Congressional Update: House Speaker and President Reach Agreement to Suspend the Debt Limit

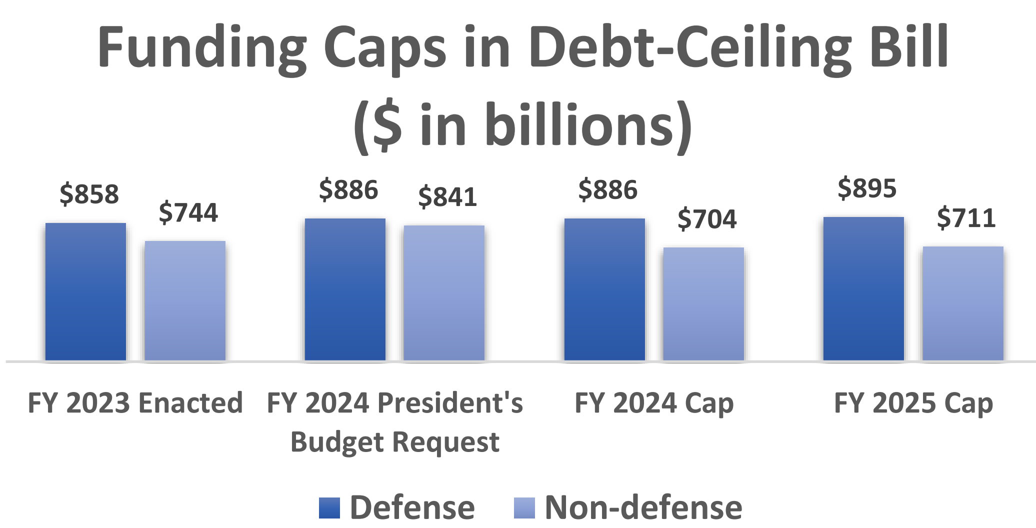
Lewis-Burke Associates LLC – May 31, 2023

Over the weekend, House Speaker Kevin McCarthy (R-CA) and President Biden struck a preliminary agreement, called the *Fiscal Responsibility Act*, that would suspend the debt ceiling through January 1, 2025, and limit discretionary spending over the next two years, among other provisions. The first major test of support will happen later today when the full House votes on the bill. If approved by the House, the bill will proceed to the Senate, which is expected to pass it before Treasury Secretary Janet Yellen's set "x-date" of June 5.

See below for a summary and analysis of key provisions in the legislation:

Discretionary Spending

In exchange for suspending the debt limit for two years, the bill would cap discretionary spending for two years, with a slight increase for defense spending and reduced overall funding for nondefense spending (see graphic below). Specifically, in FY 2024, the bill would provide $886 billion, a $28 billion or 3.3 percent increase above the FY 2023 enacted level and consistent with the FY 2024 President's budget request, for defense discretionary spending. In FY 2025, defense spending would grow to $895 billion, a 1 percent increase. Conversely, nondefense spending would see a 5.4 percent cut compared to FY 2023, for a total of $704 billion that includes $121 billion for veterans' medical care. In FY 2025, nondefense spending would grow to $711 billion, a 1 percent increase above FY 2024. The deal between the President and Speaker also includes "flexible" funding, not written into the bill for future nondefense discretionary spending.



The FY 2024 President's budget request proposed a $68 billion or 9 percent increase to nondefense programs, boosting funding for key agencies such as the National Institutes of Health (NIH), National Science Foundation (NSF), Department of Energy (DOE), and National Aeronautics and Space Administration (NASA) as well as major education, health care and workforce development programs.

Under the budget environment set by the bill, new initiatives, including implementation of the science provisions of the *CHIPS and Science Act*, could be limited. With flexibility in shoring up nondefense programs, certain federal agencies and major initiatives may receive funding increases above FY 2023 levels. However, Congress, in its FY 2024 appropriations process, will be much more constrained than in prior years and most of the increases proposed in the budget request will not be realized.

With a budget agreement in place, both the House and Senate Appropriations Committees plan to advance FY 2024 appropriations bills starting in June. While a Continuing Resolution (CR) is still likely needed to avoid a government shutdown and extend funding for most, if not all, federal agencies at the end of the fiscal year on September 30, 2023, to give Congress time to negotiate a final spending package, a budget agreement makes it more likely for Congress to pass final FY 2024 appropriations. There is also a penalty included in the legislation that institutes a 1 cut to all defense and nondefense programs if FY 2024 appropriations legislation is not passed before the end of the 2023 calendar year, which provides Congress an additional incentive. In addition to appropriations, a path forward on the debt ceiling and a federal budget unlocks negotiations on other stalled legislation, including the FY 2024 National Defense Authorization Act, the Farm Bill, the reauthorization of the Federal Aviation Administration, and reauthorization of the *Pandemic and All-Hazards Preparedness Act* (PAHPA).

COVID Relief Funds
The deal rescinds approximately $30 billion in currently unobligated federal COVID relief funding that was provided in multiple pieces of legislation from the 116th and 117th Congress. $507 million of the unobligated funding was meant for research and antiviral development at the National Institute of Allergy and Infectious Diseases (NIAID). Additional unobligated funding was meant for rental assistance, small business loans, and rural development programs, among other programs.

IRS Funding
The deal rescinds a portion of the additional $80 billion the Internal Revenue Service (IRS) received under the *Inflation Reduction Act*. The agreement calls for a rescission of $1.4 billion in IRS funding, with an additional $20 billion available for nondefense discretionary programs over the next two years.

SNAP Work Requirements and TANF Credit
The deal calls for increasing the maximum age for work requirements to receive Supplemental Nutrition Assistance Program (SNAP) to 54 by 2025. However, this provision of the bill expires October 1, 2030. The bill exempts homeless individuals, veterans, and individuals aged 24 and younger who were in foster care when they turned 18. Regarding the Temporary Assistance to Needy Families (TANF) program, the bill readjusts a credit to states impacting work requirements for recipients.

Student Loan Repayment
The deal pauses the administration's federal student loan payments and the accrual of interest on those loans sixty days after June 30, 2023. The broad student loan relief program offered by the Biden Administration that would discharge student loans for over 40 million individuals is set to be decided by the Supreme Court soon.

Energy Projects
The deal streamlines permitting approval for energy projects by reforming portions of the National Environmental Policy Act (NEPA). The bill also expedites permitting for the Mountain Valley Pipeline, a priority for West Virginia Senators Joe Manchin (D-WV) and Shelley Moore Capito (R-WV).

Lewis-Burke will continue to provide updates as the legislation moves forward and impacts on major federal programs become clearer.