



2025 Federal Funds Overview

Federal Funding Stabilization Subcommittee

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Representative Patricia A. Lundstrom, Co-Chair

Senator William P. Soules, Co-Chair

Types of Federal Funding

Types:

- **Block Grants** provide fixed funds for broad purposes, based on formulas in authorizing laws (e.g., HUD CDBG grants).
- **Competitive (Discretionary) Grants** are awarded through a competitive process (e.g., HUD Youth Homelessness, solar energy grants).
- **Formula Grants** are allocated based on criteria set by Congress (e.g., DOJ Byrne Justice Assistance Grants).

Characteristics of Certain Block/Competitive/Formula Grants:

- Funding for specific projects with detailed application requirements (e.g., HHS Family Violence Prevention Grants).
- Grants that require state/tribal/local cost-sharing (e.g., RHS Community Facilities Disaster Repair Grants).
- Funding that requires the recipient to meet certain federal conditions (e.g., DOT highway funds tied to a minimum drinking age of 21)

How federal funds make their way to New Mexico

The four major federal funding flows into New Mexico include:

Direct Payments – to individuals and the state.
Examples: Social Security, federal retirement, Medicare, SNAP, etc. Federal Royalty Rates.

Grants – to state and local governments to carry out federal programs.
Examples: Medicaid, highway programs and education assistance.

Procurement – federal purchase of goods and services.

Salaries/Wages – paid to federal military and civilian employees

The two primary methods of receiving payment are:

Reimbursement – The state is paid back or reimbursed for eligible expenses after the entity meets the eligibility requirements of the specific program/grant.

Advance payment – The state receives a portion of the eligible funds upfront and requests the remainder on a reimbursement basis.

Specific grant guidelines, the recipient's fiscal governance, and the nature of the project influence payment methods.

FY26 New Mexico Federal Budget

Total State Budget:
\$33.16B

Total Federal Funding:
\$14.44B (43.5%)

Agency	Total Budget	Fed Budget	% Fed Budget
ALTSD	97,812.4	14,521.8	14.8%
CYFD	396,098.3	94,940.7	24.0%
DHSEM	418,471.3	256,364.7	61.3%
DGF	53,237.5	17,303.4	32.5%
DMA	36,276.1	25,685.9	70.8%
DOH	593,998.6	192,664.5	32.4%
DOT	1,303,653.3	579,513.8	44.5%
DVR	64,080.1	55,862.6	87.2%
DWS	138,409.0	97,490.8	70.4%
ECECD	996,310.7	152,623.8	15.3%
EMNRD	243,028.8	139,695.2	57.5%
HCA	15,067,059.0	11,171,751.0	74.1%
NMED	232,236.4	95,498.9	41.1%
NMSU	917,638.9	238,700.0	26.0%
PED	69,331.7	34,902.6	50.3%
PSS	5,253,907.2	579,500.0	11.0%
UNM	2,165,828.6	400,833.5	18.5%

FY26 New Mexico Federal Budget

Notable Federal Allocations FY26 budget

- **HCA:** \$8.8B Medicaid, \$1.4B income support
- **ECECD:** \$125M for Child Care Development Block Grant and food program
- **DOH:** \$108M public health grants, \$51M epidemiology grants
- **EMNRD:** \$45M Forestry, \$32M Oil Conservation
- **CYFD:** \$86M protective services funding
- **DWS:** \$26M employment services

State Employees

FCD is monitoring the impact on state employees salaries funded with federal funding.

- 2,015 employees 100% funded by federal dollars
- 3,830 employees partially funded by federal dollars

DFA's Federal Working Group:

Monitoring Delays & Reductions

Federal Funds Tracking Working Group

Established through the State Controller's Office in January 2025.

Convenes to:

- Discuss the federal funding landscape.
- Share notices, letters, and information from federal entities.
- Support compilation of accurate data related to updates on payments, delays, terminations, pauses, or other disruptions to the flow of federal funds.
- Identify and monitor specific grants of concern.

Monthly Meetings with Agency CFOs

Hosted by the Controller's Office to focus on:

- Sharing federal funding trends.
- Providing guidance and best practices for navigating funding issues.

DFA Internal Working Group

Reviews:

- All federal grants.
- Executive orders.
- Cancellation notices.
- Potential changes in federal legislation.
- Compiles a list of discontinued grants.
- Develops recommendations to include state funding in future budgets for critical programs losing federal support.

Coordination with State Budget Division

Ensures agencies:

- Monitor their federal funds.
- Manage budgets, staff, contractors and programs effectively when federal funds are revoked or delated.
- Collaborates with agencies to identify alternative funding sources for terminated grants.

Potential Federal Funding Impacts

Federal funding changes have come in three main methods:

Delays

Federal funding distributions have been delayed due to staffing shortages and administrative bottlenecks within federal agencies.

These delays often impact grant reimbursements, contract execution timelines, and the launch of state-level programs.

Examples: Delayed Medicaid funding, FEMA 30-day review

Cancellations

Some federal funding streams have been cancelled outright by federal agencies due to shifting national priorities or policy changes.

However, several of these cancellations have been temporarily halted by court injunctions as legal challenges are resolved.

Examples: Department of Labor grants to DWS

Reductions

Federal distributions have been reduced through policy revisions, updated formulas, or rescissions of previously awarded funds.

These reductions often require the state to backfill funding or scale back the scope. The state is aware of potential reductions, but nothing is concrete.

Examples: Federal Royalty Rates

The Reconciliation Bill Impacts

Medicaid

Potential Medicaid changes New Mexico may see over the next few years (based on bill that passed the U.S. House on May 22):

Cost Sharing: States must implement copays up to \$35 on expansion population adults between 100% and 138% Federal Poverty Level (FPL). *Effective date: 10/1/2028*

Community Engagement Requirements: States must impose work, school or volunteer requirements of 80 hours per month on individuals ages 19-64, with exemptions for certain individuals. Initial estimates for New Mexico indicate 88,530 individuals may lose health coverage. *Effective date: No later than 12/31/2026*

Eligibility Determinations: Under current law, states must recertify eligibility every 12 months. Provision in reconciliation would require states to conduct redeterminations of the expansion population every six months. *Effective date: For renewals beginning 12/31/2026*

Retroactive Coverage: New law would reduce the amount of time for retroactive coverage from 90 days to one month. *Effective date: 12/31/26*

Provider Taxes: Reconciliation would prohibit states from establishing new provider taxes or from increasing current rates. *Effective date: Upon enactment; existing taxes and payments grandfathered (to some extent)*

The Reconciliation Bill Impacts **SNAP**

The Reconciliation Bill proposes a **\$290B reduction in SNAP (Supplemental Nutrition Assistance Program) funding over the next 10 years**, representing a **30% deduction**.

Reductions at this level would significantly alter how SNAP is administered and funded, shifting substantial financial and administrative responsibility to the states.

Changes to SNAP (Supplemental Nutrition Assistance Program) include:

- **Programmatic Cost Share:** States will be responsible for between five and twenty-five percent of benefits; the percentage will vary based on the state's payment error rate.
Effective date: 10/1/2027
- **Administrative Costs:** Federal administration contribution will be reduced from fifty percent to twenty-five percent. For New Mexico, this could result in an additional need of \$56.8 million.
Effective date: Not indicated
- **Work Requirements:** States will be required to expand work requirements to able-bodied adults up to age 64, and to parents ages 18-64 with children age seven or older.

The Reconciliation Bill Impacts

Federal Royalty Rate

Federal Oil and Gas Royalty Rate Overview

- When the federal government leases public land for oil or gas extraction, it collects a royalty based on production revenue from wells drilled on that land.
- The onshore royalty rate remained at 12.5% since the Mineral Leasing Act of 1920.

Current Law: Inflation Reduction Act of 2022

- Raised the minimum royalty rate for new leases to **16.67%**, up from **12.5%**.

Proposed Change: The Reconciliation Bill (H.R. 1)

- Seeks to lower the onshore royalty rate back to **12.5%**. (House Committee on Natural Resources)

Potential Fiscal Impact

- Resources for the Future (RFF) estimates a \$2.5B revenue **loss over 10 years** from onshore royalty reductions (2026–2035).
- The best range at this time of New Mexico's share of the loss is between \$500M – \$1.3B over the same period (2026-2035).
- DFA is working with the State Land Office and the CREG to further refine the potential revenue impact.