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How Would Sequestration Impact DoD in FY 2020?

By Seamus P. Daniels

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THE ISSUE

In FY 2020, the Budget Control Act (BCA) of 2011 spending limits return to their original level for both defense and non-defense at $576 billion and $543 billion, respectively. In its FY 2020 budget released in March, the Trump administration requested a total of $750 billion for national defense (050), designating the $174 billion above the cap as Overseas Contingency Operations (OCO) or emergency funding and thus exempt from the spending limits. While the administration's budget request does not breach the BCA caps, Congress is not likely to consider it a viable option and will seek to negotiate a budget agreement which increases both the defense and non-defense spending caps. If both political parties and the White House fail to reach a deal by 15 days after the current Congressional session adjourns and appropriations for FY 2020 exceed the caps, sequestration—the automatic process of imposing across-the-board budget cuts—would be triggered for the first time since 2013. This brief estimates the fiscal impact of sequestration on funding for the Department of Defense (DoD) in FY 2020.

HOW WOULD SEQUESTRATION BE TRIGGERED IN FY 2020?

Sequestration serves as the enforcement mechanism for the budget caps imposed by the BCA and is triggered in the event that Congress appropriates funding above the BCA levels. The function of sequestration is to "eliminate a budget-year breach" by applying a reduction as a "uniform percentage" across all non-exempt accounts.[1] The Office of Management and Budget (OMB) determines if sequestration is triggered in a report due to the president and Congress by 15 days after the end of the current Congressional session. In the event that OMB finds the budget caps have been violated, a presidential order will be issued to implement sequestration.[2] The past three sessions of Congress have each adjourned on January 3, indicating that under a similar timeline, sequester cuts would be implemented by January 18, 2020, if required.[3]

The most likely scenario in which sequestration is triggered in FY 2020 would be under a continuing resolution (CR) that is still in effect by the expected January 18 deadline. The purpose of passing a CR that exceeds the budget cap would be to prevent a government shutdown at the start of the new fiscal year on October 1 and provide Congress with more time to reach a budget deal. In the event that Congress passed regular appropriations by January 2020, it is likely that it would be accompanied by an agreement to raise the budget caps and avert a sequester.

A "clean" CR would provide funding for federal programs at the FY 2019 appropriation level without any significant modifications. Funding for national defense would include $647 billion in the base national defense budget with an additional $69 billion in OCO for a total of $716 billion. However, since the budget cap for defense is

$576 billion in FY 2020, the CR would violate the BCA spending limit by approximately $71 billion (*$647B - $576B = $71B*) and trigger a sequester of that amount in January 2020.

It is possible to reduce the funding level in a CR so that it does not violate the caps. For example, FY 2018 began with a CR that included an across-the-board reduction of 0.6791 percent, thereby ensuring that funding levels fell within the budget cap for that year.[4] However, for a CR at FY 2019 funding levels to comply with the BCA cap of $576 billion for defense in FY 2020, Congress would have to institute a cut of approximately 9 percent—essentially having the same impact as sequestration.

WHAT WOULD BE THE IMPACT OF SEQUESTRATION ON DOD IN FY 2020?

As previously mentioned, sequestration is a uniform percentage cut applied to all applicable accounts. For DoD funding, this means that the cuts would be distributed equally across each funding line for programs, projects, and activities. Under the law, the president has the authority to exempt military personnel (MILPERS) accounts from the sequester or provide a lower percentage reduction so that service members may receive pay and benefits.[5] However, if MILPERS accounts are exempted, then all other DoD accounts must be further reduced to offset the MILPERS exemption.[6] In the case of an FY 2020 sequester, the president would likely exempt the MILPERS account as President Obama did in 2013.[7]

To calculate the percentage cut applied to all accounts, the breach in the budget caps is divided by the total budgetary resources available for overall national defense minus the MILPERS funding. The total resources available include prior year unobligated balances within DoD accounts and OCO funding, which are also subject to the cuts.

Table 1 provides an estimate of the impact of a potential sequester on defense funding in FY 2020. It assumes that sequestration will be triggered as a result of a continuing resolution at FY 2019 funding levels. The remaining prior year unobligated funds are the expected balances for January 18, 2020 and were calculated using estimates in the DoD Financial Summary Tables and the Office of the Secretary of Defense (OSD) Rule-of-Thumb Obligation Rate benchmarks.[8]

The most likely scenario in which sequestration is triggered in FY 2020 would be under a continuing resolution (CR) that is still in effect by the expected January 18 deadline.

Based on the data in Table 1, defense funding accounts would be subject to an 11 percent cut distributed across each title (besides the exempted MILPERS accounts) for a total sequester of $71 billion to all national defense funding (budget function 050). Operations & maintenance (O&M) would account for approximately 46 percent of the estimated $67 billion in cuts to DoD funding. Procurement funding and research, development, test & evaluation (RDT&E) would each make up 33 percent and 17 percent of the sequester cuts, respectively.

Table 1: FY 2020 Sequestration Cuts by Title (discretionary budget authority in current dollars)

Account	Assumed FY 2020 CR	Estimated Prior Year Unobligated Funds	Estimated Total Budgetary Resources	Estimated Total Sequester	% Cut from Sequestration
MILPERS	$150,731,000	-	$150,731,000	-	-
O&M	$278,807,000	-	$278,807,000	-$30,781,830	-11.0%
Procurement	$147,288,000	$55,940,643	$203,228,643	-$22,437,563	-11.0%
RDT&E	$95,254,000	$11,376,575	$106,630,575	-$11,772,604	-11.0%
MILCON	$9,689,000	$8,602,015	$18,291,015	-$2,019,429	-11.0%
Other	$3,222,000	$310,519	$3,532,519	-$390,010	-11.0%
TOTAL DoD (051)	**$684,991,000**	**$76,229,752**	**$761,220,752**	**-$67,401,435**	**-8.9%**
TOTAL National Defense (050)	***$716,000,000***	***$76,229,752***	***$792,229,752***	***-$70,825,000***	***-8.9%***

The "Other" account includes Family Housing funding and Revolving and Management Funds. There were no Trust Funds reported for FY 2019 according to OMB. For the purpose of this analysis, it is assumed that there are no prior year unobligated funds for budget functions (053) and (054), which along with DoD (051), make up the total national defense function (050). Data derived from Office of Management and Budget, Public Budget Database (Washington, DC: Office of Management and Budget, March 2019) and Department of Defense, Financial Summary Tables: *Department of Defense Budget for Fiscal Year 2020* (Washington, DC: Department of Defense, April 2019).

HOW WOULD AN FY 2020 SEQUESTER DIFFER FROM THE FY 2013 SEQUESTER?

Since the passage of the BCA in 2011, sequestration has only occurred once, in 2013, following the failure of the Joint Select Committee on Deficit Reduction—also known as the "Super Committee"—to propose a viable alternative deficit reduction plan. The sequester, originally set to be implemented on January 2, 2013, was delayed until March 1, 2013 with the passage of the American Taxpayer Relief Act of 2012.[9] The 2012 law also raised the budget caps for both defense and nondefense for FY 2013 but lowered the caps for FY 2014.[10]

Table 2 illustrates the impact of the FY 2013 sequester on DoD and its related funding accounts. In total, DoD funding was cut by over $37 billion ($42 billion in FY 2020 dollars) as a result of sequestration. The cuts, however, were not applied at a uniform rate across each of the spending titles due to an exception in the law known as the "crediting provision." Under this provision, accounts that were reduced in the FY 2013 appropriations bill relative to their FY 2012 baseline were prevented from being reduced by more than the amount required by sequestration.[11]

In addition to the rate at which the accounts were reduced by the sequester, one of the primary differences between FY 2013 and sequestration in FY 2020 would be the sheer size of the sequester itself. Adjusting for inflation, a $67 billion sequester for the Department in FY 2020 would be approximately 81 percent larger (61 percent larger when adjusted for inflation) than the amount cut in FY 2013.

The cuts would also be concentrated in different areas of the DoD budget. In FY 2013, 55 percent of the sequester impacting DoD was in O&M funding. In FY 2020, however, cuts to O&M accounts would fall to approximately 46 percent. Acquisition's share (including procurement and RDT&E) of the sequester would grow from 42 percent in FY 2013 to over half (roughly 51 percent) in FY 2020. A sequester in FY 2020 would fall more on procurement and RDT&E than it did in FY 2013 because these accounts make up a larger share of the budget.

CONCLUSION

Among government officials, military leaders, and defense analysts, there is no universal consensus on the degree to which sequestration harmed DoD and prevented the Department from carrying out its mission. Skeptics point to exaggerated statements from officials on the effects of sequestration and the continued misuse of the term to mischaracterize the BCA caps.[12] From an execution standpoint, DoD was also able to mitigate some effects of the cuts by using the reprogramming authority given by Congress to transfer funding between accounts.[13]

If sequestration is triggered in FY 2020, DoD will arguably face more difficult decisions and more painful cuts than in FY 2013.

However, it cannot be denied that the sequester had negative impacts on DoD by forcing it to make cuts and pause some of its activities. As then-DoD comptroller Robert Hale later reflected, the cuts forced the services to halt training, delay deployments, cancel joint international exercises, and stop facility maintenance projects.[14] Roughly 640,000 civilian employees of DoD, approximately 85 percent of its workforce, were furloughed and did not recieve back pay.[15]

Table 2: FY 2013 Sequestration Cuts by Title (discretionary budget authority in current dollars)

Account	FY 2013 Total Enacted	Prior Year Unobligated Funds	Total Budgetary Resources	Total Sequester	% Cut from Sequestration
MILPERS	$149,651,297	-	$149,651,297	-	-
O&M	$272,763,132	$9,485,065	$282,248,197	-$20,326,929	-7.2%
Procurement	$109,769,635	$36,748,595	$146,518,230	-$9,790,040	-6.7%
RDT&E	$69,592,266	$4,973,013	$74,565,279	-$6,054,830	-8.1%
MILCON	$8,961,948	$9,649,418	$18,611,366	-$820,913	-4.4%
Other	$4,404,494	$1,361,291	$5,765,785	-$224,106	-3.9%
TOTAL DoD (051)	**$615,142,772**	**$62,217,382**	**$677,360,154**	**-$37,216,818**	**-5.5%**

Data derived from Office of the Under Secretary of Defense (Comptroller), *Department of Defense Report on the Joint Committee Sequestration for Fiscal Year 2013* (Washington, DC: Department of Defense, June 2013); The "Other" account includes Family Housing funding, Revolving and Management Funds, and Trust Funds.

If sequestration is triggered in FY 2020, DoD will arguably face more difficult decisions and more painful cuts than in FY 2013. The total sequester to DoD accounts will be over 80 percent larger than the FY 2013 sequester, adjusting for inflation. A significant percentage of the cuts will also reduce acquisition spending at a point when the Department is looking to modernize the military in alignment with the 2018 *National Defense Strategy*.

Congress has approximately eight months to address the budget caps for FY 2020 and ensure that sequestration is averted once again. Two-year budget deals reached in 2013, 2015, and 2018—the first two of which were under a divided Congress—provide models of agreements with bipartisan support.[16] Such a deal would avoid sequestration for the remaining two years of the BCA caps. ■

Seamus P. Daniels *is a research associate and program manager for Defense Budget Analysis in the International Security Program at the Center for Strategic and International Studies in Washington. D.C.*

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APPENDIX: SOURCES AND METHODOLOGY

The data for the FY 2019 funding levels that would be enacted in a continuing resolution for FY 2020 were taken from the FY 2020 OMB budget authority database for FY 2019.

The remaining prior year unobligated funds were calculated from the estimates of the unobligated balances for the FY 2019 base and OCO enacted levels found in Section G of the FY 2020 Financial Summary Tables published by the DoD.[17] The unobligated balances by title were broken out by funding year. To estimate the remaining prior year unobligated funds at the assumed date of sequestration (January 18, 2020), the balance for each funding year was reduced according to the obligation rate for each spending title as published in the OSD Rule-of-Thumb Obligation Rate benchmarks.[18] Although these benchmarks do not provide an entirely accurate estimate for the rate at which funding is obligated, they provide a general expectation for the rate at which funding should be obligated, thereby allowing a forecast for the remaining unobligated balance on January 18.

For the purposes of calculating the remaining unobligated balance, it is assumed that any unobligated MILPERS and O&M funding, which have only one year of availability, would have expired by January 18. Shipbuilding funding, despite having a period of availability of five years, was also included and reduced according to the obligation rate for procurement funding, which has a three-year period of availability. Based on these assumptions, the estimate for the remaining prior year unobligated funds should be regarded as somewhat conservative.

CALCULATION OF ESTIMATED PERCENTAGE CUT TO APPLICABLE DOD ACCOUNTS FOR FY 2020 SEQUESTER

$$\%\ cut = \frac{National\ Defense\ (050)\ Base\ Budget - BCA\ Cap\ Level}{National\ Defense\ Base + OCO + Remaining\ Unobligated\ Funding - MILPERS}$$

$$= \frac{\$647B - \$576B}{\$647B + \$69B + \$76B - \$151B} = 11\%$$

ENDNOTES

1. *U.S. Code* 2 § 901(a)(1-2), https://www.law.cornell.edu/uscode/text/2/901.

2. *U.S. Code* 2 § 904, https://www.law.cornell.edu/uscode/text/2/904.

3. U.S. Congress, Senate, "Dates of Sessions of the Congress," https://www.senate.gov/reference/Sessions/sessionDates.htm#1.

4. For more on the FY 2018 continuing resolution, see Seamus P. Daniels and Todd Harrison, "What the Continuing Resolution Means for Defense Spending in FY 2018," CSIS *Critical Questions*, September 27, 2017, https://www.csis.org/analysis/what-continuing-resolution-means-defense-spending-fy-2018.

5. *U.S. Code* 2 § 905(f)(1), https://www.law.cornell.edu/uscode/text/2/905.

6. Ibid.

7. Jeffrey D. Zants, Acting Director of the Office of Management and Budget, letter to the Honorable Joseph R. Biden, Jr., July 31, 2012, https://obamawhitehouse.archives.gov/sites/default/files/omb/legislative/letters/military-personnel-letter-biden.pdf.

8. For more on the methodology, see the appendix.

9. U.S. Congress, House, *American Taxpayer Relief Act of 2012*, HR 8, 112th Cong., became Public Law January 2, 2013, https://www.congress.gov/bill/112th-congress/house-bill/8.

10. Todd Harrison, "What Has the Budget Control Act of 2011 Meant for Defense?" CSIS *Critical Questions*, August 6, 2016, https://www.csis.org/analysis/what-has-budget-control-act-2011-meant-defense.

11. For more on the crediting provision and a more detailed account of the effects of the FY 2013 sequestration, see *U.S. Code* 2 § 903(f)(2)(B) and Todd Harrison, *Chaos and Uncertainty: FY2014 Defense Budget and Beyond* (Washington, DC: Center for Strategic and Budgetary Assessments, October 2013), https://csbaonline.org/uploads/documents/Analysis-of-the-FY-2014-Defense-Budget.pdf.

12. Robert Hale, *Budgetary Turmoil at the Department of Defense from 2010 to 2014: A personal and professional journey* (Washington, DC: Brookings, August 2015), 7, https://www.brookings.edu/wp-content/uploads/2016/06/DOD_budgetary_turmoil_final.pdf#page=8; Jeremy Herb, "The sequestration monster myth," *Politico*, April 13, 2015, https://www.politico.com/story/2015/04/sequestration-ash-carter-congress-defense-pentagon-116899.

13. Harrison, *Chaos and Uncertainty*, 4.

14. *Budgetary Turmoil at the Department of Defense*, 6.

15. Ibid., 7.

16. Kathleen Hicks, et.al., *What to Look for in the FY 2020 Defense Budget Request* (Washington, DC: CSIS, January 2019), 3, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/190131_Hicks_2020Defense_layout_v2.pdf#page=3.

17. Department of Defense, Financial Summary Tables: Department of Defense Budget for Fiscal Year 2020 (Washington, DC: Department of Defense, April 2019), https://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2020/fy2020_Financial_Summary_Tables.pdf#page=148.

18. The OSD Rule-of-Thumb Obligation Rate benchmarks can be found here: https://www.dau.mil/tools/Lists/DAUTools/Attachments/292/OSD%20(C)%20Color%20Rule-of-Thumb%20Acq%20Obligation%20and%20Expenditure%20Rates.pdf.