NSDC

NATIONAL SPECIAL DISTRICTS COALITION

Special Report

Debt Limit

June 5, 2023

Contents

Introduction

On Saturday, President Joe Biden and Speaker Kevin McCarthy (R-Calif.) announced an agreement on negotiated terms lifting the $31.4 trillion debt limit for two years through January 1, 2025, including spending caps for Fiscal Years (FY) 2024 and 2025. On Wednesday night, the House voted to pass the debt limit legislation, the *Fiscal Responsibility Act,* on a bipartisan vote of 314-217. 265 Democrats and 149 Republicans voted for the bill. On Thursday, the Senate passed the legislation on a bipartisan vote of 66-36. President Biden will sign the bill into law prior to June 5, just days before the U.S. would default on their loans.

This NSDC Special Report covers the essential items within the Fiscal Responsibility Act. NSDC will continue to provide updates as we learn more from Capitol Hill.

Division A – Limit Federal Spending

FY 24 & 25 Funding Subsection

As part of the bipartisan agreement, the *Fiscal Responsibility Act* would establish discretionary budget caps for FYs 2024 and 2025 and includes spending limits for both defense and nondefense discretionary spending for both fiscal years.

For FY 2024, the bill would cap topline discretionary spending at $1.58 trillion or approximately 6.7 percent less than the comparable FY 2023 topline spending level. For FY 2024, defense spending would be limited to $886.3 billion, approximately 3 percent or $28 billion more than the comparable FY 2023 level, and non-defense spending would be limited to $703.6 billion, approximately 9 percent or $70 billion less than the comparable FY 2023 level. For FY 2025, the bill would allow for 1 percent growth over the prescribed FY 2024 spending levels, capping topline discretionary spending at $1.606 trillion and limiting defense spending to $895.2 billion and non-defense spending to $710.7 billion.

Spending Type	FY 2024 (in B)	FY 2025 (in B)
Defense	$886.3	$895.2
Non-Defense	$703.7	$710.7
Total	$1,508	$1,605.9

To incentivize timely enactment of federal spending bills, discretionary spending levels would be reduced 1 percent below current FY 2023 levels if FY 2024 and 2025 bills are not enacted by January 1 of the respective fiscal year. Furthermore, the topline spending caps for both FY 2024 and 2025 would be enforced through sequestration in which automatic spending cuts are triggered if these spending limits are exceeded. However, the bill allows for adjustments to account for spending related to disaster relief by reinstating the disaster funding cap adjustment formula that was in place from FYs 2012-2021 under the authority of the Budget Control Act of 2011 (BCA). This formula allows for adjustments to discretionary spending caps to account for disaster relief spending by 5 percent of the total appropriations for major disasters as designated by the Stafford Act.

If enacted, the bill would also allow for adjustments based on spending related to disability reviews and redeterminations, controlling health care fraud and abuse, and making grants to states for Social Security reemployment services and eligibility assessment. However, the amount of these adjustments would be statutorily capped for both FYs 2024 and 2025.

Additionally, the bill would prescribe non-enforceable topline spending goals for FYs 2026 through 2029, allowing for 1 percent annual growth each fiscal year and adjusting for U.S. Department of Veterans Affairs health spending. For FYs 2026-2029, the *Fiscal Responsibility Act* does not specify defense and non-defense spending limits and the topline amounts set by the bill are as follows:

Fiscal Year	Total (in billions)
FY 2026	$1,621.9
FY 2027	$1,638.2
FY 2028	$1,654.6
FY 2029	$1,671.1

The agreement provides $20.3 billion in FY 2024 and $24.5 billion in FY 2025 outside of the discretionary caps for the U.S. Department of Veterans Affairs (VA) Cost of War Toxic Exposure Fund. Authorized as part of the bipartisan Honoring Our PACT Act (PL 117-168), the Cost of War fund enables VA to pay for the health care and disability benefits that are newly available to veterans exposed to airborne toxins during the Global War on Terror.

Division B – Recission of Unobligated Funds

The bipartisan legislation will rescind $27.72 billion in unobligated Covid funding through the American Rescue Plan Act (ARPA), the Coronavirus Aid, Relief and Economic Security (CARES) Act, and other pandemic relief efforts. The recissions primarily come from public health emergency funds, infrastructure, and disaster relief programs. See the complete list of recessions below.

Agency	Account	Program/Activity	Estimated Rescission Amount ($M)
CNCS	485-00-2728	Operating Expenses	286.9
DOL	012-05-0179	State Unemployment Insurance and Employment Service Operations	1,000.0
DOT	021-15-0548	Highway Infrastructure Programs	2,242.8
DOT	021-04-0110	Aviation Manufacturing Jobs Protection Program	1,741.1
ED	018-10-0251	Education Stabilization Fund	391.9
HHS - ASPR	009-90-0140	Public Health and Social Services Emergency Fund	10,419.5
HHS - ASPR	009-90-0150	Defense Production Act	864.1
HHS - CDC	009-20-0943	CDC-wide Activities and Program Supports	1,739.0
HHS - FDA	009-10-9911	Vaccine Efficacy and Supply Chain Monitoring	123.0
HHS - HRSA	009-15-0350	Health Resources and Services	330.0
SBA	028-00-1152	Disaster Loans Program Account	1,474.3
SBA	028-00-1152	Disaster Loans Program Account	859.2
Treasury	015-05-1894	Air Carrier Worker Support	784.07
Treasury	015-05-1889	Economic Stabilization Program Account	200.00
Treasury	015-05-0142	State Small Business Credit Initiative	150.00
Treasury	015-05-0161	Emergency Capital Investment Fund	290.89
USDA	005-03-0408	Food Supply Chain and Agriculture Pandemic Response Program	1,356.55
USDA	005-03-9913	Office of the Secretary	1,130.72
USDA	005-03-9913	Office of the Secretary	327.04
USDA	005-45-2500	Marketing Services	395.91
Rescissions under $150 million, with no or limited programmatic impact			1,616.72
			27,724.11

Listed below are specific recissions:

- **Department of Health and Human Services - Public Health and Social Services Emergency Fund ($10.41 billion):** After the recission, $10 billion in funds will remain.
- **Department of Transportation – Highway Infrastructure Programs** (**$2.24 billion**): this recission is for FY 2021 Omnibus resources that do not directly impact IIJA/BIL resources.
- **Department of Transportation – Aviation Manufacturing Jobs Protection Program ($1.74 billion):** rescinds funds from the ARPA program providing funding to eligible businesses to pay up to half of their compensation costs for specific categories of employees for up to six months.
- **Department of Health and Human Services – Centers for Disease Control and Prevention ($1.739 billion):** The recission will impact vaccine safety and effectiveness investments. Approximately $1.5 billion will remain after the recission, with $500 million remaining in the Infectious Diseases Rapid Response Reserve Fund.
- **Department of Health and Human Services – Health Resources and Services Administration ($330 million):** The legislation rescinds funds to address ongoing health workforce challenges and shortages and for administrative expenses.

The bill will rescind $1.39 billion of the $80 billion in funding to the Internal Revenue Service (IRS) originally allocated for new tax enforcement agents through the Inflation Reduction Act (P.L. 117-169). In addition, the White House is in agreement to reallocate an additional $20 billion in IRS funding to other nondefense related spending for fiscal years 2024 and 2025. The nonpartisan Congressional Budget Office (CBO) score of the $21.4 billion cuts to the IRS will result in $40.9 billion in lost revenue, increasing the federal deficit by $19 billion.

Of important note, the Fiscal Responsibility Act will **not rescind** any funding from the following:

- The American Rescue Plan Act's (P.L. 117-2) State and Local Fiscal Recovery Fund (SLFRF)
- The Infrastructure Investment and Jobs Act/Bipartisan Infrastructure Law (P.L. 117-58)
- Clean energy tax credits authorized within the Inflation Reduction Act (P.L. 117-169)
- $3.1 billion in funds for the Department of Transportation's Transit Grants

Administrative Pay-As-You-Go (PAY-GO)

Establishes mandates for the executive branch to offset excessive spending with spending reductions. Essentially, any discretionary regulation that increases direct government spending by $1 billion over a period of 10 years or $100 million in a single year must receive an equal or greater offset. The measure comes with a waiver authority for the director of the Office of Management and Budget, making it possible to waive the PAYGO requirement when it is "necessary for the delivery of essential services" or "necessary for effective program delivery."

Division C – Grow the Economy

Temporary Assistance to Needy Families (TANF)

The Temporary Assistance for Needy Families (TANF) program provides financial assistance and social services to low-income families with at least one dependent child. States receive block grants from the federal government and have flexibility in how they use the funds.

Starting in FY 2025, the baseline for calculating caseload reduction credits will be shifted from 2005 to 2015. Additionally, a state's workforce participation rate will only consider families receiving at least $35 in TANF benefits per month. A new pilot program will also begin in FY 2024, allowing up to five states to establish benchmarks for employment and family outcomes for TANF recipients. This new program aims to promote greater work participation and requires states to have systems in place for reducing assistance to families when individuals refuse to engage in work activities.

Overall, the TANF provisions in the final agreement aim to maintain states' flexibility in supporting vulnerable children. The CBO estimates that these adjustments are estimated to reduce direct spending by $5 million through FY 2033.

Supplemental Nutrition Assistance Program (SNAP)

Currently, able-bodied adults without dependents (ABAWDs) who are under 50 years old and not living with children are subject to a three-month time limit for SNAP benefits unless they meet specific work requirements. States have some flexibility in granting exemptions and waivers.

Under the new agreement, the age limit for ABAWDs subject to the time limit is expanded to individuals up to age 54, with the increase phased in by fiscal year 2025 and remaining in effect until FY 2030. Homeless individuals, veterans, and youth aging out of foster care are exempt from the ABAWD time limit during this period. The new agreement also reduces the allowable state exemptions for ABAWDs from 12 percent to 8 percent and eliminates the option for states to carry over unused exemptions from one year to the next. Additionally, the U.S. Department of Agriculture is required to publish all state waiver requests related to ABAWDs and provide its response.

These changes are expected to have mixed effects on SNAP spending, with some provisions reducing spending and others increasing it, resulting in a net increase in direct spending by $2.1 billion through fiscal year 2033, according to estimates by the CBO.

Permitting Reform

The debt limit agreement includes notable provisions related to permitting reform. It focuses on modifying the approval processes for large infrastructure projects that require National Environmental Policy Act (NEPA) review. These modifications include establishing a project threshold for review, introducing interagency coordination for projects requiring multiple agency reviews, and implementing deadlines to prevent project delays.

The agreement limits the consideration of "reasonably foreseeable environmental effects" by federal agencies under NEPA for infrastructure projects seeking federal approval. This measure sets deadlines for NEPA reviews to be completed, with one year for environmental assessments and two years for environmental impact statements. Lead agencies can extend these deadlines in collaboration with project sponsors if additional time is needed. Project applicants can sue in federal court to enforce the deadlines, and a court can establish a schedule and deadline for the agency to act. Lead agencies must provide an annual report to Congress on reviews that did not meet their deadlines, along with explanations for each failure.

Additionally, the agreement sets page limits for NEPA environmental impact statements and environmental assessments, with complex projects limited to 300 pages, less complex projects limited to 150 pages, and environmental assessments limited to 75 pages. For projects involving multiple federal agencies, a memorandum of agreement must be established between the lead agency, project sponsor, and relevant agencies. The lead agency will supervise environmental documents, engage other agencies early in the process, develop a review schedule, address delays, and hold meetings with interested agencies. Environmental documents must be proposed jointly.

This legislation has additional measures that allow federal agencies to adopt another agency's categorical exclusion and permit the use of an environmental document up to five years old, provided there are no significant changes that would affect the analysis. It also accelerates the completion of the Mountain Valley Pipeline and mandates the Council on Environmental Quality to conduct a study on the potential of online and digital technologies to address review delays, enhance public accessibility, and improve transparency. A report on "E-NEPA" is required to be submitted to Congress within one year of the legislation's enactment.

Division D – Increase in Debt Limit

The debt limit under this legislation is temporarily extended through January 1, 2025. The Treasury is prohibited from raising the cash balance beyond its regular operating levels or accelerating obligations to meet the debt limit. The Secretary of the Treasury will very likely be able to utilize "extraordinary measures" to avoid a default on the national debt between January and May 2025, providing the newly elected 119th Congress several months to pass new legislation addressing the debt limit issue.