



Sequestration Update Report: August 2018

By August 15 of each year, 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 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.

In CBO's estimation, a sequestration will not be required for 2018. However, the authority to make such a determination—and, if so, exactly how to cut budget authority—rests with the Administration's Office of Management and Budget (OMB). That agency reported in April that appropriations for 2018 had not exceeded the caps.² No appropriations have been enacted since then.

Limits on Discretionary Budget Authority for 2018

The Bipartisan Budget Act of 2018 (Public Law 115-123) modified the caps on defense and nondefense funding for fiscal year 2018 that were established by the Budget Control Act of 2011 (P.L. 112-25). The 2018 legislation reset those limits to total \$1,208 billion—\$629 billion for defense programs and \$579 billion for nondefense 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 annual appropriation acts.
2. See Office of Management and Budget, *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2018* (April 2018), <https://go.usa.gov/xUwaB>.

By law, however, the caps are adjusted upward when appropriations are provided for certain purposes. 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 that provided for certain types of disaster relief (as explained below) or program integrity initiatives.³

Such adjustments to the caps for 2018 have totaled \$197.6 billion (see Table 1). Most of that, \$103.8 billion, is an increase to the nondefense cap to account for emergency requirements.⁴ Additional adjustments to the non-defense cap total \$12.0 billion for overseas contingency operations, \$7.4 billion for disaster relief, and \$1.9 billion for program integrity initiatives related to Medicare and

3. Program integrity initiatives seek to identify and reduce overpayments in benefit programs, such as Disability Insurance, Supplemental Security Income, Medicare, Medicaid, and the Children's Health Insurance Program.
4. CBO currently estimates that total emergency funding for nondefense programs in fiscal year 2018 is \$120 billion. In its April 2018 sequestration report, OMB estimated that \$104 billion of emergency funding had been provided. Almost all of the disparity arises from the agencies' different budgetary treatment of the Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2017 (P.L. 115-72), which canceled a portion of the National Flood Insurance Program's debt to the Treasury. CBO estimated a \$16 billion increase in emergency budget authority to account for the cancellation, whereas OMB recorded no budget authority for the provision. Because the difference involves emergency funding, it does not affect sequestration. See Office of Management and Budget, *Budget Enforcement Act Report (Seven-Day-After), Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2017* (November 2017), <https://go.usa.gov/xUAvk>.

Note: All years referred to are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end. Numbers may not sum to totals because of rounding.

Table 1.

Limits on Discretionary Budget Authority for Fiscal Year 2018

Millions of Dollars

	Defense ^a	Nondefense ^a	Total
Caps Established by the Bipartisan Budget Act of 2018 ^b	629,000	579,000	1,208,000
Adjustments			
Emergency requirements ^c	5,856	103,812	109,668
Overseas contingency operations ^d	66,079	12,018	78,097
Disaster relief ^e	0	7,366	7,366
Program integrity initiatives ^f	0	1,896	1,896
Estimating differences ^g	4	554	558
Total Adjustments	71,939	125,646	197,585
Adjusted Caps for 2018	700,939	704,646	1,405,585
Appropriations for 2018 Subject to the Caps ^h	700,939	704,646	1,405,585
Memorandum:			
Discretionary Funding Not Included in Calculation of Caps ⁱ	0	1,056	1,056

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

- a. The defense category (statutorily, revised security) consists of appropriations designated for budget function 050; all other discretionary appropriations are in the nondefense category (revised nonsecurity).
- b. The Bipartisan Budget Act of 2018 canceled automatic spending reductions set to take effect in 2018 and set revised caps on defense and nondefense funding for that year at amounts that, when combined, were \$143 billion higher than the caps would have been if the automatic spending reductions had occurred.
- c. Funding formally designated as required under section 251(b)(2)(A)(i) of the Balanced Budget and Deficit Control Act of 1985.
- d. Funding formally designated as required under section 251(b)(2)(A)(ii) of the Deficit Control Act. This category consists of funding primarily for military activities in Afghanistan and similar missions.
- e. In this context, disaster relief funding is designated under section 251(b)(2)(D) of the Deficit Control Act for activities carried out in keeping with section 102(2) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended. Such activities may result from a natural disaster that causes damage of sufficient severity to warrant federal assistance.
- f. Program integrity initiatives seek to identify and reduce overpayments in benefit programs, such as Disability Insurance, Supplemental Security Income, Medicare, Medicaid, and the Children's Health Insurance Program. Beginning in 2019, the nondefense cap also may be adjusted for amounts provided to conduct program integrity initiatives for unemployment compensation.
- g. Section 748 of the Consolidated Appropriations Act, 2018, authorized the Office of Management and Budget to increase the caps for 2018 to reflect estimating differences between that agency and CBO.
- h. Discretionary appropriations for fiscal year 2018 as estimated by the Office of Management and Budget in *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2018* (April 2018), <https://go.usa.gov/xUwaB>.
- i. The 21st Century Cures Act requires discretionary funding for certain authorized activities to be excluded from calculations of appropriations subject to the caps.

to the Disability Insurance and Supplemental Security Income programs. OMB also increased the nondefense cap by \$0.6 billion to account for differences between its estimates and those of CBO. The increases in the defense cap for 2018 are \$5.9 billion for emergency requirements and \$66.1 billion for overseas contingency operations.

As OMB reported in April, incorporating those adjustments raised the caps on budget authority for 2018 to \$700.9 billion for defense programs and \$704.6 billion

for nondefense programs—about \$1,406 billion in all. OMB also reported that appropriations for 2018 that are subject to the caps are equal to those amounts, and no additional appropriations have been made since then.⁵ Therefore, no sequestration will be required.

5. The 21st Century Cures Act (P.L. 114-255) requires discretionary funding for certain authorized activities to be excluded from calculations of appropriations constrained by the caps. That funding totals \$1.1 billion for nondefense programs for 2018, CBO estimates.

The caps could be breached, however, if lawmakers provided additional appropriations for 2018 before the end of September—without modifying the caps—unless those appropriations either fell into a category that causes an adjustment to the caps or were offset by reductions in funding for other programs. If the caps were breached late in fiscal year 2018, the 2019 caps would be reduced to compensate for the excess funding.

Limits on Discretionary Budget Authority for 2019 through 2021

The Budget Control Act of 2011 also established limits on discretionary budget authority for fiscal years 2019 through 2021 and automatic procedures to reduce the funding allowed for discretionary and mandatory spending through 2021.⁶ The Bipartisan Budget Act of 2018 canceled the automatic reductions in discretionary funding for 2019 and set new caps for 2019 that are \$152 billion higher than they would have been if the automatic reductions had occurred. Those revised caps are \$647 billion for defense programs and \$597 for non-defense programs (see Table 2).

CBO has estimated the extent to which the automatic procedures will affect the caps on discretionary budget authority for 2020 and 2021.⁷ CBO's calculations, however, can 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 established in the Budget Control Act of 2011 were set to total \$1,208 billion in 2020 and \$1,234 billion in 2021. Under current law, the automatic procedures will reduce those caps: for 2020, by \$90 billion (or 7.4 percent) and for 2021, by \$89 billion (or 7.2 percent), CBO estimates.

Under current law, the reductions for 2020 and 2021 in the caps for defense programs will be proportionately larger than the reductions in the nondefense caps. The defense cap will shrink by \$54 billion (or about

6. Mandatory spending consists of outlays from budget authority that is generally controlled by laws other than appropriation acts. The automatic reductions in such spending were subsequently extended through 2027.
7. 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.

Table 2.

Limits on Discretionary Budget Authority for Fiscal Years 2019 Through 2021

Millions of Dollars

	2019	2020	2021
Caps Established by the Budget Control Act of 2011			
Defense	616,000	630,000	644,000
Nondefense	566,000	578,000	590,000
Total	1,182,000	1,208,000	1,234,000
Estimated Effect of Automatic Spending Reductions^a			
Defense	-53,858	-53,905	-53,901
Nondefense	-35,657	-35,929	-35,454
Total	-89,515	-89,834	-89,355
Changes Enacted in the Bipartisan Budget Act of 2018			
Defense	84,858	n.a.	n.a.
Nondefense	66,657	n.a.	n.a.
Total	151,515	n.a.	n.a.
Estimate of Revised Caps			
Defense	647,000	576,095	590,099
Nondefense	597,000	542,071	554,546
Total	1,244,000	1,118,166	1,144,645

Source: Congressional Budget Office.

n.a. = not applicable.

a. The automatic spending reductions specified in the Budget Control Act of 2011 are set to reduce the caps on discretionary budget authority for 2020 and 2021. Although the estimates in this table reflect CBO's calculations, the Office of Management and Budget is responsible for the official determination of such reductions.

8.5 percent) in each year, CBO estimates, and the nondefense cap will shrink by \$36 billion in 2020 and by \$35 billion in 2021—cuts of about 6 percent. 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 drop by about 10 percent—from \$1,244 billion for 2019 to \$1,118 billion for 2020. The defense cap will decrease from \$647 billion to \$576 billion, and the nondefense cap will shrink from \$597 billion to \$542 billion, CBO estimates.

From 2020 to 2021, CBO estimates, the caps will increase by about 2 percent—to \$590 billion for defense appropriations and \$555 billion for nondefense funding. Those amounts do not include any potential adjustments to accommodate future emergencies, overseas contingency operations, disaster relief, wildfire suppression, or program integrity initiatives.⁸

Disaster Relief

The total increase in the caps to accommodate funding for disaster relief in 2018 is limited to 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 \$7.4 billion in appropriations for 2018 for disaster relief, the maximum amount allowable under the law for that year. OMB has used that amount as its adjustment to the 2018 cap for nondefense programs (see Table 1 on page 2).

The Consolidated Appropriations Act, 2018 (P.L. 115-141), increased the yearly allowable adjustment for disaster relief, beginning in 2019. In addition to the rolling 10-year average (excluding the highest and lowest annual amounts), the adjustment will include 5 percent of amounts designated for emergency requirements

8. The Bipartisan Budget Act of 2018 added certain reemployment services to the list of program integrity initiatives not constrained by the caps for 2019 through 2021. Beginning in 2020, the Consolidated Appropriations Act, 2018 (P.L. 115-141), established wildfire suppression as a category of spending that will lead to an increase in the nondefense caps.

and appropriated under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 93-288), as amended. The allowable adjustments also will include the cumulative amount by which the new caps exceed annual appropriations after 2018.

CBO estimates that the maximum potential cap adjustment for disaster relief for 2019 is \$15.0 billion. Of that amount, \$6.8 billion is the average annual funding over the 2009–2018 period, excluding the highest and lowest annual amounts. Another \$6.3 billion is 5 percent of the funding provided for emergency requirements and disaster relief from 2012 through 2018.⁹ The remaining \$1.9 billion is the amount by which disaster funding appropriated in 2018 was less than the maximum allowable amount.¹⁰

9. See Office of Management and Budget, *OMB Report on Disaster Relief Funding to the Committees on Appropriations and the Budget of the U.S. House of Representatives and the Senate, 2018* (April 2018), <https://go.usa.gov/xUAWZ>.

10. In their final sequestration reports for fiscal year 2018, CBO and OMB estimated that funding for disaster relief in 2018 equaled the maximum adjustment of \$7,366 million. Although the Consolidated Appropriations Act, 2018, revised the formula for raising the cap in 2018, the law did not permit an adjustment until 2019. Therefore, the maximum adjustment in 2019 includes \$1,855 million in unused carryover funding (that amount was not actually available in 2018). See Congressional Budget Office, *Final Sequestration Report for Fiscal Year 2018* (April 2018), www.cbo.gov/publication/53696; and Office of Management and Budget, *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2018* (April 2018), <https://go.usa.gov/xUwaB>.

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. Previous editions are available at <https://go.usa.gov/xQCKb>. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

Avi Lerner prepared the report with guidance from Christina Hawley Anthony, Theresa Gullo, and Adam Wilson. Mark Hadley and 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/54357).



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