Memorandum

To: Interested Parties
From: CRFB Staff
Subject: Rumored Budget Deal is Shaping Up to Be Very Costly
Date: 1/25/2017

While immigration received most of the attention in discussions surrounding funding of the government, negotiations involve many other issues that could significantly add to the debt. Congress has already added over $30 billion to the debt as part of the short-term continuing resolution by delaying or suspending three taxes funding the Affordable Care Act. Unfortunately, it appears that negotiations on a long-term funding agreement could add substantially more to the deficit.

The budget deal being negotiated by Congressional leaders and the administration could include increases in discretionary spending limits for Fiscal Years (FY) 2018 and 2019 that go significantly beyond reversing the reductions from sequestration. It could also include additional spending effectively exempt from budget discipline, facilitate gimmicks to allow even greater increases in spending above spending limits, and include further tax cuts.

The total cost of the package could exceed $400 billion, primarily for increased spending over the next two years. The annual deficit impact would be comparable to the tax reform legislation enacted last year (~$150 billion/year). The temporary spending increases in the deal would create substantial funding cliffs at the end of 2019, resulting in much greater costs if Congress decides to continue funding at higher levels.

In combination with last year's tax cuts, a budget deal along the lines being discussed would result in deficits of over $800 billion in FY 2018 and a return to trillion-dollar deficits by 2019.The deal could put the debt on a path to exceed 100% of GDP by 2025 if the higher spending in the deal was continued.

Sequester relief/increases in discretionary spending limits for FY 2018 and FY 2019: The rumored deal could increase discretionary spending limits by $100-$150 billion a year, which works out to $1.0-$1.5 trillion over ten years if the increased spending levels are extended. Reversing the reductions in discretionary spending limits for FY 2018 and 2019 from the sequester would increase defense spending by $54 billion and non-defense discretionary by $37 billion per year. However, press reports suggest the spending increases could be as much as $70-$80 billion for defense and $50-70 billion for non-defense per year.

Lawmakers may allow for an even greater increase in discretionary spending by relaxing restrictions on phony savings from CHIMPs (Changes in Mandatory Programs), using them as a gimmick to offset an even greater increase in non-defense discretionary spending above any bump in the statutory limit without producing any actual savings.

Further reading - Discretionary Cap Deal Could Cost Over $100 Billion Per Year

Disaster relief: The House passed an $81 billion disaster package that has yet to be considered in the Senate. There have been some reports that Senate may consider additional assistance for Puerto Rico and the U.S. Virgin Islands, which could increase the cost to approximately $90 billion. All of it would be designated as emergency spending not constrained by discretionary spending limits.

DACA and border security: The Congressional Budget Office (CBO) has estimated that providing legal status to DACA beneficiaries with a path to citizenship would cost $26 billion by making some individuals eligible for means-tested programs for which non-citizens are not eligible. The budgetary impact would be negligible without a path to citizenship.

President Trump requested $1.6 billion for the wall in FY 2018 and $18 billion over 10 years to complete construction. Discussions have ranged from funding the first year request to a mandatory appropriation or cap adjustment providing funding for several years, up to the full amount requested. There has also been discussion of additional funding for border security and immigration enforcement.

Other domestic priorities: A budget deal could include additional funding for priorities such as veterans' programs, combatting opioid abuse, rural infrastructure, and state/local homeland security grants beyond the increase in non-defense discretionary spending limits. This could come in the form of cap adjustments automatically increasing spending limits for increased appropriations in priority programs, or direct mandatory appropriations exempt from PAYGO. Budget negotiators have reportedly considered as much as $80 billion in additional funding for these domestic priorities in addition to the increases in discretionary spending limits. Although this funding would be provided as a one-time increase in funding for FY 2018 and 2019, it would create pressure to continue funding at higher levels in future years.

Multi-employer pension funding relief: Budget negotiators are reportedly considering proposals to provide funding relief for multi-employer pension plans facing a significant shortfall. The most prominent proposal, The Brown-Neal Butch Lewis Act, would provide distressed multiemployer plans with low-interest 30-year loans large enough to enable them to pay full benefits. The legislation would also require Congress to provide PBGC with as much funding as necessary for it to meet all multiemployer claims from plans that would require assistance to pay off their full retiree liability. Although proponents of the Brown-Neal legislation have argued that it would come at no cost to the government, CBO is likely to estimate a significant subsidy cost reflecting the high risk of default on the loans. Although CBO has not produced an estimate of the Brown-Neal bill, previous CBO analysis suggests that if CBO scores the bill using Federal Credit Reform Act accounting methods, the cost could exceed $100 billion. The cost could be even greater if scored using fair-value accounting methods. [i]

Community Health Center funding & health extenders: A budget deal will likely include an extension of various health care provisions from the 2015 SGR bill known as MACRA, for two years with a cost of approximately $10 billion for a two-year extension**.** Continuing the provisions permanently would cost approximately $40 billion over ten years.

Further reading - [Health Package Sets Stage For Nearly $600 Billion of Costs]

Affordable Care Act (ACA) stabilization: During tax debate, GOP leaders assured Sen. Collins (R-ME) they would move on the Alexander-Murray bill funding cost-sharing reduction (CSR) payments under the ACA and increasing state flexibility under the ACA as well as the Collins-Nelson bill providing federal reinsurance for insurance plans in ACA exchanges.

Funding for CSR payments is still assumed in the baseline despite the HHS decision to stop payments, so legislation providing funding does not score with a cost and would actually achieve modest savings by reducing premiums and costs of premium subsidies. The Collins-Nelson bill would provide $4.5 billion in funding for federal reinsurance over two years, although roughly half of that spending would be offset by reductions in premiums reducing the cost of premium subsidies.

Tax extenders: Over 30 tax provisions expired at the end of 2016 and were not in effect during 2017 but there have been some suggestions that they could be revived and retroactively extended for 2017, even though the 2015 PATH Act scheduled many to expire permanently and tax reform effectively claimed savings from allowing them to remain expired.

Deeming resolution: Congress could include a “deeming resolution” in a budget deal to allow for consideration of appropriations bills instead of passing a FY 2019 budget resolution. This would set budget allocations for spending and revenues to enforce budget act points of order in the House and Senate. A deeming resolution could include other changes in Congressional budget rules and points of order such as relaxation of the limits on CHIMPs established by the FY16 budget resolution.

Although Congress would still have the option of passing a budget resolution later in the year, adoptions of an FY 2019 budget resolution (and possible reconciliation instructions for deficit reduction) is much less likely after enactment of a deeming resolution because a deeming resolution would allow for consideration of appropriations bills and other legislation affecting spending and revenues without adopting a budget resolution. Indeed, the budget agreements enacted in 2013 and 2015 increasing discretionary spending limits both included deeming resolutions and Congress did not adopt budget resolutions in 2014 and 2016, instead using the deeming resolutions in the agreement.

Debt Ceiling: The government hit the debt ceiling in December. It must be raised by late March or early April per CBO’s estimation made in November. An increase in or suspension of the debt limit is likely to be included either in legislation implementing a budget deal increasing spending limits or in the subsequent omnibus appropriations bill.

A limited number of offsets: It appears likely that only a small portion of the costs of a budget deal would be offset. The primary offsets being considered include an extension of the mandatory sequester for three years, additional spectrum auctions and other asset sales, and rescissions of various pots of unused mandatory spending. Total offsets are likely to be approximately $100 billion in budget authority, but because many of the offsets are reductions in budget authority that was unlikely to be spent, the actual outlay savings – the amount affecting the deficit – are likely to be closer to $50 billion.

Potential Costs of Budget Deal

Issue	Potential Ten-Year Cost
Increasing Defense/Non-Defense Discretionary Caps	Could be up to $290 billion for a 2-year deal; $1.0-$1.5 trillion if extended
Disaster Relief	$80-$90 billion
DACA	Legislation providing legal status to DACA beneficiaries with a path to citizenship would cost $26 billion over ten years; budgetary impact would be negligible if there is not a path to citizenship.
Border Wall	Costs of funding the wall could range from $1.8 billion for FY 2018 request to begin work up to $25 billion if budget deal includes cap adjustments or mandatory appropriations to provide multi-year funding.
Funding for veterans, opioid abuse, rural infrastructure, first responders and other domestic priorities	$20-$80 billion
Community Health Center funding & Health Extenders – expiring health provisions	$10 billion
Pension funding relief	Could be as much as $100+ billion
Obamacare Stabilization	Unknown; Alexander-Murray previously scored as reducing deficit by $3.8 billion, Nelson-Collins legislation would provide $4.5 billion in funding for reinsurance but roughly half of that cost would be offset by lower premiums.
Tax Extenders	~$20 billion for 2 years; ~$135 billion if extended

Conclusion: Past "sequester relief" deals have aimed to offset changes in discretionary spending with reforms to mandatory spending programs and receipts. Any end-of-year cap deal should do the same. Earlier this year, we identified $400 billion of mandatory savings with bipartisan support that could be used to offset new costs. Any new or increased mandatory spending and any reductions in revenues should be offset to comply with PAYGO rules. Any spending bills should comply with discretionary spending limits in law without relying on abuse of Overseas Contingency Operations designations, emergency designations or phony savings to circumvent the limits.

The 2015 PATH Act scheduled numerous tax breaks to expire permanently at the end of 2016. Despite this agreement, lawmakers assumed those provisions would continue in developing their revenue target for tax reform. Any expired provisions not addressed in tax reform should be laid to rest or paid for – the same money cannot be used three different times.

---

[i] *This paragraph was updated on 3/1/2018 for corrections.*