



# Federal Budget Reconciliation Overview Medicaid Finance 101 Refresh

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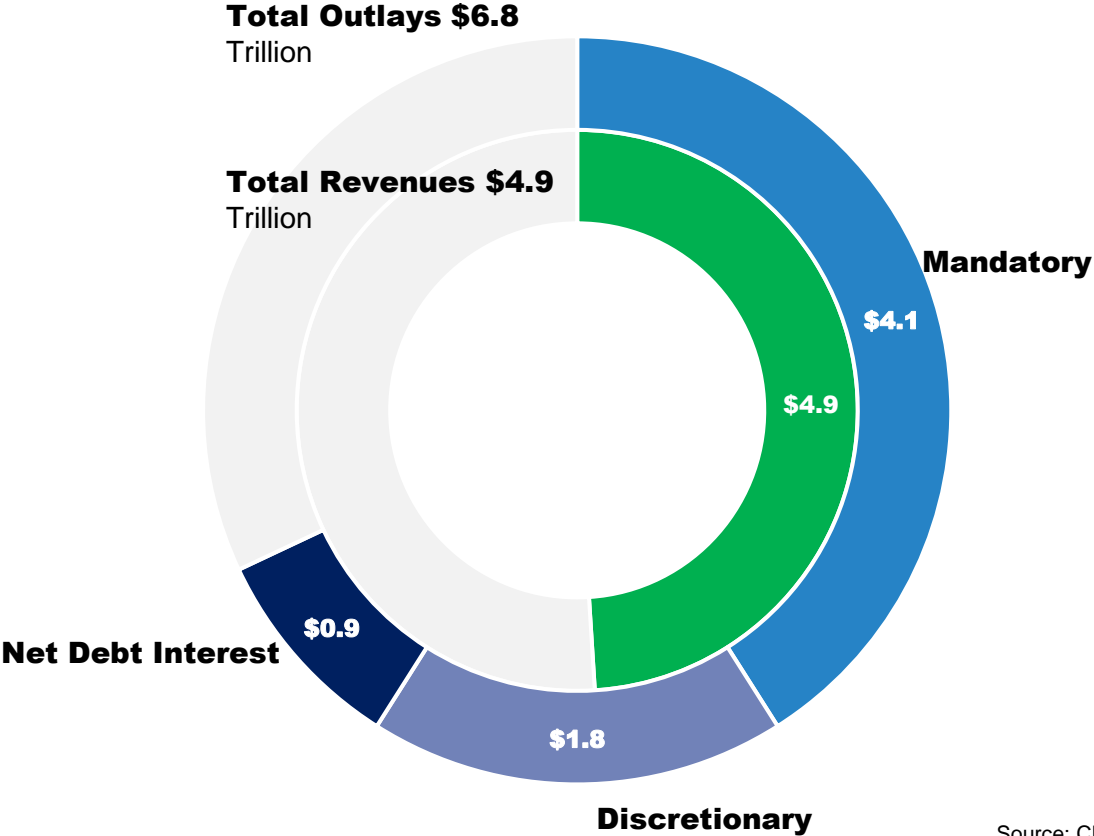
# Overview

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- 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
- Medicaid 101 Refresh

# Federal Budget – Uh Oh! \$1.9 Trillion Deficit

Federal Budget - FY24



Source: CBO

# Federal Budget Deficits & Debt

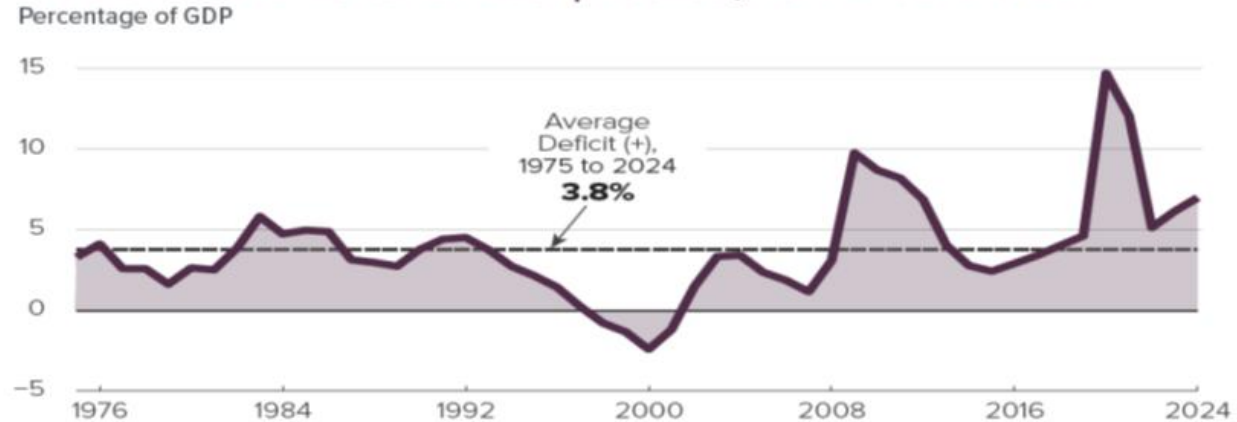
## Annual Deficit: Amount by Which Outlays Exceed Revenues

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

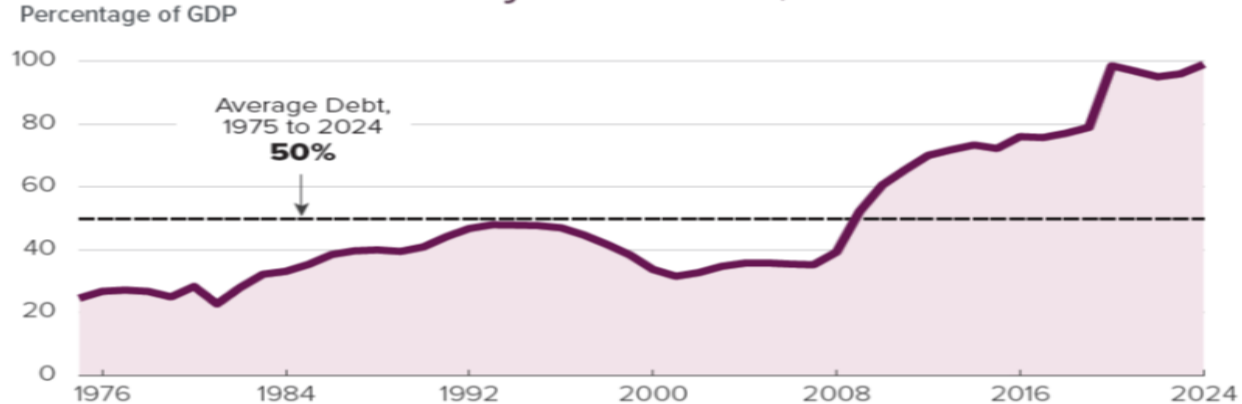
## Debt

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 Deficits or Surpluses, 1975 to 2024

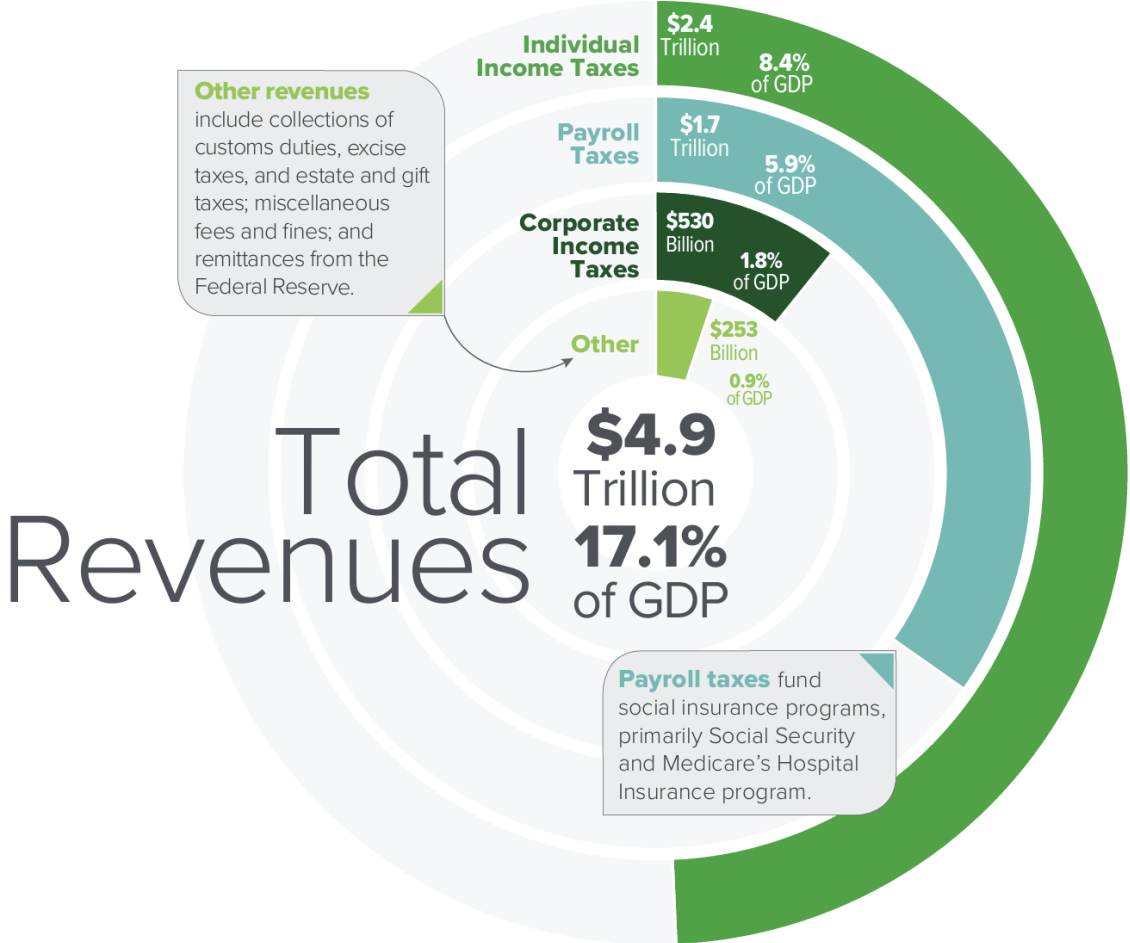


### Federal Debt Held by the Public, 1975 to 2024



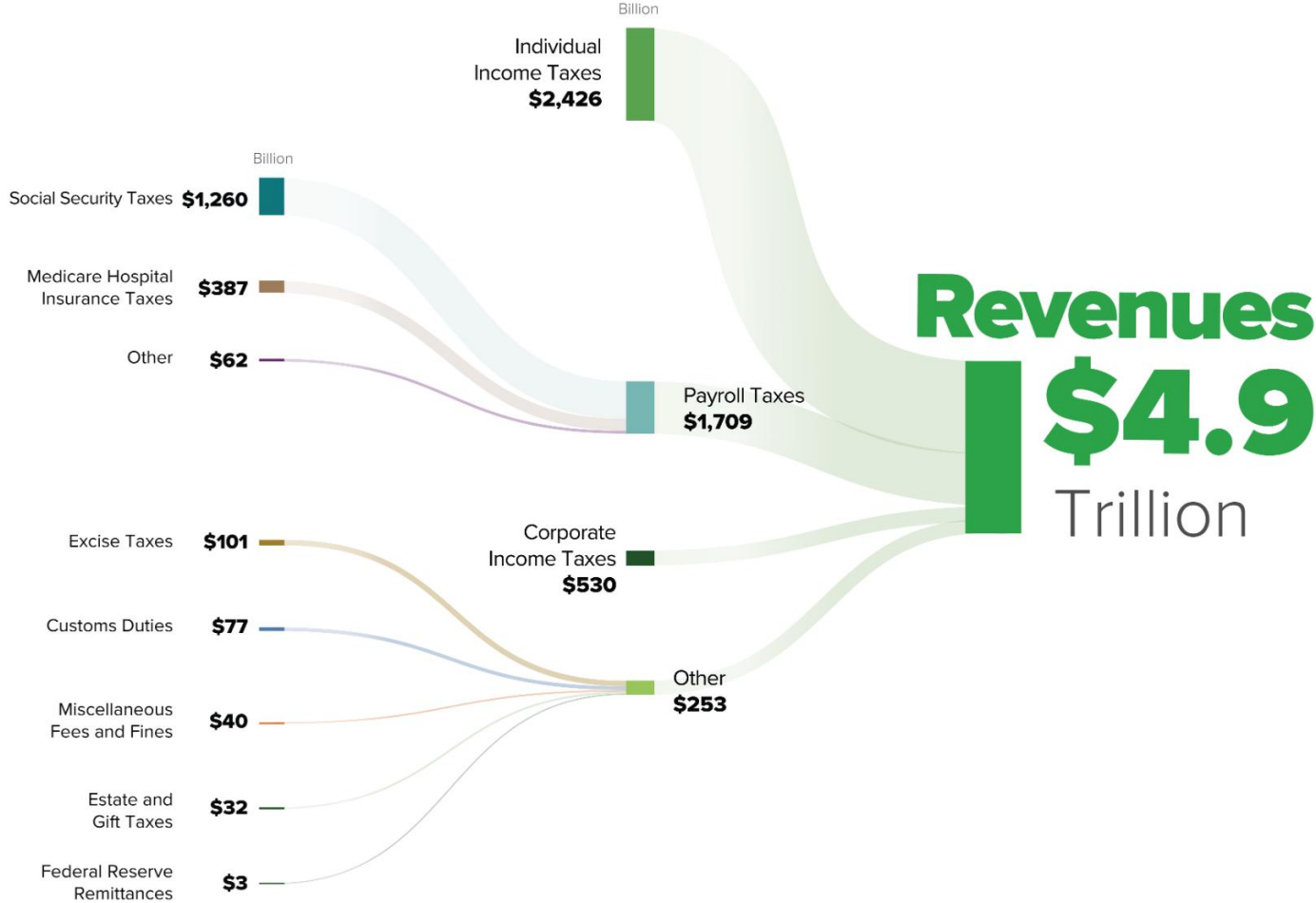
Source: CBO

# Federal Budgeted Revenues – FY24



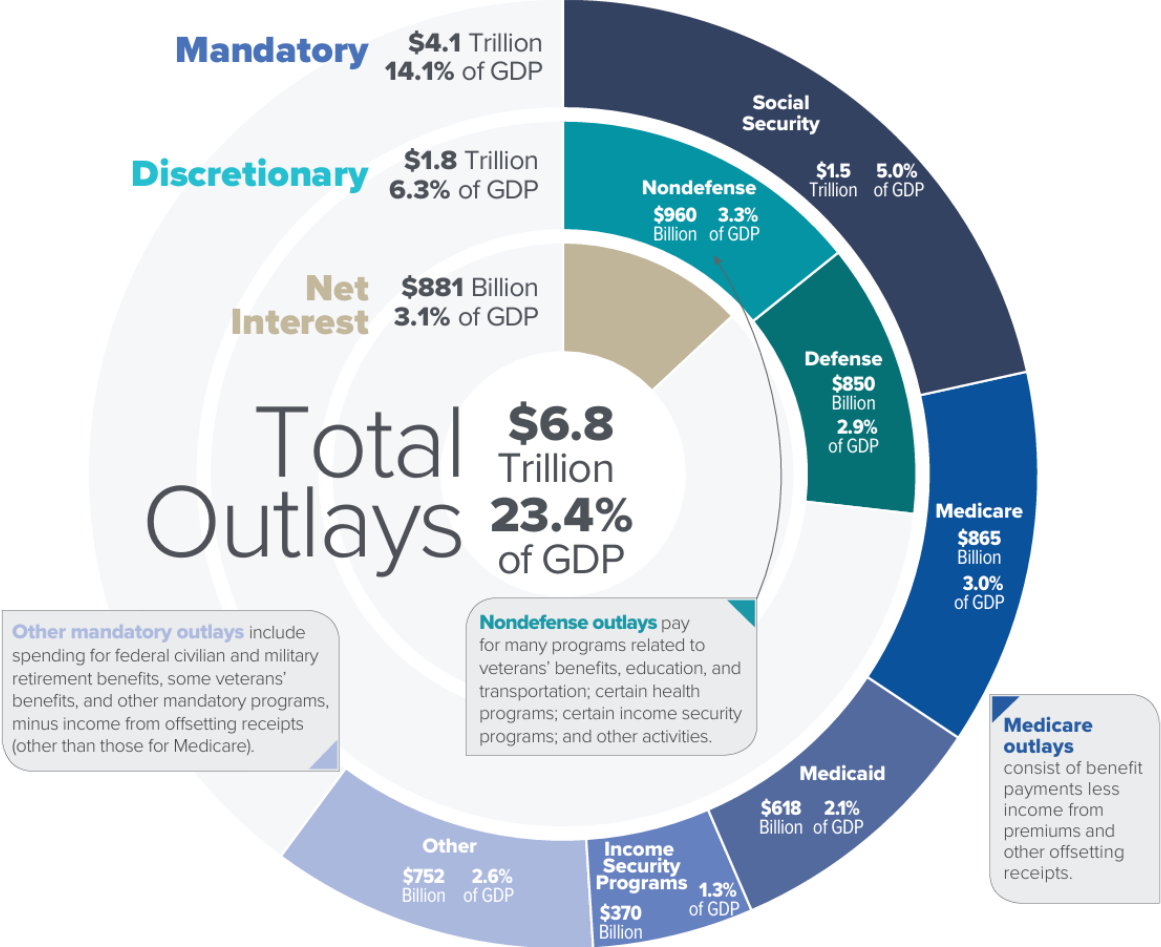
Source: CBO

# Federal Budgeted Revenues – FY24



Source: CBO

# Federal Budgeted Outlays – FY24



Source: CBO

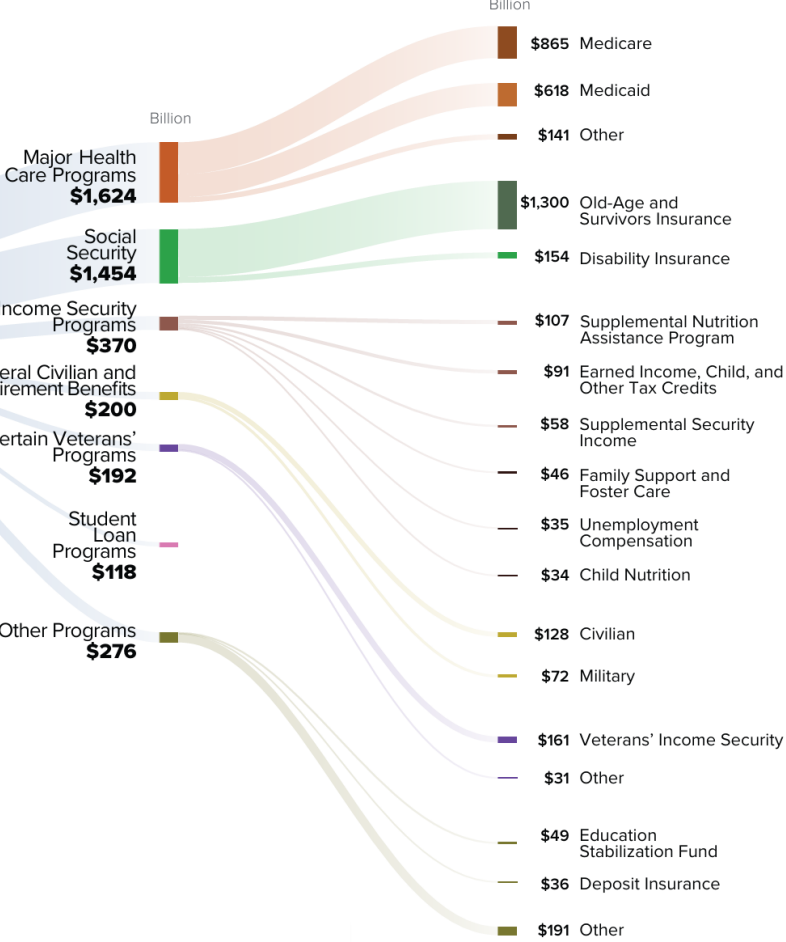
# Federal Budgeted Outlays – FY24

## Mandatory Outlays

**\$4.1**  
Trillion

Certain Offsetting Receipts  
**-\$175**  
Billion

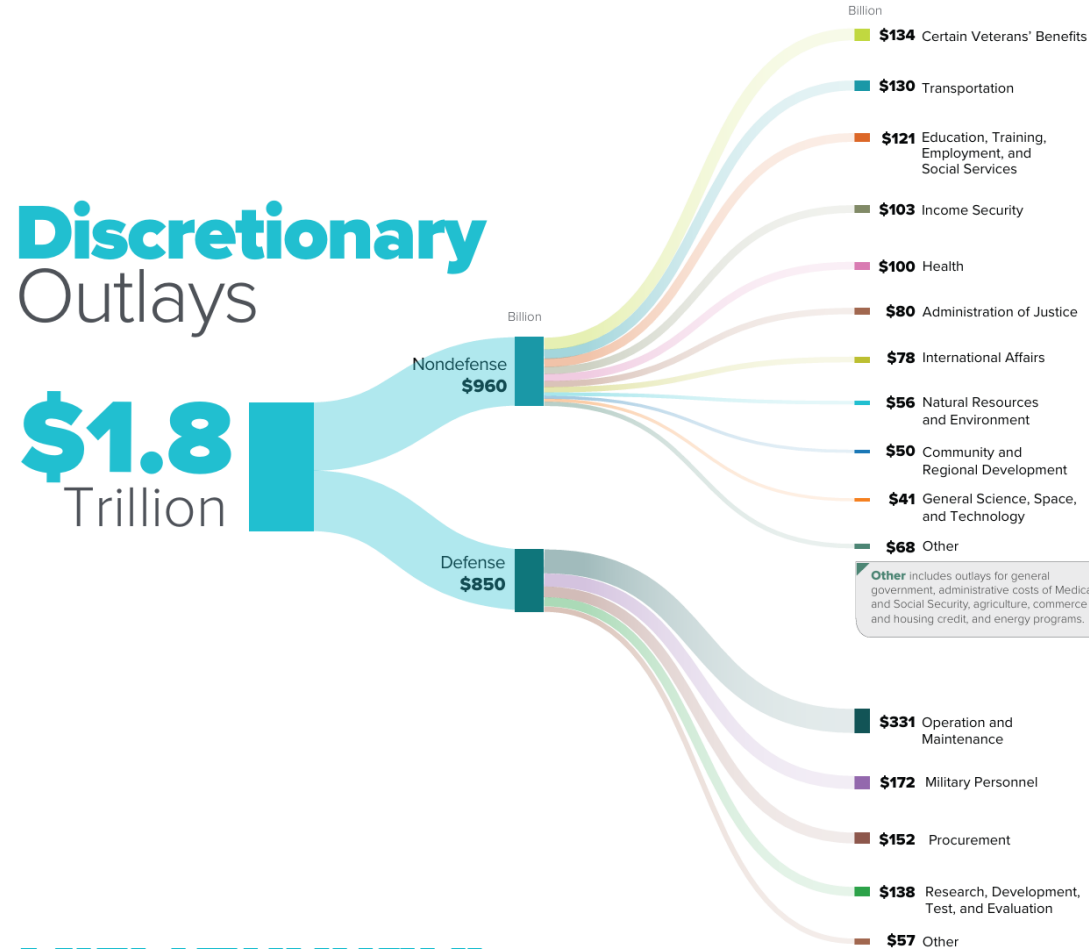
Offsetting receipts are funds collected by government agencies from other government accounts or from the public that are credited as an offset to gross spending. **Certain offsetting receipts** include intragovernmental payments for federal employees' retirement benefits and receipts related to natural 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 Budgeted Outlays – FY24



Discretionary Outlays are Subject to the Annual Appropriations Process

Source: CBO

# What is Federal Budget Reconciliation?

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- 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?

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- 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
<b>Total</b>	<b>\$3,298</b>
<b>Debt Limit Increase</b>	<b>\$4,000</b>

# 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.

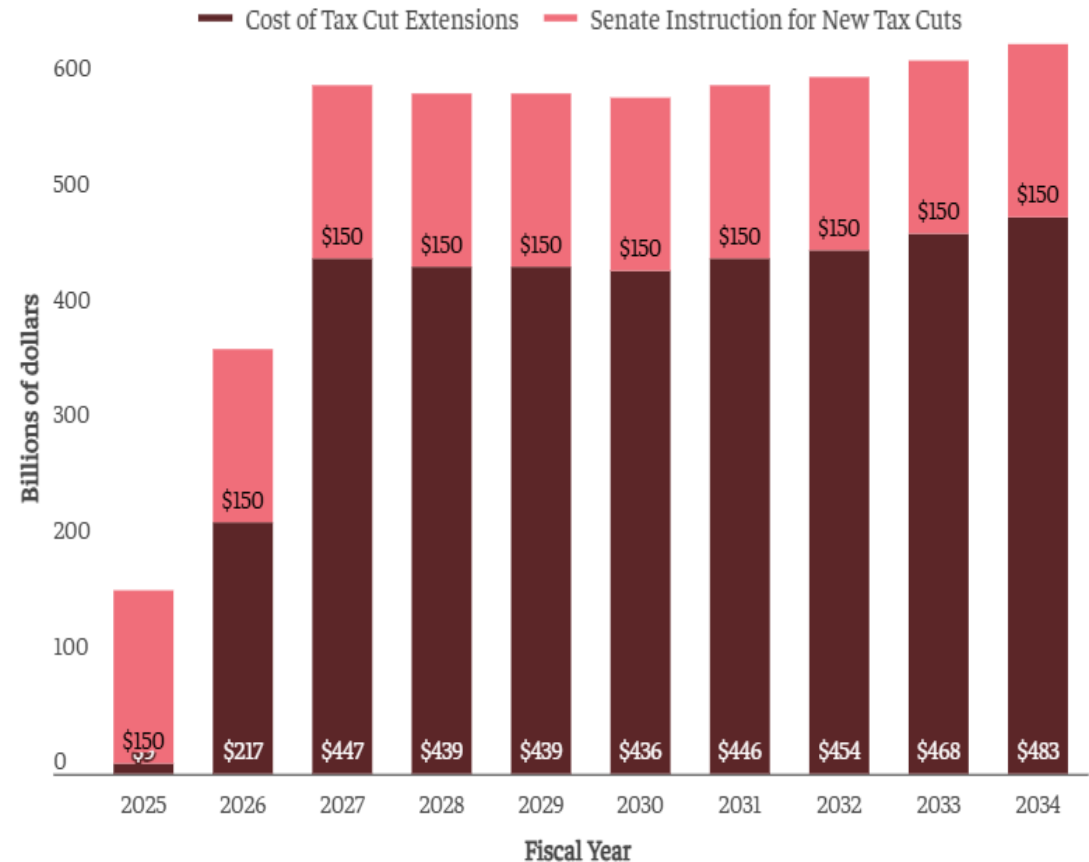
Senate Committee	Reconciliation Instruction (billions of dollars; negative = deficit reduction, positive = deficit increase)
Agriculture	-\$1
Banking	-\$1
Energy	-\$1
Health, Education, Labor, and Pensions	-\$1
Environment & Public Works	\$1
Commerce	\$20
Armed Services	\$150
Homeland Security & Governmental 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>
<b>Current Law – Finance Committee</b>	<b>\$5,336</b>
<b>Current Law – Total</b> (also deconflicts overlapping instructions between HSGAC and Judiciary)	<b>\$5,678</b>
<b>Debt Limit Increase</b>	<b>\$5,000</b>

# 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

- House committees have begun marking up their legislation to implement the budget reconciliation blueprint. Speaker announced desire to wrap up by Memorial day but many key committees behind.
- Major points to watch –
  - Senate left all the tough cuts to the House. Even if cuts make it out of the House will they have majority support in the Senate.
  - House resolution has broad instructions, but Medicaid makes up the vast majority of funding under Energy & Commerce Jurisdiction. In order to hit spending reduction targets Medicaid outlays would need to be reduced 11-13 percent



# Federal Budget Reconciliation

<b>Education and Workforce Committee</b>	
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	<b>\$10 billion</b>
Modify Eligibility for Non-Citizens and Exempt Certain Assets from Financial Aid Calculation	TBD
Interactions	<b>\$43 billion</b>
<b>Subtotal, Education and Workforce Committee</b>	<b>-\$351 billion</b> <b>(-\$330 billion floor)</b>



# Federal Budget Reconciliation

Provision	Costs/Savings(-) FY2025-FY2034
<b><u>Armed Services Committee</u></b>	
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
<b>Subtotal, Armed Services Committee</b>	<b>\$144.0 billion (\$100 billion cap)</b>

# Federal Budget Reconciliation – Medicaid Options

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- 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 – New Mexico Medicaid Program

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- Potential impacts on NMs Medicaid program.
  - Reduced federal participation of over \$1.1 billion the timing of which depends on policies adopted.
  - 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 Capital 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.

# Medicaid 101 Refresh

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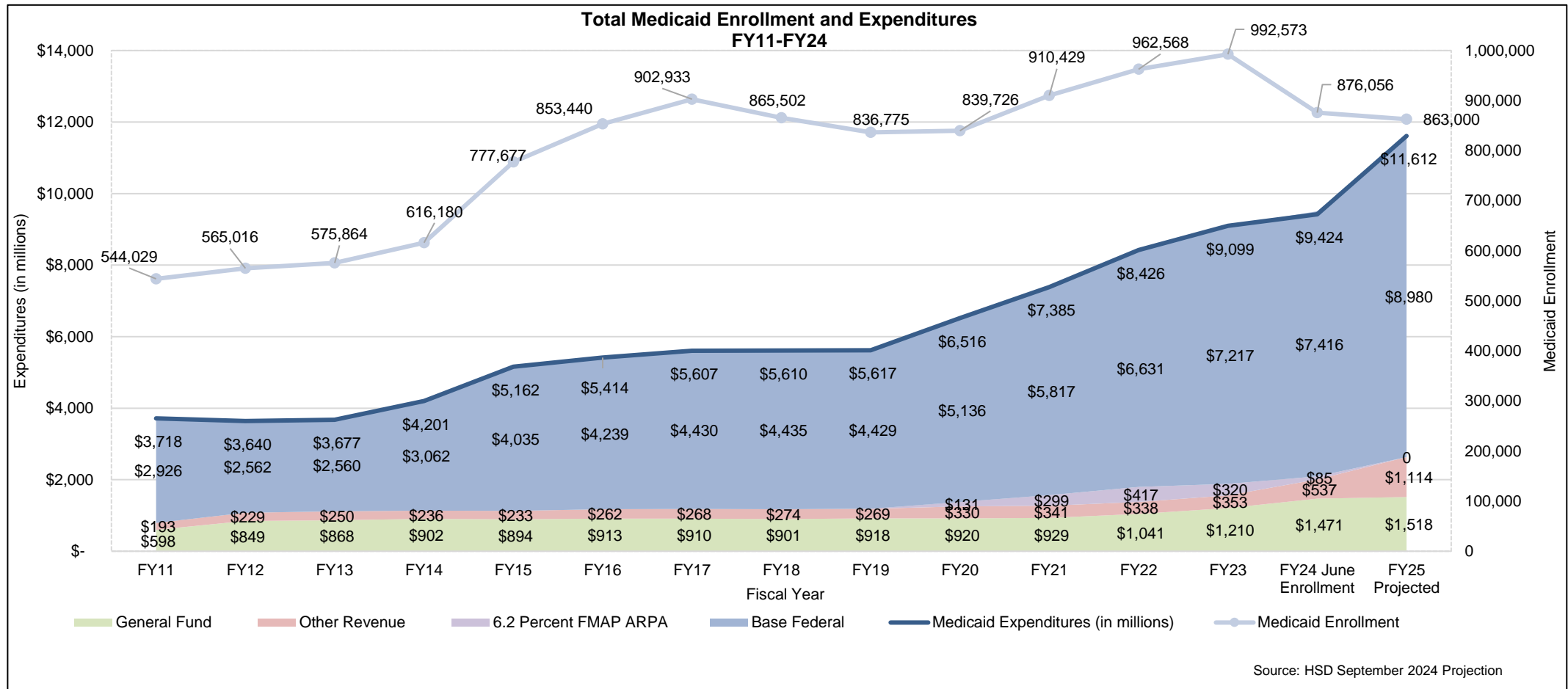
- Medicaid
  - Joint federal-state health care program with certain national standards and wide latitude for state policy differences through Medicaid waivers
  - In NM, Medicaid covers low-income individuals, including elderly, disabled, families and children, pregnant women, and very low-income adults without children
- Key Concepts
- Cost Drivers and Trends
- Major Costs
- Behavioral Health Services and Spending

# Key Medicaid Concepts

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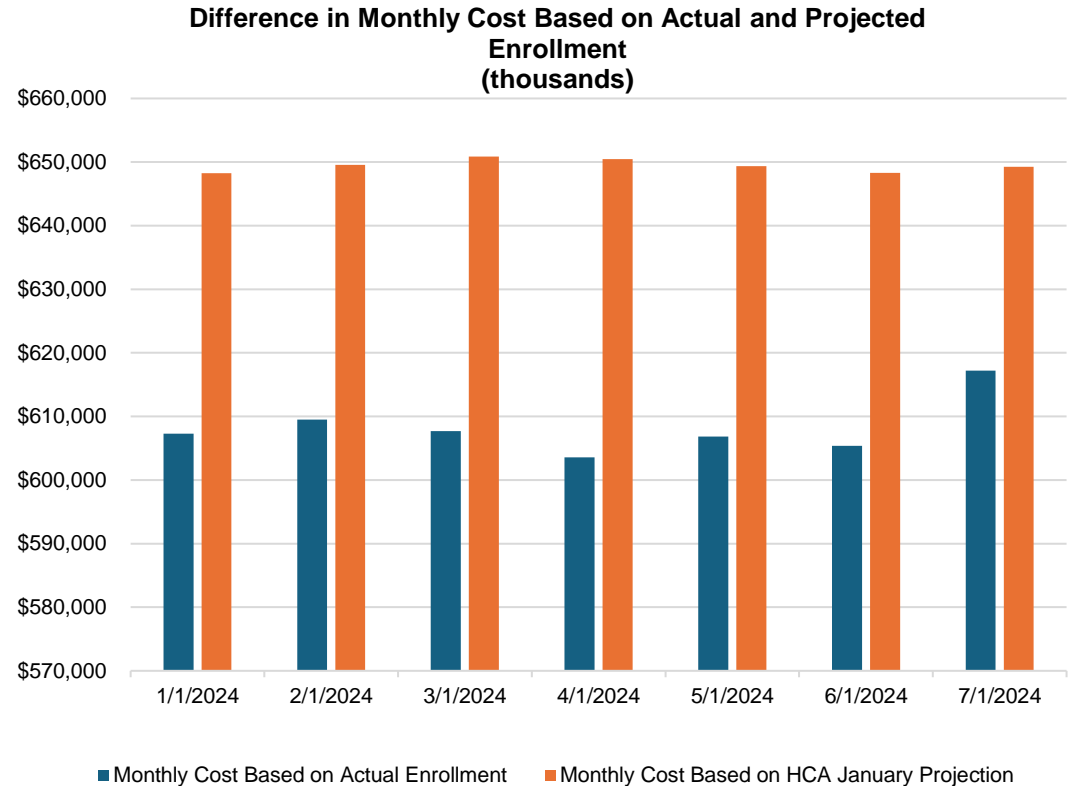
- **Managed Care Organization (MCO)** – A commercial insurance company that state governments contract with to manage Medicaid programs for cost, utilization, and quality.
  - In New Mexico, the Managed Care program is known as **Turquoise Care**, which recently replaced **Centennial Care**
- **Fee For Service (FFS)** – The state directly pays providers for services.
- **State Plan** – Each state develops its own Medicaid program within federal guidelines, outlining services covered, eligibility criteria, and administrative processes.
- **Waiver** – Special permissions granted by the federal government to states to deviate from standard Medicaid rules for experimental or innovative programs.

# Medicaid Enrollment, Revenue, and Expenditures – Approximately 42% of NM Population is Covered by Medicaid



# Key Cost Drivers

- Enrollment, particularly in managed care
- State pays a per member (client) per month (capitation) payment for each enrollee regardless of services used
- MCO Rates – intended to cover all medical services, administration, profit, taxes
- Healthcare Prices and inflation
- Rates MCOs pay to healthcare providers
- Fee-for-Service HSD rates paid to providers
- Members' Use of Services (Utilization)
- Acuity of members
- Federal Medical Assistance Percentage (FMAP)



\*Estimated cost is based on PMPM rates and do not take into account fee for service

Source: HCA January Budget Projection and LFC Analysis

# Federal Medical Assistance Percentage (FMAP)

- Federal Medical Assistance Percentage (FMAP) – The federal government’s reimbursement rate to the state for state expenditures on Medicaid. The rate is dependent on the population served with differing rates for children, income levels, adult expansion, and other groups.
- Base and enhanced rates – Changes each year based on a state’s economic performance on per capita personal income. For federal FY25, New Mexico’s rate decreased 0.91 percent, costing about \$68.9 million in state general funds, this rate is projected to be less in the coming years.
- Blended Rate – Accounts for the different FMAP rates for different populations by weighting the number in each group. For FY25 the blended rate is 77.71 percent. With every state dollar spent the federal government reimburses \$3.45.

Medicaid Eligibility Groups		
Threshold (FPL)	Population	FMAP 2025
100%	Traditional Base	71.68%
138%	Adult Expansion	90.00%
190%	Children 6-19 (Medicaid)	80.18%
240%	Children 0-6 (Medicaid)	80.18%
240%	Children 6 to 19 (CHIP)	80.18%
250%	Pregnancy Services	71.68
300%	Children 0-6 (CHIP)	80.18%
	Native Americans	100%

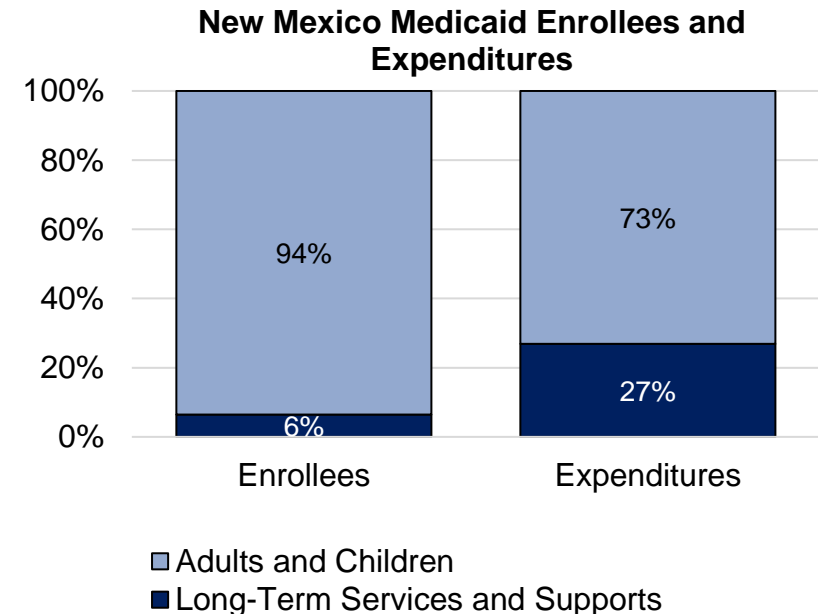


# Medicaid Enrollment

## Major Enrollment Categories

- Dec 2024 enrollment - 847,242.
- About 278K enrolled in the expansion/other adult group
- 475K Medicaid Base Population
- 369K children (children overlap with above groups)
- Others with partial benefit

## Cost Differences



Source: HSD

# Key Financing Components

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## Revenue Sources

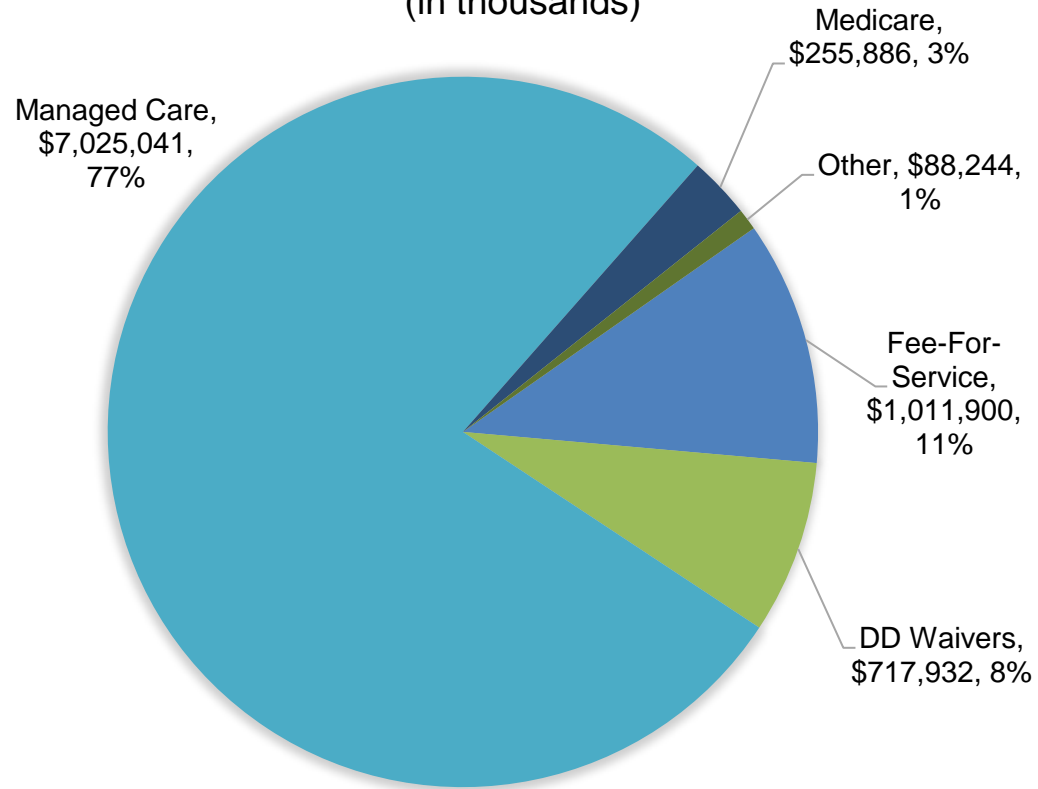
- General Fund
- Federal Funds
- County Supported Medicaid Fund
- Tobacco Settlement Fund
- UNM and other Hospital Transfers
- Other Agencies (e.g. DOH)
- Various Matching Rates
- Now Hospitals through HDAA

## Spending Categories

- Fee-For-Service
- Managed Care with a Per Member (Client) Per Month Payment to Managed Care Organizations (MCOs)
- Administration

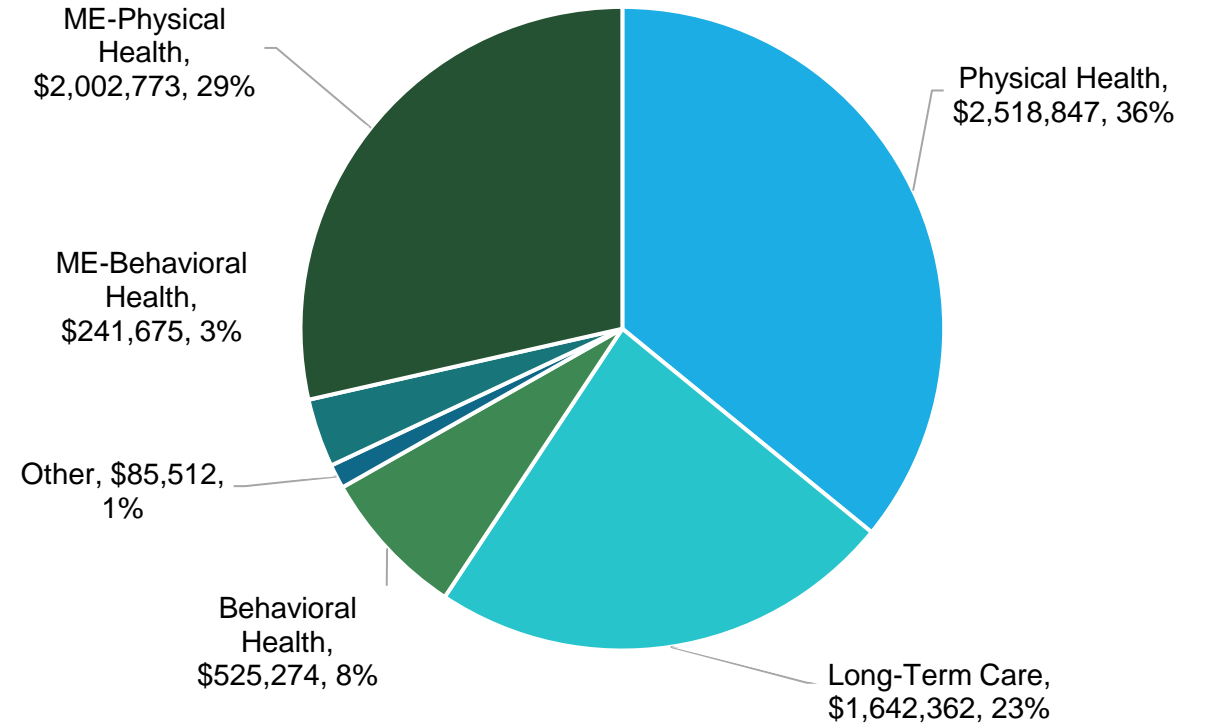
# Medicaid Spending has grown from just over \$5.6 billion in FY17

**Medicaid - \$9.1 Billion Total Spending in FY23**  
(in thousands)



Source: HSD January 2024 Projection

**Medicaid MCO Programs \$7 Billion**  
(in thousands)



Source: HSD January 2024 Projection

# Medicaid Managed Care Spending on Services

Physical Health CY23 (thousands)	
Hospital Services	\$1,344,353.3
Transportation	\$134,655.4
Primary Care/Home Health/FQHCs/	\$590,903.5
Medical Supplies/Pharmacy/Dental	\$685,660.8

Long-Term Services and Supports CY23 (thousands)	
Nursing Facility	\$299,188.5
Community Benefit/Hospice/Personal Care	\$529,860.0
Hospital Services	\$133,946.4
Primary Care	\$44,651.0

Source: LFC analysis of MCO reports to HSD



### For More Information

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

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