget Control Act established limits on discretionary budget authority for fiscal years 2017 through 2021 as well as automatic procedures that will reduce the funding allowed for both discretionary and mandatory spending through 2021.<sup>5</sup> The Bipartisan Budget Act of 2015 canceled the automatic reductions in discretionary spending for 2017 imposed by the Budget Control Act and set new caps for 2017 that are, in total, \$30.0 billion above what the limits would have been if the automatic spending reductions had occurred. The new caps are \$551.1 billion for defense programs and \$518.5 billion for nondefense programs.

CBO has estimated how the automatic reductions will affect the caps on discretionary budget authority for each subsequent year through 2021 (see Table 2).<sup>6</sup> CBO's calculations, however, can only approximate the eventual outcomes because OMB is ultimately 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 \$91.6 billion (or 7.9 percent); for 2021, the reduction will be \$89.3 billion (or 7.2 percent), CBO estimates.

5. 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.

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).

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 about \$54 billion each year, which amounts to a cut of 8.9 percent in 2018 and slightly smaller percentages in subsequent years. The nondefense cap will shrink by \$38 billion in 2018—a cut of 6.8 percent—and by declining amounts (and smaller percentages) in later years. How those reductions are apportioned among the various budget accounts within the two categories will be determined by future appropriation acts.

With those reductions, the limits on discretionary budget authority for both defense and nondefense programs will decrease slightly from 2017 to 2018 and then steadily increase through 2021.

- The overall limit will drop from \$1,070 billion in 2017 to \$1,064 billion in 2018 and then rise by an average of 2.5 percent per year to \$1,145 billion in 2021;
- The cap on discretionary budget authority for the defense category will decrease from \$551 billion in 2017 to \$549 billion in 2018 and then grow to \$590 billion in 2021, CBO estimates; and
- The cap on nondefense funding will shrink from \$519 billion in 2017 to \$515 billion in 2018 and then increase to an estimated \$555 billion in 2021.

CBO's estimates of the aggregate caps for 2018 through 2021 are slightly lower than its estimates in December. The projected defense caps have changed very little, but the estimates for nondefense caps over the 2018–2021 period are an average of about \$400 million per year less than the amounts estimated in December. That decrease occurred because CBO reduced its projections of mandatory spending subject to sequestration; under the formula delineated in the Budget Control Act, that change meant that more of the total required reduction would apply to discretionary programs.

## 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. Lawmakers designated \$7.1 billion in appropriations for 2016 as funding for disaster relief, and OMB has used that amount as its adjustment to the 2016 cap for nondefense programs (see Table 1).

For 2017, CBO estimates that the maximum potential cap adjustment for disaster relief is \$8.6 billion. That total consists of:

- The average funding provided over the 2007–2016 period (excluding the highest and lowest annual amounts), \$7.0 billion; and
- The \$1.6 billion by which disaster funding appropriated in 2016 was below its adjusted average of \$8.7 billion over the previous 10 years.

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