NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

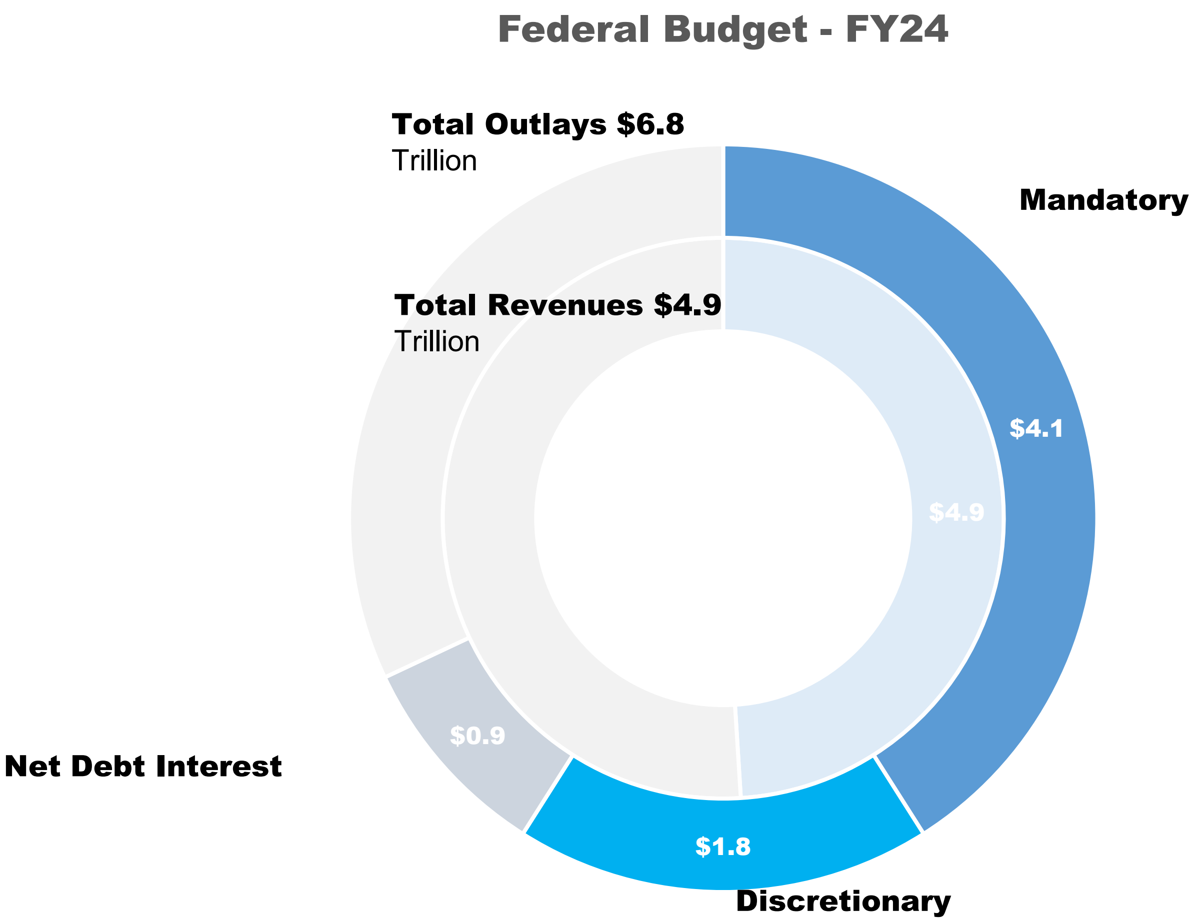
Federal Budget Reconciliation Overview

Charles Sallee, Director, Legislative Finance Committee
June 2025

Overview

- Overview of the Federal Budget, Revenue and Spending
- Budget Reconciliation Process vs. Annual Budget Process
- 2025 Budget Reconciliation and What it Means for NM Budget Development - Update

Federal Budget – Uh Oh! $1.9 Trillion Deficit



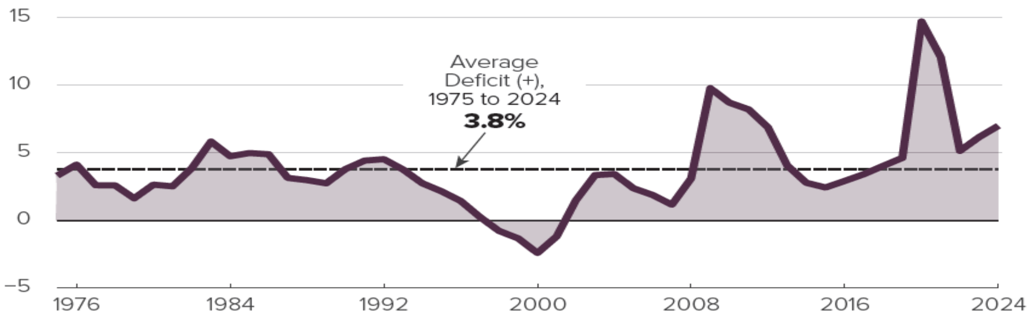
Source: CBO

Federal Budget Deficits & Debt

Deficits and Debt

Federal Deficits or Surpluses, 1975 to 2024

Percentage of GDP



Annual Deficit: Amount by Which Outlays Exceed Revenues

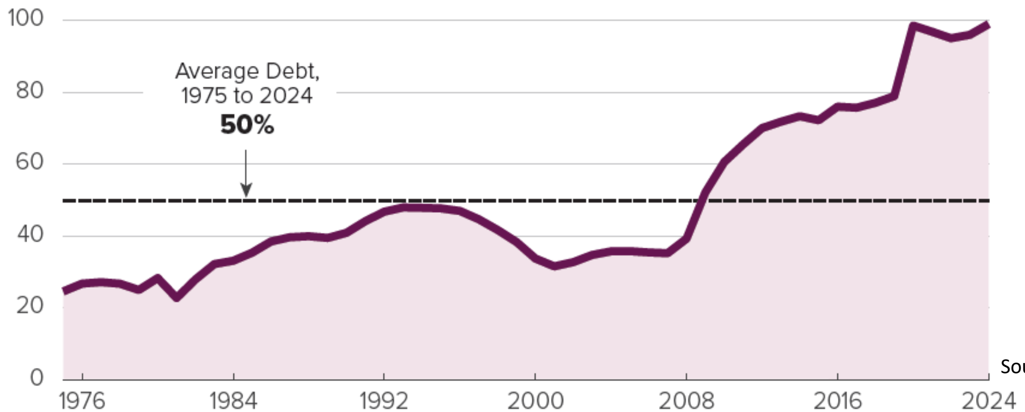
To fund government spending in years of deficits, the Treasury borrows from individuals, businesses, the Federal Reserve, and other countries.

Federal Debt Held by the Public, 1975 to 2024

Percentage of GDP

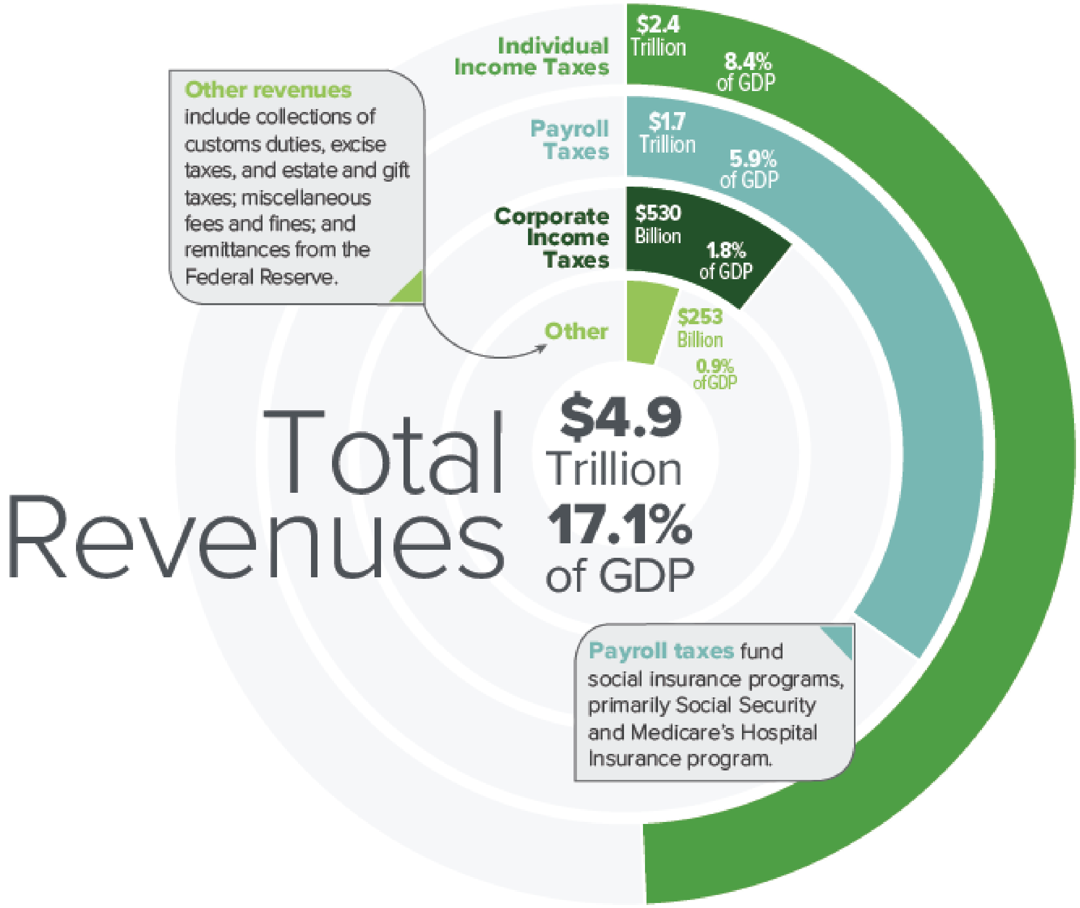
Debt

Debt held by the public is issued to finance annual deficits, the Treasury's cash balances, and federal loans. Surpluses can be used to pay down debt.



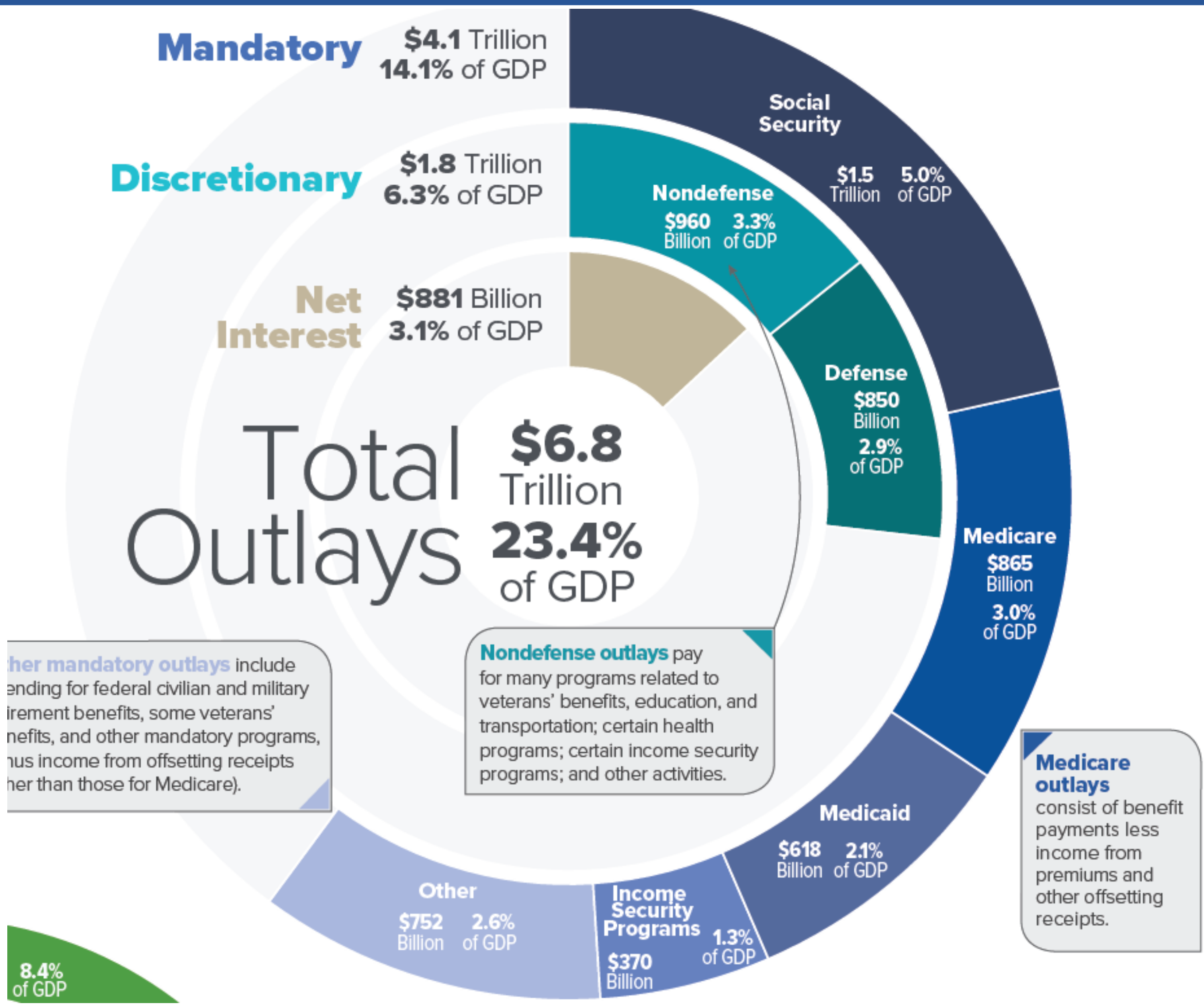
Source: CBO

Federal Budgeted Revenues – FY24

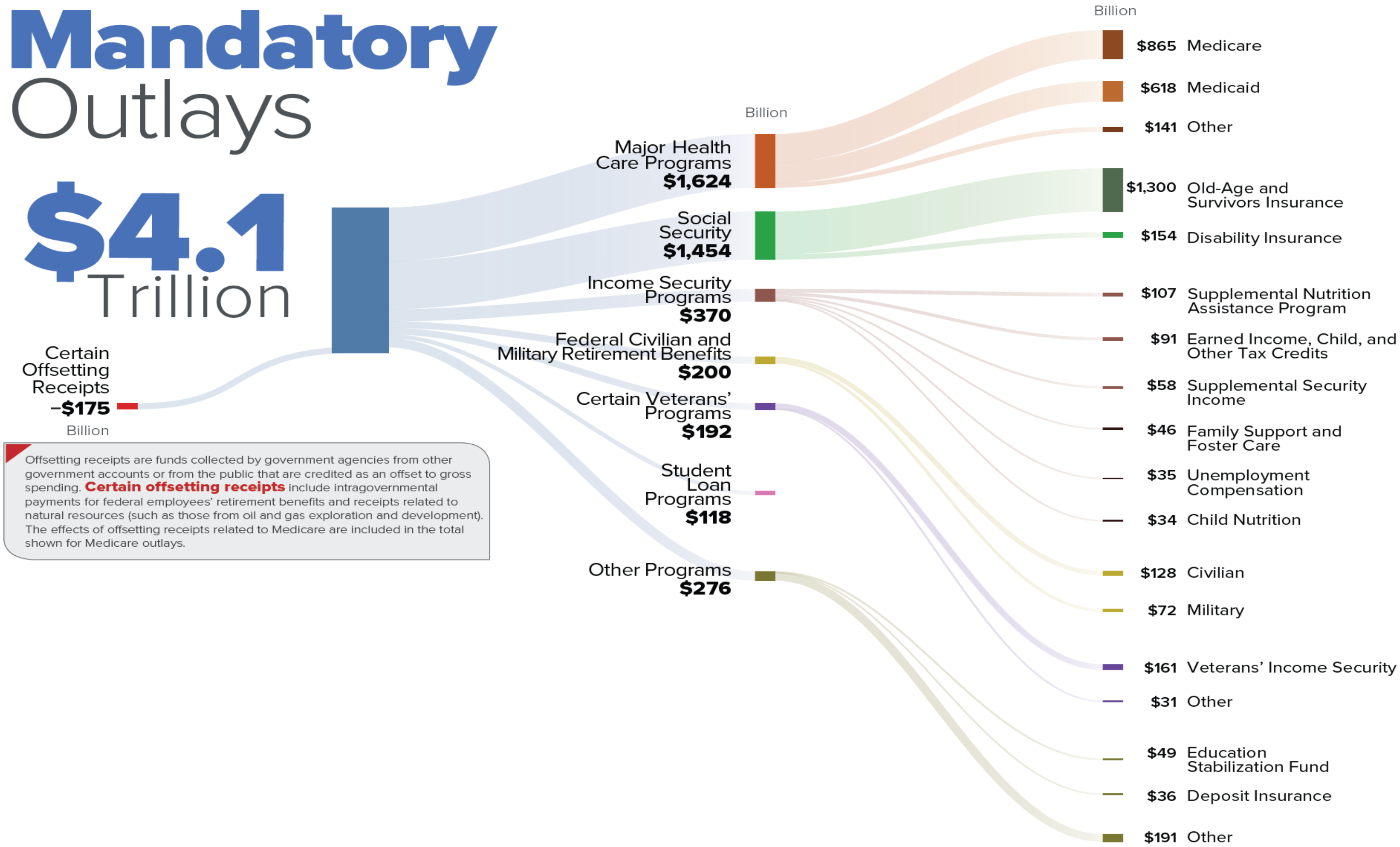


Source: CBO

Federal Budget – FY24 Outlays

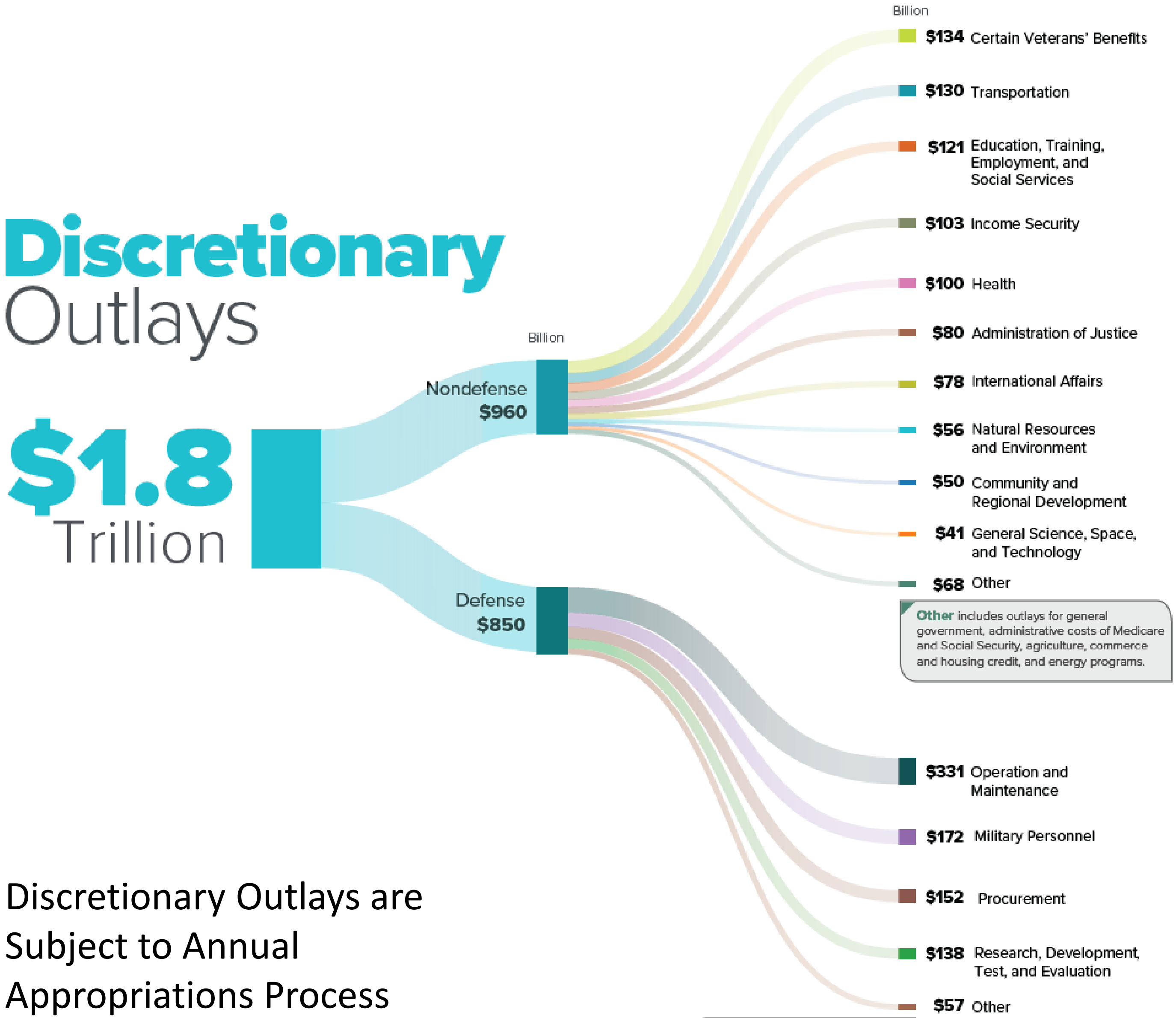


Federal Mandatory Spending – FY24

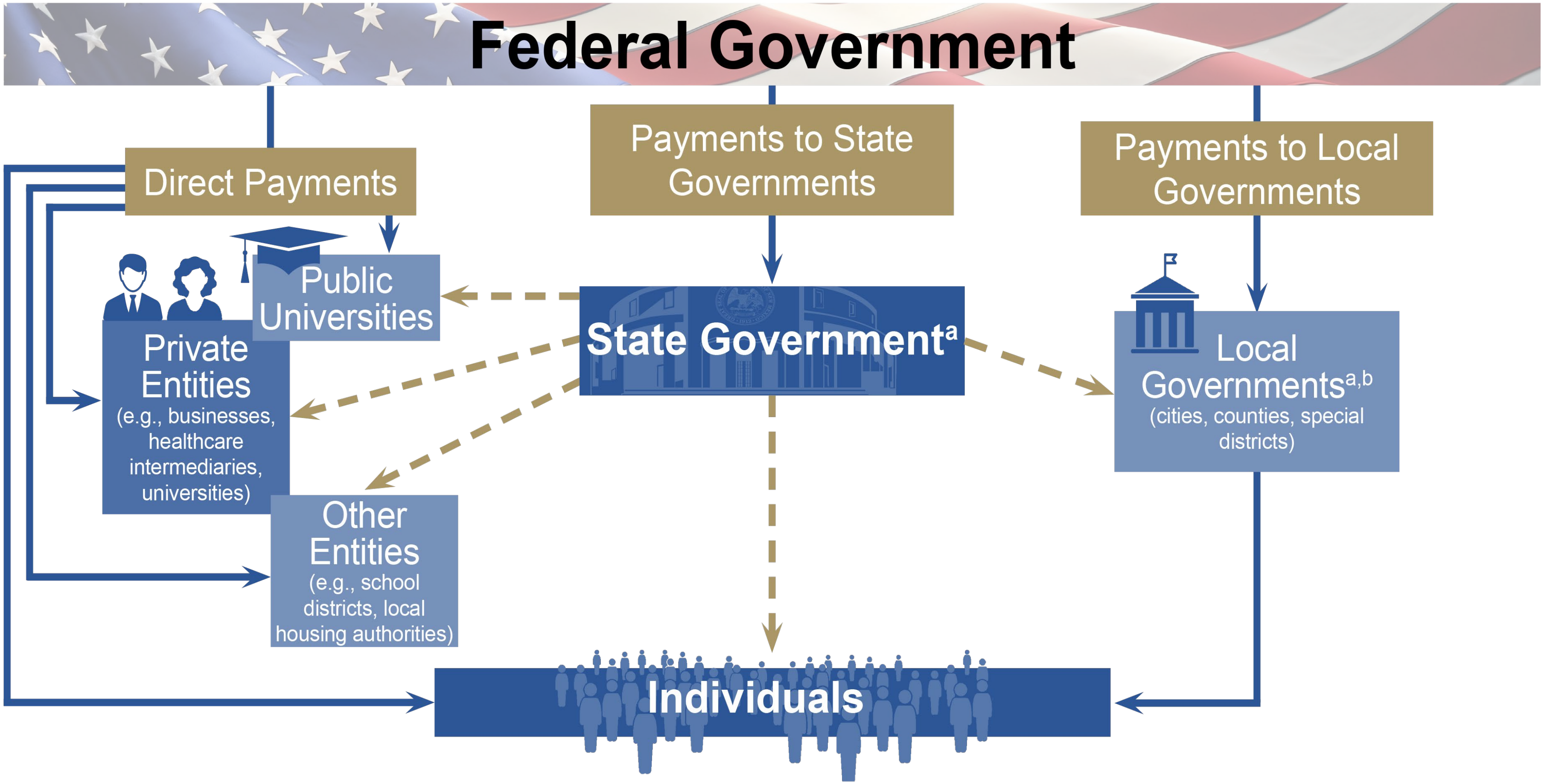


Source: CBO

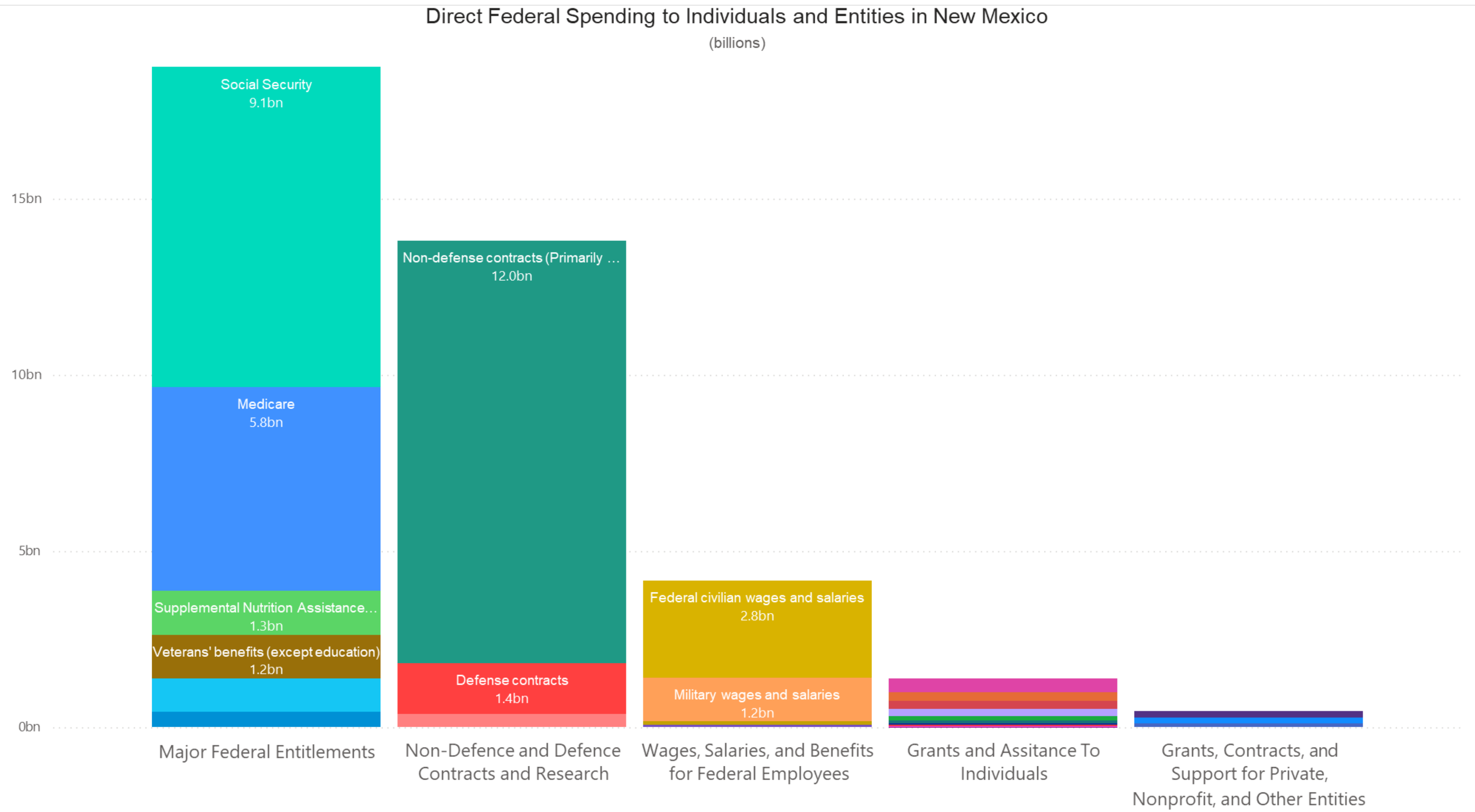
Federal Budget – FY24 Discretionary Outlays



Discretionary Outlays are Subject to Annual Appropriations Process



[a]The state and local governments retain some federal money for program administration and operation.
[b]Local governments remit some federal funds to private and other entities.



Direct Federal Spending to Individuals and Entities in New Mexico
(billions)
15bn
10bn
5bn
0bn
Social Security
9.1bn
Medicare
5.8bn
Supplemental Nutrition Assistance...
1.3bn
Veterans' benefits (except education)
1.2bn
Non-defense contracts (Primarily ...
12.0bn
Defense contracts
1.4bn
Federal civilian wages and salaries
2.8bn
Military wages and salaries
1.2bn
Major Federal Entitlements
Non-Defence and Defence Contracts and Research
Wages, Salaries, and Benefits for Federal Employees
Grants and Assitance To Individuals
Grants, Contracts, and Support for Private, Nonprofit, and Other Entities

Direct Federal Spending to Individuals and Entities in New Mexico

(millions)

Major Federal Entitlements	Amount
Social Security	$ 9,076.0
Medicare	$ 5,782.9
Supplemental Nutrition Assistance Program (SNAP) - benefits	$ 1,252.1
Veterans' benefits (except education)	$ 1,242.4
Medical care for veterans	$ 944.6
Supplemental Security Income (SSI)	$ 437.2
Total	**$ 18,735.2**
Non-Defence and Defence Contracts and Research	
Non-defense contracts (Primarily Department of Energy)	$ 11,997.9
Defense contracts	$ 1,435.7
Research contracts and grants to public universities	$ 381.4
Total	**$ 13,815.0**
Wages, Salaries, and Benefits for Federal Employees	
Federal civilian wages and salaries	$ 2,758.1
Military wages and salaries	$ 1,231.8
Railroad retirement and disability benefits	$ 109.4
Education and vocational training for veterans	$ 64.3
Total	**$ 4,163.6**
Grants and Assitance To Individuals	
Earned Income Tax Credit (refundable amount)	$ 399.6
Child tax credit (refundable amount)	$ 246.4
Federal student loans	$ 224.8
Pell Grants	$ 204.1
Housing choice vouchers	$ 117.7
Head Start	$ 88.6
All other housing support	$ 49.9
Tax credits for education (refunable amount)	$ 21.7
Telecommunications and associated infrastructure for schools and libraries	$ 15.0
Other student financial aid	$ 13.4
Tax credits to low-income individuals for health insurance premiums	$ 13.0
Total	**$ 1,394.2**
Grants, Contracts, and Support for Private, Nonprofit, and Other Entities	
Transfers to non-profits institutions	$ 191.7
Agriculture grants to farmers and forestry-related grants to companies	$ 165.3
Support for transit agencies	$ 102.0
Total	**$ 459.0**
Grand Total	**$ 38,567.0**

Sources: Include Bureau of Economic Analysis, Veteran's Affairs, Social Security, Internal Revenue Service, and others

What is Federal Budget Reconciliation?

- The Congressional Budget and Impoundment Control Act of 1974 created budget reconciliation, which allows Congress to expedite consideration of certain and specific changes in law to align spending, revenue, and the debt limit with agreed upon budget targets.
- Process starts with each chamber passing resolutions with instructions for various committees to produce laws to achieve a particular budget outcome.
- Chambers must agree on one resolution though instructions can be different to each.
- Resolution acts as a blueprint with details worked out by committees.

What is Federal Budget Reconciliation, continued?

- Advantages – Reconciliation differs from the normal process to allow for fast track legislation.
  - Limited debate
  - Restrictive amendment process
  - Simple majority
  - No filibuster in the Senate
- Limitations – Instructions for 3 specific purposes: changes in debt limit; changes in revenues, changes in direct mandatory spending, except social security, or any combo.
  - Annual discretionary spending – Defense, Education – excluded
  - Byrd Rule – cannot include items unrelated to budget, raise deficit past a 10 year window, exclude items merely “incidental” to budget goals.

House Reconciliation Instructions

Total Deficit Increase Allowed: Up to $3.3 trillion over 10 years

Committee-Level Targets

•Ways & Means: $4.5 trillion

•Armed Services: $100 billion

•Judiciary: $110 billion

•Debt Limit: Increase by $4 trillion

Key Note:

•Energy & Commerce has jurisdiction over Medicaid.

•House instructions are more transparent by using a "current law" baseline, which **acknowledges and scores** the cost of extending TCJA provisions.

House Committee	Reconciliation Instruction (billions of dollars; negative = deficit reduction, positive = deficit increase)
Energy & Commerce	-$880
Education & Workforce	-$330
Agriculture	-$230
Oversight	-$50
Transportation	-$10
Financial Services	-$1
Natural Resources	-$1
Homeland	$90
Armed Services	$100
Judiciary	$110
Ways & Means	$4,500
Total	**$3,298**
Debt Limit Increase	**$4,000**

Senate Reconciliation Instructions

Total Deficit Increase Allowed: Up to $5.7 trillion over 10 years

Committee-Level Targets

- Finance: $1.5 trillion (under current policy; real cost closer to $5.3 trillion)
- Armed Services: $150 billion
- Homeland Security & Judiciary: $175 billion
- Debt Limit: Increase by $5 trillion

Key Note:

- By using a "current policy" baseline, Senate instructions **understate the real cost** of extending expiring tax provisions.

Senate Committee	Reconciliation Instruction(billions of dollars; negative = deficit reduction, positive = deficit increase)
Agriculture	-$1
Banking	-$1
Energy	-$1
Health, Education, Labor, and Pensions	-$1
Environment & Public Works	$1
Commerce	$20
Armed Services	$150
Homeland Security & Governmental Affairs (HSGAC)	$175* (instructions overlap with Judiciary)
Judiciary	$175* (instructions overlap with HSGAC)
Finance	$1,500* (on current policy baseline; actual = $5,336)
Current Policy Total	*$2,017*
Current Law – Finance Committee	**$5,336**
Current Law – Total (also deconflicts overlapping instructions between HSGAC and Judiciary)	**$5,678**
Debt Limit Increase	**$5,000**

High Level Differences Between House and Senate Reconciliation Bill

Policy area	House-passed bill (H.R. 1, 5/22/25)	Senate draft (released 6/16-18/25)
Debt-ceiling increase	Raises statutory limit by $4 trillion	Raises by $5 trillion
Supplemental Nutrition Assistance Program (SNAP) work-requirement expansion	Able bodied adults without children age 18 to 64; caregiver exemption only if child less than 7 years old	Same 18-64 age range but exempts caregivers of children less than 10 yrs; adds stricter state cost-share triggers
SNAP state cost-sharing	Beginning in FFY28 states pay 5 to 25 percent of benefit costs plus 75 percent of administration costs (tiered by payment error rate)	States pay 0 to 15 percent of benefit costs tiered by payment error rate, but keeps House admin-cost cut to 25 percent federal share
Medicaid state directed payments	Caps the total payment rate for inpatient hospital and nursing facility services at 100 percent of Medicare for expansion states; grandfathers the provision in for payments implemented prior to enactment	For grandfathered payments, reduces payment rates by 10 percent per year starting January 1, 2027, until they reach 100 percent of Medicare payment rate
Medicaid provider-tax	Prohibits new provider taxes and eliminates some types of provider taxes; some existing taxes are grandfathered in	Reduces the 6 percent provider tax limit by 0.5 percent annually starting in FFY27 for expansion states until it reaches 3.5 percent in FFY31
Child Tax Credit	$2,500 per child through 2028, then reverts to $2,000	$2,200 through 2028, then indexed to inflation
State and Local Tax Deduction cap	Raises cap from $10 thousand to $40 thousand starting tax year 2026	Keeps $10 thousand cap
Bonus depreciation; deduct purchase price of certain new purchases	100 percent bonus depreciation through 2029; adds extra write-off for agricultural and chemical equipment	100 percent bonus depreciation made permanent; no agricultural or chemical add-on
Senior deduction	New $4,000 “older-Americans” deduction (sunsets 2028)	Boosted to $6,000 (sunsets 2028)
Clean-energy tax credits	Wind and solar production tax credit and investment tax credit repealed for projects starting 60 days post-enactment; all credits end by 2028	Faster wind and solar phase-out (no credit after 2027); hydro, nuclear, and geothermal credits sunset 2033
No-tax-on-tips deduction	Unlimited through 2028	Capped at $25 thousand per year per taxpayer

Notable Reconciliation Changes to Medicaid: State Directed Payment and Provider Taxes

HOUSE

State Directed Payments

- Caps the total payment rate for inpatient hospital and nursing facility services at 100 percent of Medicare for expansion states
- Grandfathers the above provision for directed payments implemented prior to enactment
- Effective Date: Upon Enactment

Provider Taxes

- Prohibits new provider taxes
- Eliminates some types of provider taxes
- Effective Date: Upon enactment with a 3-year grace period to transition unallowed taxes

SENATE

State Directed Payments

- For grandfathered payments, reduces payment rates by 10 percent per year starting January 1, 2027, until they reach 100 percent of Medicare payment rate

Provider Taxes

- Reduces the 6 percent provider tax limit by 0.5 percent annually starting in FFY27 for expansion states until it reaches 3.5 percent in FFY31

Notable Reconciliation Changes to Medicaid: Work Requirements

HOUSE

- Currently no work requirement
- Expansion adults 19 to 64 must be enrolled in a qualifying activity for 80 hours per month
- Certain exemptions such as dependent children and medically frail
- If disenrolled for not meeting work requirements also would not qualify for subsidized marketplace coverage
- Effective date: not later than December 31, 2026
- Would reduce Medicaid spending by $513 million in federal revenue and $57 million in state general funds

SENATE

- Same as House version except:
  - Limits exemptions to parents with children ages 14 and under
  - State compliance with work requirements can be no later than December 31, 2028

Other Notable Reconciliation Changes to Medicaid

HOUSE

Prescription Drug Pricing

- Prohibits pharmacy benefits managers from using spread pricing, starts 18 months after enactment
  - Could reduce state costs

Eligibility

- Requires states to conduct eligibility redeterminations at least every 6 months for Medicaid expansion adults currently is annually
- Reduces spending by $158 million in federal revenue and $17 million in general fund revenue

Cost Sharing

- $35 per service on expansion adults except primary care, mental health, and substance use disorder services
- Effective date: October 1, 2028
- Reduces spending by $8 million in federal revenue and $890 thousand in general fund revenue

SENATE

Prescription Drug Pricing

- Same as House passed bill

Eligibility

- Same as House passed bill but requires the secretary to issue guidance within 180 days of enactment

Cost Sharing

- Same as House passed bill, except it permits cost sharing for non-emergency services provided in a hospital emergency department to exceed $35

Federal Budget Reconciliation - Medicaid

Energy and Commerce Committee	
Require States to Establish Medicaid Work Requirements	$273.4 billion
Change Eligibility and Enrollment Rules	$172.1 billion
Address Waste, Fraud, and Abuse in ACA Exchanges	$105.1 billion
Freeze New or Increased Provider Taxes	$77.4 billion
Revise the Payment Limit for Certain State Directed Payments	$72.5 billion
Increase Frequency of Medicaid Eligibility Redeterminations	$49.4 billion
Require Uniform Tax for Medicaid Provider Taxes	$33.9 billion
Repeal and Freeze Nursing Home Staffing Standards Rule	$23.1 billion
Ensure Appropriate Address Verification Under the Medicaid and CHIP Programs	$17.4 billion
Modify Cost-Sharing Requirements in Medicaid Program	$13.0 billion
Other Health Related Offsets	$42.6 billion
Modify Update to Conversion Factor Under the PFS	-$8.9 billion
Exempting Certain Orphan Drug Manufacturers from Drug Price Negotiations	-$4.9 billion
New Health Related Tax Breaks	-$1.2 billion
Other Health Related Spending	-$1.1 billion
Interactions	-$74.2 billion
Subtotal, Health Care	***$789.8 billion***

Federal Budget Reconciliation - Medicaid

- Potential impacts on NMs Medicaid program.
  - Reduced federal participation of almost $700 million, the timing of which depends on policies adopted. Potential loss of another $200 million depending on details over states providing health benefits to undocumented individuals.
  - Work requirements for able-bodied adults without dependents (expansion population) could dramatically increase the number of people not qualifying due to income. Will they have a smooth transition to the BeWell healthcare exchange or become uninsured?
  - Modest changes to provider taxation rules could upend programs designed to stabilize and enhance quality of services in our nursing homes and hospitals.
  - History demonstrates additional eligibility determination hurdles are effective at reducing enrollment.
  - FMAP changes or Per Capital Costs Caps (effectively a block grant) save the most for federal government but may lack sufficient political support which means Energy & Commerce may not hit their reduction targets.

Proposed SNAP Changes

- Current law: feds pay 100 percent for benefits and 50 percent for the administration of the program
- Both Senate and House versions would institute a new state matching requirement based on state payment error rates beginning in FFY28
  - The House version would require a minimum 5 percent match, and the tiers are higher
  - The Senate version only requires a state match if error rates are 6 percent or higher and ramps up the match requirement from there

Projected Cost of SNAP House Reconciliation Changes

If the State's Error Rate is Equal to…	< 6% Error		6-8% Error		8-10%Error		>10% Error	
Then the Required State Matching Rate is…	5%		15%		20%		25%	
	State	Federal	State	Federal	State	Federal	State	Federal
Then the State/Federal Matching Funds Requirement for SNAP Would be…	$57,752	$1,097,283	$173,255	$981,779	$231,007	$924,028	$288,759	$866,276
Sun Bucks	$1,630	$30,962	$4,889	$27,703	$6,518	$26,073	$8,148	$24,444
		Source: LFC analysis of SHARE						

Projected Cost of SNAP Senate Reconciliation Changes

If the State's Error Rate is Equal to…	< 6% Error		6-8% Error		8-10%Error		>10% Error	
Then the Required State Matching Rate is…	0%		5%		10%		15%	
	State	Federal	State	Federal	State	Federal	State	Federal
Then the State/Federal Matching Funds Requirement for SNAP Would be…	$0	$1,155,034	$57,752	$1,097,283	$115,503	$1,039,531	$173,255	$981,779
Sun Bucks	$0	$32,592	$1,630	$30,962	$3,259	$29,333	$4,889	$27,703
		Source: LFC analysis of SHARE						

Other Proposed SNAP Changes

- The changes would
  - Decrease the federal matching rate for administrative costs from 50 percent to 25 percent (the Senate's provision would start in FFY27 and the House's would start upon enactment)
  - Eliminate funding for SNAP nutrition education
  - Change current work requirements by increasing the age of able-bodied adults without dependents from 54 to 64 years
  - The House version would change the definition of dependent child from under 18 years of age to under 7 and the Senate to over the age of 10
  - Both versions require counties to have a 10 percent unemployment rate or higher for the county to receive a waiver from work requirements

Estimate of other SNAP Changes

	Current Law		New Administrative Share	
	State	Federal	State	Federal
Change Administrative Matching Rate from 50/50 to 75 State 25 Federal	$37,867	$37,867	$56,800	$18,933
Eliminate SNAP Nutrition Education	($3,660.2)			

Source: LFC Files and HCA

Federal Budget Reconciliation – SNAP
Cost shift alone - $300 million in new state GF costs

Agriculture Committee	
Establish SNAP Matching Funds Requirement for States	$128.3 billion
Strengthen SNAP Work Requirements and Restrict Eligibility for Undocumented Individuals	$96.4 billion
Limit Executive Power to Increase Agricultural Subsidies	$36.8 billion
Reduce Federal Share of Administrative Costs for SNAP Program	$27.4 billion
Exclude Internet Expenses from SNAP Benefit Calculations	$11.0 billion
Use SNAP Database to Prevent Undue Issuances of Other Federal Benefits	$7.4 billion
Other Savings Provisions	$13.3 billion
Increase Farm Subsidies and Other Agricultural Safety Net Programs	-$52.3 billion
Fund Agricultural Trade Promotion	-$2.0 billion
Other Spending Provisions	-$3.9 billion
Interactions	-$24.0 billion
Subtotal, Agriculture Committee	**$238.2 billion ($230 billion floor)**

Summary 2025 Federal Budget Reconciliation

- Federal budget reconciliation is a tool to fast track legislation, including requiring only a majority vote in Senate, for mandatory spending programs, except social security.
- Rather than addressing federal deficits on hard political decisions, has been used to do the opposite. System favors ongoing spending vs. costs of tax cuts.
- Federal annual deficits a significant fiscal issue with no remedy in sight.
- 2025 Federal budget Reconciliation would significantly impact New Mexico's finances – the timing of which will depend on when provisions kick in. Biggest risk is cost-shifting SNAP benefits and admin costs to states in House/Senate version.

NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

For More Information

- http://www.nmlegis.gov/lcs/lfc/lfcdefault.aspx
  - Session Publications
  - Performance Report Cards
  - Program Evaluations

Charles Sallee, Director
Charles.Sallee@nmlegis.gov
325 Don Gaspar – Suite 101
Santa Fe, NM 87501
505-986-4550