



Final Sequestration Report for Fiscal Year 2012

Under the Balanced Budget and Emergency Deficit Control Act of 1985 (Deficit Control Act), as amended by the Budget Control Act of 2011 (Public Law 112-25), the Congressional Budget Office (CBO) is required to issue a sequestration report for the current fiscal year within 10 days of the end of a session of Congress.¹ That report must provide estimates of the caps on discretionary budget authority for the current year (in this case, 2012) and for each year through 2021.² In CBO's estimation, a sequestration (cancellation of budgetary resources), which would be triggered by a breaching of the caps, will not be required in 2012. However, CBO's estimates do not govern the outcome because the Administration's Office of Management and Budget (OMB) has sole authority to determine whether a sequestration is required and, if so, the proportional allocations of any necessary cuts. Those determinations are based on OMB's own estimates of federal spending.

Limits on Discretionary Budget Authority for 2012

The Budget Control Act set caps on what it designated as "security" and "nonsecurity" budget authority for the current fiscal year. 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 discretionary appropriations not included in the security category. The Budget Control Act set the cap on budget authority for security programs for 2012 at \$684 billion; it set the cap for nonsecurity programs at \$359 billion.

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1. All years referred to in this report are federal fiscal years (which run from October 1 to September 30).
 2. 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. "Mandatory" spending refers to outlays from budget authority that is controlled by laws other than appropriation acts.

Table 1.**Limits on Discretionary Budget Authority for Fiscal Year 2012**

(Millions of dollars)

	Security	Nonsecurity	Total
Caps Set in the Budget Control Act	684,000	359,000	1,043,000
Adjustments			
Overseas contingency operations ^a	126,544	0	126,544
Disaster relief ^b	6,400	4,053	10,453
Program integrity ^c	0	483	483
Subtotal	132,944	4,536	137,480
Adjusted Caps for 2012	816,944	363,536	1,180,480

Source: Congressional Budget Office.

Note: The Budget Control Act of 2011 (Public Law 112-25) established caps for 2012 for “security” and “nonsecurity” spending. 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 non-security category comprises all discretionary appropriations not included in the security category.

- a. “Overseas contingency operations” refers to funding provided for war-related activities in Afghanistan and Iraq or for similar activities.
- b. 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 (42 U.S.C. 5122(2)); such activities may result from a natural disaster that causes damage of sufficient severity to warrant federal assistance.
- c. Program integrity initiatives aim to reduce improper benefit payments in the Disability Insurance and Supplemental Security Income programs, Medicare, Medicaid, and the Children’s Health Insurance Program. For 2012, such funding was provided only for the Disability Insurance and Supplemental Security Income programs.

Under that law, however, those limits are adjusted when appropriations are provided for certain purposes. Thus, budget authority designated as an emergency requirement or provided for overseas contingency operations (such as the wars in Afghanistan and Iraq) would lead to an increase in the caps, as would budget authority provided for certain specified “program integrity” initiatives or for certain types of disaster relief (up to an amount based on historical spending for that purpose).³

CBO estimates that the adjustments to the caps on discretionary budget authority for 2012 will total about \$137.5 billion (see Table 1). Most of that amount—\$126.5 billion—results from an increase in the cap for security programs to account for budget authority provided for overseas contingency operations. Other adjustments to the caps will total \$10.9 billion, in CBO’s estimation, because appropriations to

3. Such program integrity 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.

date in 2012 have totaled about \$10.5 billion for disaster relief and nearly \$0.5 billion for program integrity initiatives.

CBO estimates that with those adjustments, the caps on security and nonsecurity budget authority for 2012 will be \$816.9 billion and \$363.5 billion, respectively—for a total of \$1.2 trillion. Appropriations for 2012, as estimated by CBO when they were enacted, were \$1 million below the cap for the security category and equal to the cap for the nonsecurity category; therefore, CBO expects that no sequestration will be required. The caps could be breached, however, if any supplemental appropriations were provided later in the year—unless that additional funding fell into one of the categories that result in an adjustment to a cap or unless it was offset by reductions in other spending.

Limits on Discretionary Budget Authority for 2013 Through 2021

The Budget Control Act also established limits on discretionary budget authority for 2013 through 2021. For 2013, the law designated separate caps for security and nonsecurity appropriations; for 2014 through 2021, the law set only one cap for all discretionary budget authority. In addition, however, the law specified a different set of caps that would take effect if lawmakers did not enact legislation originating from the Joint Select Committee on Deficit Reduction that would reduce projected deficits by at least \$1.2 trillion. If no such legislation was enacted, the original caps would be reset and would apply to defense and nondefense programs (rather than to security and nonsecurity programs, as defined above) for 2013 through 2021.⁴ Moreover, automatic procedures would go into effect to reduce both discretionary and mandatory spending during that period. The reductions in discretionary spending for 2013 would be enforced through a sequestration of budgetary resources;⁵ no change would be made to the caps. For 2014 through 2021, the automatic procedures for reducing discretionary spending would be carried out by lowering the caps on discretionary budget authority specified in the Budget Control Act.

4. Although at this writing the final deadline of January 15, 2012, for enacting legislation to reduce deficits has not been reached, it is clear that no such legislation will be enacted before that date because the Joint Select Committee on Deficit Reduction did not report any recommendations. Thus, as the Budget Control Act requires, the modified caps will still be labeled “security” and “nonsecurity” but will be redefined: “security” funding will cover appropriations only for the defense budget function (function 050, which is mostly funding for the Department of Defense), and “nonsecurity” funding will include all other appropriations.

5. Budgetary resources consist of all sources of authority provided to federal agencies that permit those agencies to incur financial obligations. Such resources include new budget authority, unobligated balances, direct spending authority, and obligation limitations.

CBO has estimated how the automatic enforcement mechanisms would affect the limits on discretionary budget authority for each year through 2021 (see Table 2).⁶ Yet that analysis can only approximate the eventual outcomes: OMB is ultimately responsible for implementing any such automatic reductions on the basis of its own estimates.

Because the automatic enforcement procedures will not affect the caps for 2013, the combined limit on discretionary budget authority for that year, CBO estimates, is still \$1,047 billion, the amount specified in the Budget Control Act. Although the caps for 2013 are unchanged, funding provided for that year would be subject to sequestration as specified in the Budget Control Act. Discretionary budget authority for 2013, in CBO's estimation, would be reduced by \$97 billion through that sequestration.

By CBO's estimates, if the automatic enforcement procedures were implemented, they would reduce the caps on discretionary budget authority by declining amounts during the 2014–2021 period. For 2014, the reduction would total \$93 billion (or 8.7 percent); it would fall to about \$88 billion (or 7.1 percent) for 2021. The reductions in the caps for defense programs would be proportionately larger than the reductions in the caps for nondefense programs. The defense cap would shrink by \$55 billion each year (that is, by 9.8 percent for 2014 and by slightly smaller percentages for subsequent years). The nondefense cap would drop by \$38 billion (or 7.4 percent) for 2014 and by smaller amounts for later years.

The combined limit on discretionary budget authority would decline to \$973 billion for 2014 and then steadily increase to \$1,146 billion for 2021, when the restrictions specified by the Budget Control Act are set to expire. The separate defense and nondefense caps would follow a similar pattern. For 2013, the cap on discretionary budget authority for the defense category is \$546 billion (although sequestration would result in funding below that amount). That limit would decline, in CBO's estimation, to \$501 billion for 2014 and then gradually increase to \$589 billion for 2021. The cap on nondefense funding is \$501 billion for 2013 (before any effects of sequestration) and \$472 billion for 2014; after that year, the limit would gradually rise to \$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.)

6. For a detailed analysis of the procedures 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).

Table 2.**Limits on Discretionary Budget Authority for Fiscal Years 2013 to 2021**

(Millions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Caps Set in the Budget Control Act ^a									
Defense	546,000	556,000	566,000	577,000	590,000	603,000	616,000	630,000	644,000
Nondefense	501,000	510,000	520,000	530,000	541,000	553,000	566,000	578,000	590,000
Total	1,047,000	1,066,000	1,086,000	1,107,000	1,131,000	1,156,000	1,182,000	1,208,000	1,234,000
Effect of Automatic Enforcement Procedures ^b									
Defense	n.a.	-54,649	-54,649	-54,650	-54,650	-54,651	-54,651	-54,651	-54,652
Nondefense	n.a.	-37,937	-37,321	-36,568	-36,218	-35,648	-34,672	-33,301	-32,910
Total	n.a.	-92,586	-91,970	-91,218	-90,869	-90,298	-89,323	-87,952	-87,562
Revised Caps									
Defense	546,000	501,351	511,351	522,350	535,350	548,349	561,349	575,349	589,348
Nondefense	501,000	472,063	482,679	493,432	504,782	517,352	531,328	544,699	557,090
Total	1,047,000	973,414	994,030	1,015,782	1,040,131	1,065,702	1,092,677	1,120,048	1,146,438

Source: Congressional Budget Office.

Note: Numbers in the table may not add up to totals because of rounding; n.a. = not applicable.

- Section 251A of the Budget Control Act of 2011 (Public Law 112-25) specified that a different set of caps would take effect for 2013 through 2021 to cover defense (budget function 050) and nondefense budget authority if recommendations of the Joint Select Committee on Deficit Reduction that would reduce deficits by \$1.2 trillion over that period were not enacted by January 15, 2012.
- The automatic enforcement procedures delineated in the Budget Control Act would reduce the caps on discretionary budget authority for 2014 through 2021. For 2013, a sequestration of budgetary resources is scheduled to take effect, but no further reduction in the caps is specified in the law. Discretionary budget authority for 2013, CBO estimates, would be reduced by \$97,469 million through that sequestration. In addition, a sequestration of mandatory spending is scheduled each year between 2013 and 2021.

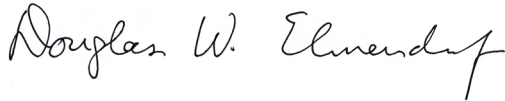
Disaster Relief

Under the Deficit Control Act, the limits on discretionary budget authority can be raised to reflect funding for disaster relief. However, the total increase in the cap in any year for that reason can be no more than the average funding for disaster relief over the previous 10 years (excluding the highest and lowest amounts) plus any amount by which the prior year's appropriation was below the maximum allowable cap adjustment for that year.

On September 1, 2011, OMB released its preview estimate of the maximum potential adjustment to the cap for disaster relief funding for 2012—\$11.3 billion.⁷ To date, lawmakers have designated about \$10.5 billion as funding for disaster relief, and CBO has used that amount as its estimated adjustment to the cap for 2012. That total is \$799 million below the maximum adjustment for this year as determined by OMB.

7. 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* (September 2011).

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