



NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

Federal Budget Reconciliation Overview

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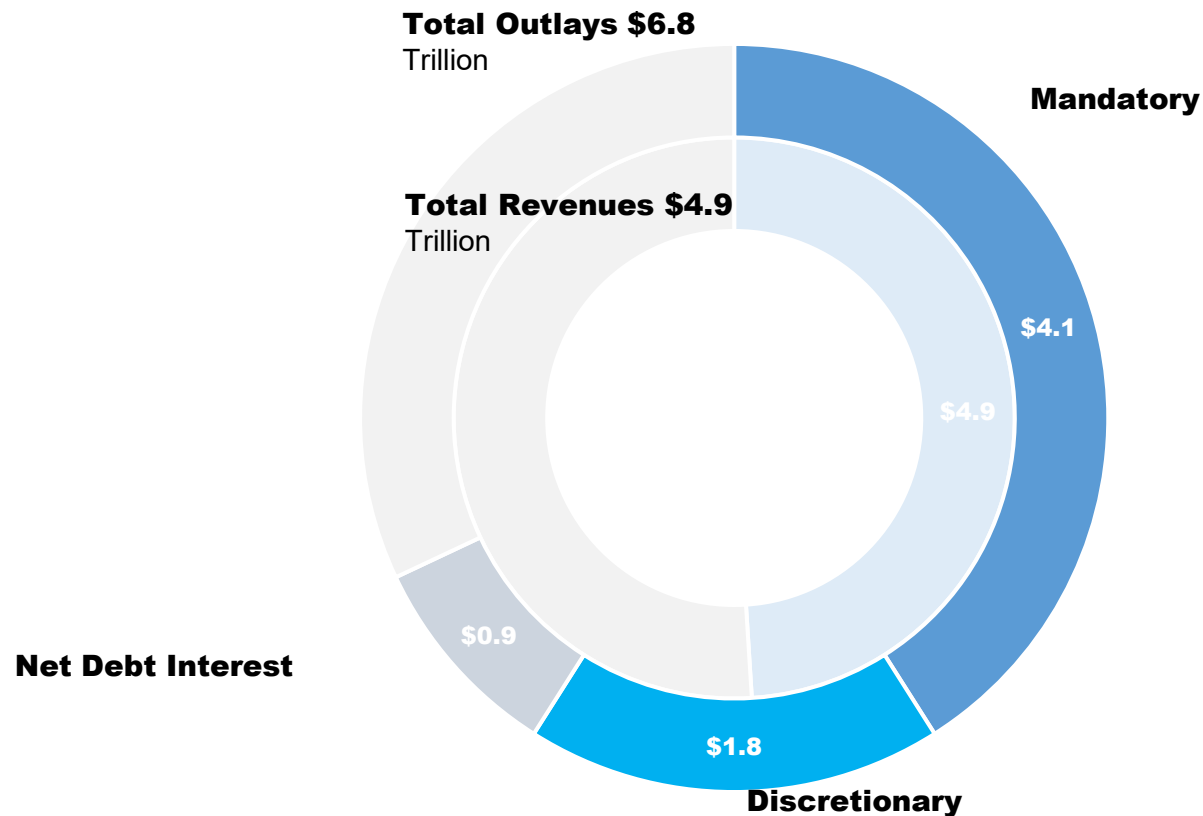
Overview

- 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



Federal Budget – Uh Oh! \$1.9 Trillion Deficit

Federal Budget - FY24



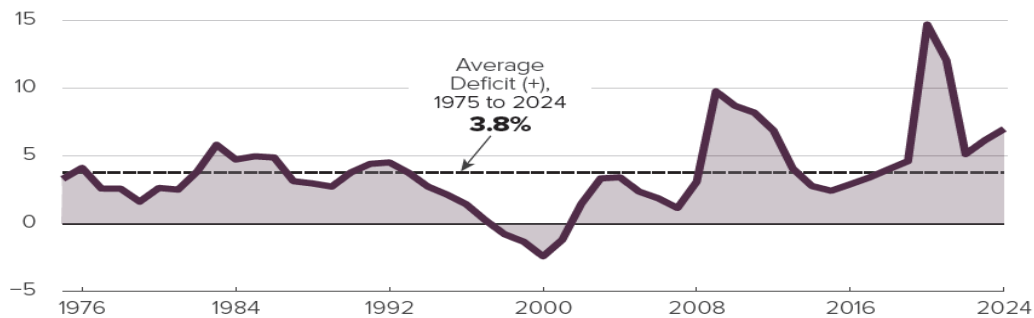
Source: CBO

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**

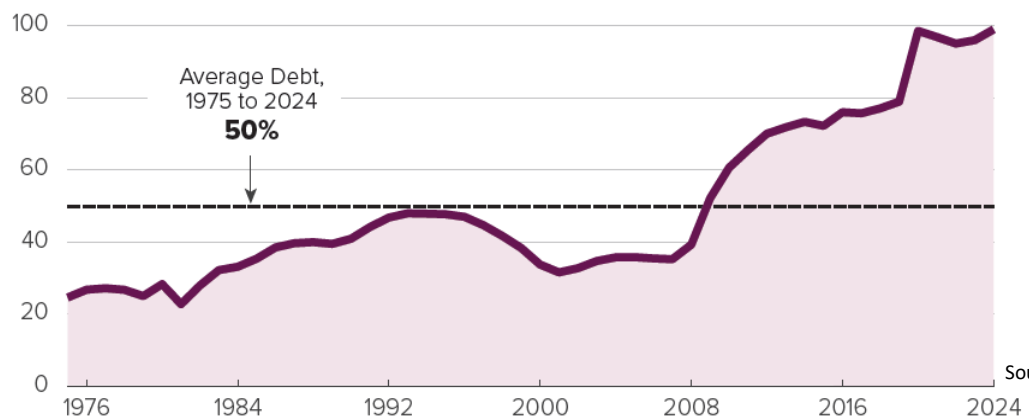
To fund government spending in years of deficits, the Treasury borrows from individuals, businesses, the Federal Reserve, and other countries.

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.

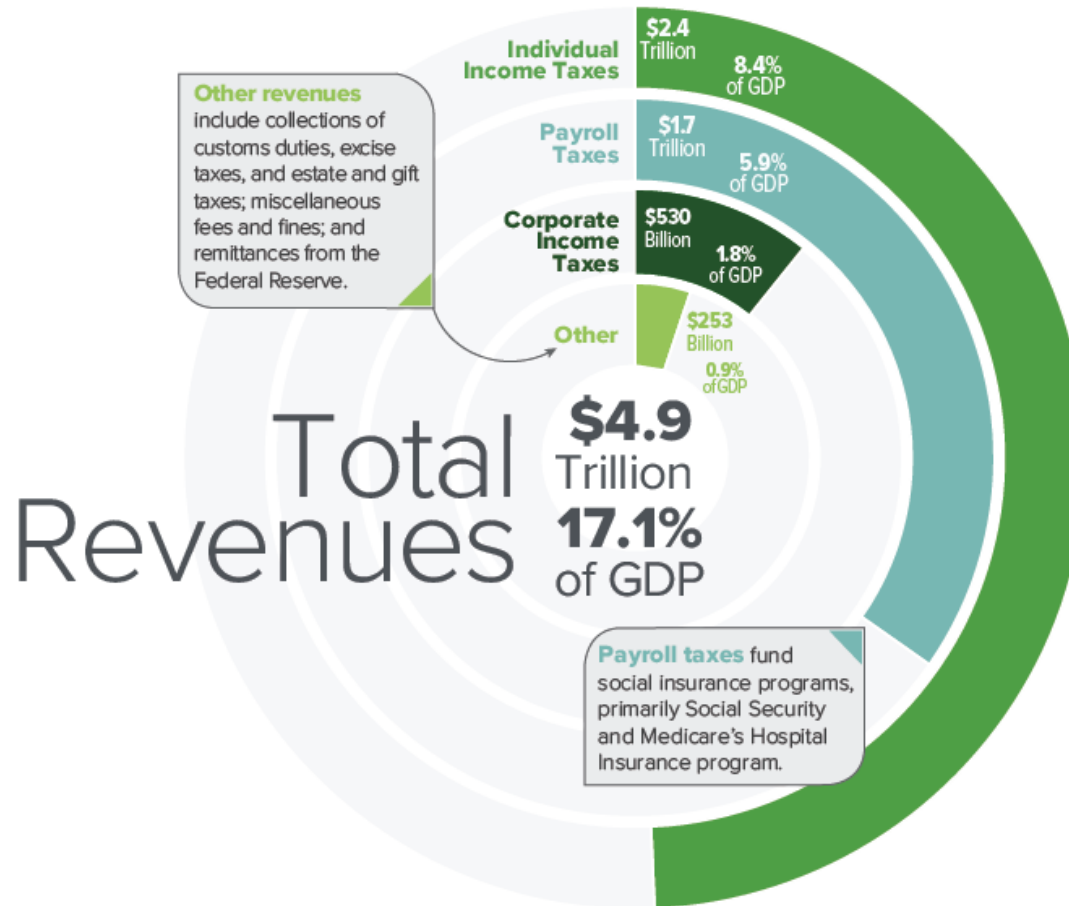
Federal Debt Held by the Public, 1975 to 2024

Percentage of GDP



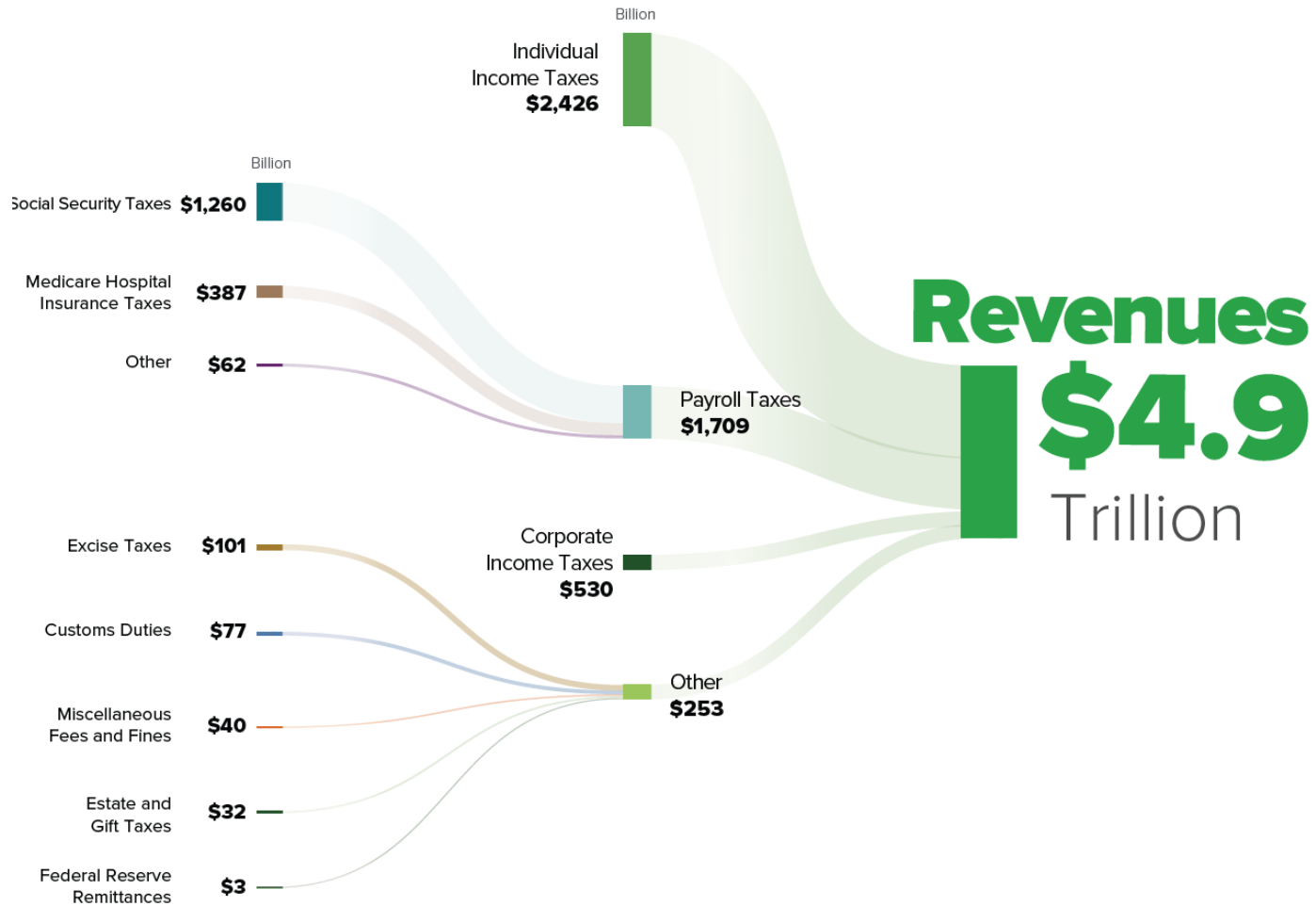
Source: CBO

Federal Budgeted Revenues – FY24



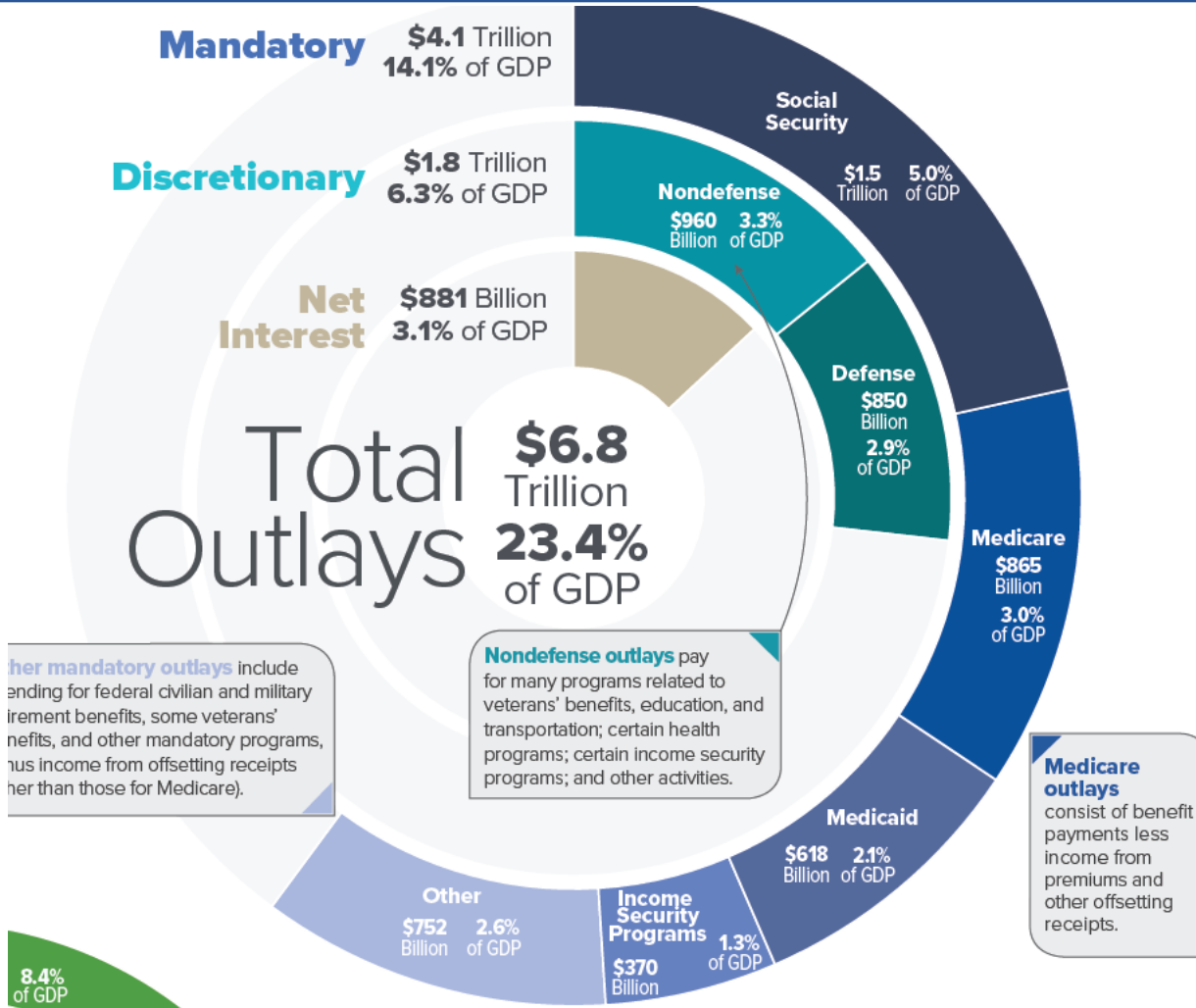
Source: CBO

Federal Budgeted Revenues – FY24



Source: CBO

Federal Budget – FY24 Outlays



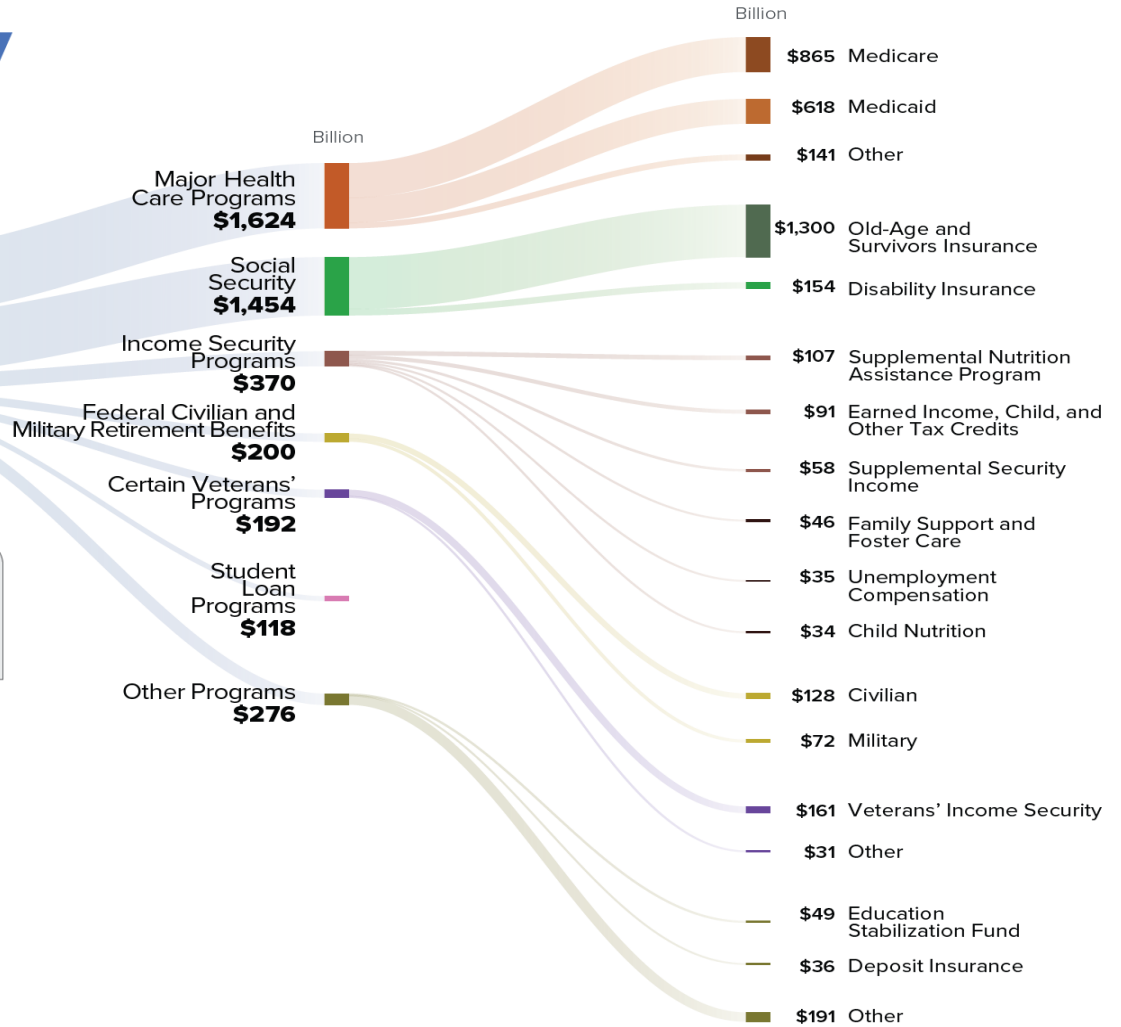
Federal Mandatory Spending – FY24

Mandatory Outlays

\$4.1
Trillion

Certain Offsetting Receipts
-\$175
Billion

Offsetting receipts are funds collected by government agencies from other government accounts or from the public that are credited as an offset to gross spending. **Certain offsetting receipts** include intragovernmental payments for federal employees' retirement benefits and receipts related to natural resources (such as those from oil and gas exploration and development). The effects of offsetting receipts related to Medicare are included in the total shown for Medicare outlays.

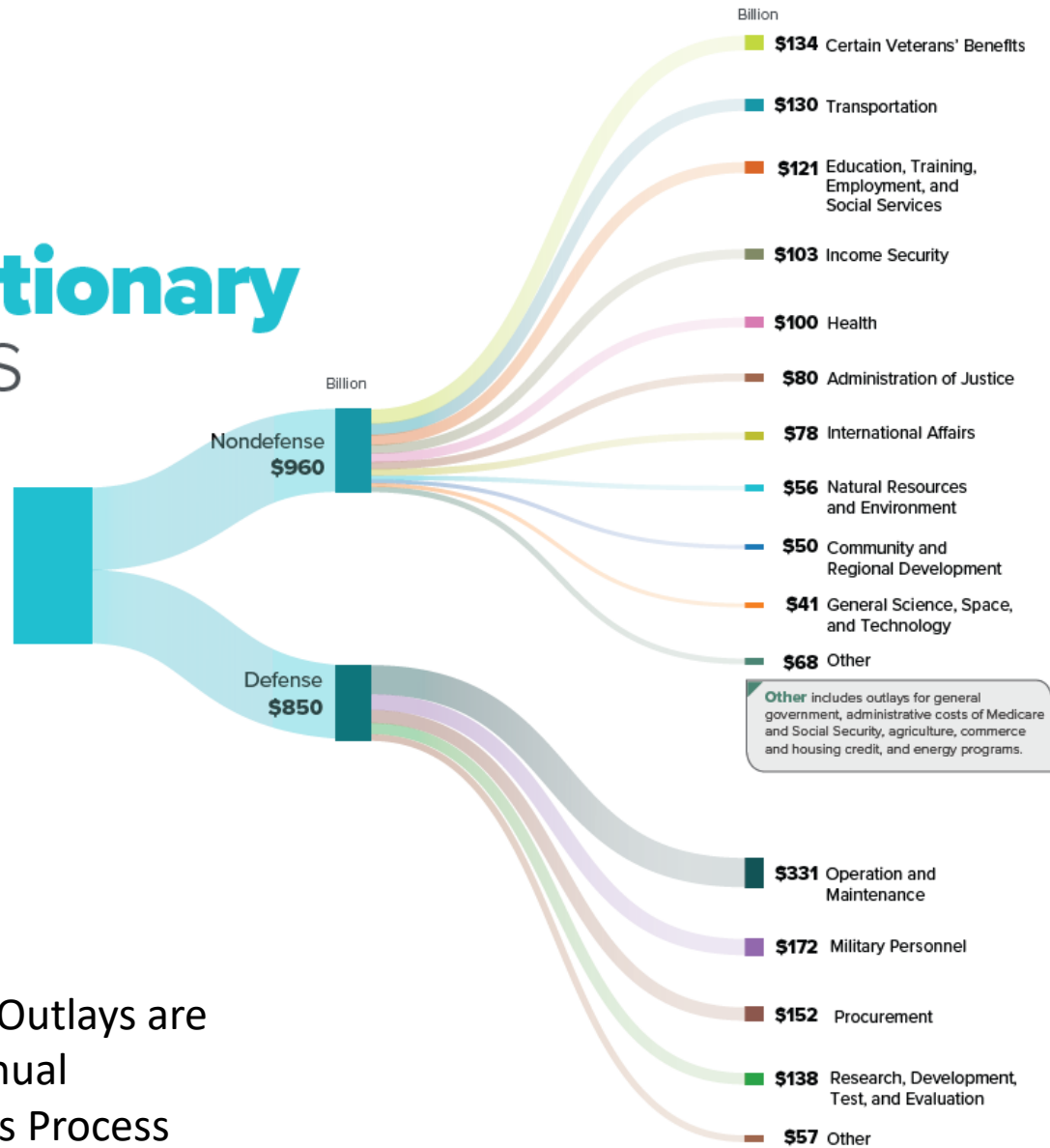


Source: CBO

Federal Budget – FY24 Discretionary Outlays

Discretionary Outlays

\$1.8
Trillion



Discretionary Outlays are Subject to Annual Appropriations Process

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.

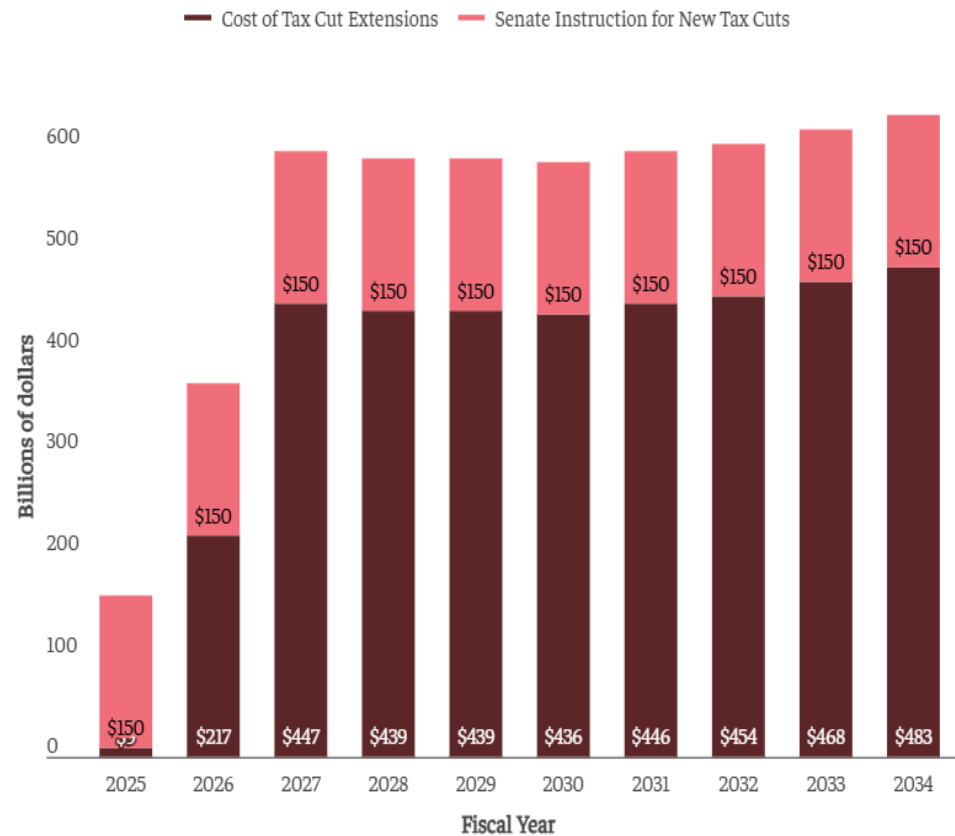
Senate Committee	Reconciliation Instruction (billions of dollars; negative = deficit reduction, positive = deficit increase)
Agriculture	-\$1
Banking	-\$1
Energy	-\$1
Health, Education, Labor, and Pensions	-\$1
Environment & Public Works	\$1
Commerce	\$20
Armed Services	\$150
Homeland Security & Governmental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

Senate Approach is Like....

“... taking an expensive week-long vacation and then assuming you can spend an extra \$1,000 per day forever since you are no longer staying at the Plaza.” -*Senior vice president of the Committee for a Responsible Federal Budget*

“Last year, despite being deeply in debt, I bought a \$100,000 sports car. So next year, buying another \$100,000 car is not irresponsible because I am merely spending the same amount of money as the year before. And if I purchase “only” a \$70,000 car, then I should be congratulated for reducing my annual spending by \$30,000.” - *Senior fellow at the Manhattan Institute*

However, reconciliation process assumes revenue reductions have to be paid for within the 10 year window, but not spending.



Source: Senate Budget Republicans; Congressional Budget Office

Federal Budget Reconciliation

Education and Workforce Committee

Replace SAVE and Other Income Contingent Repayment Plans with New Simplified Repayment Plan and Other Reforms	-\$295 billion
Reform Loan Limits by Repealing Grad PLUS Loans, Boosting Undergraduate Lending, and Limiting Graduate and Parent PLUS Borrowing, Among Other Reforms	-\$51 billion
Prevent Presidents from Unilaterally Enacting Debt Cancellation	-\$32 billion
Repeal Certain Accountability Rules and Loan Discharge Authority for For-Profit and Underperforming Schools	-\$9 billion
Establish "Risk Sharing" and Performance Grants to Encourage Schools to Lower Costs and Improve Quality	-\$7 billion
Tighten Pell Grant Eligibility for High-Income and Part-Time Students	-\$10 billion^
Use Mandatory Pell Savings to Reduce Discretionary Pell Shortfall	\$10 billion
Modify Eligibility for Non-Citizens and Exempt Certain Assets from Financial Aid Calculation	TBD
Interactions	\$43 billion
Subtotal, Education and Workforce Committee	-\$351 billion (-\$330 billion floor)

Source: Committee for a Responsible Federal Budget

Federal Budget Reconciliation

Provision	Costs/Savings(-) FY2025-FY2034
Armed Services Committee	
Shipbuilding	\$31.8 billion
Air Superiority and Missile Defense	\$30.3 billion
Munitions and Supply Chain	\$19.5 billion
Scaling Development and Production of New, Low-Cost Weapons Systems	\$13.0 billion
Nuclear Deterrence	\$12.6 billion
Enhance Military Readiness	\$10.9 billion
Deterrence and Readiness in the Pacific Theater	\$10.5 billion
Military Personnel	\$8.1 billion
Border Security and Narcotics	\$4.9 billion
Military Intelligence, Cyber Security, and Oversight	\$2.3 billion
Subtotal, Armed Services Committee	\$144.0 billion (\$100 billion cap)

Source: Committee for a Responsible Federal Budget

Federal Budget Reconciliation – Medicaid Options

- CBO and other have for years put out options for reducing Medicaid outlays. Policy option will vary on when the expected effects and savings could be captured in the ten year window. Most simply shift costs to states with the expectation hard choices will fall on state legislatures on benefits, enrollment, and provider rates.
- CBO recently released analysis of 5 options currently being considered.
 - Option 1, Set the Federal Medicaid Matching Rate for the Expansion Population Equal to That for Other Enrollees.
 - Option 2, Limit State Taxes on Health Care Providers. (Provider tax)
 - Option 3, Establish Caps on Federal Spending for the Entire Medicaid Population.
 - Option 4, Establish Caps on Federal Spending for the Medicaid Expansion Population.
 - Option 5, Repeal Medicaid's Eligibility and Enrollment Rule.
 - Other policies in the mix – work requirements; further restrictions on immigrants enrollment; more frequent eligibility determination; ramp up activities to reduce waste, fraud and abuse



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 NM's 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 Capita 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.



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

TOTAL DEBT IMPACT WITH INTEREST

-\$3.1 trillion

- 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 version.



New Mexico Legislative Finance Committee



For More Information

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

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