

Economic Analysis

# Congress Wraps up Omnibus Bill before Holidays

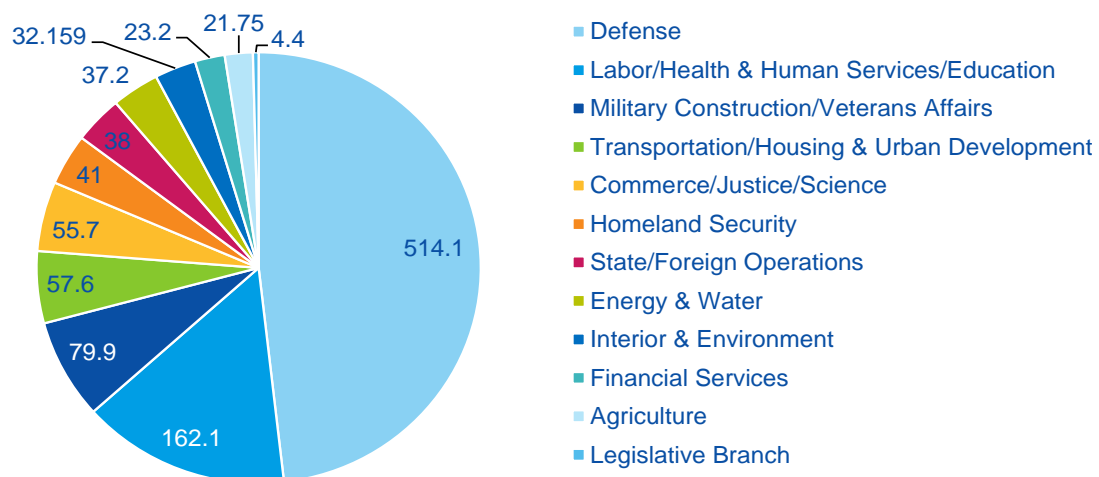
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- **House reaches compromise on \$1.1 trillion spending bill and \$622 billion in tax breaks**
- **Includes lifting of oil export ban and reforms to travel and cybersecurity legislation**
- **Bill expected to pass House and Senate in time to avoid second shutdown in three years**

This week was momentous with the Federal Reserve’s decision to raise rates for the first time since 2006 and the House’s announcement of a spending deal that would duck another government shutdown. Although an end-of-year, last-minute omnibus deal is far from ideal, the bill provides some closure following the passage of the Bipartisan Budget Act in late October and demonstrates Congress’s ability to compromise, albeit right before deadline. The House also just passed a \$622 billion package of tax breaks, which permanently extends the popular research and development tax credit and delays some key provisions of the Affordable Care Act, including the Cadillac tax on high-end insurance plans and the excise tax on medical devices.

The omnibus appropriations bill provides \$1.1 trillion in funding—almost \$136 billion above 2014 levels—for 12 annual appropriations bills through September 30, 2016. This base spending level was agreed upon in the Bipartisan Budget Act, which lifted the spending caps established in 2011 under the Budget Control Act by \$80 billion over the next two years. The caps set by the law have been exceeded each year, raising some concern about Congress’s ability to abide by its agreements and avoid this trend in the future. The \$1.1 trillion included in the spending bill includes \$548 billion in defense spending, \$518 billion in non-defense spending and an extra \$73.7 billion specifically funneled to the Pentagon “to combat the threat of ISIL and other enemies around the world.”

Chart 1  
**Discretionary Funding Levels of Appropriations Bills in Omnibus \$ billions**



Source: House Appropriations Committee & BBVA Research

In addition to the annual bills, the omnibus also includes extraordinary measures or “riders” such as the lifting of the ban on oil exports and reforms to the visa waiver program. Another rider to the omnibus bill is cybersecurity legislation, which would encourage companies to share the technical details of any hacking threats with the government, with the aim of fighting future online attacks. With the inclusion of liability protections for the companies involved, the cybersecurity provision exemplifies the kind of public-private partnership necessary to boost both physical and virtual security.

The lifting of the 40-year old export ban marks a major conservative victory, with the support of Democrats in oil-producing states such as North Dakota. In our [previous analysis of lifting the oil export ban](#), we cited that one option to ease passage would be to amend the House’s version of the bill to include measures boosting the attractiveness of renewables. Congress seems to have done just that as the bill includes tax breaks for wind and solar producers in order to appease lawmakers who expressed concerns that insufficient focus was being directed to renewables. The impact that the lifting of the export ban will have on oil prices is uncertain. Prices may very well remain unchanged in the short-run given the high levels of supply and the reluctance of U.S. producers and OPEC to cut production. In the long-run however, price dynamics could change as U.S. exports increase market competition.

In the true spirit of compromise, both parties seem to have made concessions in the process of negotiating the spending bill. Moreover, final agreement on the package demonstrates the ability of newly-minted House Speaker Ryan (R-WI) to appease both parties with the minimal amount of drama. Ryan and the House Appropriations Committee dodged several potential detours to reaching consensus, including calls from members of the House Freedom Caucus and several presidential candidates to defund Planned Parenthood and restrict the settlement of Syrian refugees. Ryan’s future legacy as House Speaker will rest on his ability to further promote bipartisan compromise and avoid another string of continuing resolutions in upcoming years.

## Bottom Line

We expect that both the \$1.1 trillion spending bill and \$622 billion in tax breaks will pass the House and Senate this week. To ensure passage of both deals, the House is voting on them separately, while the Senate is expected to vote on a bundled package before sending it to Obama’s desk. The package of tax breaks came under fire today from House Democrats, arguing that it provides giveaways to special interests and corporations, but ultimately passed on the strength of GOP support, with a vote of 318 to 109. On the other hand, Democrats are expected to provide the bulk of votes backing the spending bill with moderate House Republicans also lending their support in order to avoid a shutdown before the holidays.

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