



Federal Budget Reconciliation Overview

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June 2025

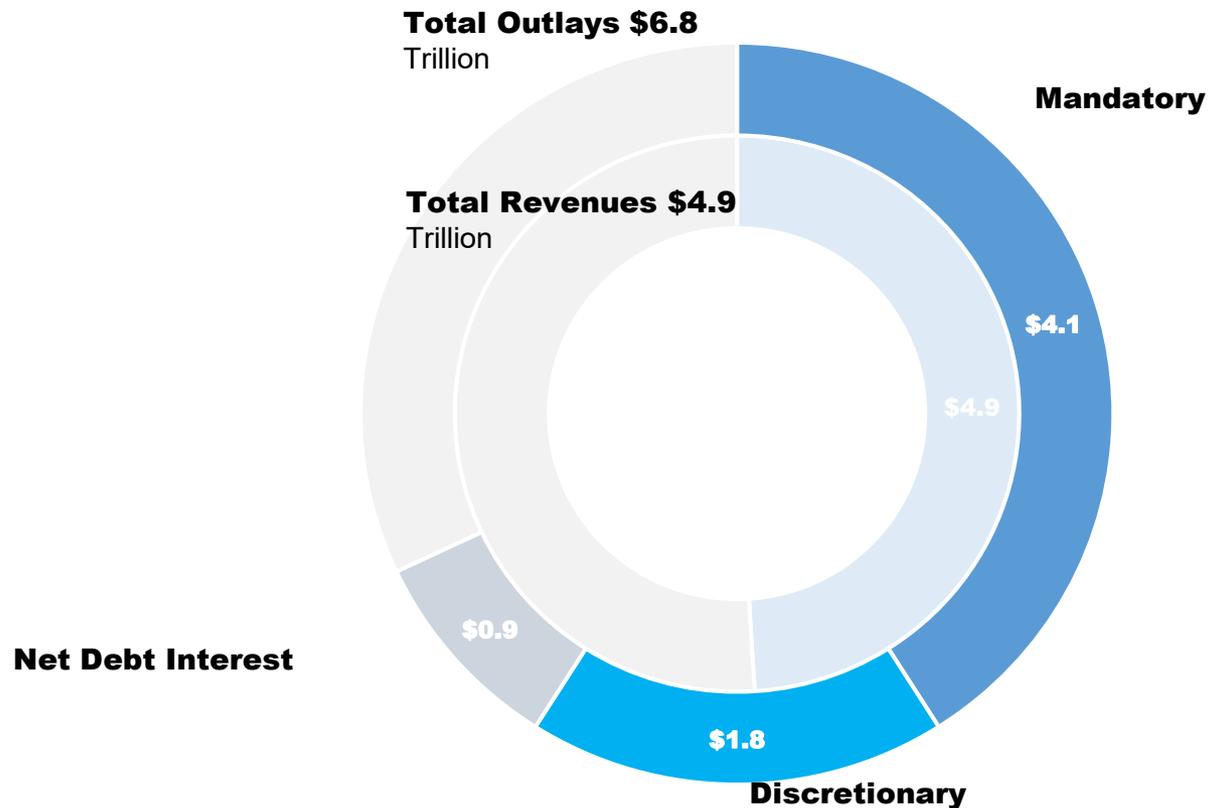
Overview

- 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

Federal Budget - FY24



Source: CBO

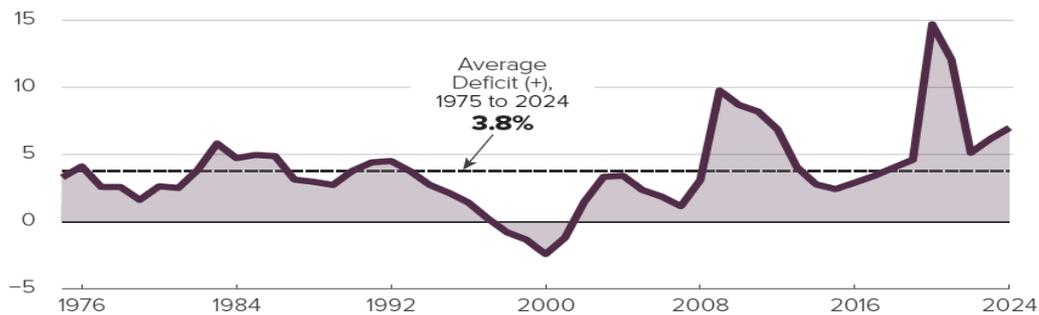


Federal Budget Deficits & Debt

Deficits and Debt

Federal Deficits or Surpluses, 1975 to 2024

Percentage of GDP



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

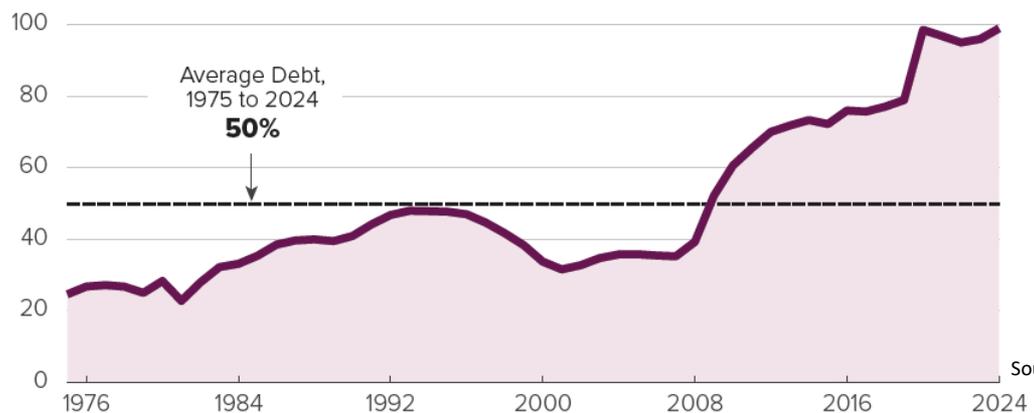
To fund government spending in years of deficits, the Treasury borrows from individuals, businesses, the Federal Reserve, and other countries.

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

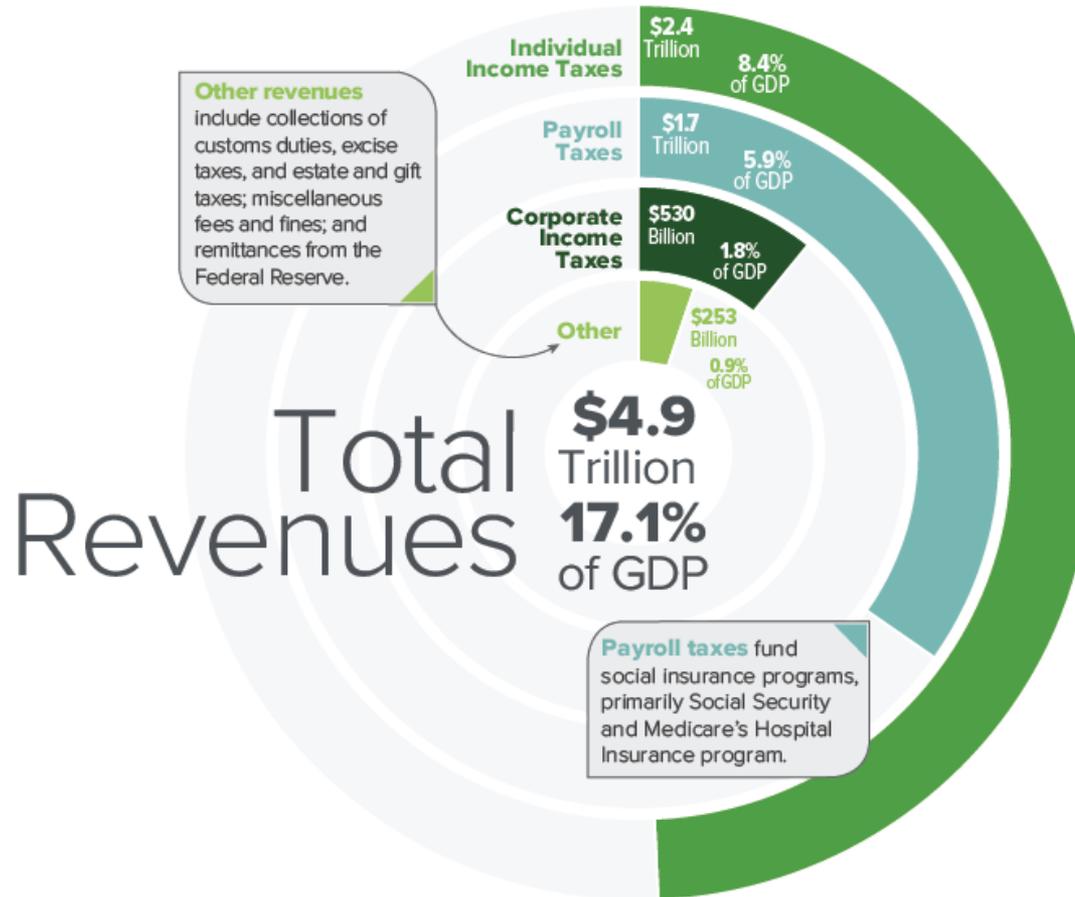
Percentage of GDP



Source: CBO



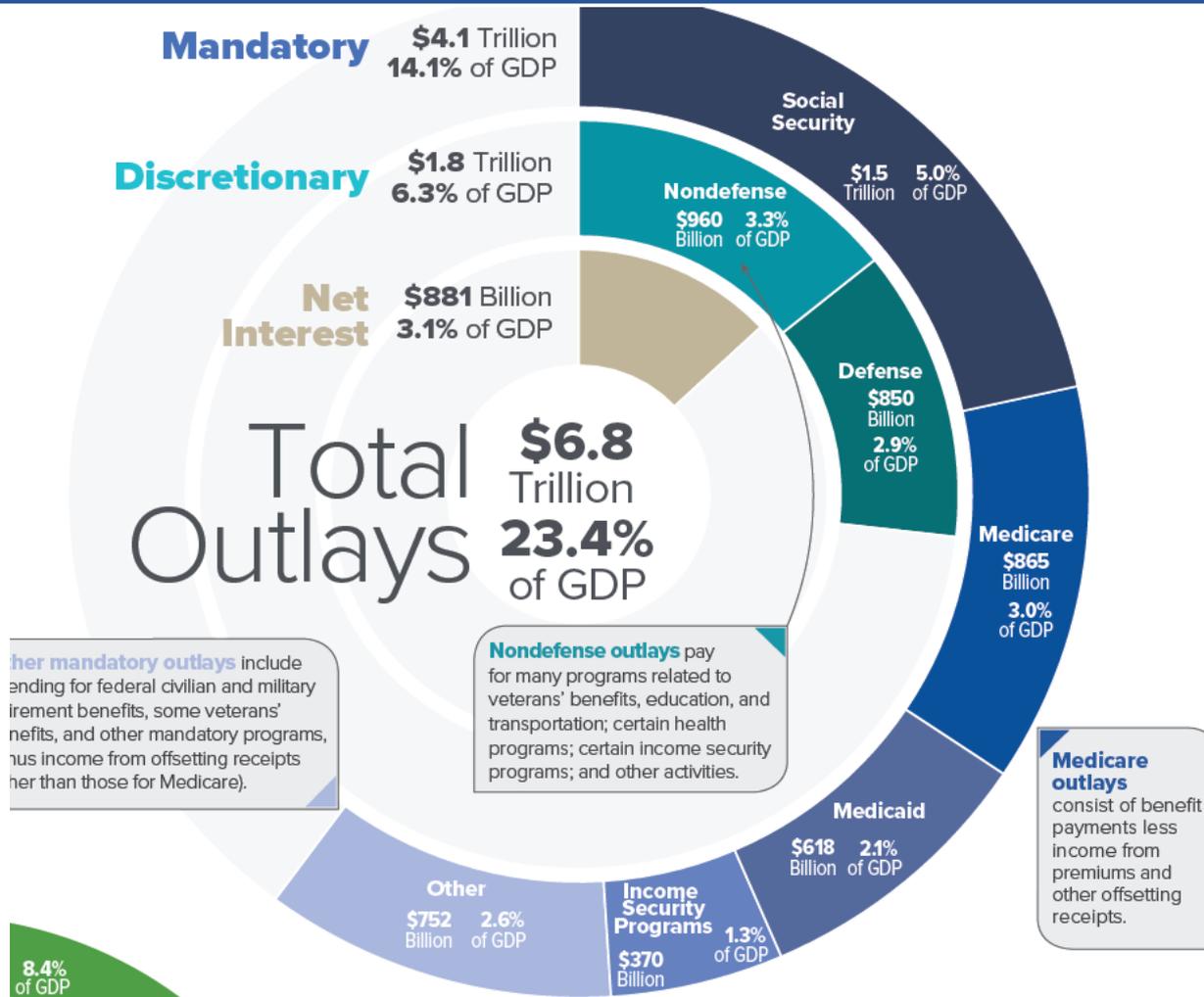
Federal Budgeted Revenues – FY24



Source: CBO



Federal Budget – FY24 Outlays



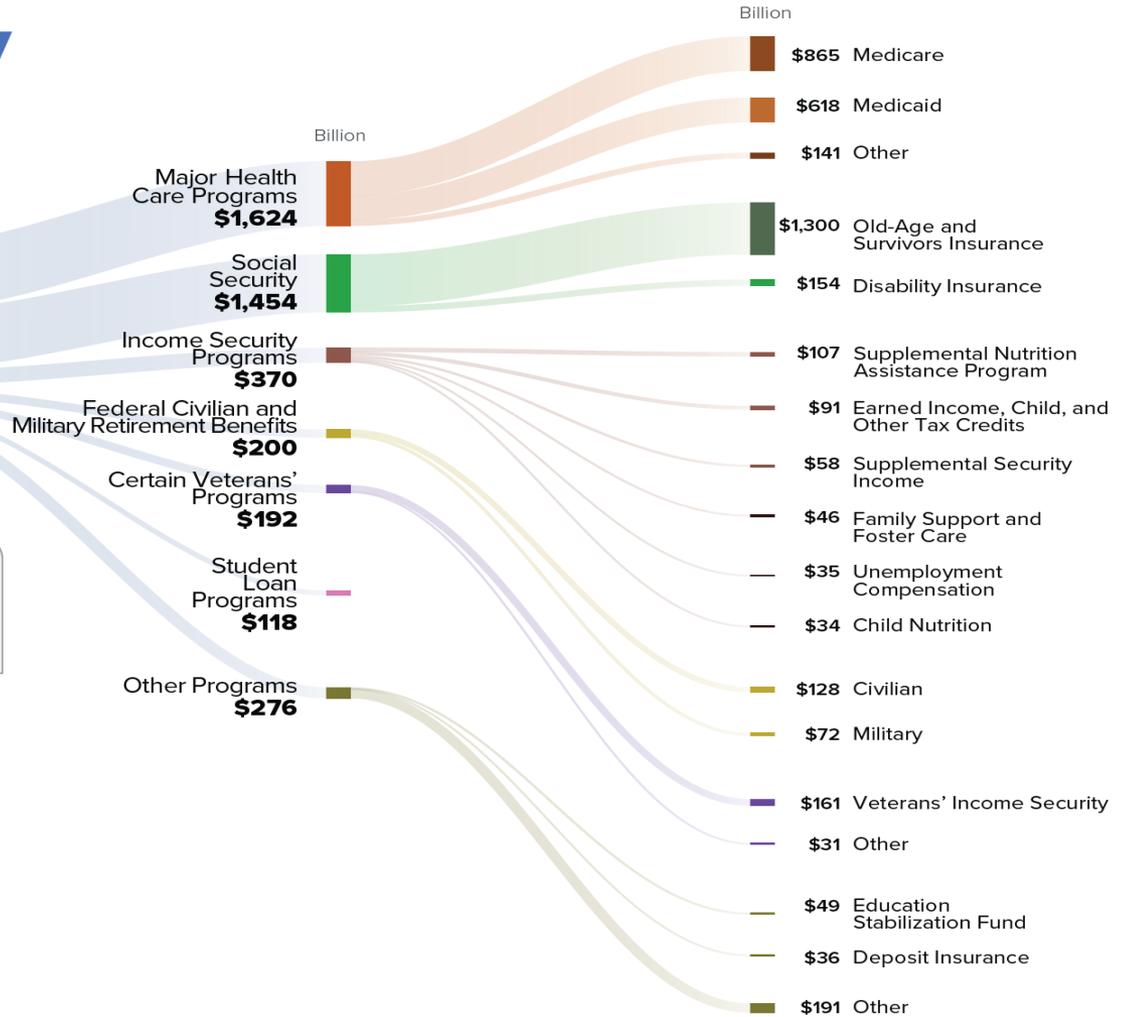
Federal Mandatory Spending – FY24

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.

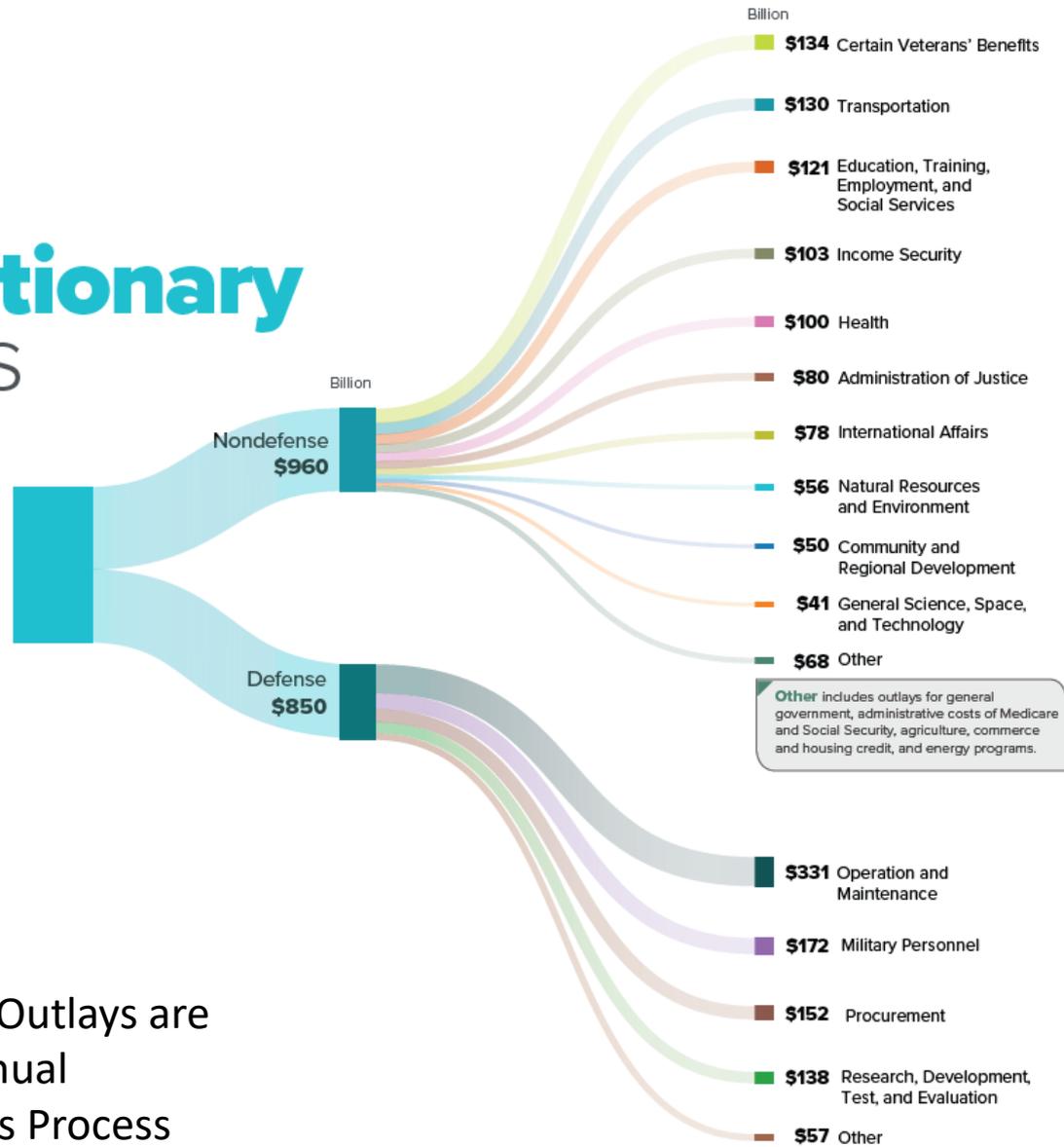


Source: CBO

Federal Budget – FY24 Discretionary Outlays

Discretionary Outlays

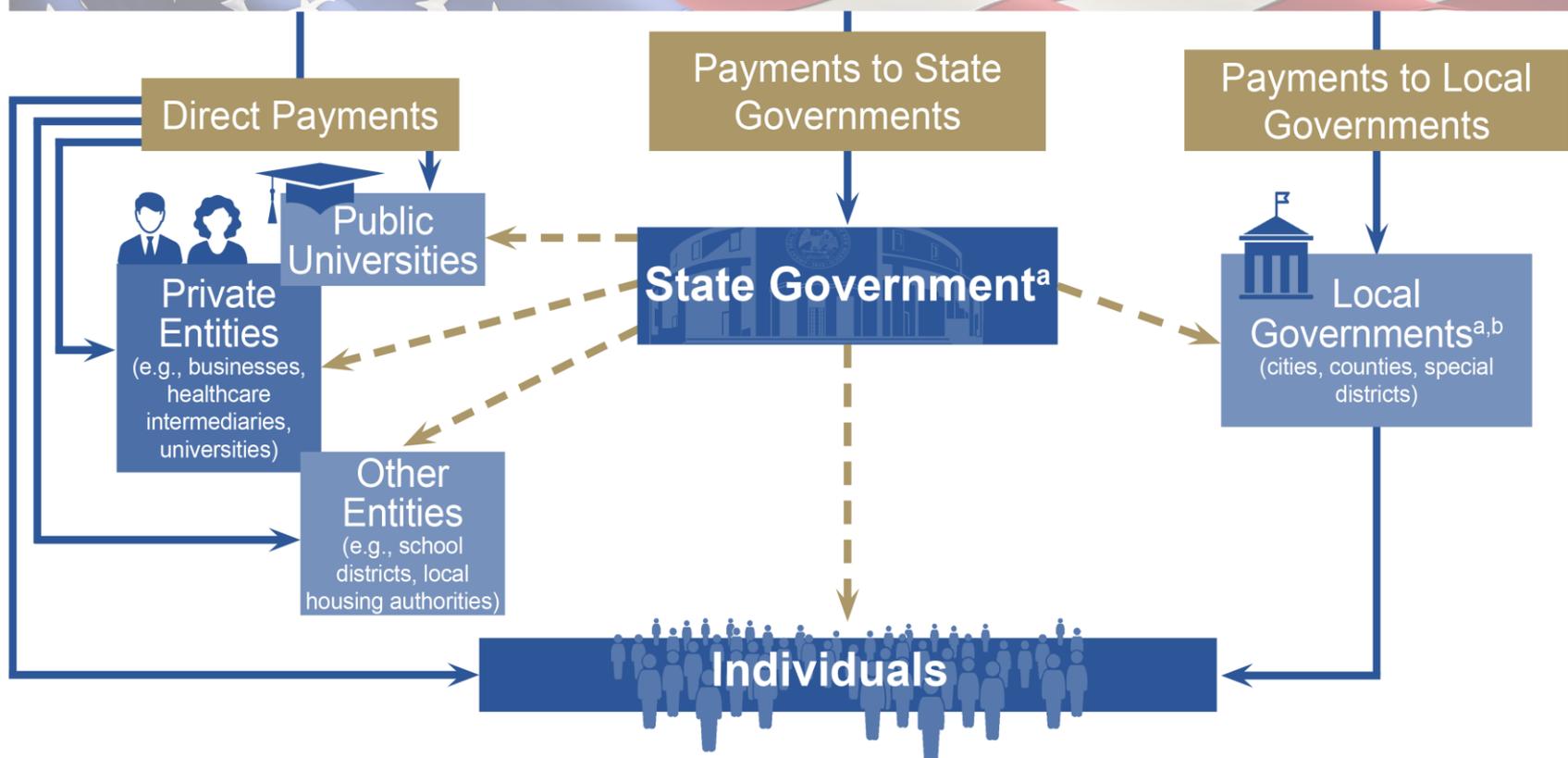
\$1.8
Trillion



Discretionary Outlays are Subject to Annual Appropriations Process



Federal Government

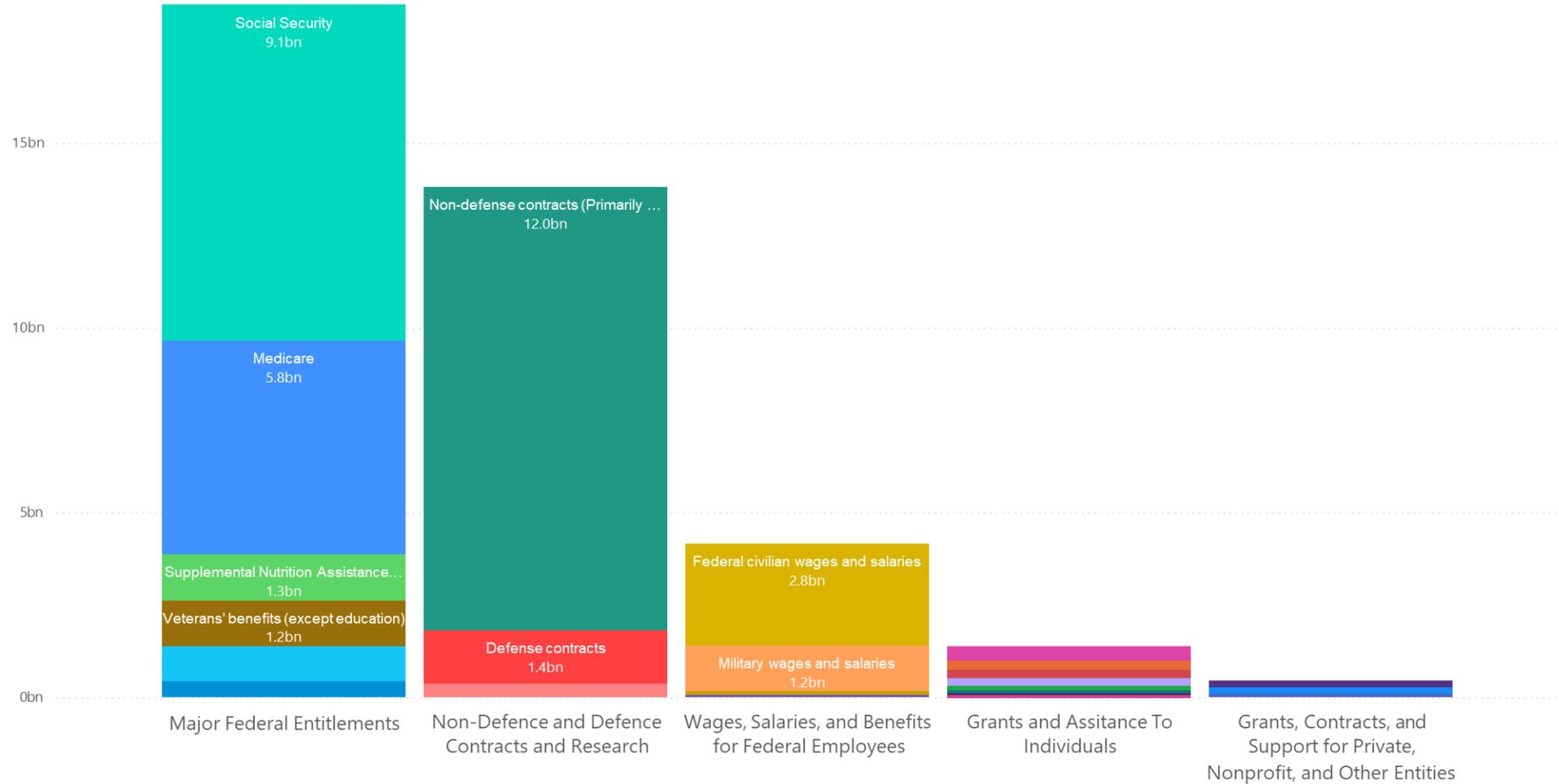


^aThe state and local governments retain some federal money for program administration and operation.

^bLocal governments remit some federal funds to private and other entities.



Direct Federal Spending to Individuals and Entities in New Mexico (billions)



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.



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)
1	Debt-ceiling increase	Raises statutory limit by \$4 trillion	Raises by \$5 trillion
2	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
3	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
4	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
5	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
6	Child Tax Credit	\$2,500 per child through 2028, then reverts to \$2,000	\$2,200 through 2028, then indexed to inflation
7	State and Local Tax Deduction cap	Raises cap from \$10 thousand to \$40 thousand starting tax year 2026	Keeps \$10 thousand cap
8	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
9	Senior deduction	New \$4,000 “older-Americans” deduction (sunsets 2028)	Boosted to \$6,000 (sunsets 2028)
10	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
11	No-tax-on-tips deduction	Unlimited through 2028	Capped at \$25 thousand per year per taxpayer



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 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

- 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 (Eliminated by Byrd Rule)

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



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



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 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...		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



Notable Byrd Rulings

Notable Byrd Rulings	
Provision	Status
Medicaid Provider Taxes	Revision Reinstated
Delay of Medicare Enrollment Rule	Rejected
Delay of Medicaid Enrollment Rule	Rejected
Repeal of Nursing Home Staffing Rule	Rejected
Enhanced Medicaid for Alaska and Hawaii	Rejected
Student Loan Repayment Limit on Income Driven Options	Rejected
Revoke Student Loan Eligibility for Some Noncitizens	Rejected
SNAP State Matching Funds	Revision Reportedly Reinstated
SNAP Eligibility for Certain Immigrants	Revision Reportedly Reinstated



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.





For More Information

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

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