the Baseline
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The Budgetary Impact of the Bipartisan Budget Act

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I. Introduction

On paper, the Bipartisan Budget Act (BBA) of 2018 added $320 billion to the deficit over the next ten years. Not only does it wipe away the last remnants of fiscal restraint enacted in the Budget Control Act of 2011, but it is packed with gimmicky offsets that mask its true fiscal impact. An analysis of the figures in the Congressional Budget Office's (CBO) cost estimate of the bill indicates that the ultimate deficit impact is likely to be $1.66 trillion - five times as much as advertised - due to "offsets" from savings that are unlikely to occur and unrealistic assumptions about provisions in the bill to yet again extend "temporary" policies. This surpasses the ten-year $1.43 trillion score of the Tax Cut and Jobs Act (TCJA) under NTUF's calculation of a realistic policy baseline assuming extension of most of its expiring provisions and factoring in the Joint Committee on Taxation's estimate of macroeconomic feedback.

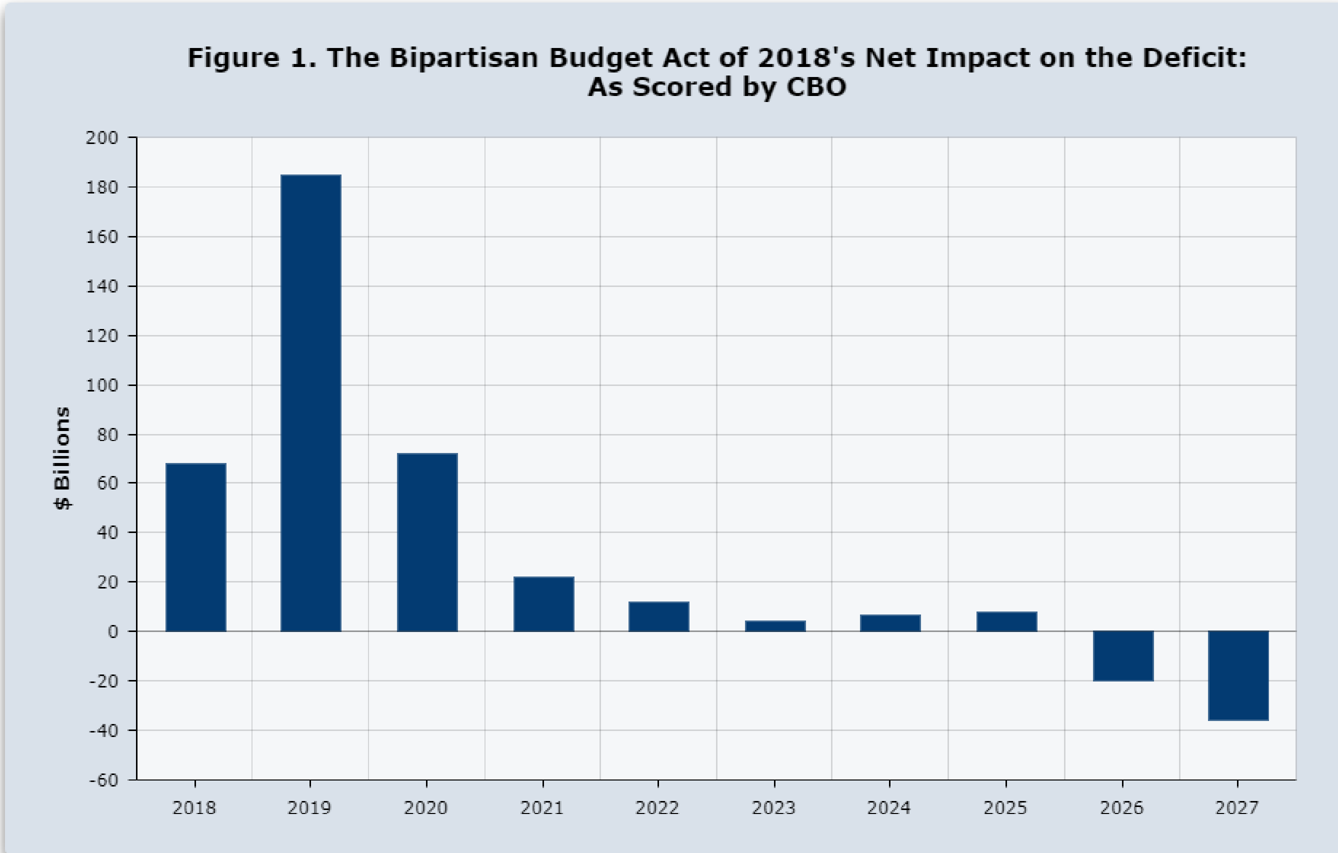
II. The BBA's Cost on Paper

The budget deal reached in the BBA ended the short-lived government shutdown with an agreement to raise the spending caps over the next two years by nearly $300 billion, provide emergency appropriations for cotton and dairy producers, deliver disaster funding in response to wildfires and hurricanes, retroactively extend targeted tax cuts that expired at the end of 2017, and to extend several Medicare spending programs. To allow for the additional deficit spending, the law also lifts the federal debt ceiling until March 2019.

In total, CBO reported that the BBA boosts spending by $311.5 billion, including 31 offsetting provisions that would reduce spending by a total of $97.6 billion over ten years. The revenue provisions would reduce tax receipts by $8.7 billion over ten years. In total, according to CBO, the law as written adds $320.2 billion to the deficit over the decade.

The deficit impact is heavily front-loaded while, on paper, the savings come later. Over the first five years, the bill increases outlays by $69 billion per year, while over the second five years, spending is reduced by $6.7 billion per year. The bill reduces tax receipts by $2.5 billion per year over the first five years and increases them by $759 million in years six through ten. The deficit impact is overwhelmingly fueled by the spending in the law: 97 percent of the ten-year shortfall is attributable to outlays.

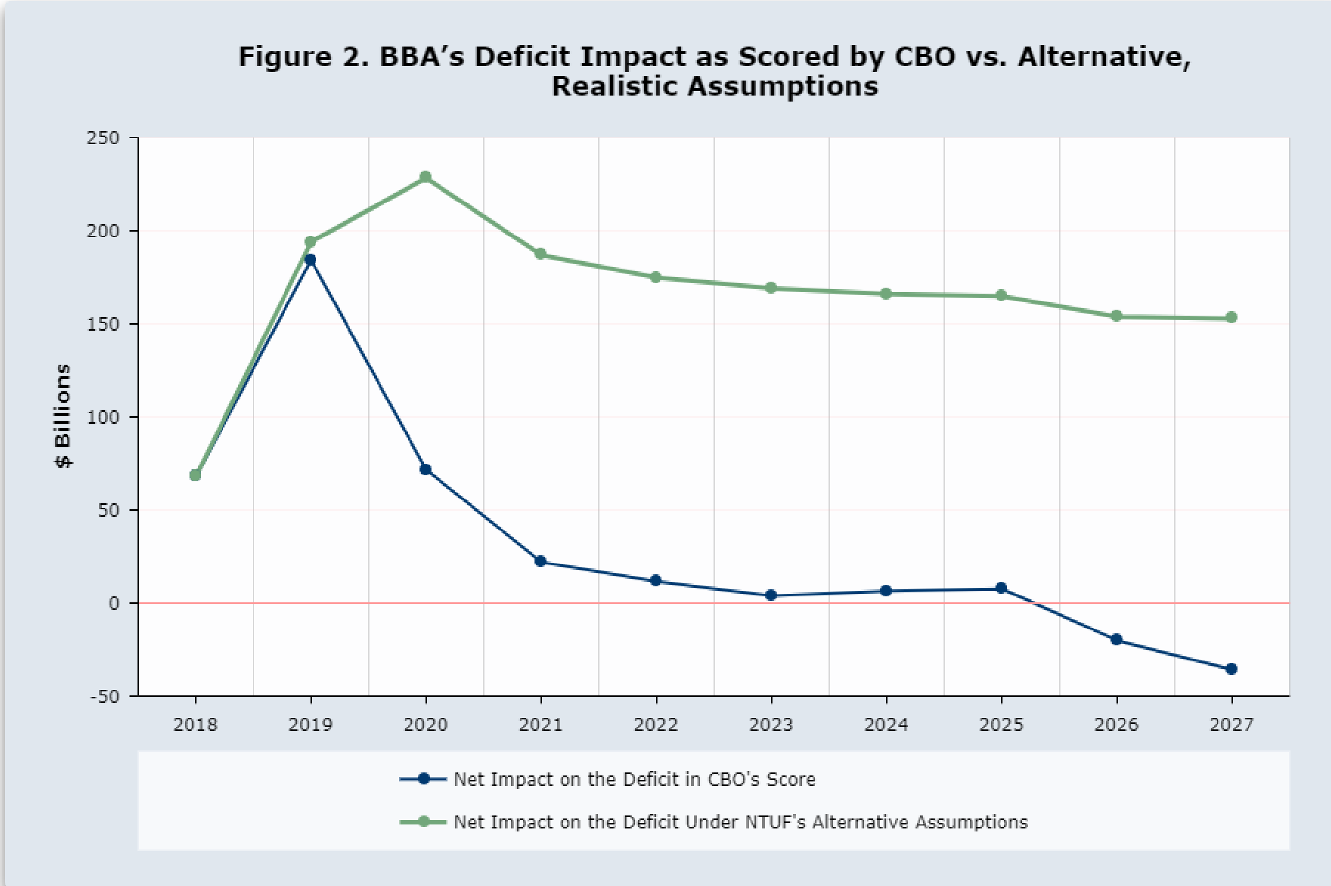
CBO analyzed the BBA using its current-law baseline, which generally takes the written text at face-value: programs or tax provisions that are enacted or further extended on a temporary basis are assumed to terminate when their authorizations expire. However, history shows that lawmakers frequently extend such programs so that they never actually expire. This practice helps to hold down the CBO score of the legislative vehicles used to enact such extensions.



Using more realistic assumptions paints a budget outlook that has a lot more red ink than depicted in CBO's score. Chart 2, below, shows the net additional impact on the deficit using more reasonable assumptions about many of the budget figures in CBO's analysis. NTUF recalculated the net impact of the BBA by:

1. excluding phantom offsets that, given recent budget history, will likely exist only on paper,
2. excluding the cost of eliminating the Independent Payment Advisory Board,
3. assuming permanence of the temporary tax relief and spending provisions, and
4. assuming the increased outlays from lifting the spending caps will be built into future year spending.

Under these alternative and more realistic scenarios, the deficit impact of the BBA rises to *$1.66 trillion*.



III. The BBA's Offsets

A. Phantom Offsets

These offsets underscore the flaws in CBO's methodology that lawmakers frequently use to their advantage to disguise the true level of spending in legislation. Over 42 percent of the offsets in the bill are unlikely to be realized as actual savings.

NTUF identified $41 billion in "phantom offsets":

- Sequester Extension: The BBA raises the spending caps so that outlays won't be subject to sequestration for the next two years, yet the law also extends certain sequester provisions nine and ten years from now. *Phantom savings: $35.5 billion*
- Medicaid Improvement Fund and Medicare Improvement Fund: In the past, funds authorized for these program years in advance were later rescinded before they were ever spent. The BBA again rescinds funding provided for future years. *Phantom savings: $1.3 billion*
- Physician Fee Schedule Update: The current payment rate in the Medicare physician fee schedule will rise by 0.5 percent each year through 2019. The BBA will reduce the 2019 amount to 0.25 percent. This is reminiscent of the Medicare physician payment cuts that were enacted in the Balanced Budget Act of 1997 and never allowed to take effect. The cuts were replaced in a permanent "doc fix" bill in 2015. *Phantom savings: $1.9 billion*

- Modifying Reductions in Medicaid Disproportionate Share Hospital Allotments**:** The reductions in these payments were to have started in 2014 but were delayed until 2018. The BBA further delays and doubles the reductions. *Phantom savings: $2.4 billion*

B. "Offsets" Relative to a Questionable Baseline

Also problematic, though not included in the chart above, are the budgetary "savings" reported from extending the Children's Health Insurance Program (CHIP). Last year, Congress authorized $2.85 billion for the first six months of FY 2017 and also provided a one-time appropriation of $14.7 billion. Under its scorekeeping rules, CBO's calculated CHIP's baseline under the authorized amount and annualized it to project spending of $5.7 billion per year. This was despite average outlays of nearly $13 billion since FY 2014. Additionally CBO assumed that, with the lower authorization levels, future beneficiaries in the program would instead enroll for coverage either in Medicaid or through the Obamacare health insurance exchanges (another program for which CBO has had a troubled scoring history), resulting in higher annual costs compared to CHIP. BBA extends CHIP for an additional four years through FY 2027. Under CBO's score, extending CHIP will reduce the deficit by $4.8 billion over ten years.

C. Gimmicks Disguised as Offsets

There were proposals that would actually offset spending; however, the application of some of these to offset the busting of the spending caps is highly questionable. Including:

- Extending user fees, which are intended to finance specific programs, toward the end of the ten-year budget window,
- Pharmaceutical producer "rebates" scored as offsetting receipts that are more akin to taxes with adverse consequences, and
- Shifting forward the timing remittances from the Federal Reserve, which will reduce the deficit in the short term but have no net effect over the long-term.

IV. Phantom Spending

CBO's score included a cost of $17.5 billion for repealing the Independent Payment Advisory Board (IPAB) created through the Affordable Care Act to force through cuts in Medicare if the cost per beneficiary rises faster than the economy. It was scored as a savings in CBO's initial estimates of the ACA, and proposals each year since then to repeal IPAB had been scored as increases in spending. This defies logic. IPAB's authority was never triggered and it was highly uncertain when it would have ever been triggered.

V. Extenders

A. Tax Extenders

One of the benefits of the TCJA was that it consolidated many special tax breaks as a tradeoff for lower overall rates. The BBA returns to old ways of making tax policy by extending a grab bag of "targeted" tax breaks, including relief for owners of race horses, owners of motor sports facilities, mine safety equipment, accelerated depreciation for business property on an Indian reservation.

CBO estimated that the retroactive, one-year tax extenders in the BBA would decrease revenues by $12.4 billion in FY 2018, and then by an average of $424 million for the next nine years. However, these breaks were also previously extended for limited periods of time and it is highly likely that they would be extended again down the road. This would reduce revenues by an additional $86 billion relative to CBO's score over the next decade.[1]

B. Spending Extenders

The law also implements over a dozen short-term extensions of health programs, including:

- community health centers, the National Health Service Corps, and teaching health centers that operate Graduate Medical Education programs,
- Extension of the Medicare-dependent hospital program, and
- Medicare ambulance services reimbursement rates.

If these provisions are extended, as they have been before, this would add nearly $29 billion to the ten-year cost of the BBA.

C. Spending Caps

The BBA of 2018 marks the third such bipartisan budget agreements to override the spending limits that had been established under the BCA. If the new, higher funding levels are extended for the rest of the decade, $1.2 trillion in spending will be added to the budget baseline.

VI. Conclusion

The goal of the Budget Control Act of 2011 was to identify $1.5 trillion in savings over a decade. While in place, it reset the budget baseline on a lower level, saving the average household over $7,400. After chipping away its restraining mechanisms through the Bipartisan Budget Act agreements in 2013 and 2015, the BBA of 2018 all but erases its impact going forward with upwards of $1.66 trillion in higher deficits for lawmakers to contend with down the road.
It is bad enough that Congress frequently enacts legislation to hike spending now while promising to pay for just a portion of it further down the road. It is even worse when recent history and common sense tells us that those savings will only exist on paper. This is where an "uncertainty index" would be useful for estimates and projections under CBO's current-law baseline.

CBO has certain rules for scoring bills under a current law baseline, they look at the text of legislation as is but, this often under-scores budgetary realities. This process incentivizes lawmakers to return to oft-used "offsets" many of which are continually further delayed before they are ever set to occur. It is time for realistic budgeting to end the gaming of budget scores and get serious about addressing Washington's addiction to over-spending.

[1] This figure includes a calculation of macroeconomic feedback based on CBO's score of a previous tax extender package.