NATIONAL TAXPAYERS UNION FOUNDATION

Issue Brief

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Long-term Impact of the American Rescue Plan Act's "Temporary" Expansions Would Boost the Price Tag by Over $1 Trillion

Introduction

There are a lot of questionable spending programs included in the Biden administration's $1.9 trillion pandemic relief but because of the scoring process, the long term impact could be worse than advertised. If temporary provisions included in the bill are made permanent, the total cost will rise to over $3 trillion. This highlights a flaw in Congress's budget procedures and the scoring process it requires the Congressional Budget Office (CBO) to use, which has the effect of producing a misleading picture of costs to taxpayers.

Congress is set to pass the American Rescue Plan Act of 2021 (ARP) using reconciliation procedures that allow for expedited consideration to pass certain legislation through the Senate with a simple majority. This allows lawmakers to sidestep the filibuster that often slows or stops many measures from passage.

The catch is that the net budgetary impact of the package must adhere to the amount set in the resolution measure that

Key Facts:

- **Because of the reconciliation rules, the $1.9 trillion plan includes short-term boosts of several Medicaid programs and refundable tax credits that many lawmakers will likely try to make permanent in the near future.**
- **Extending these proposals through the full ten-year budget window would boost the cost of the package by another $1.14 trillion.**
- **The proposal would also boost costs to service the interest on the federal debt.**

kicks off the process. This leads to lawmakers designing the measure to game the budget score from the CBO. This process often entails the use of seemingly-arbitrary cutoff dates for proposals or the use of gimmicks as budgetary offsets to keep the total score down.

ARP includes increases in several pricey Medicaid and refundable tax cut expansions that are provided temporarily over the next few years. However, many Democrats have sought to enact these as permanent policy and lawmakers will likely pursue this as a goal in the future. If these programs are extended through the full ten-year budget window, the cost of the package would increase by another $1.14 trillion.

ARP also includes a questionable offset that is scored as an $17 billion spending reduction but in practice will act much like a tax with the accompanying cost-shifting responses from the impacted companies.

CBO's cost estimate of the package does not include an analysis of its impact on servicing the debt. Adding this to the official score would increase the net cost by a further $160 billion.

$1.9 Trillion Deficit Impact Set in Stone

The Biden administration determined that it wanted a $1.9 trillion bill. The Democrats in Congress set this ceiling on the measure in the budget resolution that allows for the reconciliation process to start. Reconciliation makes it easier to enact legislation by a simple majority but under the rules, the bill's cost cannot exceed $1.9 trillion over the prescribed time period, which was set at 10 years in the resolution.

There are also so-called "Byrd Rules," named after the former Senator Robert Byrd (D-WV), restricting extraneous provisions from being added to a reconciliation package. For example, the reconciliation text originally included an increase in the national federal minimum wage. The mandate would increase wages for some but also lead to an increase in unemployment. CBO determined that a consequence of the minimum wage hike would be a net change in spending of nearly $74 billion over ten years and an increase in tax revenues of nearly $20 billion. The Senate Parliamentarian ruled that the budget impact of a minimum wage "merely incidental" to the purpose of the reconciliation package, in violation of a Byrd Rule.

Lawmakers had a chance to reduce the net cost of the package when it was amended to remove the minimum wage provision, but instead other parts of the bill were expanded to use the full $1.9 trillion rather than reducing the net deficit impact.

Extensions

ARP includes temporary expansions of several programs and refundable tax credits. It is likely that some Members of Congress will move to make these policies permanent at some point in the near future. Under the reconciliation's short term duration, CBO's estimate shows many of these provisions already have a hefty cost, but if they are extended through the full budget window of ARP, the costs would increase dramatically. Congress often extends temporary provisions. While we do not know what is most likely to be extended, it is possible to estimate what would happen if certain ARP provisions were made permanent. These programs are listed below with their net outlay impact if extended through FY 2031 (as CBO notes in its scoring, there could also be revenue impacts associated with some of these policies).

Medicaid Provisions

- **Coverage for Pregnant and Postpartum Women - $4.84 billion**: Under current law, states are required to provide 60 days of coverage under Medicaid after birth. ARP would add an additional 10 months of coverage for eligible recipients. CBO estimates this would increase outlays by $6.1 billion from FY 2023 through 2027. The underlying statute relating to state plans is currently authorized through 2027, thus CBO's score does not include outlay estimates through the rest of the decade. If the program is extended – as Medicaid programs regularly are – at the average annual level in CBO's estimate ($1.21 billion), the additional cost would be $4.84 billion through FY 2031.

- **Enhanced Match for Bundled Community-Based Mobile Crisis Intervention Services - $1.31 billion**: ARP would increase the federal Medicaid match for 12 quarters for eligible state programs related to mental health or substance use services. In CBO's estimate, outlays would average $303 million from FY 2024 through FY 2027, and $41 million through the rest of the budget window. If the increased match is extended through FY 2031 at the average outlay rate of the peak years, the additional outlays would total $1.31 billion.

- **Increase in Federal Medical Assistance Percentage (FMAP) for Expanding Affordable Care Act (ACA) Coverage - $160 billion**: ARP would provide a temporary 5 percentage-point increase in the FMAP to states that expand coverage to adults made eligible by the ACA. The increase would give the eligible states eight quarters of the higher rate. CBO estimated this to cost $16.4 billion through 2031.

This is on top of a 6.2 percentage point increase in the Medicaid FMAP for all states as enacted in the Families First Coronavirus Response Act costing $50 billion over FY 2020 and 2021. If enrollment increases remain high during the economic downturn and puts pressure on state budgets, there would likely be a federal legislative response to maintain an increase in the FMAP matching rates for all states. Based on the CBO estimate above, an extension of 5 percentage points could cost around $16 billion per year or $160 billion over the decade.

- **Increase in FMAP for Home and Community-Based Services - $40 billion**: The package also extends a temporary increase to Medicaid programs that provide long-term home care and community services for beneficiaries. CBO estimates this would cost $9.3 billion over 2 years. Making this increase permanent could add up around $40 billion to the cost.

Refundable Tax Credit Provisions

- **Child Tax Credit (CTC) - $778 billion:** ARP would expand the CTC for FY 2021 and allow for advance payments. This is a refundable credit that can be claimed by eligible filers above and beyond their income tax liability. This refundable portion is recorded in the budget as outlays. CBO estimated that the expanded CTC would boost outlays by $19.2 billion in FY 2021 and $84.4 billion in FY 2022. Proposals to make the expansion permanent would add upwards of $778 billion to ARP's cost.

- **Earned Income Tax Credit (EITC) - $83.5 billion**: This refundable tax credit would be expanded in FY 2021 for certain filers. CBO estimated that it would increase outlays in FY 2022 by $9.3 billion. Making this provision permanent could add roughly $83.5 billion to the net cost.
- **Refundability and Enhancement of the Child and Dependent Care Tax Credit - $36 billion**: Under ARP, this credit would be expanded and made refundable for FY 2021. CBO estimated this would increase outlays by $4.2 billion over the FY 2021-2022 period. Making this provision permanent would add $36 billion to the cost through FY 2031.

Other Provisions

- **Community Navigator Pilot Program - $464 million**: ARP establishes a new navigator pilot program to "increase awareness of, and participation in, programs of the Small Business Administration. CBO estimates the program would result in $175 million in outlays spread over 3 years. Extending the program at that budget level over the budget window would add $464 million to the total cost.

- **Community Health Centers (CHC) - $36 billion**: ARP provides a one-time boost of $7.6 billion, nearly doubling its base funding of [$4 billion] provided in the most recent consolidated appropriations.

  Predating the pandemic, there has been an effort to boost base funding for CHCs. H.R. 1943 in the 116th Congress (with 107 cosponsors) called to increase base funding to $6.8 billion this year, with additional yearly increases reaching $9 billion in 2024.

  If the ARP plus-up amount becomes the new base funding level for CHCs, outlays would increase by $3.6 billion per year, or $36 billion over the decade.

- **National Health Service Corps (NHCS) - $4.9 billion:** ARP provided an $800 million plus-up to NHCS funding for FY 2021, more than doubling its base funding of $310 million.

  H.R. 1943 in the 116th Congress also proposed to boost base funding for the Corps to $935 million this year with yearly increases reaching $1.2 billion in FY 2024.

  If the ARP plus-up total becomes the new base funding level for the NHSC, outlays by $490 million per year, or $4.9 billion over the decade.

Total cost of extended Medicaid, refundable, and other provisions - $1.15 trillion

The Drug Rebate Tax Disguised as a Spending Cut

The package also includes an offsetting measure related prescription drugs that is scored under budget rules as a reduction in spending but in reality functions as a tax.

The bill would lift a statutory limit on the maximum rebate for certain drugs. The Medicaid "rebate" policy requires that any pharmaceutical company that participates in Medicaid must pay a rebate back to the states (which is also shared with the federal government) for covered outpatient drugs.

CBO estimated that this policy would increase the amount of rebates that manufacturers pay through Medicaid by $17.3 billion through FY 2031. This disguised tax runs the risks of impeding private research and development in new medications, shifting more costs to private plans, and increasing the prices of newly developed drugs brought to market.

Debt Interest Costs

Although CBO's estimate does not include an analysis of net interest payments on the debt, the agency published a handy tool in February that can be used to estimate the amount. CBO's interactive spreadsheet allows users to input changes in spending and revenues and get a calculation on the net change in debt service costs, total changes in the deficit, and cumulative changes in the federal debt.

Plugging in the outlays and revenues of CBO's most recent analysis of ARP shows that it would increase debt service costs by $160 billion over the decade.

Plugging in the outlays changes that would result if the above provisions are extended through FY 2031, would increase debt service costs by another $90 billion.

Conclusion

When the text of a bill is shaped to a predetermined score, lawmakers will re-design desired policies on a temporary basis with the intention of revisiting and extending the provisions at a later date. This happened in 2017 with the Tax Cuts and Jobs Act which reduced individual and corporate income tax rates but set many of the individual provisions to expire after FY 2025. Previous tax cuts were designed similarly and were extended before expiring.

Similar budget gaming is occurring under ARP establishing many spending expansions over a short period of time to reduce the spending impact revealed in cost estimates. Making these provisions permanent would dramatically boost the burden on taxpayers.

About the Author

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