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Member Advisory

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Bipartisan Debt Ceiling Negotiations Continue, Hospitals and Health Systems Should Monitor Situation

President Biden and House Speaker McCarthy May 22 met to continue discussions on raising the nation's debt limit, as well as a package of possible spending cuts and policy changes that would accompany the increase. Negotiations are expected to further intensify in the coming week to avoid a potential default on the U.S. government's debt. Secretary of the Treasury Janet Yellen May 22 again notified Congress that a default could occur by early June, and potentially as early as June 1.

Because the federal government spends more money than it collects in revenues, the government borrows to pay its obligations. Since 1917, Congress has placed a statutory limit on the amount of debt the federal government is permitted to issue. Legislatively extending the debt limit enables the federal government to pay for previously enacted expenditures.

It is currently projected that without action from Congress the federal government could default on its debt as early as June 1 per Treasury Secretary Janet Yellen or as late as early August according to a range of estimates produced by the Bipartisan Policy Center. Because tax receipts through April have been lower than previously anticipated, the Congressional Budget Office now projects a greater risk that the federal government will reach the "X" date earlier in June.[1] If the federal government can pay its bills until June 15 when quarterly estimated tax payments are due then it is more likely that the "X" date will not be reached until later in July or early August.

AHA TAKE

Hospital and health system leaders should closely monitor the progress of debt ceiling negotiations. No one can predict the exact timing or success of these negotiations, and disruptions in financial markets could begin as the government approaches the "X" date. **In addition, significant impacts to hospital and health system finances could occur in the event of a default, due to likely disruptions in government health care payments (see section below).**

Please share this document with your executive leadership, as well as your finance, government relations and communications teams. Watch for additional AHA updates on this situation.

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[1] The date of exhaustion of extraordinary measures is known as the "X" date.

BACKGROUND AND ADDITIONAL DETAILS

Previously, Congress has increased the government's debt limit by either placing a new dollar limit on the total amount of debt the government may issue (a debt limit increase) or suspending the limit for a specific period, allowing the Treasury Department to borrow without limit until the period ends (a debt limit suspension). The current debt limit is $31.38 trillion and was reached in January 2023. Since then, the Treasury Department has employed "extraordinary measures" to continue paying the government's obligations. Extraordinary measures include suspending or delaying some debt sales and auctions, diverting deposits from some government funds (such as federal employee retirement funds), and exchanging debt securities subject to the limit with those not subject to the debt limit.

2023 Debt Limit Debate

The House of Representatives April 26 passed the Limit, Save, Grow Act (H.R. 2811) by a vote of 217-215. The House-passed bill would suspend the federal debt limit through March 31, 2024, or until the debt increases by $1.5 trillion, whichever comes first. The bill would establish discretionary spending caps for 10 years, expand work requirements in Medicaid, SNAP and TANF, and rescind unobligated COVID-19 funds. The bill also repeals tax credits and subsidies for renewable and clean energy, electric vehicles, and encourages development of oil and gas while requiring additional federal leasing and expediting the permitting process for energy projects, among other provisions. The Senate has not acted on legislation.

The White House and congressional leaders are actively negotiating a path forward on legislation that could address the debt limit and avoid a potential default. However, it is unclear whether an agreement will be reached in time and the Administration has not indicated how it would operate under a default scenario.

Debt First then Prioritize or Delay. In the event of a potential default in 2011, the Treasury Department had considered a plan to first make payments on federal debt using available resources from taxes, fees and tariffs. It is unclear whether the Administration will do the same in 2023. Beyond interest payments, independent observers have outlined two potential post-default scenarios. The first involves the federal government regularly deciding what bills to pay; this is called "prioritization." The other is to pay certain bills only after there is enough income to cover them in full; this is called "delay." However, applicable federal spending laws do not explicitly address either prioritization or delay, and most federal bill-paying systems do not have the general ability to prioritize or delay payments. Therefore, is unclear how either scenario might work in practice.

POSSIBLE IMPACT ON HOSPITALS AND HEALTH SYSTEMS

Because it is unclear how the Treasury Department would proceed to finance government operations past the “X” date, whether the federal government could fulfill all payments for important operations is unknown. Under a default scenario, hospitals and health care providers might not receive full or timely payments from the federal government.

Independent analysts at the Bipartisan Policy Center have published a list of transactions that could potentially be missed or delayed throughout the months of June and July in the case of government default. There is no way to determine which government obligations may be at risk, but the following is a list of transactions that could affect the health care field, including hundreds of billions of dollars in Medicare, Medicaid and Affordable Care Act (ACA) payments, made at different points in time.

Payments potentially missed or delayed in June include:

- Medicare payments that could be disrupted in June include $47 billion on June 1; $2 billion on June 5, 13, 16 and 27; and $49 billion on June 30.
- Medicaid payments that could be disrupted in June include $2 billion on June 2; $6 billion on June 6; $3 billion on June 7; $6 billion on June 8; $5 billion on June 9 and June 22; and $4 billion on June 29.
- ACA payments that could be disrupted include $8 billion on June 22.

FURTHER QUESTIONS

If you have further questions, contact Mary Naylor, AHA’s senior director of federal relations and operations, at mnaylor@aha.org.