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# **OMB Sequestration Update Report to the President and Congress for Fiscal Year 2012**

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August 19, 2011



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## GENERAL NOTES

1. All years referred to are fiscal years unless otherwise noted.
2. Details in the tables and text may not add to totals due to rounding.





EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

THE DIRECTOR

The following is the text of a letter transmitting the *OMB Update Sequestration Report to the President and Congress for Fiscal Year 2012*.

August 19, 2011

The President  
The White House  
Washington, DC 20500

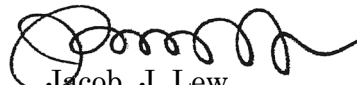
Dear Mr. President:

Enclosed please find the *OMB Sequestration Update Report to the President and Congress for Fiscal Year 2012*. It has been prepared pursuant to section 254 of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.

As required by law, the report sets forth estimates of the discretionary spending limits for each category in the Budget Control Act of 2011 (Public Law 112-25), the status of OMB scoring of the latest House and Senate action on discretionary appropriations bills, and comparisons with the estimates provided by the Director of the Congressional Budget Office in his report.

The report estimates that actions by the House of Representatives to date on discretionary appropriations bills (which were completed before the enactment of the Budget Control Act) would result in a sequestration of discretionary budget authority in the security category if offsets are not enacted. At this time, there is insufficient information on Senate appropriations levels to determine whether a sequestration would be required or not. Ultimately, final legislative action will determine the need for sequestration. We will work with the Congress to ensure that an unintended sequestration does not occur. By law, OMB must issue a final sequestration report after Congress adjourns.

Sincerely,



Jacob, J. Lew  
Director

Enclosure

Identical Letter Sent to The Honorable Joseph R. Biden  
and The Honorable John A. Boehner



## I. INTRODUCTION

P.L. 112-25, the Budget Control Act of 2011 (BCA, “the Act”) amended the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) by reinstating the discretionary spending limits that had expired after 2002. Section 254 of the BBEDCA requires the Office of Management and Budget (OMB) to issue a Sequestration Update Report on August 20th of each year on the overall status of discretionary legislation. This report provides OMB’s current estimates of the spending limits set in the Act and OMB’s scoring of pending appropriations legislation against those limits as of August 16, 2011. As required, these estimates rely on the same economic and technical assumptions used in the President’s 2012 Budget, which the Administration

transmitted to the Congress on February 14, 2011.

Based on preliminary OMB scoring of the latest House action for the 12 annual appropriations bills, if offsets are not enacted, a sequestration of approximately \$10.0 billion in discretionary programs in the security category would be required, as shown in Table 3. The House completed action on these appropriations bills before enactment of the BCA. At this time, there is insufficient information on Senate appropriations levels to determine whether those levels would breach the limits. The Administration will work with Congress to ensure that no unintended breach of the spending limits occurs under current law.





## II. DISCRETIONARY SEQUESTRATION UPDATE REPORT

The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, requires OMB to issue reports containing OMB's scoring of individual appropriations bills within 7 days of their enactment and, three times a year, on the overall status of discretionary legislation. This report provides that status under OMB's current estimates, reflecting pending appropriations legislation as of August 16th. As the BBEDCA requires, the estimates rely on the same economic and technical assumptions used in the President's 2012 Budget, which the Administration transmitted to Congress on February 14, 2011.

Discretionary programs are funded annually through the appropriations process. The BBEDCA, as amended by the BCA, limits—or caps—budget authority available for discretionary programs each year through 2021. For 2012 and 2013, the Act specifies separate “security” and “nonsecurity” categories for discretionary programs. The security category includes discretionary appropriations associated with agency budgets for the Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account, and all discretionary

budget accounts in budget function 150 (international affairs). The nonsecurity category includes all budget accounts that do not fall into the security category. After 2013, the Act specifies a single category for all discretionary spending referred to as the “discretionary” category.

In addition to amending the BBEDCA and reestablishing discretionary spending limits, the BCA tasked a new Joint Select Committee on Deficit Reduction to produce legislation to reduce deficits by more than \$1.2 trillion over the 2012-2021 period. If such legislation is not enacted by January 15, 2012, the BCA specifies additional procedures for reducing deficits, starting in 2013. These procedures include a redefinition of the discretionary security and nonsecurity categories based on budget function 050 and non-050 (defense and non-defense) and reductions to those discretionary caps, as well as a sequestration of certain mandatory spending, in order to achieve the \$1.2 trillion deficit reduction goal.

Appropriations that OMB estimates exceed the budget authority limits would trigger an across-the-board reduction (or sequestration) to eliminate the excess spending. Table 1 summarizes the caps enacted in the BCA.

**Table 1. DISCRETIONARY SPENDING LIMITS ENACTED IN THE BUDGET CONTROL ACT OF 2011**  
(In billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>SECURITY CATEGORY:</b>										
Budget Authority.....	684	686	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>NONSECURITY CATEGORY:</b>										
Budget Authority.....	359	361	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>DISCRETIONARY CATEGORY:</b>										
Budget Authority.....	N/A	N/A	1,066	1,086	1,107	1,131	1,156	1,182	1,208	1,234

N/A = Not Applicable

**Adjustments to discretionary limits.**—Table 2 shows how adjustments pursuant to section 251(b) of the BCA affect the discretionary limits for each year from 2012 through 2021. Section 251(b)(1) allows adjustments for concepts and definitions in the Preview Report, which is transmitted with the President’s Budget, and section 251(b)(2) authorizes certain adjustments after the enactment of appropriations. No final appropriations for 2012 have been enacted, so there are no adjustments that can be made in the Update Report at this time. However, Table 2 does include *anticipated* adjustments that could be made assuming enactment of 2012 appropriations bills. The actual adjustments will be determined at the end of this session of Congress and will be in OMB’s Final Sequestration Report. Table 2 also shows anticipated adjustments for these items in subsequent years through 2021. No anticipated adjustments are currently shown for emergency requirements or disaster funding. The section 251(b)(2) anticipated adjustments include:

*Emergency Appropriations and Overseas Contingency Operations/Global War on Terrorism (OCO/GWOT).*—These adjustments, found in section 251(b)(2)(A), include funding for amounts that Congress so designates in law and the President subsequently concurs as being either an emergency requirement or for OCO/GWOT activities on an account-by-account basis. To date, the Congress has not enacted any emergency spending for fiscal year 2012.<sup>1</sup>

However, the President’s 2012 Budget includes requests totaling \$126.5 billion for activities that could be classified as OCO/GWOT under the BCA for 2012. House action so far (which was completed before the enactment of BCA) has also provided funds with designations that are consistent with the 2012 House Budget Resolution enforcement mechanisms for OCO/GWOT activities in the Defense, Homeland Security, and State and Foreign Operations appropria-

<sup>1</sup> The House has currently acted on emergency supplemental funding in the Energy and Water and Homeland Security appropriations bills, but those are currently considered to be for 2011.

tions bills. The overall level is largely in line with that of the 2012 Budget. Table 2 shows anticipated adjustments for these activities equal to the levels requested in the President's 2012 Budget from 2012 through 2021.

*Continuing Disability Reviews (CDRs) and Redeterminations.*—Section 251(b)(2)(B) of the BCA authorizes adjustment of the caps by the amounts appropriated for CDRs and redeterminations. CDRs are periodic reevaluations conducted to determine if recipients of Social Security disability insurance benefits and Supplemental Security Income (SSI) for persons with disabilities are still disabled. Redeterminations are periodic reviews of non-medical factors of eligibility, such as income and resources, for the means-tested SSI program and generally result in a revision of the individual's benefit level. The maximum cap adjustment in each year is limited to the levels of budget authority specified in the BCA, provided that a base level of \$273 million is provided for these purposes in the underlying appropriations bill before the adjustment. For 2012, the maximum cap adjustment would be \$623 million. Overall, this level is approximately \$42 million below what the Administration had requested for these activities in the 2012 Budget. The adjustments in Table 2 assume that the base and cap adjustments will be fully funded in all years.

*Health Care Fraud and Abuse Control (HCFAC).*—Section 251(b)(2)(C) of the BCA authorizes adjustment of the caps by amounts appropriated for HCFAC activities, which include efforts to reduce the Medicare improper payment rate by 50 percent, expand

the Health Care Fraud Prevention & Enforcement Action Team (HEAT) initiative, and provide resources to implement a robust set of legislative program integrity proposals. The maximum HCFAC cap adjustment in each year is limited to the levels of budget authority specified in the BCA, provided that a base level of \$311 million for these purposes is provided in the underlying appropriations bill before the adjustment. For 2012, the maximum cap adjustment is \$270 million, the same level requested in the 2012 Budget. The adjustments in Table 2 assume that the base and cap adjustment will be fully funded in each year.

*Adjustments for Disaster Funding.*—Section 251(b)(2)(D) of the BCA authorizes an adjustment to the caps for appropriations that are designated by the Congress as being for disaster relief. The BCA sets a limit for the adjustment equal to the total of the average funding provided for disaster relief over the previous 10 years (excluding the highest and lowest years) plus any portion of the allowable adjustment (funding ceiling) for the previous year that was not appropriated. "Disaster relief" is defined as activities carried out pursuant to a determination under section 102(2) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5122(2)).

Section 103(2) of the BCA requires OMB to include in its Update Report a preview estimate of the adjustment for disaster funding for the upcoming fiscal year. However, at the time this report was being prepared, OMB was working to meet its obligation under section 251(b)(2)(D)(ii) of the BCA to

OMB SEQUESTRATION UPDATE REPORT

report to the Committees on Appropriations and Budget in each House on the 10-year average calculation within 30 days after the date of the enactment of the Act. Therefore, the adjustments are not included in this Up-

date Report. OMB's estimates of the maximum adjustment for 2012 will be transmitted to the Congress when it submits its report in compliance with section 251(b)(2)(D)(ii) of the BCA.

**Table 2. DISCRETIONARY SPENDING LIMITS**

(Discretionary budget authority in millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>SECURITY CATEGORY</b>										
Enacted Budget Control Act Spending Limit.....	684,000	686,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Adjustments for the Update Report:										
No Adjustments.....			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Update Report Spending Limit.....	684,000	686,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<i>Anticipated Adjustments for the Final Sequestration Report:</i>										
<i>Overseas Contingency Operations/Global</i>										
<i>War on Terrorism.....</i>	<i>+126,546</i>	<i>+50,000</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Anticipated Final Sequestration Report										
Spending Limit.....	810,546	736,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>NONSECURITY CATEGORY</b>										
Enacted Budget Control Act Spending Limit.....	359,000	361,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Adjustments for the Update Report:										
No Adjustments.....			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Update Report Spending Limit.....	359,000	361,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<i>Anticipated Adjustments for the Final Sequestration Report:</i>										
<i>CDRs and Redeterminations.....</i>	<i>+623</i>	<i>+751</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<i>Health Care Fraud and Abuse Control.....</i>	<i>+270</i>	<i>+299</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<i>Subtotal, Anticipated Adjustments</i>										
<i>for the Final Sequestration Report.....</i>	<i>+893</i>	<i>+1,050</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Anticipated Final Sequestration Report										
Spending Limit.....	359,893	362,050	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>DISCRETIONARY CATEGORY</b>										
Enacted Budget Control Act Spending Limit.....	N/A	N/A	1,066,000	1,086,000	1,107,000	1,131,000	1,156,000	1,182,000	1,208,000	1,234,000
Adjustments for the Update Report:										
No Adjustments.....	N/A	N/A								
Update Report Spending Limit.....	N/A	N/A	1,066,000	1,086,000	1,107,000	1,131,000	1,156,000	1,182,000	1,208,000	1,234,000
<i>Anticipated Adjustments for the Final Sequestration Report:</i>										
<i>Overseas Contingency Operations/Global</i>										
<i>War on Terrorism.....</i>	<i>N/A</i>	<i>N/A</i>	<i>+50,000</i>	<i>+50,000</i>	<i>+50,000</i>	<i>+50,000</i>	<i>+50,000</i>	<i>+50,000</i>	<i>+50,000</i>	<i>+50,000</i>
<i>CDRs and Redeterminations.....</i>	<i>N/A</i>	<i>N/A</i>	<i>+924</i>	<i>+1,123</i>	<i>+1,166</i>	<i>+1,309</i>	<i>+1,309</i>	<i>+1,309</i>	<i>+1,309</i>	<i>+1,309</i>
<i>Health Care Fraud and Abuse Control.....</i>	<i>N/A</i>	<i>N/A</i>	<i>+329</i>	<i>+361</i>	<i>+395</i>	<i>+414</i>	<i>+434</i>	<i>+454</i>	<i>+475</i>	<i>+496</i>
<i>Subtotal, Anticipated Adjustments for the</i>										
<i>Final Sequestration Report.....</i>	<i>N/A</i>	<i>N/A</i>	<i>+51,253</i>	<i>+51,484</i>	<i>+51,561</i>	<i>+51,723</i>	<i>+51,743</i>	<i>+51,763</i>	<i>+51,784</i>	<i>+51,805</i>
Anticipated Final Sequestration Report										
Spending Limit.....	N/A	N/A	1,117,253	1,137,484	1,158,561	1,182,723	1,207,743	1,233,763	1,259,784	1,285,805
<b>TOTAL DISCRETIONARY SPENDING</b>										
Enacted Budget Control Act,										
Total Discretionary Spending.....	1,043,000	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
Update Report, Total Discretionary Spending.....	1,043,000	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
Anticipated Final Sequestration Report,										
Total Discretionary Spending.....	1,170,439	1,098,050	1,117,253	1,137,484	1,158,561	1,182,723	1,207,743	1,233,763	1,259,784	1,285,805

N/A = Not Applicable

***Status of 2012 discretionary appropriations.***—Table 3 shows a rack up consisting of either preliminary OMB scoring of the latest House and Senate action or available 302(b) allocations for the 12 annual appropriations bills. If security spending is not reduced, OMB estimates that House action to date (which was completed before enactment of the BCA) would exceed the budget authority limit for the security category by approximately \$10.0 billion. Enacting security appropriations at these levels would trigger a uniform reduction (sequestration) of budgetary resources in all non-exempt budget accounts in the security category to eliminate the breach. OMB estimates that House action to date on nonsecurity appropriations is within the limit for nonsecurity programs. There is insufficient information available at this time to determine Senate compliance with the caps since the Senate has approved only one appropriations bill and has not released information regarding other 302(b) allocations. Pursuant to section 106 of the Budget Control Act, committee allocations for the Senate Committee on Appropriations for 2012

consistent with the discretionary spending limits set forth in the law are required to be filed by the Chairman of the Committee on the Budget as soon as practicable after the date of enactment of the Act.

OMB estimates of House action to date are based on the following assumptions:

- Bills on which the House has not acted are assumed to be funded at the 302(b) allocation.
- The spending limits are increased for OCO/GWOT activities based on the 2012 Budget and OMB scoring of the House Defense, Homeland Security, and State and Foreign Operations bills for 2012 which include funding for these activities.
- The spending limits and 302(b) allocations in the House have been adjusted upward for the CDR and redeterminations and HCFAC adjustments enacted in the BCA.

**Table 3. STATUS OF 2012 APPROPRIATIONS ACTION**

(In millions of dollars)

	House BA	Senate BA
<b><u>SECURITY CATEGORY</u></b>		
Agriculture and Rural Development.....	1,220 F	U
Commerce, Justice, Science, and Related Agencies.....	80 C	U
Defense.....	648,547 F <sup>1</sup>	U
Energy and Water Development.....	10,615 F	U
Homeland Security.....	40,762 F <sup>1</sup>	U
Legislative Branch.....	1 F	U
Military Construction and Veterans Affairs.....	72,316 F	72,313 F
State and Foreign Operations.....	47,046 S <sup>1</sup>	U
Total, Security Discretionary.....	820,587	72,313
Estimated Final Sequestration Report Security Category Limit.....	810,546	810,546
CONGRESSIONAL ACTION OVER(+)/UNDER(-) LIMIT.....	+10,041	-738,233
<b><u>NONSECURITY CATEGORY</u></b>		
Agriculture and Rural Development.....	15,837 F	U
Commerce, Justice, Science, and Related Agencies.....	49,643 C	U
Energy and Water Development.....	20,007 F	U
Financial Services and General Government.....	16,817 C	U
Interior and Environment.....	27,464 C	U
Labor, HHS, and Education.....	140,111 A <sup>2</sup>	U
Legislative Branch.....	4,303 F/A <sup>3</sup>	U
Military Construction and Veterans Affairs.....	222 F	222 F
State and Foreign Operations.....	124 S	U
Transportation and Housing and Urban Development.....	47,655 A	U
Total, Nonsecurity Discretionary.....	322,183	222
Estimated Final Sequestration Report Nonsecurity Category Limit.....	359,893	359,893
CONGRESSIONAL ACTION OVER(+)/UNDER(-) LIMIT.....	-37,710	-359,671
<b><u>TOTAL DISCRETIONARY SPENDING</u></b>		
Total, Discretionary.....	1,142,770	72,535
Estimated Final Sequestration Report Security and Nonsecurity Discretionary Category Limits.....	1,170,439	1,170,439
CONGRESSIONAL ACTION OVER(+)/UNDER(-) LIMITS.....	-27,669	-1,097,904

Key: S = Marked Up by the Subcommittee; C = Bill Reported Out by Committee; F = Bill Passed by House or by Senate; CN = Conference Action has Occurred; E = Enacted bill; A = Current 302(b) allocation; U = No Information is Available.

NOTE: OMB scoring of latest House and Senate action is preliminary.

<sup>1</sup> OMB scoring includes funds provided in each bill designated as being for Overseas Contingency Operations/Global War on Terrorism.

<sup>2</sup> The House 302(b) level is adjusted upward for Continuing Disability Reviews and Redeterminations and Health Care Fraud and Abuse Control.

<sup>3</sup> OMB has adjusted its scoring of the House-passed bill upward for the Senate items that were included in the 302(b) allocation.

**Comparison of OMB and CBO discretionary limits.**—Section 254(d)(5) of the BBEDCA requires that this report explain the differences between OMB and Congressional Budget Office (CBO) estimates for discretionary spending limits. Table 4 compares OMB and CBO limits for

each year from 2012 through 2021. Like OMB, CBO uses the discretionary limits enacted in the BCA as a starting point for its sequestration update report. There currently are no differences between OMB and CBO for estimates of budget authority limits in each year.

**Table 4. COMPARISON OF OMB AND CBO DISCRETIONARY SPENDING LIMITS**  
(Budget authority in millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b><u>SECURITY CATEGORY</u></b>										
CBO Update Report Limit....	684,000	686,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
OMB Update Report Limit....	684,000	686,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Difference +/-.....	.....	.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b><u>NONSECURITY CATEGORY</u></b>										
CBO Update Report Limit....	359,000	361,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
OMB Update Report Limit....	359,000	361,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Difference +/-.....	.....	.....	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b><u>DISCRETIONARY CATEGORY</u></b>										
CBO Update Report Limit....	N/A	N/A	1,066,000	1,086,000	1,107,000	1,131,000	1,156,000	1,182,000	1,208,000	1,234,000
OMB Update Report Limit....	N/A	N/A	1,066,000	1,086,000	1,107,000	1,131,000	1,156,000	1,182,000	1,208,000	1,234,000
Difference +/-.....	N/A	N/A	.....	.....	.....	.....	.....	.....	.....	.....
<b><u>TOTAL DISCRETIONARY SPENDING</u></b>										
CBO Update Report, Total Discretionary.....	1,043,000	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
OMB Update Report, Total Discretionary.....	1,043,000	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
Difference +/-.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

N/A = Not Applicable