

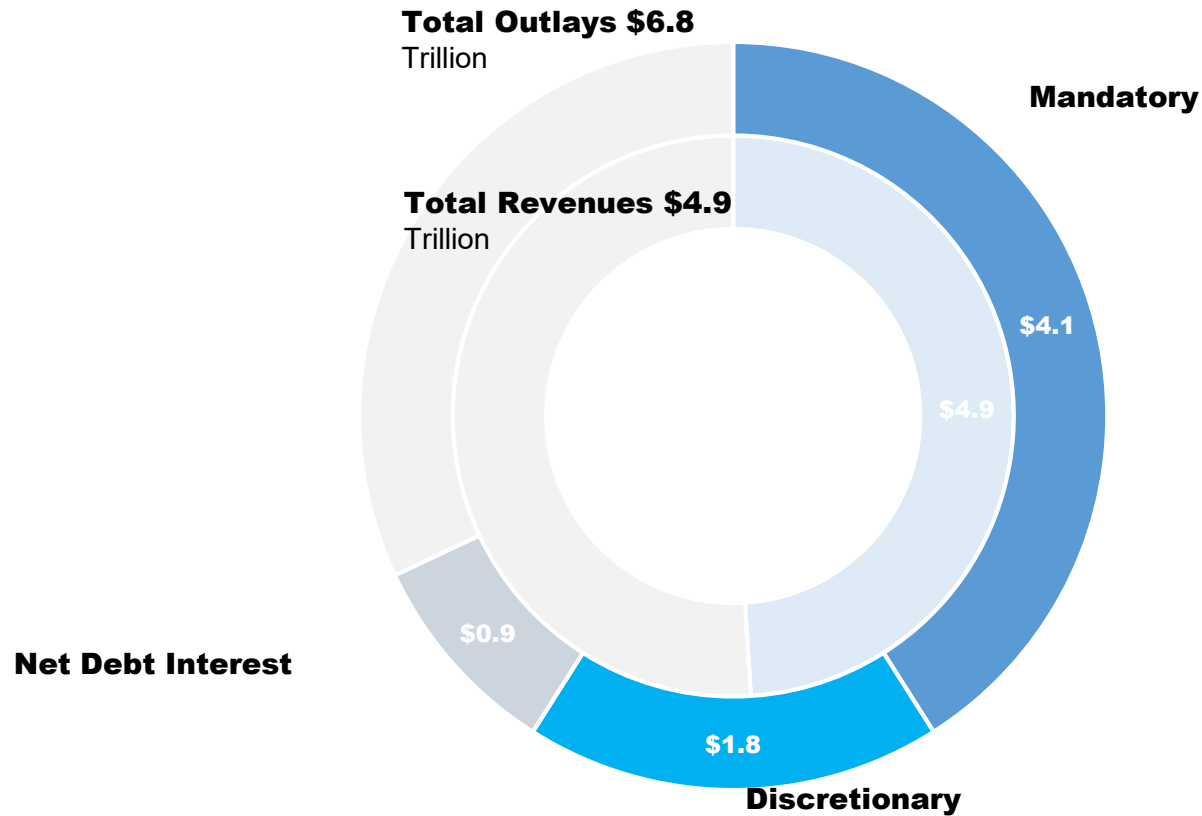


Federal Budget Reconciliation Overview

Charles Sallee, Director, Legislative Finance Committee
Eric Chenier, Principal Analyst, Legislative Finance Committee
August 2025

Federal Budget – Uh Oh! \$1.9 Trillion Deficit

Federal Budget - FY24



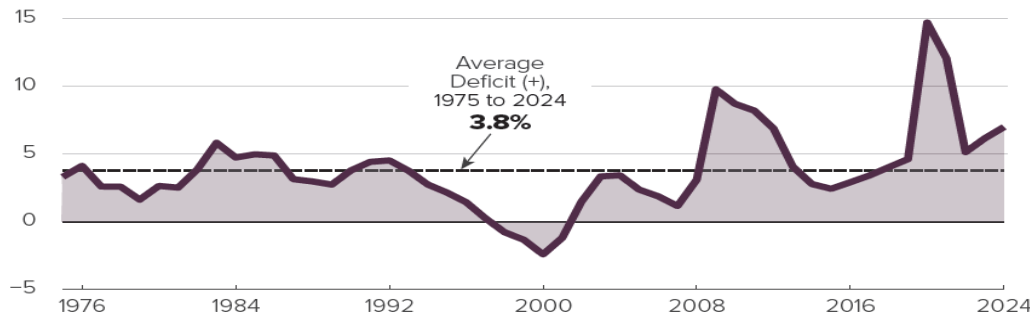
Source: CBO



Federal Budget Deficits & Debt

Deficits and Debt

Federal Deficits or Surpluses, 1975 to 2024
Percentage of GDP



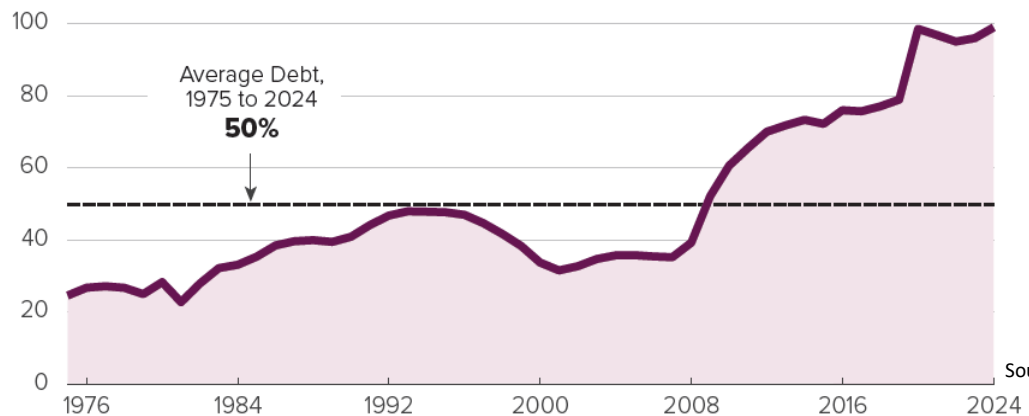
**Annual Deficit:
Amount by Which
Outlays Exceed
Revenues**

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

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.

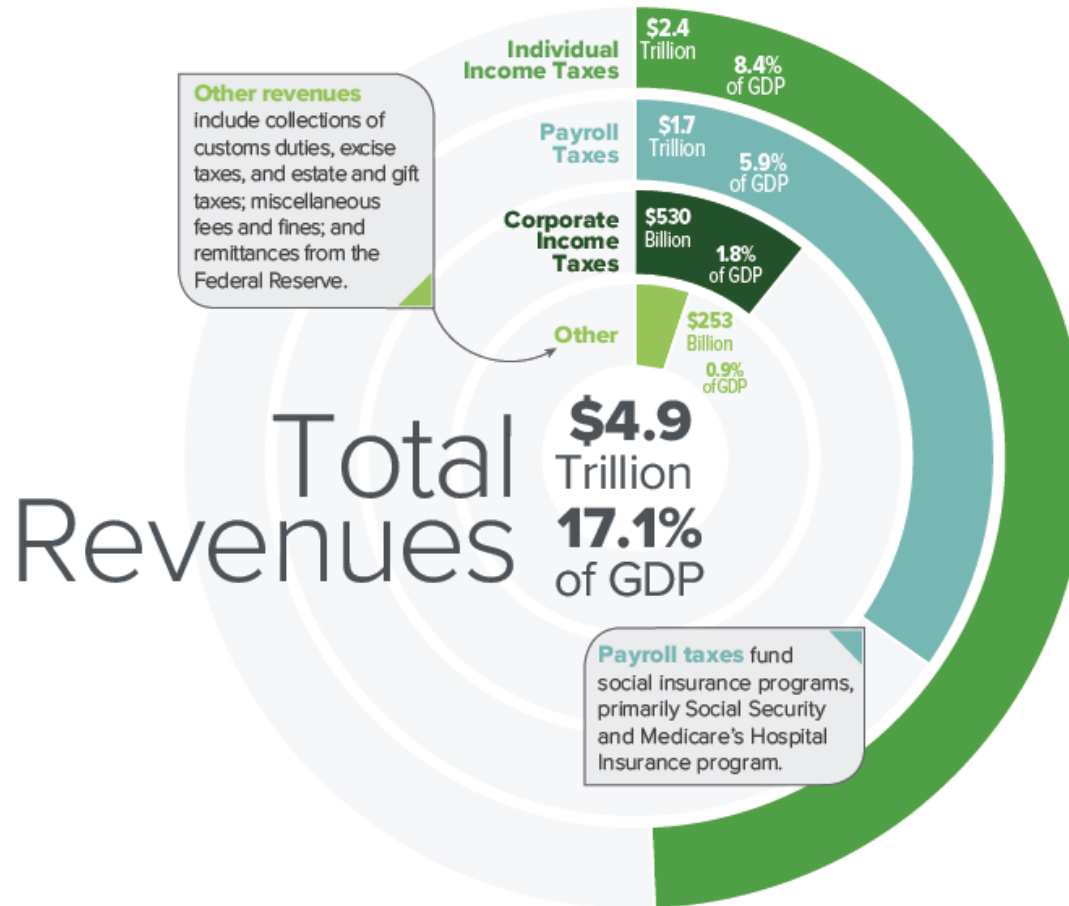
Federal Debt Held by the Public, 1975 to 2024
Percentage of GDP



Source: CBO



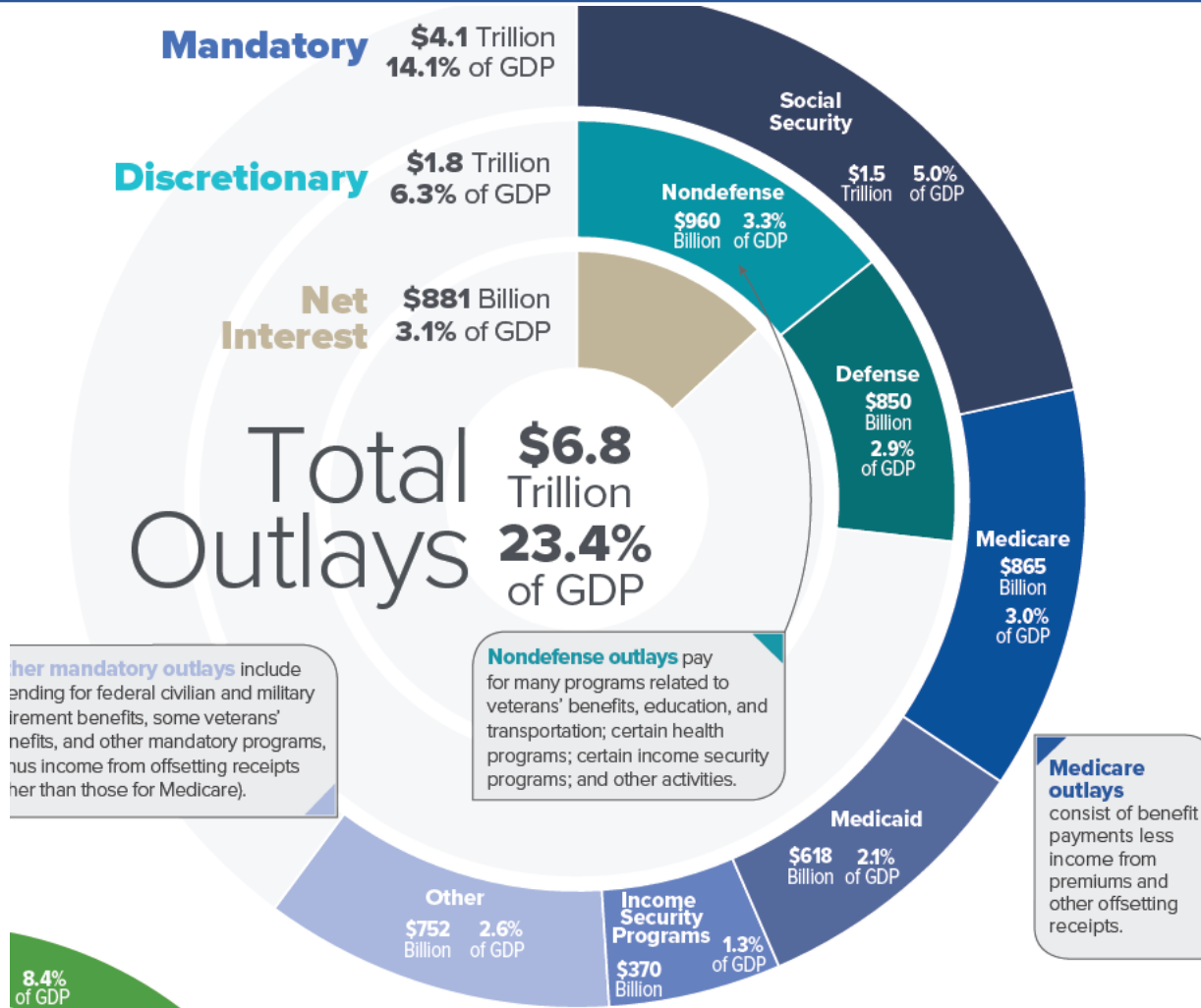
Federal Budgeted Revenues – FY24



Source: CBO



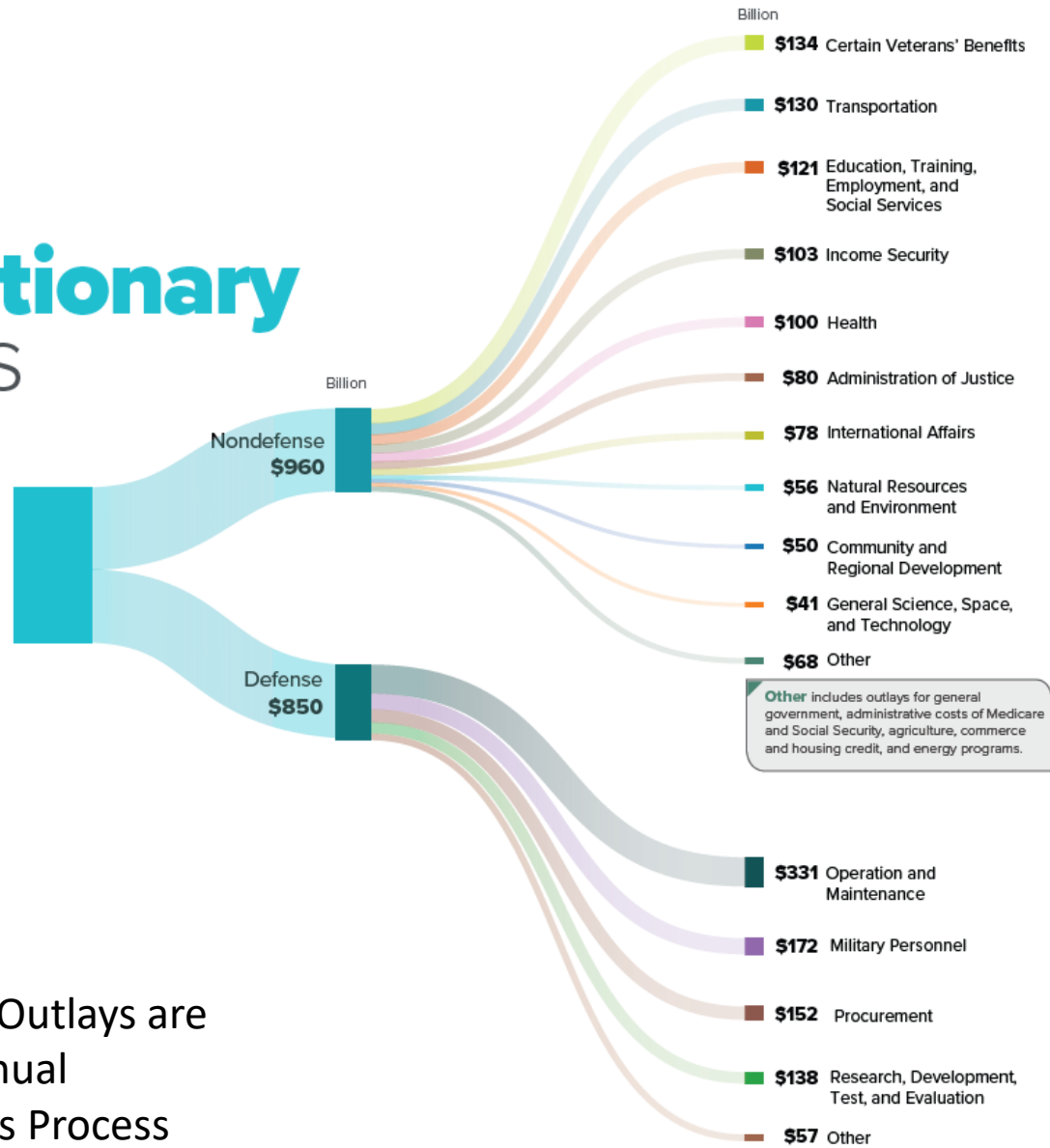
Federal Budget – FY24 Outlays



Federal Budget – FY24 Discretionary Outlays

Discretionary Outlays

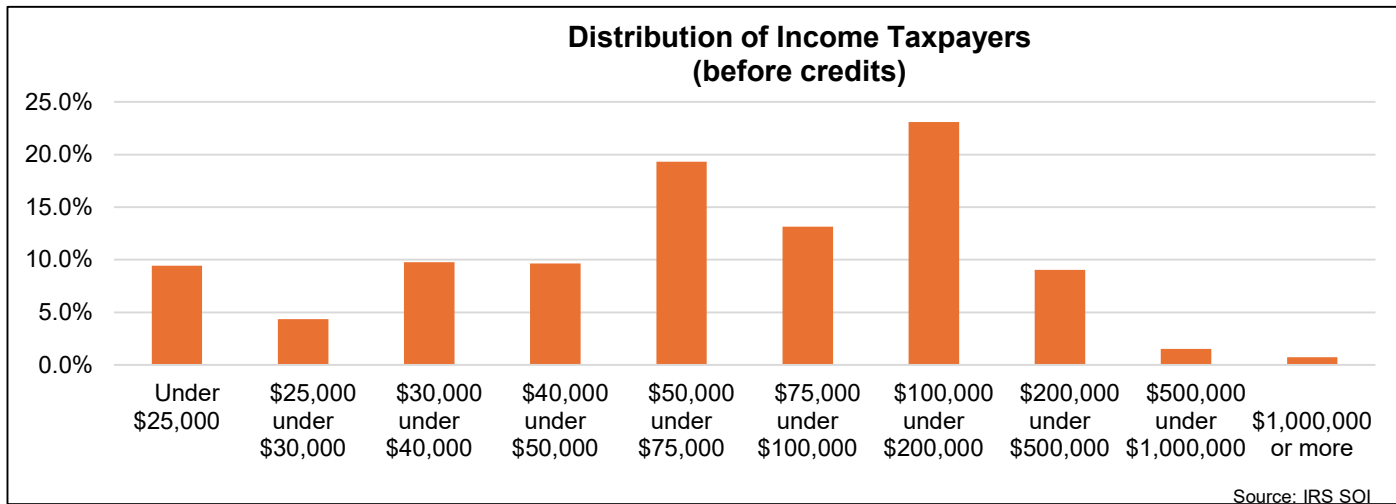
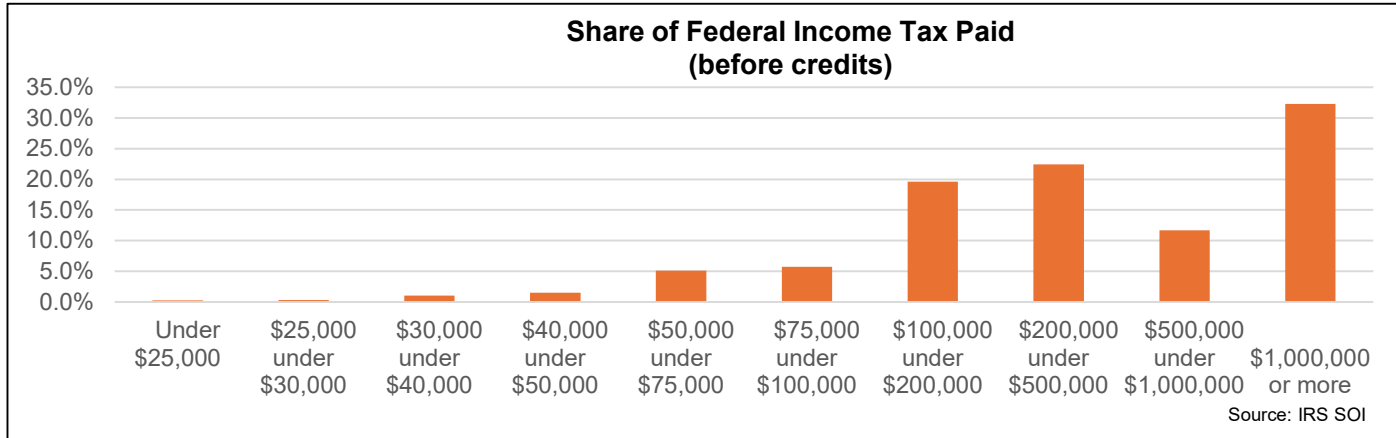
\$1.8
Trillion



Discretionary Outlays are Subject to Annual Appropriations Process



Federal Budget Revenues



Federal Reconciliation Bill

The Reconciliation Bill

- Cut taxes by \$4.5 trillion including:
 - Extending previous tax cuts enacted during the prior Trump administration and
 - Creating new tax cuts such as those on tips and overtime
- Cut overall mandatory and discretionary spending by \$1.2 trillion including:
 - Reducing spending on Medicaid, Medicare, and Affordable Care Act Marketplaces by about \$1 trillion over 10 years
 - Increased near term spending on armed services by \$150 billion and homeland security by \$129 billion – not spread over 10 years
 - Made other significant changes
- Increased the debt limit by \$5 trillion



Federal Reconciliation Bill – Tax Changes

Preliminary General Fund Impact

- Changes to the:
 - State and local tax deduction
 - Standard deduction
 - Car loan interest deduction
- Could reduce revenue by up to \$190 million in FY26 because of those three changes
 - Estimate does not include more complicated changes to business taxes like bonus depreciation and GILTI



High Level Reconciliation Bill Summary

	Policy area	Passed
1	Debt-ceiling increase	Raises by \$5 trillion
2	Supplemental Nutrition Assistance Program (SNAP) work-requirement expansion	Same 18-64 age range but exempts caregivers of children less than 10 yrs; adds stricter state cost-share triggers
3	SNAP state cost-sharing	States pay 0 to 15 percent of benefit costs tiered by payment error rate, increases admin-cost to 75 percent state from 50 percent now
4	Medicaid state directed payments	For grandfathered payments, reduces payment rates by 10 percent per year starting January 1, 2028, until they reach 100 percent of Medicare payment rate
5	Medicaid provider-tax	Reduces the 6 percent provider tax limit by 0.5 percent annually starting in FFY28 for expansion states until it reaches 3.5 percent
6	Child Tax Credit	\$2,200 through 2028, then indexed to inflation
7	Rural health transformation program	\$50 billion in grants to support rural hospitals affected by Medicaid changes
8	State and Local Tax Deduction cap	Increases cap to \$40 thousand
9	Bonus depreciation; deduct purchase price of certain new purchases	100 percent bonus depreciation made permanent; no agricultural or chemical add-on
10	Senior deduction	Boosted to \$6,000 (sunsets 2028)
11	Clean-energy tax credits	Faster wind and solar phase-out (no credit after 2027); hydro, nuclear, and geothermal credits sunset 2033
12	No-tax-on-tips deduction	Capped at \$25 thousand per year per taxpayer
13	Feral Swine Eradication Pilot	Included \$105 million for a newly created feral swine eradication pilot



Federal Budget Reconciliation – Medicaid Timeline

LFC Analysis of CBO Estimates for Impact of 2025 Budget Reconciliation Bill

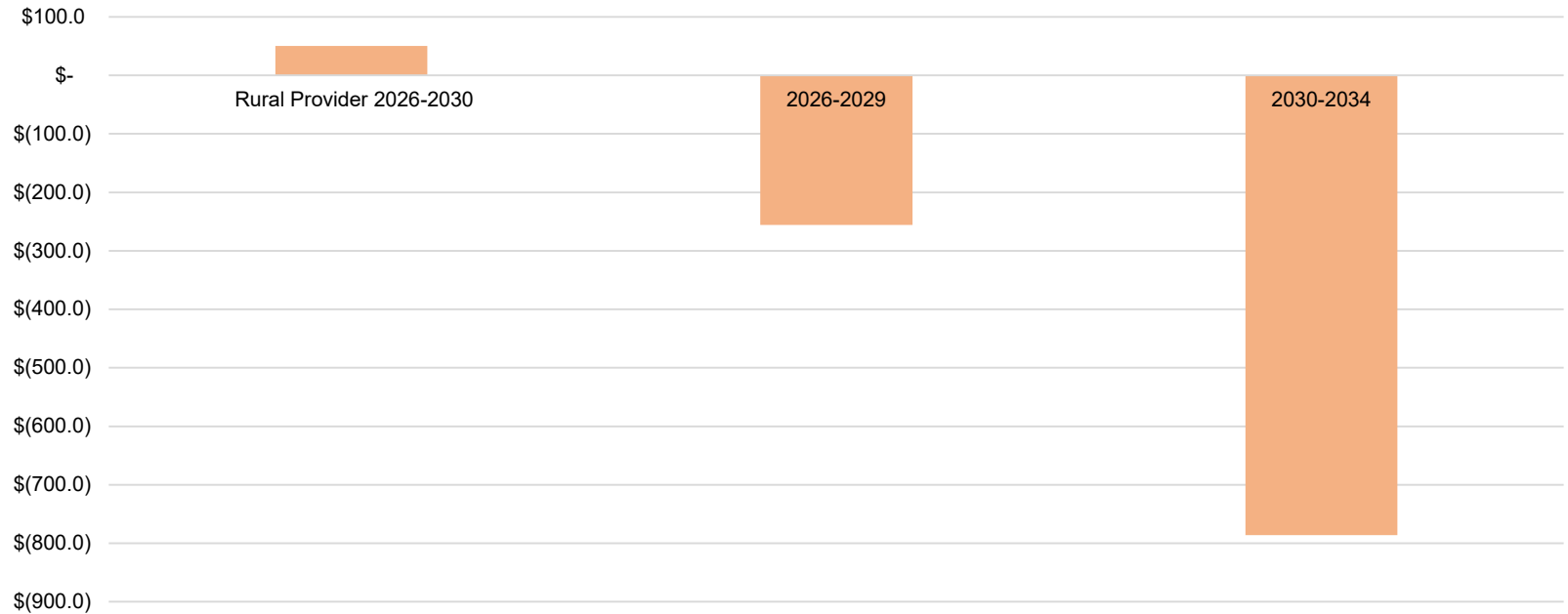
	Actual - 2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025-2034
Medicaid - Federal	618 \$	656 \$	695 \$	738 \$	767 \$	803 \$	837 \$	871 \$	910 \$	948 \$	986 \$	8,211
Baseline Growth Rate		6%	6%	6%	4%	5%	4%	4%	4%	4%	4%	
Medicaid Changes From Baseline	\$ (1)	\$ (22)	\$ (54)	\$ (73)	\$ (106)	\$ (127)	\$ (146)	\$ (157)	\$ (170)	\$ (186)	\$ (186)	\$ (1,043)
Percent Change from Baseline		0%	-3%	-7%	-10%	-13%	-15%	-17%	-17%	-18%	-19%	-13%
Rural Healthcare Initiative*		\$ 10	\$ 10	\$ 10	\$ 10	\$ 10						\$ 50
New Baseline	\$ 655	\$ 683	\$ 694	\$ 704	\$ 707	\$ 720	\$ 725	\$ 753	\$ 778	\$ 800	\$ 800	7,218
Percent Change YOY New Baseline			4%	2%	1%	0%	2%	1%	4%	3%	3%	

Source: CBO, FFIS *LFC timing and yearly outlay estimates based on FFIS



Federal Budget Reconciliation – Medicaid Timeline

CBO Medicaid Funding Changes - HR 1 Reconciliation, in millions



Source: CBO, FFIS *LFC timing and yearly outlay estimates based on FFIS



Federal Budget Reconciliation - Medicaid

Federal Fiscal Year (millions)	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025- 2029	2025- 2034
Medicaid Work Requirements	0	250	-13,080	-19,030	-39,840	-46,280	-48,440	-50,690	-53,100	-55,550	-71,700	-325,760
Provider Taxes	0	-2,790	-4,743	-7,604	-12,294	-18,585	-26,724	-34,099	-39,317	-44,976	-27,431	-191,132
State Directed Payments	0	-5,450	-7,471	-9,269	-13,334	-16,552	-19,598	-22,845	-25,861	-29,035	-35,524	-149,415
Delay Rule on Eligibility and Enrollment in Medicare Savings Programs	-115	-2,688	-7,037	-9,415	-9,789	-10,280	-10,733	-11,205	-11,785	-12,234	-29,044	-85,281
Delay Rule on Eligibility and Enrollment for Medicaid, CHIP, and the Basic Health Program	-600	-6,283	-8,378	-8,627	-9,043	-9,018	-9,382	-9,744	-10,142	-10,529	-32,931	-81,746
Eligibility Redeterminations	0	0	-5,115	-7,089	-7,472	-7,816	-8,180	-8,560	-8,978	-9,392	-19,676	-62,602
Uniform Tax Requirement for Medicaid Provider Tax	0	-3,158	-3,426	-3,518	-3,684	-3,828	-3,969	-4,172	-4,345	-4,506	-13,786	-34,606
Expansion FMAP for Emergency Medicaid	0	0	-2,493	-3,166	-3,342	-3,526	-3,721	-3,924	-4,141	-4,370	-9,001	-28,683
Other Provisions												-84,100
Total Medicaid												-1,043,325

Source: Congressional Budget Office



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

- Historically, hospitals and Medicaid MCOs would negotiate rates and states could not direct how or how much to pay. States could make supplemental payment arrangements, not always tied to actual utilization, with hospitals to offset uncompensated care.
- CMS shifted and began disallowing supplemental payment but issued a rule allowing states to direct payments through managed care.
- Medicare rates have served as a “ceiling” or upper payment limit for hospital payments, but CMS issued a rule allowing commercial market rates as the new upper payment limit.
- State’s often use specific taxes or fees only directed to those providers who would then receive compensation for the tax plus rate increases from the federal match. CMS limits the amount to six percent of the provider’s revenue called “safe harbor.”
- In 2024, NM hospitals reported almost \$7.5 billion in net patient revenue, with about \$1.6 billion coming from Medicaid. Reported net income was \$575 million, with six hospitals reporting a combined loss of almost \$88 million.
- NM implemented the new upper payment limits this calendar year after federal approval last year. NMHA estimated hospitals would gain an additional \$1.1 billion in federal matching funds and for some hospitals more than doubling their Medicaid revenue. *Figures exclude specialty and BH facilities



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

State Directed Payments

- Caps the total payment rate for inpatient hospital and nursing facility services at 100 percent of Medicare for expansion states
- Grandfathers current directed payments implemented prior to enactment
 - **Effective Date:** For grandfathered payments, reduces payment rates by 10 percent per year starting January 1, 2028, until they reach 100 percent of Medicare payment rate
 - However, each year CMS adjusts Medicare payment rates – so the new upper payment limit will grow over time
 - **Impact to the state:** Directed payments are expected to reach \$1.1 billion for hospitals in FY26, which would be reduced by 10 percent annually until they reach 100 percent of Medicare rates
 - Preliminary estimates would reduce hospital patient revenue by less than 2 percent annually. The hospital tax burden would come down over time as well

Provider Taxes

- Prohibits new provider taxes and eliminates some types of provider taxes all together
 - **Effective Date:** Reduces the current 6 percent provider tax limit by 0.5 percent per year starting in Federal Fiscal Year 2028 through 2032 to 3.5 percent
 - **Impact to the state:** Provider tax revenue funds the state's directed payments for hospitals and federal reconciliation exempted nursing facilities taxes



Notable Reconciliation Changes to Medicaid: Work Requirements and Cost Sharing

Work Requirements

- Expansion adults 19 to 64 must be enrolled in a qualifying activity for 80 hours per month
- Certain exemptions such as dependent children under 14 and medically frail
- If disenrolled for not meeting work requirements also would not qualify for subsidized marketplace coverage
 - **Impact to the state:** Would reduce Medicaid spending by \$513 million in federal revenue and \$57 million in state general funds, due to an estimated 83 thousand reduction in enrollment.
 - **Effective date:** December 31, 2026, with state exemptions granted until December 31, 2028, for states showing good faith efforts to implement

Cost Sharing

- \$35 per service on expansion adults except primary care, mental health, and substance use disorder services. Also exempts services provided at federally qualified health centers, behavioral health clinics, and rural health clinics.
 - **Impact to the state:** Reduces spending by \$8 million in federal revenue and \$890 thousand in general fund revenue, due to an estimated 254 thousand enrollees that would now be subject to copays.
 - **Effective date:** October 1, 2028



Notable Reconciliation Changes to Medicaid: Eligibility

Eligibility

- Requires states to conduct eligibility redeterminations at least every 6 months for Medicaid expansion adults, current practice is annual, secretary of HHS to issue guidance within 180 days of enactment
 - **Impact to the state:** Reduces spending by \$158 million in federal revenue and \$17 million in general fund revenue because of expected enrollment churn. Also has interaction effects with retroactive coverage limitation.
 - **Effective Date:** For renewals scheduled on or after December 31, 2026

Retroactive Eligibility

- Limits retroactive coverage to one month prior to application for coverage for expansion enrollees and two months for traditional enrollees, current practice is three months.
 - **Impact to the state:** \$8.2 million in federal revenue and \$2.3 million in general fund revenue because of a projected decrease of 18.4 thousand months of member enrollment annually.
 - **Effective Date:** January 1, 2027



Other Federal Actions - Medicaid

- In early June, the White House issued a memo that stated the CMS Secretary shall:
 - “take appropriate action to eliminate waste, fraud, and abuse in Medicaid, including by ensuring **Medicaid payment rates are not higher than Medicare, to the extent permitted by applicable law.**”
- The state increased rates for maternal and child health, physical health, behavioral health and other services several times in the last few years, first to 120 percent then 150 percent of Medicare.

Recent and Upcoming Provider Rate Adjustments (Millions)*

Provider Type	FY24	FY25	FY26
**Maternal and Child Health and Primary Care	\$222.5	\$210.3	
***Hospital Rates	\$105.9	\$39.2	\$1,361.4
Maternal Health Services	\$29.6		
Phase III Providers		\$42.6	
Prior Year Rate Maintenance		\$116.6	
Rural Primary Care Clinics and FQHCs		\$9.0	
Medicaid Home Visiting		\$6.7	
Birthing Doulas and Lactation Counselors^		\$26.0	
Behavioral Health	\$31.8	\$31.8	\$25.9
Program for All Inclusive Care			\$23.7
Assisted Living Facilities			\$11.2
Nursing Facility Rebasing			\$40.2
Total	\$389.8	\$482.2	\$1,462.4

* Includes both state funds and federal match funds

** includes \$5 million EC trust for maternal and child health
 *** FY26 based on FIR for Health Care Delivery and Access Act

^\$10.8 million from EC trust



Federal Budget Reconciliation – SNAP

Federal Fiscal Year (millions)	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025-2029	2025-2034
Modifications to SNAP Work Requirements for Able-Bodied Adults	0	-5,800	-8,000	-8,000	-8,000	-8,000	-7,700	-7,700	-7,700	-7,700	-29,800	-68,600
Matching Funds Requirements	0	0	0	-5,640	-5,630	-5,640	-5,650	-5,820	-5,830	-5,830	-11,270	-40,040
Re-evaluation of Thrifty Food Plan	0	0	-3,100	-3,500	-3,500	-3,400	-3,400	-6,600	-6,900	-6,900	-10,100	-37,300
Administrative Cost Sharing	0	0	-2,780	-2,860	-2,950	-3,030	-3,120	-3,210	-3,310	-3,400	-8,590	-24,660
Restrictions on Internet Expenses	0	-1,180	-1,210	-1,210	-1,210	-1,210	-1,210	-1,250	-1,250	-1,250	-4,810	-10,980
Availability of Standard Utility Allowances	0	-440	-680	-680	-680	-680	-680	-700	-700	-700	-2,480	-5,940
National Education and Obesity Prevention Grant Program	0	-554	-568	-581	-594	-607	-621	-634	-648	-663	-2,297	-5,470
Alien SNAP Eligibility	0	-87	-198	-216	-222	-223	-226	-241	-244	-247	-723	-1,904
Total												-194,894

Source: Congressional Budget Office



Federal Budget Reconciliation – SNAP Timeline

Timeline -- Federal Reconciliation SNAP Changes

State Fiscal Year	SFY 25	SFY26	SFY27	SFY28	SFY29	SFY30	SFY31	SFY32	SFY33	SFY34
Federal Fiscal Year	FFY25	FFY26	FFY27	FFY28	FFY29	FFY30	FFY31	FFY32	FFY33	FFY34
Calendar Year	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Month	J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D									
State Match Requirement				Begins in October 2027						
State Match Requirement Delayed Implementation					If Payment Error Rate is Too High Begins in FFY29					
State Match Requirement Delayed Implementation						If Payment Error Rate Continues to Be High Begins FFY30				
Administrative Match Reduction	Federal Share for Administrative Expenses Reduces from 50 Percent to 25 Percent									



Proposed SNAP Changes

- Current law: feds pay 100 percent for benefits and 50 percent for the administration of the program
- Would institute a new state matching requirement based on state payment error rates beginning in FFY28
 - Requires a state match if error rates are 6 percent or higher and ramps up the match requirement from there
 - Includes a delayed implementation clause which would likely apply to New Mexico for 2029 and 2030

Projected Cost of SNAP Senate Reconciliation Changes								
If the State's Error Rate is Equal to... Then the Required State Matching Rate is...	< 6% Error		6-<8% Error		8-<10%Error		>10% Error	
	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 starting in FFY27
 - 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 bill would change the definition of dependent child from under 18 years of age to over the age of 10
 - Requires 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 Funds Framework Options

- Still a significant amount of uncertainty on status of specific programmatic federal funding, for things like workforce training and education. Many of the bigger fiscal impacts from reconciliation are not in next year's budget cycle, nor are they traditional "backfill." What would/should a framework look like for analysis to help with recommendations?
- Draft LFC budget guidelines suggest treating requests for replacement the same as if an agency was asking for new/expansion funding. That framework would include:
 - Is the program addressing a priority of the committee?
 - Legislating for Results Budget Development Tool – Program Premise, Needs Assessment, Program Description, Research and Evidence, Implementation & Fidelity Plans, Measurement and Accountability (how will we know it is working)
 - Presumably, the federal program would have robust information about its effectiveness.
 - Is the program funding reduced or eliminated and permanently or temporarily?
 - Does the state need to replace the program to address the need using the existing federal format, or could it free itself from regulatory barriers by developing a New Mexico specific approach?





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