



FY 2014 Appropriations: Bipartisan Budget Agreement Reached to Alleviate Spending Sequester

Lewis-Burke Associates, LLC – December 11, 2013

Just days before their December 13 deadline, the chairs of the House and Senate Budget Committees announced a modest budget agreement that will restore funding to the appropriations process for both fiscal years (FY) 2014 and 2015 and avoid further threat of a government shutdown. The House and Senate leadership must now sell the budget agreement to their members to enact it prior to leaving for the holidays. The House and Senate Appropriations Committees will then have about a month to negotiate a final FY 2014 Continuing Resolution (CR) and omnibus appropriations bill before the current CR expires on January 15.

The key elements of the bipartisan budget agreement would:

- Provide \$63 billion over two years above the potential sequester to the House and Senate Appropriations Committees for purposes of writing the FY 2014 and FY 2015 spending bills. These funds would be split evenly between defense and non-defense spending. The new spending level provides flexibility to the Appropriations Committees to sustain funding for federal science agencies, and education programs, including student aid. Even with budget constraints, federal science agencies, such as the National Science Foundation, Department of Energy Office of Science, etc. have received strong bipartisan support, and the budget agreement alleviates pressure on domestic spending overall.
- Provide an overall spending level of \$1.012 trillion for FY 2014. This level is about halfway between the House budget resolution and potential sequester level \$967.5 billion, and the Senate budget resolution spending cap of \$1.058 trillion. The House and Senate Appropriations Committees will be responsible for allocating these funds among the various Subcommittees so they can prepare their chapters of an omnibus bill.
- Within this total, \$491.8 billion would be provided for non-defense discretionary spending for FY 2014, an increase of \$22.4 billion above the current law (sequester) level. The agreement sets FY 2015 spending for non-defense programs at \$492.5 billion, an increase of \$9.3 billion above the current law (sequester) level.
- The big winner in the budget agreement is the Department of Defense and related programs, which faced the full brunt of the anticipated \$20 billion sequester in January. The budget agreement would provide a total of \$520.5 billion for defense discretionary programs in FY 2014, and \$521.4 billion in FY 2015, increases of \$22.4 billion and \$9.3 billion, respectively.
- Save an additional \$28 billion by extending certain mandatory savings, most of which is the 2 percent reduction to Medicare providers, for an additional two years (through FY 2023) beyond the *Budget Control Act of 2011*.

- Include a package of legislative savings from mandatory programs, user fees, and miscellaneous program reforms and changes totaling \$85 billion over ten years to offset the additional funding provided to the Appropriations Committees to help alleviate the sequester. The net deficit reduction would be approximately \$23 billion under this agreement.

While the House and Senate conferees on the FY 2014 budget resolution were charged with negotiating an agreement to help alleviate the upcoming sequester, the House Budget Committee Chairman, Representative Paul Ryan (R-WI), and Senate Budget Committee Chairwoman, Senator Patty Murray (D-WA), largely negotiated the agreement in secret. The agreement avoids the hot button issues for both Republicans and Democrats by deferring action on taxes/revenues and the major entitlement programs, including Social Security and Medicare.

Conservative House Republicans argued for a more ambitious deficit reduction agreement, or a CR at the sequester level of \$967.5 billion. Congressional Democrats are concerned that the agreement does not make provision to further extend unemployment compensation benefits beyond December. Even with these misgivings, the agreement is likely to clear both houses of Congress with bipartisan support by the end of next week, giving the Appropriations Committees time over the holiday break to write the CR/omnibus bill. The President has indicated he will support the agreement.

Savings to Offset the Sequester

In the weeks of negotiations, Rep. Ryan and Chairman Murray considered a broad array of potential savings to help alleviate the sequester. The final package totals \$85 billion in savings over ten years through a variety of mechanisms.

The budget agreement does not provide relief from the 2 percent reduction to Medicare providers. It would save an additional \$28 billion by extending certain mandatory savings, most of which is associated with the 2 percent reduction to Medicare providers, for an additional two years (through FY 2023) beyond the *Budget Control Act of 2011*.

The final budget agreement contains two cuts to higher education programs that affect student loan service providers, but are unlikely to affect universities. The first cut is to mandatory funds paid to loan guaranty agencies to rehabilitate student loans in the Federal Family Education Loan Program (FFELP). The second cut eliminates guaranteed non-profit service contracts to provide counseling and other services to borrowers. These contracts will now be competed and paid for out of discretionary funds. These cuts could create a shift in the loan service providers for students currently paying back loans.

Some of the most controversial provisions affect federal employees and certain retired military members. Following three years of pay freezes, hiring freezes, and the government shutdown and furloughs, the budget agreement would require new federal employees to contribute more to their retirement benefits. Senior members of both the House and Senate representing significant numbers of federal employees oppose this change. The agreement would also gradually reduce by one percent the cost-of-living adjustments for working-age military retirees under age 62.

The agreement would raise premiums that private companies pay the federal government to guarantee their pension benefits so private companies cover more of the cost for estimated savings of \$7.9 billion over ten years.

The budget agreement also depends on user fees to offset additional spending in the appropriations bills. The legislation would increase aviation security service fees and extends authority to collect certain customs user fees.

Within the provisions to combat waste, fraud, and abuse, the budget agreement would expand authorities to the states to recover unemployment insurance overpayments, and it would strengthen Medicaid third-party liability for claims covered by health insurance or beneficiary-liability settlements if it wouldn't harm the beneficiary's access to care. The Medicaid provision would save an estimated \$1.4 billion over ten years.

A complete list of the savings provisions included in the budget agreement can be found in the Summary of the Bipartisan Budget Act of 2013 referenced below.

Sources:

- Summary of the Bipartisan Budget Act of 2013, Senate Budget Committee, December 10, 2013, http://www.budget.senate.gov/democratic/index.cfm/files/serve?File_id=66938cce-edd9-406e-bf9f-e56b47644568.
- Legislative language of the amendment to implement the Bipartisan Budget Act of 2013, http://www.budget.senate.gov/democratic/index.cfm/files/serve?File_id=605114ec-761c-4974-a647-12f50242c888.
- The Bipartisan Budget Agreement's Spending Cuts, House Budget Committee, http://budget.house.gov/UploadedFiles/Bipartisan_Budget_Agreement_Spending_Cuts.pdf.