



Mapping Out the Endgame for FY25 Appropriations February 13, 2025

The federal government is currently operating under a continuing resolution (CR) that extends funding at fiscal year 2024 levels through March 14, 2025. Between now and then, Congress must do one of the following for all 12 appropriations bills to avoid a shutdown:

- negotiate appropriations bills for the remainder of this fiscal year (FY25, which ends September 30);
- extend the CR again temporarily to allow more time to negotiate FY25 bills; or,
- extend the CR through September 30, the end of FY25.

The latter option, which would result in a “full-year CR,” is gaining traction in some quarters given the complicated politics of reaching a spending agreement that can pass both houses of Congress. But a full-year CR is a lot more complex than it sounds, and there is a looming deadline on April 30 that complicates matters further.

April 30 is the date on which the federal government must carry out an across-the-board cut of any funding that has been appropriated above the statutory caps that were established in the Fiscal Responsibility Act of 2023 (FRA). This cut is known as “sequestration.” And as it stands, if Congress merely extends the CR beyond the April 30 deadline, to a date short of September 30, sequestration would be triggered, and defense spending would face the brunt of it.

Isn't a “full-year CR” the easiest way out of this FY25 spending mess?

Not necessarily. Congress has never enacted a full-year CR in the strictest sense of the term—meaning, extending all of the previous year's funding levels, terms and conditions across the board for another year. The Appropriations Committees always need to negotiate numerous “anomalies,” or modifications, to the previous year's bills just to keep things running relatively smoothly even at the same overall levels. Congress has, however, passed looser versions of a full-year CR, most recently in FY13. That year, in what was known as a “CRomnibus,” five of the 12 appropriations bills were fully negotiated but seven of them were essentially CRs with a lot of anomalies—so many, in fact, that the final package looked more like a traditional omnibus bill than a simple date-change CR.

In short, while a full-year CR sounds simple enough, writing one is almost as difficult as negotiating the bills.

Any other challenges to a full-year CR?

Yes, and it's a big one. Assuming a simple “date-change” CR is off the table, Congress would still have to agree on topline spending levels for defense and nondefense. Again, that's harder than it sounds. In a strict full-year CR, the FY25 toplines would be exactly the same as in FY24.



But under the FRA (see more on that law below), defense appropriations in FY25 are slated to rise by 1%. Defense hawks in both parties will likely want to take full advantage of that higher cap. (This is complicated somewhat by Republican plans to provide additional defense funding as part of reconciliation. But reconciliation will certainly not be resolved by March 14.)

Meanwhile, the nondefense side presents its own issues. Democrats and Republicans will likely have very different ideas about whether and how to continue for another year the nondefense “side deal” adjustments that were negotiated alongside the FRA. More on that below, but the main point is that there’s currently no consensus about what it would mean to simply extend the FY24 nondefense spending levels for another year.

Once again, reaching these agreements would take a lot of work. Not to mention, a full-year CR could result in a loss of all House and Senate earmarks for FY25. It is easy to see why a full-year CR can quickly start to lose its allure.

Let’s back up. What are the current caps that apply to FY25 appropriations?

The FRA, also known as the debt limit deal, established caps for FY24 and FY25 on appropriations for both the defense and the nondefense categories of funding. However, the FRA also included a set of “backstop” caps (sometimes called “Section 102 caps”) that would become operative on January 1 if full-year appropriations bills had not yet been enacted. Since that’s certainly the case right now, today the caps are, technically, the backstop caps. Those caps were set at 1% below the FY23 levels. (See the table on page 4 for more details.)

The purpose of the backstop caps was to incentivize both Republicans and Democrats to pass full-year appropriations bills and abide by the terms of the FRA, including the several “side deal” adjustments that allowed that deal to come together. (“Side deal” adjustments would allow for more nondefense discretionary funding outside of the caps set within the text of FRA to provide more parity with defense spending. Those “side deal” adjustments were altered as part of the FY24 omnibus spending bill, but the underlying FRA was not changed, so the original FRA statutory caps as well as the backstop caps remain in place.)

Explain the sequester again, please. What would trigger it?

In general, sequestrations occur when Congress enacts funding levels above statutory caps. A sequestration is ordered to reduce total spending to match the cap levels. Currently, the cap levels are the “backstop” ones. As long as full-year appropriations have not been enacted, the backstop caps will remain. And since the current CR levels are well above the backstop caps, a temporary CR that continues current levels past April 30 would trigger a sequester to bring funding levels back down to the caps.



If Congress enacts full-year appropriations for all accounts before April 30, then the caps revert to the FRA levels, and so long as those full-year appropriations are at or below those levels, there would be no sequester.

What would happen if there was a sequestration? What would be affected?

The Office of Management and Budget (OMB) would first calculate the amount of funding that was appropriated above the caps. This calculation is done for each cap category, defense and nondefense, separately. OMB would then apply a uniform percentage cut to all non-exempt accounts within each cap category. The key word in the previous sentence was “non-exempt.” There are some accounts that would be exempt from the sequester. For example, most veterans’ programs are exempt. Mandatory funding is, of course, also not affected by a discretionary sequester.

What happens to defense funding under a sequester? What about non-defense funding?

Defense funding stands to suffer a much larger sequester than nondefense funding. That’s because defense received a bigger increase in funding in FY24 than nondefense did, and the backstop caps are set at levels that are 1% below FY23. Recall that last year, defense funding went up by 3% over FY23 levels, whereas nondefense funding was essentially flat. Therefore, a cut back to just under FY23 levels means a roughly 4% cut to defense and a 1% cut to nondefense.

The FRA requires Congress to meet an April 30 deadline to enact “full-year appropriations” for all accounts. What counts as “full-year appropriations”?

Any legislative means of funding federal accounts through September 30, 2025, the last day of FY25, counts as “full-year appropriations.” This includes a full-year CR or negotiated appropriations bills, or a mix of the two. In other words, Congress could meet the April 30 deadline by passing a handful of negotiated bills (there are 12 bills in all) and full-year CRs for the rest. As long as every account has appropriated funding through the end of the year, that will be enough, under the FRA, to turn off the “backstop caps” and switch the caps back to their original levels. It is worth noting again, however, that a true, simple “date-change” CR through the end of the year is unlikely.

Can Congress pass a CR that doesn’t trigger sequestration? Can Congress adjust the caps or turn off sequestration?

Yes. With sufficient votes, Congress can always override a previously enacted law. In this case, Congress could decide to extend a CR at the FY24 levels and simply adjust the FY25 caps accordingly, thereby avoiding sequestration and maintaining the status quo in funding levels.

Congress could also choose to make the caps non-enforceable (i.e., turn off the sequester), repeal the caps entirely, or adjust the cap to match newly agreed-upon levels, as was done frequently under the Budget Control Act of 2011.

How likely is a sequestration to happen?

Predictions are very hard, as the saying goes, especially about the future. Congress has never allowed a sequestration like this to go into effect before (there was a “sequester” in 2013, but the circumstances were quite different), and conventional wisdom would argue against one occurring this year. Because Congress and the White House are all controlled by one party, Republicans could be blamed for the consequences of an across-the-board reduction. Furthermore, the defense sequester is larger than the nondefense sequester, so that would generally suggest that defense-minded hawks from both parties would want to avoid it.

All of that said, we are in unprecedented times, and traditional thinking might not apply. It is possible that the Trump Administration might not object to sequestration, and instead view it as an acceptable means of cutting spending, especially in light of plans to boost defense spending through reconciliation.

	FY23	FY24	FY25	
			FRA Caps	Backstop Caps
Defense Topline	858	886	895	850
Nondefense (NDD) Topline	745	704	711	738
<i>NDD Adjustments</i>	28	28	69*	28
<i>Offsets</i>		42		
Total NDD resources	773	773	780	765

* Some numbers may not add to totals due to rounding. The exact distribution of adjustments and offsets is one of the main sticking points in the ultimate resolution of FY25 appropriations. Under the original “side deal” that accompanied the FRA, there was to be \$48 billion of adjustments, and \$21 billion of offsets (a combination of COVID rescissions and a second \$10 billion IRS rescission). It is unclear, however, what the final disposition of FY25 adjustments and offsets will be because the FY24 appropriations bills used more COVID rescissions and included the second tranche of IRS rescissions.