Center on Budget and Policy Priorities

1275 First Street NE, Suite 1200
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

June 21, 2023

Debt Ceiling Deal Squeezes Non-Defense Appropriations, Even With Agreed-Upon Adjustments

By David Reich

Congressional leaders and President Biden reached an agreement in May to suspend for two years and then raise the limit on federal borrowing. The agreement includes measures to limit or reduce certain future funding that is provided through annual appropriations. The agreed-upon levels themselves are tight — too low to even keep up with inflation. Funding below those levels, as House Republicans are now pursuing, would have damaging effects across a range of important investments and essential government services.

Annual appropriations fund key building blocks of our economy and investments that are critical for the well-being of people and communities, from child care, education, job training, and housing, to medical research, environmental protection, and public health.

The compromise reached in May includes both legislation — H.R. 3746, the Fiscal Responsibility Act (FRA) — and other agreements that are not reflected in the legislative text. The FRA sets statutory caps on defense and non-defense appropriations for fiscal years 2024 and 2025.[1] According to Administration documents and press reports, additional agreements lay out specific adjustments for Congress to use in supplementing non-defense appropriations in ways that are consistent with meeting the statutory caps, using approaches that appropriators have used in the past to bolster program funding.

Even with the funding called for in the additional agreements, 2024 non-defense appropriations outside of veterans' medical care will be constrained — set almost at the 2023 level,[2] with no adjustment for inflation or for other factors that make services provided through appropriations

[1] This analysis looks only at 2024, although most of the features of the agreement that apply to 2024 also apply to 2025. The defense and non-defense caps in 2025 are 1 percent higher than the 2024 caps.

[2] The White House, "Background Press Call on the Bipartisan Budget Agreement," May 28, 2023, https://www.whitehouse.gov/briefing-room/press-briefings/2023/05/28/background-press-call-on-the-bipartisan-budget-agreement/.

In this analysis, our refences to a 2023 funding level employs figures that the Congressional Budget Office (CBO) used in scoring the omnibus appropriations bill for 2023, enacted last fall. Both the Administration and Republican negotiators also use those figures when describing the agreement.

more costly. Because inflation and other factors increase the cost of public services, flat funding results in a cut in the services government can provide.

House Republicans have begun drafting 2024 appropriations bills that will provide non-defense funding well below the levels called for in the debt limit agreement.[3] The House Appropriations Committee has approved its funding allocations for each appropriations bill and has indicated that those funding levels will be augmented by scaling back $115 billion in funding that's already been appropriated.

The process so far in the House is fairly opaque. Chair Kay Granger has not indicated how that $115 billion will be distributed among the subcommittees. And without a list of the rescissions, it's not clear how harmful they'll be. But bills moving through the House Appropriations Committee make large cuts in funding provided in the Inflation Reduction Act related to climate change, and the committee has said it intends to rescind funding for the Internal Revenue Service. Even with the $115 billion in redirected funding, the overall funding the House is expected to provide for NDD programs appears to be substantially less than the 2023 level.

The Senate Appropriations Committee, by contrast, is scheduled to unveil its funding allocations for each appropriations bill later this week, but is generally expected to adhere to the topline funding levels in the FRA and the agreed-upon adjustments. Passing appropriations bills in the Senate effectively requires 60 votes; that means that bills that pass the Senate will have bipartisan support.

The different approaches being taken by the Senate and House are likely to set up challenging negotiations later this year when final appropriations funding levels must be agreed to. This is unfortunate — a key goal of agreeing to funding levels early in the year in the debt ceiling agreement was to have the Senate and the House working from same basic funding construct. There were sure to be differences in approach taken within those funding levels, but reaching agreement later this year likely would have been smoother.

As both House and Senate appropriators release funding bills, determining the degree to which the House and Senate approaches comply with the debt ceiling agreement or cut funding well below it will be challenging. Compliance depends on knowing the approach in all of the bills taken together and requires assessing both compliance with the statutory caps and understanding whether the funding provided for under the additional agreements has been utilized. Depending on the information policymakers release and when they release it, it may be some time before it is clear how the bills stack up against the debt ceiling agreement.

The White House and Speaker McCarthy spent several difficult weeks negotiating the debt limit agreement, all in the shadow of a looming default, which would have wreaked havoc on the economy. Understanding the House and Senate funding bills relative to the agreement will be important in the months ahead. This paper explains how the agreement will affect funding provided through the annual appropriations process and describes the mechanisms and procedures used.

---

[3] House Appropriations Committee, "Granger on Plan for Fiscal Year 2024 Bills," June 12, 2023, https://appropriations.house.gov/news/press-releases/granger-plan-fiscal-year-2024-bills-0.

Appropriations Levels Under the Agreement

The debt ceiling compromise (including the additional agreements) provides the following totals for annual appropriations ("discretionary funding") in fiscal year 2024:[4]

- $886 billion for defense programs, which is $28 billion or 3.3 percent above the 2023 level and equal to the President's request;
- $121 billion for veterans' medical care, $2 billion or 1.9 percent above the 2023 level[5] and equal to the President's request; and
- $652 billion for non-defense programs other than veterans' medical care, $1 billion below the 2023 level and $67 billion or 9.3 percent below the President's request.
- Together, the agreed-upon 2024 levels for all non-defense programs — including veterans' medical care — total $773 billion.

In part, these levels will be implemented and enforced by reviving the system of caps for the next two years on defense and non-defense appropriations. The cap *structure* is similar to those that were in effect from 2012 through 2021 under the Budget Control Act (BCA) of 2011, though the caps themselves, with the additional agreements, do not require cuts of the same magnitude as the BCA.[6] Also, while the BCA set binding caps for ten years, the FRA does so for only two years. But as with the BCA, if Congress breaches the caps under the FRA, then automatic across-the-board spending cuts are made to bring defense and non-defense funding in line with each cap.

For defense, the new cap is the same as the agreed-upon funding total of $886 billion. For non-defense, however, the new cap (which includes veterans' medical care) is set at $704 billion, $69 billion *below* the agreed-on total of $773 billion; the additional agreements are needed to reach the full agreed-upon funding level.

It's not unusual for the statutory cap to be below the overall programmatic funding level — especially for non-defense appropriations — although the magnitude used here is larger than in most past years. Some funding categories are not subject to the caps, such as amounts designated for emergency purposes.

In addition, rescissions of, or limitations on, other funding are often used to make additional room under the caps to fund current programs. Often these rescissions or limitations affect "mandatory" funding (that is, funding originally provided through authorizing legislation rather than appropriations) and are referred to as CHIMPs (for Changes In Mandatory Programs). Some CHIMPs are effectively accounting maneuvers that have been a long-standing feature of

---

[4] A White House document shows the dollar levels "when factoring in agreed upon appropriations adjustments." See https://www.politico.com/f/?id=00000188-6282-d5ba-a7fe-fede3d010000.

[5] The President's budget would increase veterans' medical care by $2.3 billion in discretionary funding and by $13.3 billion in mandatory funding through the Toxic Exposure Fund. That Fund, enacted in 2022, is designed to provide additional resources to aid veterans who have suffered from exposure to toxic chemicals during their service. The total increase of more than $15 billion from 2023 to 2024 is similar to the increases in veterans' health care that Congress has provided in recent years.

[6] Another key difference is that the caps in the BCA were automatically reduced when Congress failed to reach an agreement on a broader deficit reduction plan. There is nothing like that in the current agreement or cap structure.

appropriations bills, and in recent years have totaled roughly $15 billion per year. Some, however, may be cuts in mandatory programs that have significant real-world impacts.

Stated another way, the statutory cap reflects a *net* funding level. More programmatic funding can be accommodated under the cap to the extent that its cost is offset by savings from rescissions and other funding reductions. Funding for emergencies does not count against the statutory caps when assessing compliance. So total programmatic funding can be increased and not exceed the statutory caps using these approaches — as has been the case in past appropriations bills.

When the debt ceiling agreement was announced, the Administration emphasized that it included additional agreements producing $69 billion of rescissions and appropriations designated as emergency to keep programmatic non-defense funding outside veterans' medical care close to the 2023 level.

These agreements about adjustments for 2024 included: the rescission of $10 billion of the multi-year IRS funding that had been provided in the Inflation Reduction Act to improve taxpayer service and enforcement of tax laws; the rescission of $11 billion from a Commerce Department account that was included in the FRA;[7] the rescission of $25 billion from other "mandatory" funding — i.e., CHIMPs; and $23 billion through the designation of amounts as emergency and thus exempt from the caps even if for ongoing purposes.[8] The agreements apparently don't specify which programs will be included in the third and fourth categories. They do specify that the same types of adjustments in the same amounts are to be made in 2025.

As the appendix table below shows, similar adjustments were used in 2023, notably for CHIMPs and funds designated as emergency, though the total level of such funding adjustments was lower. The rescission of IRS funding and Commerce Department funds are new.

Finally, the deal included an agreement around funding for veterans' medical care, reflecting the funding levels in the President's budget request. Specifically, the FRA provided additional funding for the Toxic Exposure Fund (TEF), which was authorized in the bipartisan Honoring Our PACT Act of 2022. Because the funding for the TEF is "mandatory" — funds that come from a different part of the budget than discretionary funding — additional TEF funding effectively reduces the amount of discretionary funding needed to fully fund veterans' medical care in 2024.

These agreements bring the effective programmatic funding above the statutory caps set by the bill. They are crucial to the agreement. Without them, the 2024 level for programs other than defense and veterans' medical care would be $70 billion (10.7 percent) below the 2023 level (before any adjustment for inflation) — a cut that the Administration and Democratic leaders likely would not have agreed to.

---

[7] The Fiscal Responsibility Act rescinded $27 billion of pandemic-relief funding. Reportedly as a way to make a portion of these savings available to the appropriators, the Act provided $22 billion to the Commerce Department non-recurring expenses fund. Under the agreement, those funds can be rescinded in appropriations bills to generate savings — $11 billion in each of 2024 and 2025 — to offset the cost of funding non-defense programs within the statutory caps.

[8] Lisa Desjardins, May 29, 2023, 1:20 p.m., https://twitter.com/LisaDNews/status/1663233962783789056; Aidan Quigley, "How the debt limit deal's spending 'adjustments' work," CQ News, May 30, 2023, https://plus.cq.com/login?fntoken&jumpto=https://plus.cq.com/doc/news-7757235%3F8%26searchId%3DgKkvm2hv.

A Funding Freeze and National Needs

A funding freeze reduces the government's ability to provide services and meet needs. While inflation is abating, costs continue to rise from year to year. CBO projects that the cost of maintaining current services for non-defense programs outside veterans' medical care will rise by 5.1 percent in 2024, reflecting inflation, rising wages, and other factors that affect the government's cost of providing services and benefits. Stated another way, a freeze at 2023 levels means a roughly 5.1 percent loss in purchasing power in 2024 for the programs, services, and assistance that the funding supports.

The problem is compounded by a projected loss of receipts from federal mortgage insurance programs in 2024. The cost of these programs is covered by annual appropriations, but when receipts from premiums exceed program costs (as they have in every year since 1992), that net income is credited to the non-defense appropriations total as an offset. CBO estimates indicate that receipts from these programs will decline by $7.0 billion from 2023 to 2024.[9] Whatever the amount, the decrease in receipts will need to be offset elsewhere to keep non-defense appropriations within the cap.

Further, a number of programs and activities will need increases to address rising program-specific costs or serious shortfalls. Here are a few illustrative examples:

Federal rental assistance programs help families with low incomes afford safe and stable homes. However, while the rate of increase has slowed, rents have been rising more rapidly than general inflation, and appropriations need to keep up with costs in order to continue serving the same number of families. The President's budget for 2024 requests a $2 billion increase above 2023 simply to renew existing housing assistance vouchers. And since this program currently serves only about 1 in 4 eligible households, it is critical that appropriators provide sufficient funds to avoid reducing the number of families receiving assistance.[10]

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) provides nutritious foods, counseling on healthy eating, and other services to more than 6 million low-income pregnant, postpartum, and breastfeeding individuals, infants, and children up to age 5 determined to be at nutritional risk. The President's budget requests a $615 million increase for WIC relative to fiscal year 2023's level in order to continue serving all eligible people who seek help and providing the current science-based food benefits, including an increased fruit and vegetable benefit, which has

[9] CBO estimates are used by Congress for assessing the cost of legislation while it is under consideration. The Office of Management and Budget estimates, which ultimately determine whether appropriations have violated the statutory caps, indicate a decline of $4.9 billion.

[10] Sonya Acosta, "Lawmakers Should Prioritize Adequate Funding for Rental Assistance for People Struggling to Afford Housing in Housing Appropriations Legislation," CBPP, June 14, 2023, https://www.cbpp.org/blog/lawmakers-should-prioritize-adequate-funding-for-rental-assistance-for-people-struggling-to.

been in place for the last couple of years.[11] More recent data on participation and food costs indicate a larger increase is very likely to be needed.[12]

After a decade of austere operating funding compounded by backlogs of work accumulated during the pandemic, the Social Security Administration (SSA) is facing a customer service crisis. Between 2010 and 2023 its customer service budget shrank by 17 percent after adjusting for inflation and its staff was reduced by 16 percent while the number of beneficiaries increased by 22 percent. More than 1 million disability claims are pending at state disability determination agencies (which are funded by SSA's appropriations), while hold times on the agency's 800 phone number average 35 minutes and often are far longer. The President has requested a 10 percent increase for SSA operations in 2024 to begin improving service.

The tight constraints on non-defense appropriations established by the debt ceiling agreement will make the federal government less able to meet national needs. Funding for non-defense programs outside of veterans' medical care will be just below a freeze in 2024 while costs rise and serious shortfalls in various areas remain. To avoid making matters even worse, Congress should provide no less than the entire amount of resources called for in the agreement, including both full funding under the statutory appropriations caps and full use of agreed-upon adjustments to supplement those appropriations.

[11] Katie Bergh and Zoë Neuberger, "House Republicans' Agriculture Appropriations Bill Would Cut WIC Benefits for 5 Million Participants, Put SNAP Benefits at Risk for 1 Million Older Adults," CBPP, updated May 23, 2023, https://www.cbpp.org/research/food-assistance/house-republicans-agriculture-appropriations-bill-would-cut-wic-benefits.

[12] Zoë Neuberger, "WIC Needs Additional Funding to Avoid Forcing New Parents and Young Children Onto Waiting Lists," CBPP, June 12, 2023, https://www.cbpp.org/blog/wic-needs-additional-funding-to-avoid-forcing-new-parents-and-young-children-onto-waiting.

Appendix

TABLE 1

Discretionary Levels in the Debt-Limit Agreement

($ in billions)

	2023	2024	Difference
Defense Discretionary – base/cap*	858.4	886.3	28.0
Non-Defense Discretionary (NDD):	771.4	772.7	1.3
NDD base/cap*	743.9	703.7	-40.2
Agreed-upon adjustments:			
CHIMPs**	15.0	25.0	10.0
Emergencies***	12.5	23.0	10.5
Rescissions: Commerce fund, IRS****		21.0	21.0
Components of NDD:			
Veterans' medical care	118.8	121.0	2.3
NDD outside veterans' medical care	652.6	651.6	-1.0

Source: CBPP analysis of Congressional Budget Office data

*The statutory cap level for 2024 specified in the Fiscal Responsibility Act, and the comparable level for 2023 at the time of the enactment of the bill.

**CHIMPs stand for "Changes In Mandatory Programs" made in annual appropriations bills. The table reflects additional NDD funding offset by CHIMP savings.

***Funding that is designated as an emergency is not subject to the caps.

****Rescissions are provisions that repeal funding, enacted in prior years, that has not yet been used by government agencies. The table reflects additional NDD funding offset by rescissions.