Policy Update

January 26, 2023

US Congress – Last week, Treasury Secretary Janet Yellen informed Congress that the federal debt hit the $31 trillion cap, which was set in law. The Treasury Department defines the debit limit as follows, "*The debt limit is the total amount of money that the United States government is authorized to borrow to meet its existing legal obligations, including Social Security and Medicare benefits, military salaries, interest on the national debt, tax refunds, and other payments*". The Treasury Department will use "extraordinary measures" in order to prevent the United States from defaulting on its obligations as Congress deliberated on increasing the debt limit. In the past, these measures included suspending issuance of State and Local Government Series Treasury securities, and to suspend the daily reinvestment of the Treasury securities held by the Government Securities Investment Fund (G Fund) of the Federal Employees Retirement System Thrift Savings Plan (TSP). These and other measures may prevent a default until sometime this spring, but much will depend on the revenues coming into the Federal government.

In the meantime, the President (and Democrats in Congress) and House Republicans are drawing lines in the sand as to how they will solve this issue. House Republicans are demanding spending cuts in exchange for an increase to the debt limit. The President wants a clean bill to increase the county's borrowing limit. 70% of government spending is on entitlement programs, like Social Security and Medicare, which are not set through the annual appropriations process. The remaining 30% is dedicated to defense and non-defense spending, which is discretionary and determined by Congress in the annual appropriations process. If reductions in defense spending are off the table, there is not much left as a percentage of total government spending to cut. The non-defense discretionary funding (housing, transportation, agriculture, labor programs, etc.) accounts for roughly 15% and will be targeted for cuts. Depending on the size of the cuts, some programs could be severely reduced if Congress and the President cannot reach an agreement.

How does this impact transportation funding and the IIJA/BIL? Under the IIJA/BIL, roughly $567 billion in guaranteed transportation funding is scheduled to be apportioned or provided as grants (including administrative costs) through the end of FY26 and it would take an act of Congress and the President's signature to change that funding. It is highly unlikely that a bill would pass the Senate and be signed into law by the President.

However, if/when Congress and the President reach agreement on the debt limit, the next spending challenge will be the annual appropriations process. There is a strong chance that Congress will only be able to settle on a year long CR which would hold spending at 2023 levels. In 2023, total USDOT spending (IIJA, Advanced Appropriations, Regular Appropriations, and some smaller mandatory spending items) totaled $144 billion. This was up from $140.7 billion in FY22. The bulk of the IIJA increases were in FY22. A full year CR (holding at FY23 levels) at the end of this year for FY24 would result in several billions of dollars less that would otherwise be available. This is not to say that Congress will fail to reach any agreement, and it may be too early to speculate, but we wanted you to be aware of the potential outcome.

Congressional Committees – Full Committee assignments for Congress should be completed soon. Congressional Committees will soon begin to schedule hearings and other business.

USDOT – USDOT is continuing its implementation of the IIJA/BIL through policy guidance and the ongoing grant process, and we anticipate that the NOFO timeline to be similar to 2022.

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