Debt Ceiling Deal Comes Together, SLFRF Dollars Untouched

On Wednesday evening the House of Representatives passed a deal finalized over the long Memorial Day weekend by President Biden and House Speaker Kevin McCarthy to raise the federal debt ceiling and fund the government for the next two years. With just days to go before the June 5 deadline when the federal government faces default, the deal offers some wins for both sides of the aisle.

Most importantly for GFOA members, ARPA State and Local Fiscal Recovery Funds will not be subject to recission. The clawback language first seen as the debt ceiling debate ramped up was vague at best but was widely interpreted to mean unobligated at the federal level rather than at the direct recipient level.

Ultimately, the deal pairs raising the debt limit beyond the 2024 election along with provisions to address federal spending.

Congressional leaders on both sides of the aisle worked to drum up support as various groups within each party expressed concern or outright opposition to the deal. In the days leading up to the final vote, it became fairly clear that Speaker McCarthy would need Democratic votes. The House passed the bill 314-117. Below are some of the big takeaways of the deal:

- First and foremost, the deal locks in a two-year debt limit suspension and a two-year budget deal, meaning that both issues would not be revisited until after the 2024 election.

- The budget deal would keep non-defense funding flat in the upcoming fiscal year starting October 1. In the following year, non-defense spending would increase by 1 percent.
- The deal includes the recission of some unspent Covid relief funds at the federal level. Again, while SLFRF dollars are not impacted, some of the more notable programs that will be impacted include the Education Stabilization Fund and the Public Health and Social Services Emergency Fund. But the amounts are generally going to be a fraction of what was initially provided to the programs since most Covid related programs targeted by the recissions have largely concluded.
- About a quarter of the $80 billion passed last year for the Internal Revenue Service would be clawed back.
- It was widely hoped that energy permitting reform would be included in the deal, but the timeline proved too tight to reach consensus. Instead, some modest process efficiencies were included for federal environmental reviews and the deal calls for one federal agency lead to review a particular permit.
- Federal aid programs like the Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Families (TANF) would both see increased work requirements under the deal. These provisions would sunset in 2030.

The major legislative packages more recently enacted that are not directly related to Covid, like the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA), remain largely untouched by the deal. The timing of when (or if) the deal ultimately passes both chambers remains in flux even though June 5 is just days away. Even though the House passed it, Senate consideration could potentially be more protracted as amendment votes are likely to occur in order to garner the 60 votes needed for passage in the upper chamber. GFOA will report on new developments as the process evolves.