

January 2, 2025

## **DC Quick Takes: Speaker's Vote, the Debt Limit and Healthcare Extenders**

We think House Speaker Mike Johnson (R-LA) faces uphill odds on retaining his Speaker's role. It's close to a tossup but if Johnson *is* re-elected, it isn't likely to be on the first ballot. Keep in mind, the voting for the speakership will begin shortly after noon on Friday, January 3.

Our odds of Johnson losing the Speaker's position would be much higher if not for the: 1) January 6 certification of President Trump; 2) Trump's endorsement of Johnson earlier this week; and 3) the absence of another candidate (officially or even unofficially) having thrown his/her name into the mix. If Johnson does not prevail, we would expect the House to stay in session all weekend until a GOP candidate is chosen before the important January 6 date. Whoever that candidate is is unclear to us, especially given that few, if anyone, had Johnson on their list after former Speaker Kevin McCarthy (R-CA) was ousted in fall 2023.

Republicans will have a 219-215 majority on January 3, assuming everyone is present on that day. Recall that former Rep. Matt Gaetz (R-FL) resigned from the House and is not expected to take his seat in the new Congress. Moreover, Rep. Tom Massie (R-KY) has already committed to vote against Johnson but has not indicated whether he would vote "present" or for another candidate. At least five other Republican members have not stated how they will vote. Recall that 38 Republicans defied president-elect Trump and voted against his endorsed continuing resolutions (CR) just a couple of weeks ago.

Recall that to win the role of Speaker, a candidate needs a simple majority of *all* House members present and voting. Members who vote "present" are considered *not* to have voted and therefore lower the threshold needed to become Speaker. If a Republican votes for an alternative candidate – like another Republican or Elon Musk, then Johnson can only afford one defection.

On the other hand, Johnson can stand to have three Republicans vote "present", assuming all other GOPers vote for him, and still be elected Speaker.

If Johnson loses, we have little insight as to who might become Speaker as no alternative names have been mentioned. Johnson himself was a dark horse who didn't emerge until the last minute after McCarthy was removed. We do *not* believe a more conservative candidate like Rep. Jim Jordan (R-OH) could win but given the perils of being the Speaker, we don't know why anyone would want the job.

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## Debt Limit

We have long believed that there would be no real debt limit crisis during this Congress with Republicans holding the House, Senate and White House, and we still hold that view. Yes, Congress might wait until the last moment to extend the debt limit as is usually the case, but we see it being extended without going over the “X” date, which we expect to be sometime in June.

However, despite Trump’s insistence, we doubt the debt limit is eliminated since conservative congressional Republicans will argue that it can act somewhat as a governor on spending. However, in reality, the debt limit hasn’t had much of an impact on forcing spending cuts.

How the debt limit will be extended is another question. We think the easiest way would be to add it to an omnibus spending bill that needs to pass by March 14 to avoid a government shutdown. That appropriations bill very likely will require bipartisan support, which means that a debt limit extension could catch a ride. However, such a move will surely incense the ultraconservatives in the House.

In addition, Speaker Johnson has stated he wants to pair \$2.5 trillion in spending cuts with a \$1.5 trillion debt limit increase. We see this as an unlikely scenario. We still can’t figure out how Republicans are going to pay for the tax bill, and any budgetary savings that could be coupled with a debt limit extension will likely try to be used to offset the ~\$5 trillion tax package in our view, assuming those cuts conform to the reconciliation’s Byrd rule. Offsetting a debt limit extension seems to be a luxury the Republicans can’t afford.

Republicans have also talked about adding a debt limit extension to a reconciliation bill. Right now, it appears that Republicans intend to pass two reconciliation bills. The first one, which is expected to focus on immigration, energy and potentially defense spending, would be passed within the first ~100 days of President Trump’s term while the second, much larger one that would include extending the Trump tax cuts would likely pass in Q4, which is after “X” date when the debt limit needs to be raised.

While a debt limit increase could be added to the first reconciliation bill, we doubt that measure could pass if it includes such an extension. Simply put, we see at least a dozen House Republicans opposing the bill if the debt limit is added.

Republicans are probably looking at other ways of passing a debt limit extension and while we don’t see a clear way of the debt limit being addressed, we highly doubt that the “X” date is crossed.

## Healthcare Extenders

We expect the healthcare extenders package, which was largely discarded from the late December CR after weeks of negotiation, will be resurrected and added to either the March government funding bill or the first reconciliation measure being eyed during Trump’s first 100 days. We ascribe higher odds of attachment to the spending bill, which must be passed by March 14 when current funding for the government and the few federal healthcare extensions run out.

Recall that the healthcare extenders package intended for the initial December spending band-aid would have included:

- A partial one-year Medicare **physician** fee fix and bonus bump in the Medicare alternative payment model.
- A two-year delay to cuts of the Medicaid **disproportionate share hospital** bonuses.
- A two-year extension of **telehealth** waivers.
- PAYGO waiver of the maximum 4% cut in Medicare reimbursements.
- Limits on prior authorization in **Medicare Advantage**.
- Requirements for updated provider directories in Medicare Advantage.
- Medicare coverage of multicancer early detection screening tests.

- Codification of insurer and price transparency.
- Longer-term extensions of Medicare, Medicaid and federal healthcare spending programs that were set to run out January 1.
- Multiyear reauthorization of the Pandemic and All Hazards Preparedness Act (PAHPA), SUPPORT Act, and the FDA's pediatric priority review vouchers.

This healthcare package would have *also* included the following payfors: 1) **PBM** reforms (mandatory PBM disclosures to employer/insurer clients, mandatory rebate pass-through to commercial customers, Medicare Part D delinking of compensation from drug price, Part D standardized pharmacy provisions, Medicaid spread pricing ban and Medicaid pharmacy payment policies); 2) extension of Medicare 2% sequestration cut on **providers**; 3) requirement of tax identification numbers for all **off-campus hospital outpatient departments**; 4) extension of Medicare **hospice** cap indexing changes; 5) ban on drug patent thickets; 6) and a reduction of the Medicare Improvement fund.

However, the only healthcare items that survived into the final short-term CR were three-month extensions of the telehealth waivers and limited Medicare spending as well as PAYGO waiver that averted the potential maximum 4% cut to all Medicare reimbursements. The rest of the above healthcare items were left unaddressed, which we think will very likely be taken up for debate and passage during Q1.

One item likely to be added to this healthcare package – and providing additional savings – is the repeal of the Biden regulation imposing minimum nurse staffing requirements for **nursing homes**.

While the healthcare package could be added to the immigration/energy/defense reconciliation bill, especially if it takes precedence over government spending measure, we think such a move would force Congress to split up the healthcare policies as a few (some PBM reforms, healthcare price transparency, reauthorizations of Pandemic and All Hazards Preparedness Act and SUPPORT Act, etc.) could run into obstacles under the Byrd rule. Yet, the bipartisan support for these items may save them from the budget reconciliation cutting room floor as we have a hard time seeing Democrats raise a budget point of order and kill these policies that they have long called for.

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