NCSL –Federal Reconciliation and Budget Update

New Mexico Federal Funding Stabilization Subcommittee – July 1, 2025

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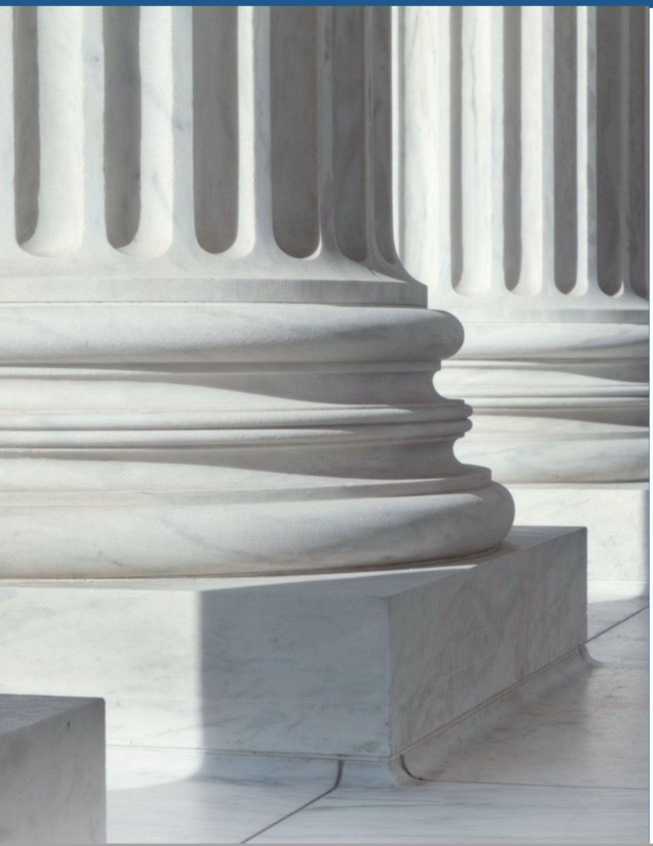
About

NCSL Budgets and Revenue Standing Committee
One of 11 NCSL Standing Committees that focus on State-Federal Affairs.

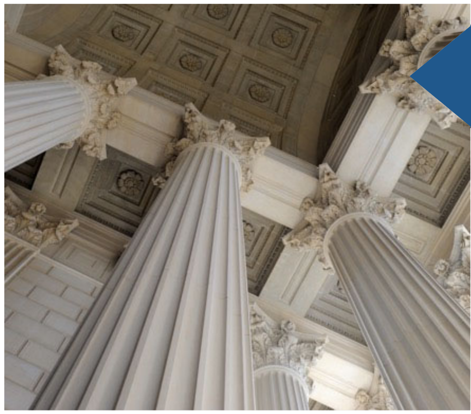
Purpose is to examines federal and state policies with fiscal implications, including funding for services and programs; budget processes; tax and revenue systems; legislative oversight; unfunded mandates; and state-local fiscal relations. It also promotes the exchange of ideas and information.

Agenda



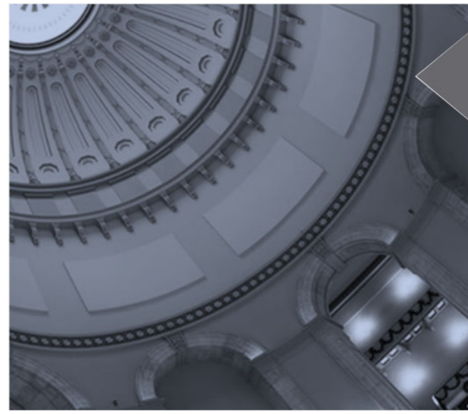
- Federal Freezes – Court Updates.
- Reconciliation and What Next?
- Medicaid.
- SNAP.
- Tax Provisions.
- FY26 Appropriations.
- Rescissions.
- Penny?

Collision in 2025 - Budget, Reconciliation and Appropriations, Taxes, and Deficit



Federal Cuts and Freeze

- Federal Freeze disrupting state-federal programs and uncertainty persists as court cases proceed.
- However, just this week we see Supreme Court rule against lower court freezes.

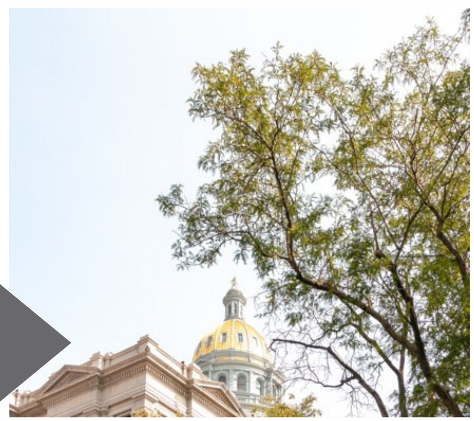


Reconciliation and Appropriations

- Reconciliation – 4 a.m.
- FY25 Approps passed via CR six months late on party line Vote in House with 10 Senate Democrats voting to end debate.
- FY 26 still needs to pass.

Rescissions and Impoundment

- These are formal "clawbacks'.
- White House via OMB submits a proposal. Congress has 45 days to vote.



Deficit

- Suspension of the debt ceiling ended at the end of 2024.
- Deficit to GDP ratio and increasing interest costs trending as concerns.
- Reconciliation raises debt limit?

Federal Funding Freezes

Administration's Executive Orders

Executive Orders noted in OMB Memo

- Protecting the American People Against Invasion (Jan. 20, 2025)
- Reevaluating and Realigning United States Foreign Aid (Jan. 20, 2025)
- Putting America First in International Environmental Agreements (Jan. 20, 2025)
- Unleashing American Energy (Jan. 20, 2025)
    - Immediately pause the disbursement of funds appropriated through the Inflation Reduction Act of 2022 (IRA) and the Infrastructure Investment and Jobs Act (IIJA). Below, we discuss how the funding freeze will impact IRA and IIJA federal financial assistance for environmental and energy projects. More on that in a minute.
- Ending Radical and Wasteful Government DEI Programs and Preferencing (Jan. 20, 2025)
- Defending Women from Gender Ideology Extremism and Restoring Biological Truth to the Federal Government (Jan. 20, 2025)
- Enforcing the Hyde Amendment (Jan. 24, 2025)

Budget Reconciliation – One Big Beautiful Bill

- House took lead in reconciliation process, which is necessary to bypass the 60 Senate votes needed for cloture.

- Process:
  - House – Budget Resolution in February - 217-215.
  - Senate – Amended Budget Resolution in April – 51-48.
  - House – Passed Senate Version 216-214.
  - House – Markup of Bill Text.
  - House – Bill in May – 215-214.
  - Senate - Bill Consideration Underway.

- Things to Consider:
  - Some Deep cuts across the board, i.e. Medicaid and SNAP.
  - Debt Ceiling.

- Coalitions to Watch:
  - The Hawks.
  - SALT.
  - Moderates.

Starting Point – H. Con. Res. 14

Agriculture	-$230B
Armed Services	+$100B
Education and the Workforce	-$330B
Energy and Commerce	-$880B
Financial Services	-$1B
Homeland Security	+$90B
Judiciary	+$110B
Natural Resources	-$1B
Oversight	-$50B
Transportation & Infrastructure	-$10B
Ways and Means	+4.5T

SNAP

- **SNAP Benefit Cost Share:** Similar to the House bill, the Senate measure requires states to pay part of the SNAP benefit and ties the amount to the state's payment error rate. For FY 2028 and FY 2029, states may use either their FY 2025 or FY 2026 payment error rate to determine their required match. Beginning with FY 2029, the state's share would be based on the payment error rate from three fiscal years prior. Alaska and Hawaii would be eligible for a two-year exemption if the Department of Agriculture determines they are showing good faith efforts to reduce their error rates.

- The Senate bill eliminates the cost share for states with error rates below 6% and caps the highest percentage at 15%. (All states would pay at least 5% under the House bill and the top rate would be 25%.)
  - **Error rate below 6%:** No benefit cost share requirement.
  - **6%-8% error rate:** State required to pay 5% of SNAP benefits.
  - **8%-10% error rate:** State required to pay 10% of SNAP benefits.
  - **10% or higher error rate:** State required to pay 15% of SNAP benefits.

The payment error rate, which is not considered a measure of fraud according to the USDA, includes both underpayments and overpayments. The FY2024 SNAP error rates were just released by USDA. Under the Senate proposal and based on the updated numbers:

- 9 states would have no cost-shift

Idaho, Nebraska, Nevada, South Dakota, Utah, Vermont, Virgin Islands, Wisconsin, Wyoming

- 6 states would owe 5%

Hawaii, Iowa, Louisiana, New Hampshire, North Dakota, Washington

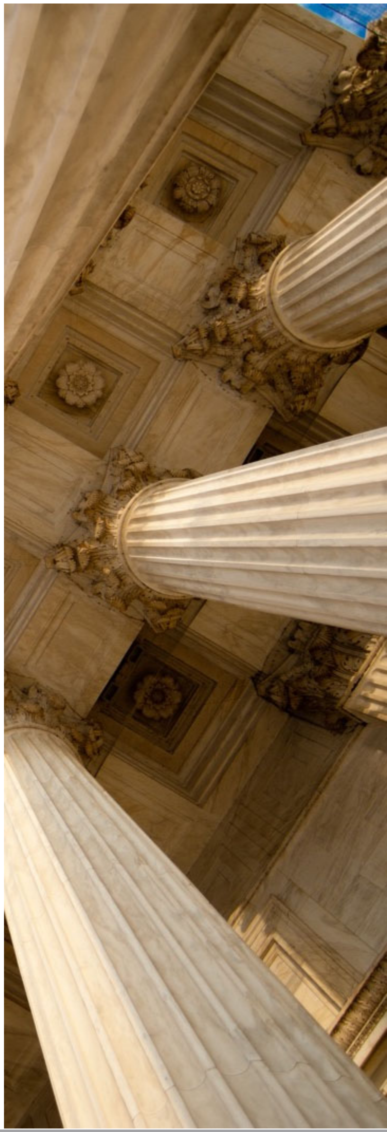
- 17 states would owe 10%

Alabama, Arizona, Arkansas, Colorado, Guam, Indiana, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Ohio, South Carolina, Tennessee, Texas, West Virginia

- 21 states would owe 15%

Alaska, California, Connecticut, Delaware, District of Columbia, Florida, Illinois, Georgia, Maine, Maryland, Massachusetts, Mississippi, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Oregon, Pennsylvania, Rhode Island, Virginia

Every state except South Dakota has had an error rate exceeding 6% for at least one year over the past 20 years. Because both the House and Senate proposals set a *range* for the error rate, the amount that some states would be required to pay for their SNAP benefits would *exceed* the state's error rate. *All* states would continue to be subject to the penalty under current law for a high payment error rate for two consecutive years. **Effective in fiscal year 2028**.



•**Administrative Cost Share:** The Senate version maintains the same increase in the state administrative cost shift as the House by increasing the state share from 50% to 75%. Effective FY 2027. (This is one year later than the House bill.)

•**Work Requirements:** The Senate measure maintains the same expansion of the work requirements set forth in the House bill by increasing the work requirement from age 54 to age 64 but also includes adults with dependent children over age 14 (the House version sets the age of the child at 7).

•**Waivers**: Both the House and Senate bills limit waivers of the work requirements to areas where the unemployment rate is 10% or higher. (Current law also permits a waiver in areas where there are an insufficient number of jobs.)

•**Noncitizen Eligibility:** Bars legally present qualified immigrants including refugees, individuals granted asylum, certain survivors of domestic violence and human trafficking. Haitian and Cuban entrants and citizens under the Compact of Free Association remain eligible.

Medicaid

The Congressional Budget Office has released a preliminary analysis of the Senate proposal which projects that Medicaid spending would be reduced by $930B and result in 11.8 million more uninsured people by 2034. The Senate proposal includes most of the House's proposed changes along with the following changes and new provisions:

- **Provider Taxes**: The Senate parliamentarian struck down a measure that mirrors the House proposal to place a moratorium on all states' ability to raise their provider taxes beyond the current rate of 6%. Still in the bill is a Senate provision that phases down the hold-harmless rate of provider taxes for expansion states from 6% to 3.5% by 2032(does not apply to nursing homes or intermediate care facilities). Effective Oct. 1, 2026.

- **Rural Health Stabilization Fund**: the Senate proposal establishes a $25 billion fund to support rural hospitals.

- **State Directed Payments**: The Senate measure would phase down the federal matching rate for SDPs (increased payments to providers who meet the state's program priorities) from the average commercial rate until the rate is equal to the lower Medicare rates in expansion states, and to 10% above the Medicare rate in non-expansion states. The House bill freezes existing SDPs. Effective immediately.

- **Increased Eligibility Checks:** like the House version, the Senate bill requires states to verify eligibility at least every six months for Medicaid expansion adults. Effective for renewals on or after Dec. 31, 2026.

Taxes

NCSL's State-Federal Advocacy Priorities on Federal Tax Legislation

- **Fiscal Stability and Debt Reduction**
  - Balance and Fairness
  - Disproportionate Cuts
  - Unfunded Mandates
  - Federalism
- **Child Tax Credit**
- **State and Local Tax Deduction**
- **State Tax Sovereignty**
- **Affordable Housing**
- **Municipal Bonds**
- **Postponement of Tax Deadlines due to Natural Disaster**
- **Social Security**
- **American Innovation and Growth**
- **Support for Lower-Income and Working Families**
- **Earned Income Tax Credit**
- **Caregiving**

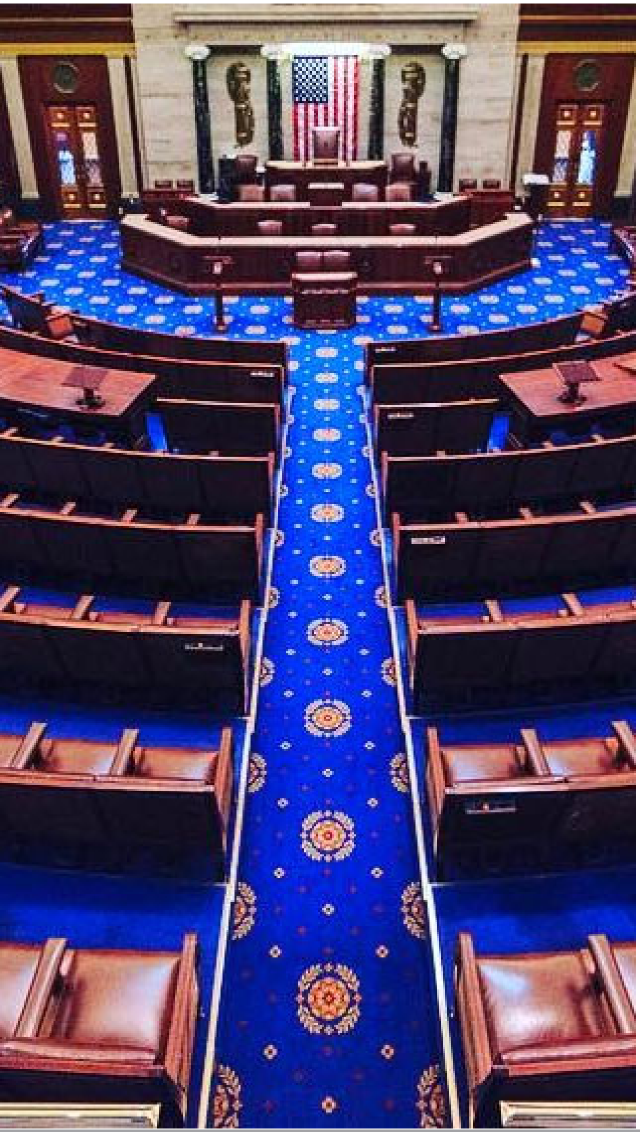
<u>SALT – Two Parts</u>

Cap for SALT Deductions and Pass-through entity tax (PTET) elections for certain State and Local Income Taxes.

1) SALT CAP

- The House measure seeks to lift the current cap of $10,000 to $40,000 and includes an income ceiling for beneficiaries of $500,000. Senate bill lifted to $40,000 but has a sunset provision with through 2029.

- SALT deductions are utilized across the country with a national average of 9.5% of filers. New Mexico is 5.9 percent with average of $13,300 pre-cap and $7,200 after cap per claimant. (CRS)



2) Pass-through Entity Tax (PTET)

- The original proposal seeks to eliminate IRS Notice 2020-75, “Forthcoming Regulations Regarding the Deductibility of Payments by Partnerships and S Corporations for Certain State and Local Income Taxes.”

- The IRS notice serves as the basis for states to apply tax law allowing certain partnerships, such as S corporations, to elect to pay state income tax as the entity level rather than at the individual owner level.
- **Manager’s Amendment** that was included in the final House bill narrows entity qualifications by restricting specified serve trades or businesses (SSTB) but not all businesses.
- 36 States provide viable options to utilize PTET, including New Mexico.
- Senate included language in first draft.
- Out of Final Bill.

<u>Restriction on State Income Tax</u>

Includes H.R. 427, Interstate Commerce Simplicity Act of 2025 that Adds language to the exemption under the definition of “solicitation of orders.”

- Seeks to expand P.L. 86-272 - The power of the States to impose net income taxes on income derived from interstate commerce.
  - Increases exemption with the definition of “solicitation of orders” by including business activities that facilitate the solicitation of orders even if such business activities serve an independently valuable business function apart from the solicitation – human resources, customer service, operations, sales and marketing.

- NCSL strongly supports the preservation of the fiscal viability and sovereignty of state governments and states’ ability and discretion to tax certain revenue sources.

- NCSL specifically opposed this measure in September 2024 letter on NCSL’s Federal Tax Legislation Priorities.

- NCSL also argues the measure is outside of the scope of reconciliation as it is not a change to the federal budget, a key factor for inclusion in reconciliation as defined by the Congressional Budget Act, but rather a new policy directed at state fiscal policy.

FY26 Appropriations

- Appropriations and Reconciliation are separate.
- Passed by Sept. 30, 2025.
- House is moving bills.
  - Military Constriction and Veterans – 218-206.
  - Defense – out of committee.
  - Homeland Security – out of committee.
- Entwined with Reconciliation.
  - Ceilings are set.
- Again, coalitions to watch:
  - Hawks.
  - Moderates.

Rescissions and all things Similar

- The Congressional Budget and Impoundment Control Act of 1974.
- White House Proposal under OMB Director and Congress has 45 days.
- We've seen one provision mainly around foreign assistance.
  - House voted June 12, 214-212.
  - Senate has until July 18.
- What is next?
  - Legal interpretations.
  - Education Department.
    - Allocations of upward of $6 billion.
      - Title I-C (Migrant Education Program, II-A (Supporting Effective Instruction), III-A (Strengthening Institutions), IV-A (Student Support and Academic Enrichment), IV-B (Community Learning Centers).
        - Largest is $2.2 billion for professional development of educators.

Eliminating the Penny

President Trump has directed Department of Treasury to end minting of the penny.

Distinctions made by Administration:

- Penny will continue as a denomination.
- Treasury will not actively withdraw Penny from circulation – let supply run its course with 6-7 months before impacts are seen.
- Will not require an act of congress as it isn't removing the penny as a currency, just no making them.
- Won't issue guidance.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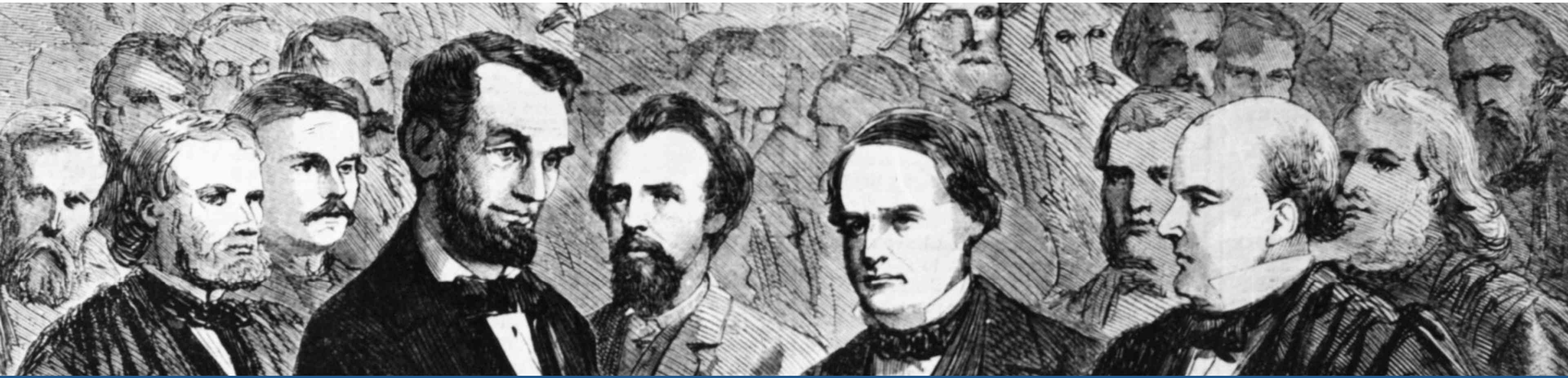

Questions!

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