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The Budget Control Act of 2011: Legislative Changes to the Law and Their Budgetary Effects

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Summary

Following a lengthy debate over raising the debt limit, the Budget Control Act of 2011 (BCA; P.L. 112-25) was signed into law by President Obama on August 2, 2011. In addition to including a mechanism to increase the debt limit, the BCA contained provisions intended to reduce the budget deficit through spending limits and reductions. The savings in the BCA are achieved mainly through two mechanisms: (1) statutory discretionary spending caps covering 10 years that came into effect in 2012 and (2) a requirement for an additional $1.2 trillion in savings to be achieved through legislation or an automatic spending reduction process (sometimes referred to as the "sequester") covering nine years. Combined, these provisions were projected to reduce the deficit by roughly $2 trillion between FY2012-FY2021.

Two subsequent pieces of legislation have modified the BCA since it was enacted. First, the American Taxpayer Relief Act of 2012 (ATRA; P.L. 112-240) postponed the start of the FY2013 spending reductions until March 1, 2013. ATRA also reduced the FY2013 spending reductions implemented via this automatic process by $24 billion (i.e., two months' worth of reductions), to roughly $85 billion equally divided between defense and non-defense. These provisions were offset by other changes in spending or revenue. Subsequently, the Bipartisan Budget Act of 2013 (BBA; P.L. 113-67) replaced a portion of the automatic spending process reductions for FY2014 ($45 billion) and FY2015 ($18 billion) with other deficit reduction provisions. These changes allow for more discretionary spending than was provided under the BCA for FY2014 and FY2015. Various deficit reduction measures were included to offset the cost of the increased discretionary spending.

Though changes to the BCA implemented through ATRA and the BBA were offset by other savings, they were mostly paid for outside of the parameters of the BCA itself. These changes were paid for largely by making other cuts to mandatory spending and by increasing non-tax receipts. Therefore, the savings originally provided in the BCA were reduced by approximately $12 billion in FY2013, $45 billion in FY2014, and $18 billion in FY2015 as a result of ATRA and the BBA.

A goal of the BCA was to achieve deficit reduction through a specified amount of savings. Individual policy changes cannot be taken in isolation, however, so that the level of savings contained in the BCA does not mean that the resulting deficit will reach a specified level. Since the law has been enacted, both ATRA and BBA have changed the amount of savings contained in the BCA itself. Since the BCA was enacted, legislation has cumulatively increased the deficit by nearly $1.6 trillion over the FY2012-FY2021 period. If the deficit reduction contained in the BCA is not included, the deficit over the FY2012-FY2021 period would be projected to be $3.5 trillion higher as a result of legislative action taken since August 2011.

The BCA was intended to achieve its deficit reduction over a specified 10-year period (FY2012-FY2021). The changes made to the BCA by ATRA and BBA still achieve the same amount of deficit reduction over the 10-year period. However, the deficit reduction contained in ATRA and BBA through FY2021 "pays for" the increases in spending during the FY2013 to FY2015 period. In other words, the legislative changes to the original provisions of the BCA over the most recent fiscal years have been replaced by spending cuts in future years, thereby achieving less deficit reduction in any given year compared to what was contained in the BCA originally for the FY2013 to FY2015 period. If further changes are made to the BCA, the deficit reduction originally provided by the law may be revised further.

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The savings in the BCA are achieved mainly through two mechanisms: (1) statutory discretionary spending caps covering 10 years that came into effect in 2012 and (2) a requirement for an additional $1.2 trillion in savings to be achieved through legislation or an automatic spending reduction process (sometimes referred to as the "sequester") covering nine years that was initially scheduled to come into effect on January 2, 2013. These mechanisms are discussed in more detail below. Since the enactment of the BCA, two subsequent pieces of legislation have modified it. First, the American Taxpayer Relief Act of 2012 (ATRA; P.L. 112-240) postponed the start of the FY2013 spending reductions, until March 1, 2013, and canceled the first two months of spending cuts. Subsequently, the Bipartisan Budget Act of 2013 (BBA; P.L. 113-67) increased discretionary spending levels for FY2014 and FY2015 relative to what they would have been under the BCA. Both pieces of legislation contained provisions that offset these changes.

This report discusses the legislative changes affecting the Budget Control Act and focuses on how these changes have altered spending levels and deficit projections. Other CRS reports provide additional analysis of the BCA.[2]

Background on the Budget Control Act of 2011

The BCA was enacted in response to congressional concern about unsustainable growth in the federal debt and deficit. The federal budget has been in deficit (spending exceeding revenue) since FY2002, but deficits became significantly larger between FY2009 and FY2012. That year, the deficit topped $1 trillion for the first time ever, and remained above $1 trillion through FY2012.[3] This growth in the budget deficit was the result of spending reaching its highest level as a share of GDP since FY1945 and revenues reaching their lowest level as a share of GDP since FY1950. Spending peaked at 25% of GDP in FY2009 and revenues bottomed out at 15% of GDP in FY2009 and FY2010.[4] These trends are largely due to the budgetary effects of the recent recession and policies implemented in response to it, including increased outlays and tax cuts.[5] As

[1] For information on the debt limit increases in the BCA, see CRS Report RL31967, *The Debt Limit: History and Recent Increases*, by D. Andrew Austin and Mindy R. Levit.

[2] For an explanation of the BCA's provisions and procedures, see CRS Report R41965, *The Budget Control Act of 2011*, by Bill Heniff Jr., Elizabeth Rybicki, and Shannon M. Mahan. For information on exemptions from sequestration, see CRS Report R42050, *Budget "Sequestration" and Selected Program Exemptions and Special Rules*, coordinated by Karen Spar. For more information on spending levels under the BCA and its effects on the budget deficit, see CRS Report R42506, *The Budget Control Act of 2011: The Effects on Spending and the Budget Deficit* , by Mindy R. Levit and Marc Labonte.

[3] The budget deficit is the excess of outlays over revenues in a given year, broadly similar to the amount borrowed from the public that year. The debt held by the public is the accumulation of all past borrowing from the public. The gross debt is the sum of (1) debt held by the public and (2) the intragovernmental debt (the debt that one part of the federal government owes to another part of the government, mainly through government trust funds).

[4] Office of Management and Budget, *The Budget for FY2014, Historical Tables*, Table 1.2.

[5] For an analysis of recent budgetary trends and issues, see CRS Report R43068, *The Federal Budget: Issues for FY2014 and Beyond*, by Mindy R. Levit.

the effects of the recession wane, higher tax revenue and lower levels of spending as a percentage of GDP relative to the last several fiscal years are projected to result in more sustainable budget deficits over next several years.[6] In FY2014, the deficit is estimated to fall to 3.4% of GDP, or nearly 6 percentage points below its peak in FY2009 (10.1% of GDP).

The BCA reduces spending through two primary mechanisms, discretionary spending caps that began in FY2012 and an automatic spending reduction process that began in FY2013.

Discretionary Spending Caps

The BCA placed statutory caps on most discretionary spending from FY2012 through FY2021. The caps place limits on the amount of discretionary budget authority provided through the annual appropriations process for those years, with adjustments permitted for certain purposes. The limits can be adjusted to accommodate (1) changes in concepts and definitions; (2) appropriations designated as emergency requirements; (3) appropriations for Overseas Contingency Operations/Global War on Terrorism (OCO; e.g., for military activities in Afghanistan); (4) appropriations for continuing disability reviews and redeterminations; (5) appropriations for controlling health care fraud and abuse; and (6) appropriations for disaster relief. The last five of the listed adjustments effectively exempt those types of discretionary spending from the statutory caps. The BCA limits adjustments for spending on disability reviews and controlling health care fraud abuse to relatively small amounts and limits adjustments for disaster relief by a formula based on historical levels.[7] By contrast, funds designated as such by Congress and the President as OCO and emergency spending are not limited.

Budget Authority and Outlays

Budget authority is what federal agencies are legally permitted to spend, and it is granted by Congress through appropriation acts in the case of discretionary spending or through other acts in the case of mandatory spending. Budget authority gives federal officials the ability to spend. Outlays are disbursed federal funds. Until the federal government disburses funds to make payments, no outlays occur. Therefore, there is generally a lag between when Congress grants budget authority and outlays occur. The budget deficit is measured as the difference between outlays and revenues.

Cap levels are enforced through a sequestration process (spending cuts that are automatically triggered if cap levels are breached).[8] The caps do not limit specific accounts or appropriations bills; instead, they are broad caps on discretionary spending. In FY2012 and FY2013, separate caps existed on security and non-security spending. Security spending is defined by the BCA as discretionary appropriations associated with agency budgets for the Departments of Defense, Homeland Security, Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account, and all budget accounts in the budget function for

[6] Economists generally consider a budget deficit sustainable if it causes the debt to grow at a lower rate than the growth rate of the economy (GDP growth). For the most recent budget deficit projections, see CBO, *Updated Budget Projections: Fiscal Years 2013 to 2023*, May 2013, Table 1.

[7] The BCA allows annual disaster spending in amounts up to "the average funding provided for disaster relief over the previous 10 years, excluding the highest and lowest years" plus the difference between disaster spending in the preceding fiscal year and the applicable average funding level for that year. Disaster spending is defined in the BCA as spending classified in specified budget accounts.

[8] The sequestration process to enforce statutory spending levels is separate and distinct from the sequester that carries out the "Automatic Spending Reduction Process" described in the next section.

international affairs (function 150).[9] The largest amounts of spending in the non-security category are tied to the Departments of Health and Human Services, Education, and Housing and Urban Development. For FY2014 to FY2021, there are separate caps for defense (function 050) and non-defense spending. Decisions about how these caps will affect specific agencies or programs will be made by Congress and the President through the regular appropriations process.

Automatic Spending Reduction Process

Title IV of the Budget Control Act established a Joint Select Committee on Deficit Reduction (hereinafter Joint Committee) composed of an equal number of Senators and Representatives instructed to develop a proposal that would reduce the deficit by at least $1.5 trillion over FY2012 to FY2021. To ensure this level of savings was achieved even if a Joint Committee bill was not enacted, Section 302 of the Budget Control Act of 2011 established an automatic process to reduce spending. On November 21, 2011, the co-chairs of the Joint Committee announced that they were unable to reach a deficit-reduction agreement before the committee's deadline. As a result, a $1.2 trillion automatic spending reduction process was triggered, scheduled to begin in January 2013.

Of the $1.2 trillion in savings, the BCA specifies that 18% of the total ($216 billion) be credited to debt service savings that would result from the spending reduction.[10] Therefore, the amount of the reduction in budget authority would equal the remaining 82% of the required total savings. The amount of the automatic spending reduction under the BCA is spread evenly over the nine years from FY2013 to FY2021 and split evenly between defense (defined as budget function 050) and non-defense spending categories and applied proportionally to non-exempt discretionary and mandatory programs within each of these categories.[11] The automatic spending reduction would amount to a reduction in budget authority of $109.3 billion each year for nine years, with $54.7 billion of the reduction to be applied to defense and $54.7 billion applied to non-defense programs.

Within the defense and non-defense categories, some programs are exempted from an automatic spending reduction and the cuts to other programs are limited by statute.[12] For example, the automatic spending reduction to Medicare is limited to 2% of program spending.[13] Although the

[9] Budget functions are classifications of federal budgetary activities into major purposes of the federal government, regardless of the type of financial transaction or agency organization. For more information, see CRS Report 98-280, *Functional Categories of the Federal Budget*, by Bill Heniff Jr..

[10] The actual amount of debt service savings will depend on future interest rates and the timing of the deficit reduction; 18% was set by the BCA. As described in CBO's analysis of the net budgetary savings resulting from an automatic $1.2 trillion reduction in the event a Joint Committee bill is not enacted, debt service savings amount to 16% of the total between FY2013 and FY2021. See Congressional Budget Office, *Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act*, September 12, 2011.

[11] These defense/non-defense categories are separate designations from the discretionary spending caps as described in the previous section. In most years (i.e., FY2014-FY2021) these categories are the same as the caps. For FY2013, the defense/non-defense categories were used solely for the purpose of calculating the automatic spending reductions implemented by the sequester. In that year, the discretionary spending caps were in terms of the security/non-security designations.

[12] These exemptions and special sequester rules are found in 2 USC 905 and 2 USC 906, Section 255 and 256 of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.

[13] Some Medicare spending is exempt from automatic spending reductions, including Medicare Part D low-income and catastrophic subsidies and qualified individual (QI) premiums. For more information see 2 USC 906(d)(7).

calculation of the annual amount of the automatic spending reduction ($109.3 billion) would not be revised in subsequent years under the BCA's framework described above,[14] the amount applied to any given budget account could be recalculated if the relative size of budget accounts changes or the exempt/non-exempt status of an account changes.

For purposes of the automatic reductions, the BCA reorganizes the discretionary spending caps in terms of defense (defined as budget category 050) and non-defense for the 10-year budget window. The amount of the automatic reduction is then subtracted from the new defense/non-defense cap levels. In FY2013, the automatic spending reduction was carried out through an across-the-board sequester of previously enacted budgetary resources. After the first year (FY2013), the automatic spending reduction will be carried out through a sequester for mandatory spending and through reductions in the discretionary caps, rather than a sequester, for discretionary spending. The sequester is applied proportionately to all non-exempt accounts, while it is left to future Congresses to determine how to apply the reductions to discretionary accounts within the caps. Cuts to discretionary programs as a result of the automatic spending reduction process would be in addition to the savings already projected to result from the initial discretionary caps in the BCA.

The automatic spending reduction process is not meant to ensure that a specific deficit or spending level is realized in the future nor would it prevent deficit savings accomplished by the automatic spending reduction from being undone by future legislation. The amount of automatic spending reduction does not change if future budget deficits turn out to be larger or smaller than projected at the time the automatic spending reduction is determined. Future budget deficits could turn out to be larger or smaller than projected because of subsequent legislative changes or because of forecasting errors, which have historically been large.[15]

The FY2013 sequester reduced non-exempt defense discretionary spending by 7.8% relative to the cap levels, non-defense discretionary spending by 5.0% relative to the cap levels, Medicare by 2% relative to baseline levels (per the statutory limit), and other mandatory spending by 5.1% relative to the baseline levels.[16] For FY2014, a sequester order was issued which reduced defense mandatory spending by 9.8% and non-defense mandatory spending by 7.2%. Reductions to Medicare remained capped at 2% per the statutory limit.[17]

Table 1 displays BCA discretionary cap levels, before and after the automatic spending reductions, as amended by the American Taxpayer Relief Act of 2012 (ATRA) and the Bipartisan Budget Act of 2013 (BBA). These changes are discussed in the next section.

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[14] The automatic spending reduction amounts have been revised for FY2013 to FY2015 by subsequent legislative action. See discussion in "Legislative Changes to the BCA".

[15] For more information on the accuracy of projections, see Congressional Budget Office, *CBO's Economic Forecasting Record: 2010 Update*, July 2010, available at http://www.cbo.gov/ftpdocs/115xx/doc11553/ForecastingAccuracy.pdf. CRS Report R41134, *The Impact of Major Legislation on Budget Deficits: 2001 to 2010*, by Marc Labonte and Margot L. Crandall-Hollick, also examines the reasons why the budget balance changed over time between FY2001, when surpluses were projected by CBO throughout the decade, and FY2010, when the budget deficit was large.

[16] Office of Management and Budget, *Report to the Congress on the Joint Committee Sequestration for FY2013*, March 1, 2013.

[17] Office of Management and Budget, *OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014*, May 20, 2013 (corrected version). Executive Office of the President, "Sequestration Order for Fiscal Year 2014 Pursuant to Section 251A of the Balance Budget and Emergency Deficit Control Act, As Amended," 22407-22409, April 15, 2013.

Table 1. Discretionary Spending Caps Under the BCA
(billions of $)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
					BCA Cap Levels				
Defense	546	556	566	577	590	603	616	630	644
Non-Defense	501	510	520	530	541	553	566	578	590
Total	1,047	1,066	1,086	1,107	1,131	1,156	1,182	1,208	1,234
					Changes Made by ATRA[a]				
Defense	552	552	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Non-Defense	491	506	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total	1,043	1,058	n/a	n/a	n/a	n/a	n/a	n/a	n/a
					Automatic Spending Reductions				
Defense	-34	-54	-54	-54	-54	-54	-54	-54	-54
Non-Defense	-21	-37	-37	-37	-37	-36	-35	-34	-33
Total	-55	-91	-91	-91	-91	-90	-89	-88	-87
					Revised Cap Levels				
Defense	518	498	512	523	536	549	562	576	590
Non-Defense	470	469	483	493	504	517	530	544	557
Total	988	967	995	1,016	1,040	1,066	1,093	1,120	1,147
					Cap Levels As Revised by the Bipartisan Budget Act of 2013				
Defense	n/a	520	521	n/a	n/a	n/a	n/a	n/a	n/a
Non-Defense	n/a	492	492	n/a	n/a	n/a	n/a	n/a	n/a
Total	n/a	1,012	1,014	n/a	n/a	n/a	n/a	n/a	n/a

Source: CRS Report R42949, *The American Taxpayer Relief Act of 2012: Modifications to the Budget Enforcement Procedures in the Budget Control Act*, by Bill Heniff Jr., Congressional Budget Office, *Sequestration Update Report*, August 2013, Tables 1 and 2 and *CBO's Estimate of Discretionary Budget Authority for Fiscal Year 2013 Showing Amounts for Defense and Non-Defense Programs*, September 2013.

Notes: See **Table 2** for more information on discretionary spending levels in 2012, 2013, and 2014. Totals may not sum due to rounding.

a. For FY2013, discretionary cap levels were in terms of security and non-security following the enactment of ATRA ($684 billion for security and $359 billion for non-security). For the purposes of calculating the automatic spending reductions, the caps were reset to defense ($544 billion) and non-defense ($499 billion). Budget enforcement of the caps for FY2013 was evaluated on the security and non-security breakdown.

Legislative Changes to the BCA

Since the enactment of the BCA, its spending reductions have been modified by two pieces of legislation, the American Taxpayer Relief Act of 2012 (ATRA) and the Bipartisan Budget Act of 2013 (BBA). Neither of these actions modified the provisions of the BCA that affect discretionary spending beyond FY2015. However, the BBA extended the BCA's mandatory spending sequester for two years, through FY2023.

The American Taxpayer Relief Act of 2012

The enactment of ATRA postponed the start of the FY2013 spending reductions until March 1, 2013. ATRA also reduced the FY2013 spending reductions implemented via this process by $24 billion (i.e., two months' worth of reductions), to roughly $85 billion equally divided between defense and non-defense ($42.7 billion for each category). Several other minor modifications were also made to the process by which these spending cuts would be calculated. Although ATRA reduced the total spending cuts achieved by the automatic process, these provisions were offset by other spending reductions and revenue increases. On the spending side, the BCA's discretionary spending caps were reduced by $4 billion in FY2013 and $8 billion in FY2014, which was intended to offset roughly half of the cost. In addition, ATRA contained a provision which raised revenue during the budget window by permitting certain retirement accounts to be transferred to designated Roth accounts without distribution. This was used to offset the other half of the cost.[18]

The Bipartisan Budget Act of 2013

The Bipartisan Budget Act of 2013 (BBA) replaced a portion of the automatic spending process reductions for FY2014 ($45 billion) and FY2015 ($18 billion) with other savings. These changes allow for more discretionary spending than was provided under the BCA for FY2014 and FY2015. The BBA increased discretionary spending levels relative to the levels allowed under the BCA caps after the caps had been adjusted downward to account for the prior automatic spending reductions. The savings to offset this additional spending included various provisions affecting civilian and military retirement, higher education, and transportation. In addition, the measure also contained a provision which extended the BCA's sequester of mandatory spending by two years, though FY2023.[19]

Effects of the BCA on the Federal Budget

As discussed above, the BCA as enacted contained over $2 trillion in deficit reduction over 10-years, affecting primarily the discretionary side of the budget.[20] As of the time of this report, appropriations for three fiscal years have been all or partially provided under the constraints of the BCA. The effects of the BCA and the subsequent revisions from ATRA and the BBA on spending and the budget deficit are discussed below.

[18] For more information, see CRS Report R42884, *The "Fiscal Cliff" and the American Taxpayer Relief Act of 2012*, coordinated by Mindy R. Levit; CRS Report R42894, *An Overview of the Tax Provisions in the American Taxpayer Relief Act of 2012* , by Margot L. Crandall-Hollick; and CRS Report R42949, *The American Taxpayer Relief Act of 2012: Modifications to the Budget Enforcement Procedures in the Budget Control Act*, by Bill Heniff Jr.

[19] For a summary of these provisions, see the "Summary of the Bipartisan Budget Act of 2013" released by the House and Senate Budget Committees on December 10, 2013.

[20] This amount of deficit reduction was measured relative to a baseline using FY2011 appropriated levels adjusted for inflation. This baseline was used because it was the official CBO baseline for discretionary spending at the time the BCA was enacted. The amount of savings garnered by the Budget Control Act depends on the baseline to which it is being compared. For example, if it were being compared with a baseline based on 2010 levels of discretionary spending adjusted for inflation, the savings would be higher than if it were compared with the 2011 levels. The spending cuts would also be larger if compared with a baseline where discretionary spending was held constant relative to GDP.

BCA and Discretionary Spending, FY2012-FY2014

Table 2 illustrates how discretionary budget authority was provided within categories subject to the caps for FY2012 and FY2013 as well as for those categories not limited by the caps. ATRA reduced the effect of the FY2013 sequester on discretionary spending, meaning discretionary spending would have been lower in the absence of ATRA. Estimates for FY2014 are included in the table based on the most recent figures from the Consolidated Appropriations Act, FY2014 (P.L. 113-76). The BBA increased the level of spending subject to the BCA caps in FY2014 (and FY2015) to a level that is higher than would have been allowed subsequent to the BCA's automatic spending reductions, but lower than the BCA's original spending caps.

Discretionary budget authority subject to the caps equaled $1,043 billion in FY2012 and FY2013. Total discretionary budget authority has exceeded the level of the caps in both years because, as the BCA permitted, some discretionary BA is in categories not subject to the caps ($138 billion in FY2012 and $152 billion in FY2013). In FY2013, the BCA's automatic spending reductions were implemented through a sequester, reducing discretionary BA by $64 billion, from $1,195 billion to $1,131 billion. Of the $64 billion of discretionary spending reductions from sequestration, $55 billion was from discretionary spending subject to the caps and $9 billion was from OCO, emergency, and disaster spending. In FY2014, the BCA's automatic spending reduction process was set to reduce discretionary spending subject to the cap by $91 billion, from $1,058 billion to $967 billion. With the enactment of the Bipartisan Budget Act of 2013, the level of the caps was increased by $45 billion to $1,012 billion. Additional discretionary spending not subject to the caps will also increase so that the total discretionary spending for FY2014 is currently estimated at $1,111 billion. (If future legislation, such as a supplemental appropriations bill, provides additional discretionary funding in the categories not subject to the caps—i.e., for an emergency—the final discretionary spending levels for FY2014 would be higher.) As a result, total discretionary BA was $1,181 billion in FY2012, $1,131 billion in FY2013, and is estimated at $1,111 billion in FY2014.

As shown in **Table 2**, total discretionary spending declined between FY2012 and FY2013 by $50 billion, largely due to the size of the BCA sequester and a reduction in OCO spending. Those reductions were partially offset by a sizable increase in emergency spending primarily due to relief provided for those affected by Hurricane Sandy. Spending not subject to the caps was $14 billion higher in FY2013 ($152 billion) than it was in FY2012 ($138 billion). Absent the sequester, spending in FY2013 ($1,195 billion) would have exceeded FY2012 levels ($1,181 billion). Spending in FY2014 ($1,111 billion) is estimated to be $20 billion below the FY2013 level ($1,131 billion). However, spending subject to the caps, as modified, is $24 billion higher in FY2014 ($1,012 billion) than it was in FY2013 ($988 billion).

Table 2. Discretionary Budget Authority, FY2012-FY2014

(billions of $)

	FY2012	FY2013	FY2014 (est.)
Spending Subject to the BCA Caps, as modified by ATRA	1,043	1,043	1,058
- Automatic Spending Reductions	n/a	n/a	91
= Revised Caps	1,043	1,043	967
Total Spending Subject to the Caps, as modified by the BBA	n/a	n/a	1,012
+ Adjustments for OCO	127	99	92

		FY2012	FY2013	FY2014 (est.)
	Emergency	0	41	0
	Disaster Relief	11	12	6
	Program Integrity	*	*	1
= Total Adjustments		138	152	98
Adjusted BCA Caps		1,181	1,195	1,111
- Sequester		n/a	64	0
= Total Discretionary BA		1,181	1,131	1,111[a]
Memo: Total Spending Subject to BCA Caps, as modified		1,043	988	1,012

Source: Congressional Budget Office, *Sequestration Update Report*, August 2012, Table 1; *Updated Budget Projections: Fiscal Years 2013 to 2023*, May 2013, Table 3 and Table 4; and *CBO Estimate of Discretionary Appropriations for Fiscal Year 2014, Including H.R. 3547, the Consolidated Appropriations Act, 2014, as Posted on the Website of the House Committee on Rules on January 13, 2014*.

Notes: Totals may not sum due to rounding. * indicates less than $1 billion. Does not include modifications to original scoring. FY2014 adjustments are estimates from the latest CBO baseline figures. N/a indicates not applicable.

a. The total discretionary BA for FY2014 as modified by the BBA will be based on the actual level of adjustments (i.e., spending not subject to the BCA caps).

Though total discretionary spending followed the trends described above, what happened to spending in each year can be subject to some interpretation. In other words, the provisions of the BCA affected spending beginning in FY2012. However, the automatic spending reduction process was not scheduled to begin until FY2013. Therefore, discretionary spending in FY2012 was, by definition, going to be higher than the FY2013 level because FY2012 spending was not subject to a sequester or other type of spending reduction via the automatic process. In FY2013, ATRA reduced the amount of the sequester set to take effect that year, thereby increasing spending relative to the level provided in the BCA. In addition, spending in FY2014 has been increased from the level provided in the BCA by $45 billion as a result of the BBA. Though spending may fall in certain years, it may be useful to compare spending levels to what they would have been under the BCA absent ATRA and BBA. In that case, spending could have been $24 billion lower in FY2013 had a portion of the sequester not been eliminated by ATRA and $45 billion lower in FY2014 had the BBA not revised the cap. However, assuming discretionary spending continued to grow at historical rates of about 5%-6% per year in nominal terms, discretionary spending in FY2013 and FY2014 would have likely been higher than the levels shown above, absent the spending reductions from the BCA.

BCA and the Budget Deficit

As originally scored, the BCA was projected to reduce the cumulative deficit between FY2012 and FY2021 by roughly $2 trillion.[21] This figure includes both the direct effect of lower spending and the interest savings stemming from the lower deficits and debt resulting from lower spending.

[21] CBO, *Letter to the Honorable John A. Boehner, Speaker*, Estimate of the Impact on the Deficit of the Budget Control Act of 2011, August 1, 2011, Table 3.

A goal of the BCA was to match its deficit reduction provisions to the BCA's multi-step increase in the debt limit, although the savings are achieved over a different timeframe than the debt limit increases. The deficit reduction achieved in the BCA in isolation would not prevent the need for future debt limit increases.

Because individual policy changes cannot be taken in isolation, the savings contained in the BCA do not mean that the resulting deficit will reach the specified lower level if other policies are enacted which increase the deficit. Since the law has been enacted, both ATRA and BBA have changed the amount and timing of savings contained in the BCA itself. Specifically, since the BCA was enacted in August 2011, Congress and the President have adhered to the spending restrictions originally intended in that legislation for only one year, FY2012, prior to the beginning of the automatic spending reduction process. Outside of the legislative changes made by ATRA and the BBA, other actions have also led to changes in the baseline budget deficit projections. As shown in **Table 3**, since the BCA was enacted in August 2011, legislation has cumulatively increased the deficit by nearly $1.6 trillion. Absent the BCA, the deficit is projected to be $3.5 trillion higher over the FY2012-FY2021 period.

Table 3. Legislative Changes Affecting the Current Law Baseline Deficit Since August 2011

(billions of $)

Effect on Deficit (Increase (+)/Decrease (-))	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2012-FY2021
Budget Control Act											
Discretionary Spending Caps and Other Provisions	-22	-41	-56	-69	-76	-83	-91	-99	-106	-115	-758
Automatic Spending Reductions	0	-66	-93	-101	-104	-106	-106	-105	-105	-105	-891
Net Interest Savings from the BCA	0	-1	-3	-7	-15	-25	-37	-50	-62	-76	-276
Non-BCA Spending Changes	48	49	43	-5	-33	-52	-55	-84	-88	-96	-270
Revenue Changes	89	313	340	269	266	338	369	400	426	465	3,275
Other Net Interest	0	2	7	10	22	42	68	88	108	133	480
Total Increase in the Deficit as a Result of Legislative Action since August 2011 Excluding the BCA	137	364	390	274	255	328	382	404	446	502	3,485
Total Increase in the Deficit as a Result of Legislative Action since August 2011 Including the BCA	115	256	235	97	60	114	148	150	173	206	1,560
Memo (not including net interest effects):											
Effect on the deficit due to ATRA	0	329	354	311	340	371	405	416	448	482	3,456
Effect on the deficit due to BBA	0	0	42	15	-4	-5	-5	-5	-5	-5	30

Source: CRS calculations and CBO, *The Budget and Economic Outlook: An Update*, August 2011, Table A-1; *The Budget and Economic Outlook: Fiscal Years 2012 to 2022*, January 2012, Table A-1 and A-2; *Updated Budget Projections: Fiscal Years 2012 to 2022*, March 2012, Table 3; *An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022*, August 2012, Table A-1; *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, February 2013, Table A-1; *Updated Budget Projections: Fiscal Years 2013 to 2023*, May 2013, Box 1-1 and Table 6; *The Budget and Economic Outlook: Fiscal Years 2014 to 2024*, February 2014, Table A-1.

Notes: Totals may not sum due to rounding. A portion of the non-BCA spending changes result from baseline rules that extrapolate discretionary funding from the current year to future years. For example, non-BCA spending reductions from FY2014 to FY2021 stem primarily from removing FY2013 disaster funding from the baseline.

The legislation that increased the deficit the most relative to current law since August 2011 was ATRA. ATRA made various changes to the tax code and several spending programs, including modification of the provisions of the BCA as it related to the FY2013 sequester, as discussed earlier. As a result of ATRA, CBO projected the deficit would increase by nearly $3.5 trillion between FY2013 and FY2021. (The total increase in the deficit from the legislation was estimated at $4 trillion over the FY2013-FY2022 period.[22] Compared with a current policy baseline that assumes expiring provisions will be extended, however, ATRA reduced the deficit.[23])

The BBA increased the amount of discretionary spending allowed under the provisions of the BCA offset by other changes to mandatory spending and non-tax receipts, as discussed earlier. CBO projected the deficit would increase by nearly $30 billion between FY2014 and FY2021. (Over the FY2014 to FY2023 period, the BBA is projected to decrease the deficit by an estimated $22 billion.[24]) Other legislation since that time had much smaller effects on both spending and revenue levels.

Though changes to the BCA implemented through ATRA and the BBA were offset by other savings measures, they were largely offset outside of the parameters of the BCA itself. In other words, ATRA and the BBA delayed the start of and amount of the FY2013 sequester, and rolled-back the FY2014 automatic spending reductions. These changes were paid for largely by making other cuts to mandatory spending and by increasing non-tax receipts. Therefore, the deficit reduction attributed to spending cuts in the BCA was reduced by approximately $12 billion in FY2013, $45 billion in FY2014, and $18 billion in FY2015.[25]

The BCA was intended to achieve deficit reduction through a specified amount of savings over a specified 10-year period (FY2012-FY2021). The changes made to the BCA by ATRA and BBA, including those changes made outside of the parameters of the BCA itself, still achieve the same amount of savings over the 10-year period. However, the changes made by ATRA and BBA are intended to "pay for" increases in spending made during the FY2013 to FY2015 period. In other words, the savings over 10 years contained in ATRA and BBA is intended to replace the spending increases in the BCA levels for a three-year period. If Congress and the President agree to implement further changes to the BCA's provisions, the savings originally provided in the law may be revised further. These changes in the original provisions of the BCA over the most recent fiscal years have been replaced by spending cuts in future years. If this dynamic continues, a lower level of savings will be achieved in any given year compared to what was contained in the BCA originally.

[22] CBO, *Estimate of the Budget Effects of H.R. 8, the American Taxpayer Relief Act of 2012, as passed by the Senate on January 1, 2013*, January 1, 2013.

[23] See, for example, Office of Management and Budget, OMBlog, *American Taxpayer Relief Act Reduces Deficits by $737 Billion*, January 1, 2013.

[24] CBO, *Cost Estimate of the Bipartisan Budget Act of 2013*, December 11, 2013, **Table 1**.

[25] Half of the cost of postponing the FY2013 sequester under ATRA was paid for by lowering the discretionary spending caps—Changes Made by ATRA category as shown in **Table 1**—in FY2013 and FY2014. The BBA also contained a provision that extended the BCA's mandatory spending sequester by two years through FY2023. The extension of the mandatory spending sequester for two years is outside the original BCA 10-year scoring window, however. This provision increased the amount of savings in the BBA by about $20 billion. This was characterized as additional savings beyond the "pay fors" in the legislation.

Moreover, these deficit and debt projections assume that current law will remain in place. If Congress and the President enact subsequent legislation to decrease revenue levels or increase spending, these projections could change. Besides new initiatives, Congress and the President have routinely increased the deficit by temporarily extending expiring provisions in recent years, including preventing scheduled reductions in Medicare payment rates for physicians ("doc fix") and the extension of expiring tax provisions ("tax extenders"). If these two policies are extended, CBO projects that the deficit will increase by nearly an additional $1 trillion over the FY2013-FY2021 period, with additional deficit increases beyond FY2021.[26]

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[26] CBO, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, February 2013, Table 1-7.