# FISCAL IMPACT REPORT

| | | | |
|---|---|---|---|
| **SPONSOR** | Romero A./Rubio/Szczepanski/Chandler/ Lente | **LAST UPDATED** | 3/6/2025 |
| | | **ORIGINAL DATE** | 3/5/2025 |
| **SHORT TITLE** | Effects of Federal Actions on NM Residents | **MEMORIAL NUMBER** | House Memorial 45 |
| | | **ANALYST** | Chilton/Fischer |

**ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT***
**(dollars in thousands)**

| Agency/Program | FY25 | FY26 | FY27 | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|---|---|---|---|---|---|---|
| LFC | Up to $100.0 | | | | Nonrecurring | General fund |

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

### Sources of Information

LFC Files

Agency Analysis Received From
State Land Office (SLO)
Health Care Authority (HCA)

Agency Declined to Respond
Department of Health (DOH)

## SUMMARY

### Synopsis of House Memorial 45

House Memorial 45 (HM45) would instruct the Legislative Finance Committee (LFC) to prepare a report on the impact on New Mexico of the current presidential administration and the Department of Government Efficiency's (DOGE) actions. This would include information about terminations of federal workers and cuts in funding to projects and work being done in New Mexico using federal dollars, as well as recommendations related to mitigating the harms caused to the state.

LFC would be asked to report the results of its investigations into the effects of these changes and means of mitigating their harms to LFC members and members of other relevant interim committees by July 31, 2025.

## FISCAL IMPLICATIONS

Memorials do not contain appropriations nor do they carry the weight of law. House Memorial 45 requests that LFC investigate the impact of the actions of the federal DOGE agency related to the terminations of federal employees on residents of New Mexico and the federally funded work performed in the state. Depending on the study's depth and staff availability, LFC may absorb costs associated with the study. However, if staff availability is limited, a contractor may be required. Contractor expenses for this four-month study could range from $20 thousand to $100 thousand depending on the scope of the study and expertise of the contractor.

## SIGNIFICANT ISSUES

While it is important to note Congress and the administration have not released any details of how they propose to cut programs and jobs, a preliminary, high-level review indicates the potential impacts could include the following:

- ***Federal Job Cuts***. Currently, 29 thousand direct federal employees and 32 thousand national laboratory employees work in New Mexico. A projected 10 percent cut in the federal workforce would eliminate jobs in New Mexico, reducing consumer spending and business activity generally.
- ***Tariffs.*** New Mexico is ranked second most vulnerable to tariffs and second most at risk for retaliatory tariffs, primarily because of its business with Mexico, according to Lending Tree analysis of U.S. Census Bureau data. The Tax Policy Center estimates federal tariffs as announced could reduce the New Mexico gross domestic product by 1.5 percent.
- ***Medicaid Cuts***. Under the United States House of Representatives Concurrent Budget Resolution, the Energy and Commerce Committee is to cut $880 billion from Medicaid and other federal health programs over 10 years. If New Mexico's Medicaid program lost 12 to 13 percent of its federal support, the program would lose more than $1.1 billion.
- ***Other Public Assistance Cuts.*** The House budget resolution also proposes cuts to education, the Supplemental Nutrition Assistance Program (SNAP), and farm subsidies. If New Mexico's SNAP program were to lose the nearly 20 percent expected at the national level, the state could lose up to $258 million annually. The loss of federal support for New Mexico's public school free meal program equals about $73 million a year, and a 10 percent loss of federal funds for the Temporary Assistance for Needy Families (TANF) program is equal to $11 million a year.

The Health Care Authority (HCA) reports 84 percent of its FY25 operating budget is federal funds, including for Medicaid, SNAP, TANF, and the Low-Income Home Energy Assistance Program:

> Currently, the state's Medicaid program covers the costs of healthcare goods and services for some 873,444 individuals—nearly 40 percent of the state's population. HCA-MAD estimates the state's healthcare provider-workforce could be at risk of losing as much as $2.6 billion in [federal fiscal year] 2025 federal funding from federal policy initiatives under review.

The State Land Office (SLO) notes that federal cuts to land management agencies with which the SLO works would "have a negative impact on the New Mexico State Land Office's efforts to address biological, cultural, environmental and fire-related challenges on a landscape level." SLO enumerates some 14 business leases that it has with federal government departments or divisions and 174 rights of way shared with federal government divisions or departments; cuts to those division or department budgets and personnel would affect the lease and right of way income.

## TECHNICAL ISSUE

SLO points out that:

> In the second to last paragraph, the memorial would require that the LFC present its report and "any recommendations related to mitigating the harms caused to the state" to the members of several legislative committees. This language could be construed narrowly to mean harms to the State of New Mexico itself, rather than harm to residents of New Mexico. Because the memorial otherwise appears concerned with the harm to New Mexico residents, consider adding slightly broader language such as "harms caused to the state or its residents."

Attachments:

1. LFC Presentation *Forecast Risks: Federal Policy Changes*

LAC/rl/SL2/hg/sgs/SL2/rl

# Forecast Risks: Federal Policy Changes

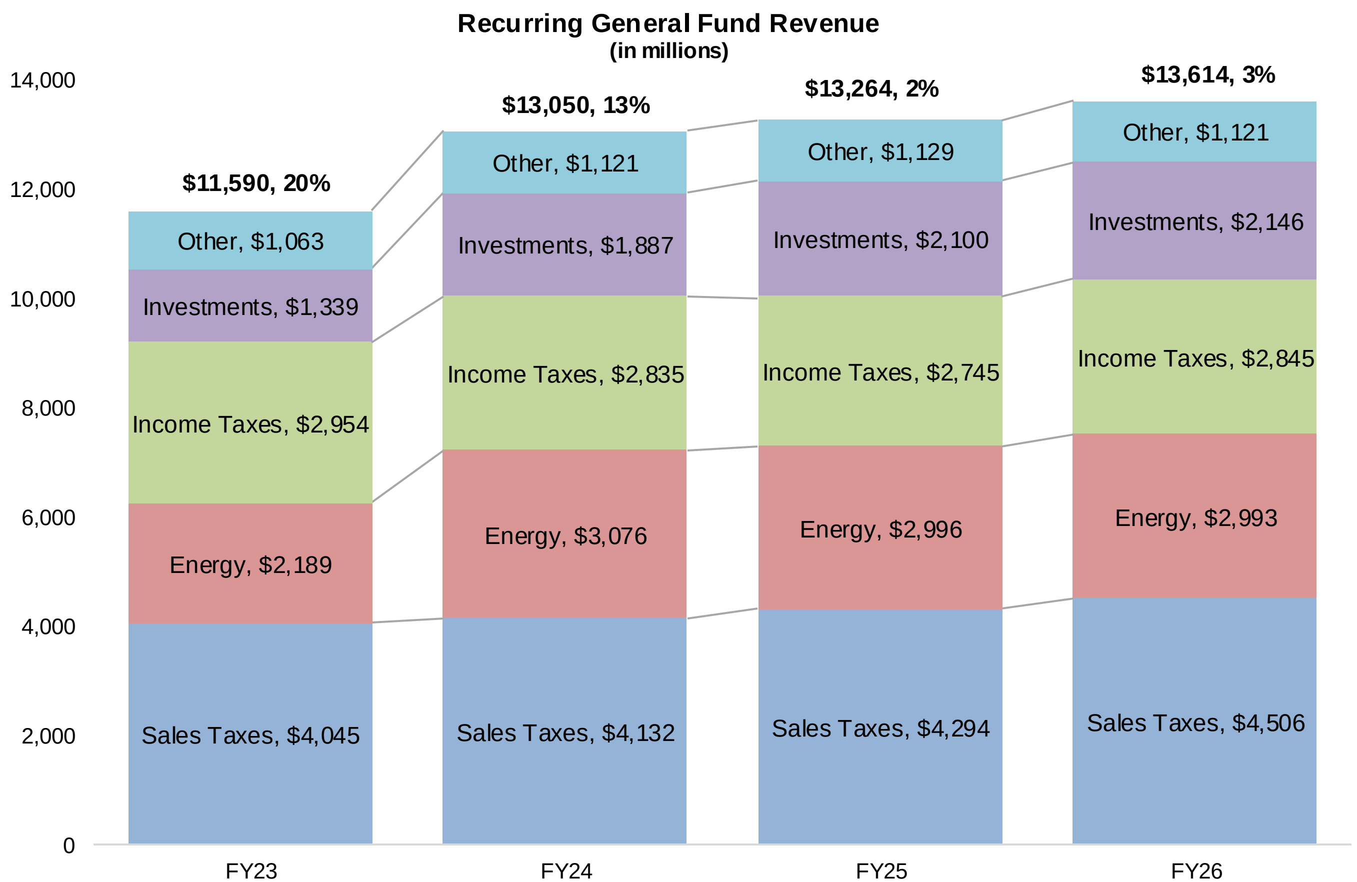
Senate Finance Committee

March 3, 2025

Ismael Torres, Chief Economist, Legislative Finance Committee

# REVENUE RISKS

# Current Revenue Outlook




Source: December 2024 CREG Estimate

# Indicators

### Labor Market

- Unemployment Rate
- Job Growth
- Labor Force Participation
- Employment-to-Population Ratio
- Job Openings, Hires, Quits and Layoffs
- Ratio of Job Vacancies to Unemployment
- Initial Unemployment Insurance Claims

### Consumer Spending/Construction and Housing

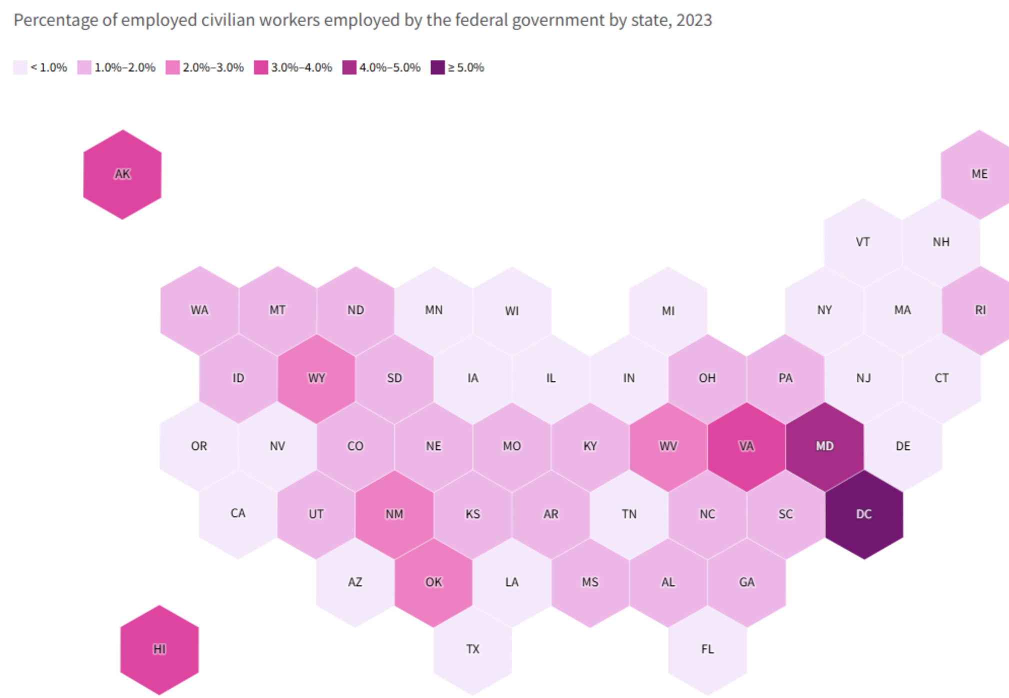
- Advance Retail and Food Services Sales
- Quarterly Selected Services Revenue
- New Single-Family Houses Sold
- Housing Starts
- Retail Vacancy Rates
- Homeownership Rate
- Construction Spending

### Business Inventories, Profits and Formations

- Business Applications
- Retailer Quarterly Profits
- Manufacturing Quarterly Profits
- Business Inventories
- Wholesale Inventories
- Advance Wholesale Inventories
- Advance Retail Inventories

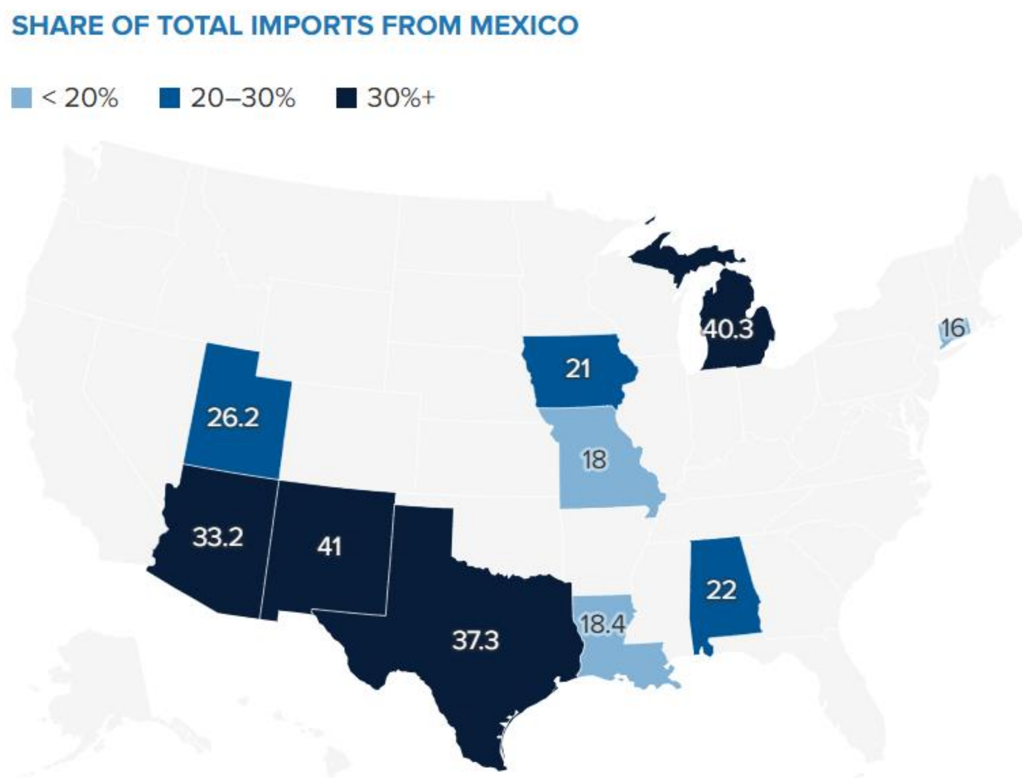
# Federal Employment Impacts on New Mexico

- 29.6 thousand direct federal government jobs in New Mexico in December 2024, about 3.2 percent of total nonfarm employment.
- Labs represent about 32 thousand employees.
- New Mexico has the 6th highest concentration of federal employment in the country.
- Several NM counties have among the highest concentration of federal employment nationally.
- Initial claims for unemployment have remained stable.



# Federal Trade Policy Impacts on New Mexico

- New Mexico is ranked 2nd most vulnerable to tariffs.
  - The state imported $2.5 billion from Mexico in 2023, alongside $3.61 billion of imports from China, Canada, and India.
- New Mexico is also ranked 2nd most-at risk for retaliatory tariffs.
  - New Mexico exported $4.9 billion in goods globally in 2023, with $3.4 billion (70%) going to Mexico.

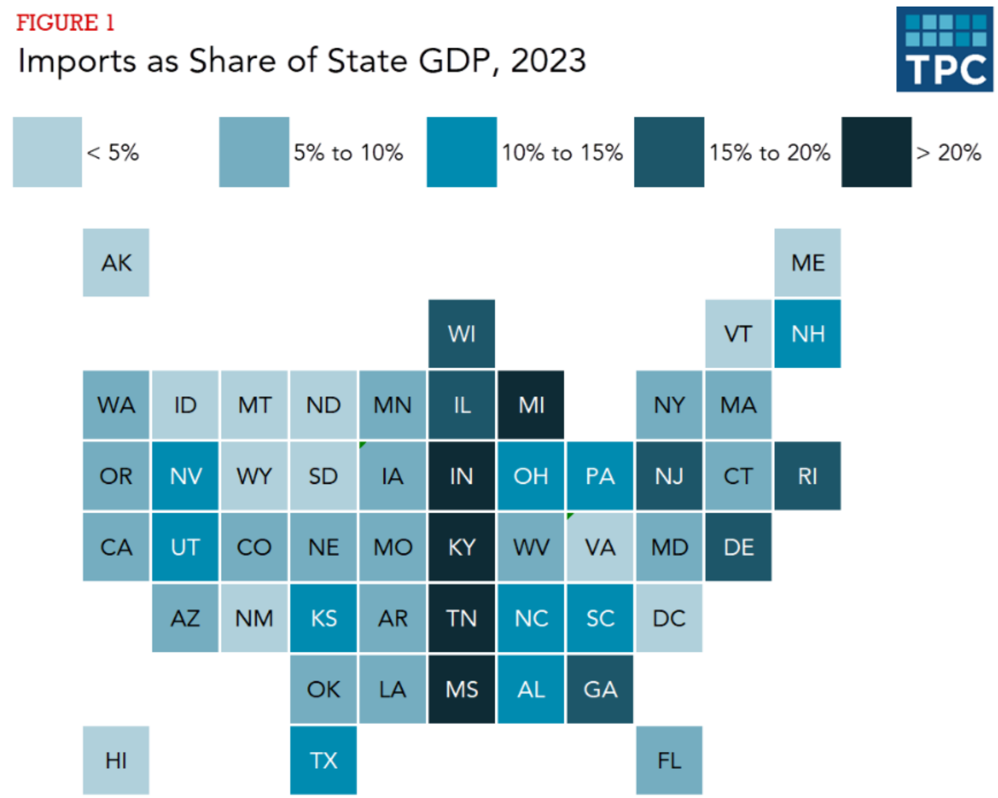



*Source: LendingTree analysis of 2023 U.S. Census Bureau USA Trade Online data.*

# Federal Trade Policy Impacts on New Mexico

- While NM tariffs are highly dependent on sanctioned countries, import/export activity is a smaller share of the total economy than some other states.
- Still, federal tariffs as announced could reduce NM GDP growth by up 1.5%. (Tax Policy Center)

FIGURE 1
Imports as Share of State GDP, 2023



# Federal Policy and Energy Impacts in New Mexico

## One month of Trump: Swift action to accelerate domestic energy, overshadowed by tariffs

### Domestic Policies

**1 Oil and gas**

#### The Trump administration acted swiftly to prioritize domestic energy production, deregulation

- President Donald Trump and Secretary of Energy Chris Wright moved quickly to enact policies that aim to maximize production of US oil and gas. In some cases, the desired outcome of these policies will depend on market dynamics more than enacted policies.
- Deregulation helps to remove certain barriers from the previous administration and may accelerate certain projects, but is no silver bullet

**2 Clean energy and power**

#### "Most of the above" strategy is in play – with priority given to firm and dispatchable energy

- Although offshore wind is likely sidelined, other renewables, mainly solar, will continue to be deployed due to their cost effectiveness
- The future is uncertain for hydrogen, CCUS and bioenergy, but not significantly more so than under the previous administration

### Trade and tariffs

**3 Canada, Mexico, and China**

#### Tariffs announced to date expected to impact Canada-US trade relationships most significantly

- Canada: Tariffs are expected to severely disrupt existing trade. The tariffs will also incur costs on Western Canadian heavy crude to both sides
- Mexico: Tariffs are expected to increase on both sides. However, Mexican crude exporters and importers will have greater flexibility with market choices
- China: Compared to Trump's first administration, China will likely be less impacted by the recent 10% tariff hike under Trump's executive orders

**4 Steel and aluminum**

#### Cost hikes are likely to hit energy supply chains as a result of steel and aluminum tariffs

- Low carbon and onshore oil and gas are among the sub-sectors most exposed to tariffs placed on aluminum and steel
- Project costs could be impacted significantly by equipment cost hikes, at a time when EPC markets are already heating up

### International Response

**5 China**

#### China responded quickly with retaliatory tariffs on crude, gas and coal

- US fossil fuel makes up a small share of China's imports of crude, LNG and coal
- China's petrochemical industry has increased dependence on LPG+ feedstock imports from the US – a key exception to an otherwise less-intertwined US-China relationship in 2024 compared to 2016

**EU**

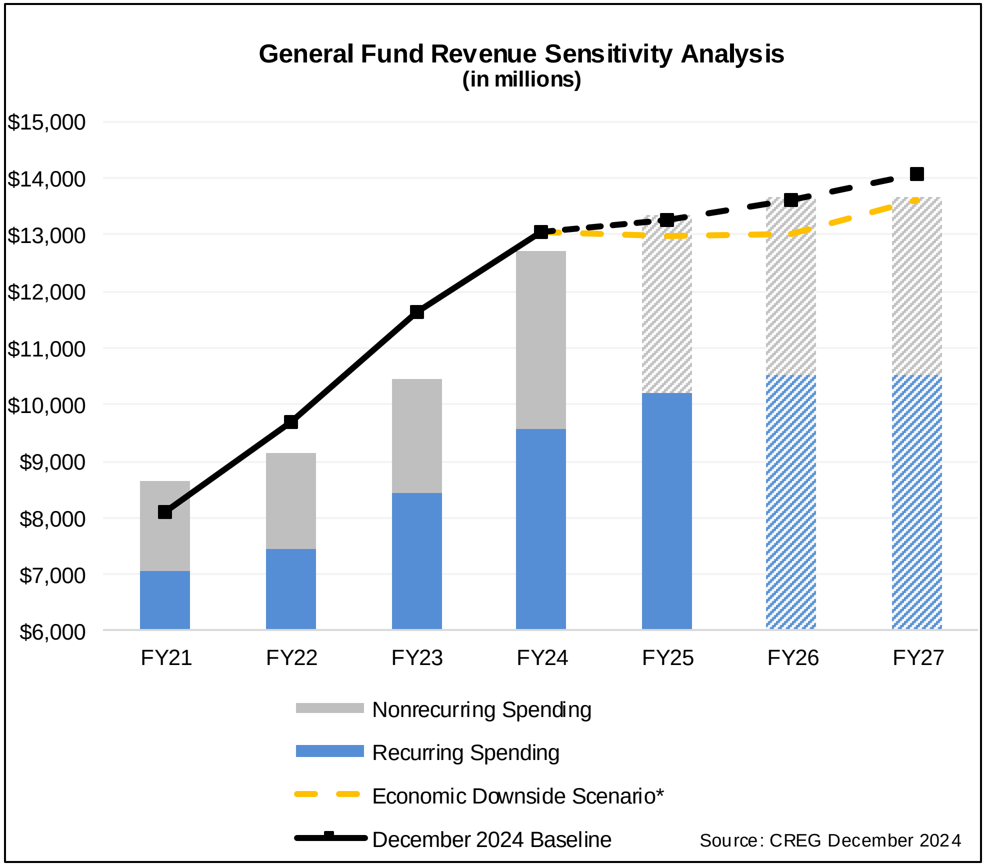
*To be covered in future editions of Trump and Energy*

**Other countries**

*To be covered in future editions of Trump and Energy*

Source: Rystad Energy research and analysis, February 2025

# Moderate Recession Risk




- The CREG economic downside scenario presents a 2.2% revenue loss in FY25, a 4.4% revenue loss in FY26, and 3.4% revenue loss in FY27.

| S3 | | | | | | |
|---|---|---|---|---|---|---|
| | FY25 | | FY26 | | FY27 | |
| GRT | $ | (162) | $ | (338) | $ | (267) |
| PIT | $ | (56) | $ | (111) | $ | (77) |
| CIT | $ | (45) | $ | (115) | $ | (122) |
| Severance to GF | $ | (24) | $ | (29) | $ | (19) |
| Severance to TSR or ECE | $ | (289) | $ | (277) | $ | (187) |
| Severance to STPF | $ | - | $ | (281) | $ | (175) |
| FML to GF | $ | - | $ | - | $ | - |
| FML to ECE | $ | (334) | $ | (480) | $ | (277) |
| FML to STPF | $ | - | $ | (272) | $ | (293) |
| TOTAL | $ | (910) | $ | (1,903) | $ | (1,417) |
| *Total GF* | *$* | *(287)* | *$* | *(593)* | *$* | *(485)* |
| *Total TSR/ECE* | *$* | *(623)* | *$* | *(1,310)* | *$* | *(932)* |

# BUDGET RISKS

# House Concurrent Budget Resolution

A non-binding resolution that establishes fiscal priorities for federal spending and revenue but is not law.

- Sets total federal spending and revenue targets.
- Allocates spending across broad categories.
- Provides instructions for budget reconciliation (a process to expedite certain spending and tax laws).
- Establishes deficit or surplus goals.

"On February 25, the House of Representatives approved a budget resolution for fiscal year (FY) 2025 that sets the stage for new tax-and-spending legislation that can bypass the Senate's 60-vote threshold and pass with a simple majority. While the budget resolution does not include specific changes to spending and taxes, it specifies which House committees should increase or decrease deficits in reconciliation legislation and by how much. These committees are responsible for identifying specific tax and spending changes within their jurisdictions to achieve these deficit targets."

Source: (Penn Wharton University of Pennsylvania: Budget Model)

# House Concurrent Budget Resolution

**<u>Minimum Spending Cuts</u>**

- $880 billion in cuts from the Energy and Commerce Committee, which has jurisdiction over Medicaid and other federal health programs;
- $330 billion from the Education and Workforce Committee, which has jurisdiction over school funding, child nutrition, and workforce development; and
- $230 billion from the Agriculture Committee, which has jurisdiction over the Supplemental Nutrition Assistance Program (SNAP) and farm subsidies.
- In addition, instructions call for $500 billion in further cuts not assigned to a specific committee. $1.7 trillion in net spending cuts and $4.5 trillion in net tax cuts
- The instructions also provide for up to $300 billion in new spending from committees with jurisdiction over defense, border security, and law enforcement.

- Source: Penn Wharton University of Pennsylvania: Budget Model

# House Concurrent Budget Resolution

Table 1: Changes in 10-Year Deficits Allowed Under the FY 2025 House Budget Reconciliation Instructions

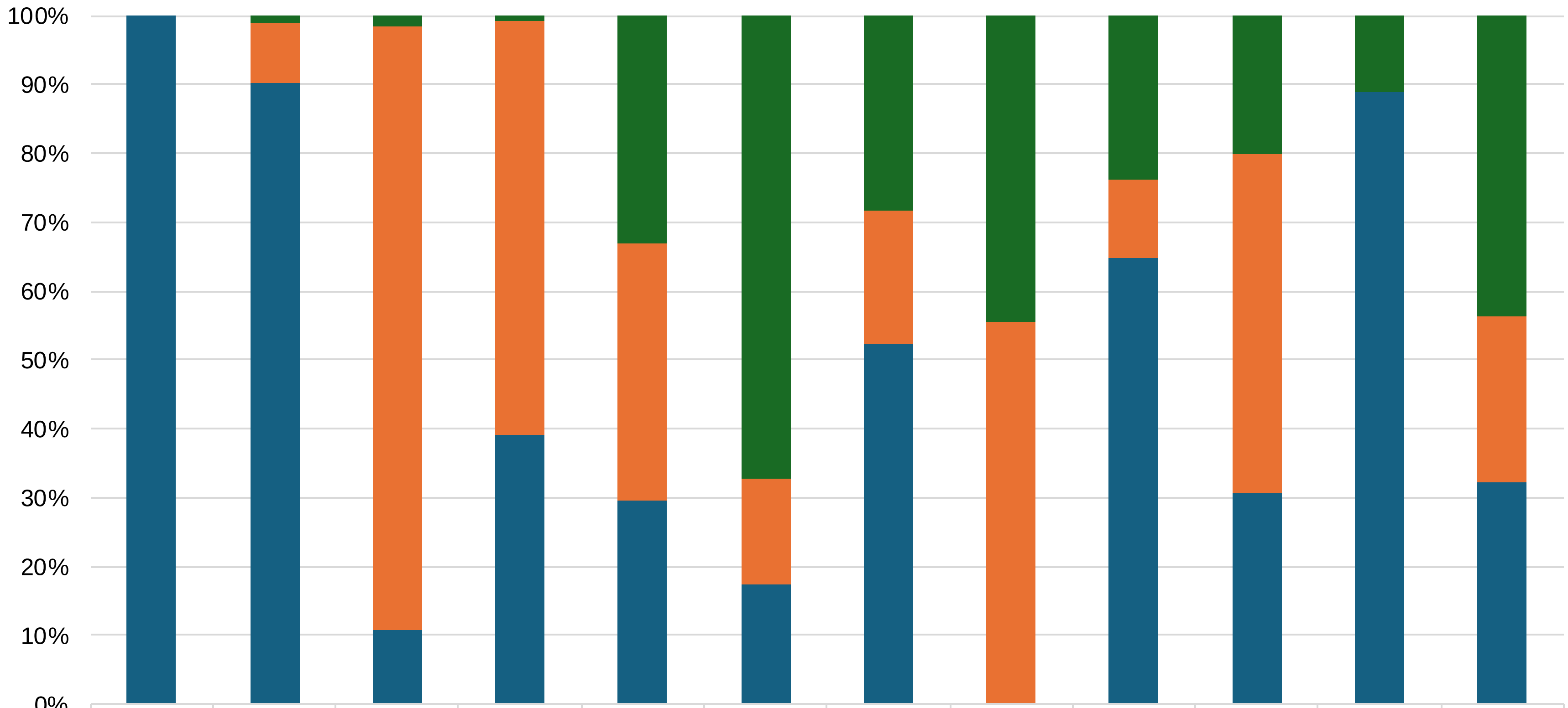
*Billions of dollars*

| Committee | Increase or decrease (-) in deficits, 2025-2034 |
|---|---|
| **Decreases in Mandatory Spending** | **-2,002** |
| Agriculture | -230 |
| Education and Workforce | -330 |
| Energy and Commerce | -880 |
| Financial Services | -1 |
| Natural Resources | -1 |
| Oversight and Government Reform | -50 |
| Transportation and Infrastructure | -10 |
| Unspecified committee | -500 |
| | |
| **Increases in Mandatory Spending** | **300** |
| Armed Services | 100 |
| Homeland Security | 90 |
| Judiciary | 110 |
| | |
| **Decrease in Tax Revenues: Ways and Means** | **4,500** |
| | |
| **Total allowed increase in the primary deficit** | **2,798** |

Notes: The targets for each committee are bounds; positive amounts are "maximum deficit increases" and negative amounts are "minimum deficit reductions."
Source: House Budget Committee.

# Current Budget Makeup

**2025 HB 2 Expenditures by Revenue Type**
**(as of 3/5/25, in millions)**




| | Leg. | Judicial | General Control | Com. and Industry | Ag, Energy, and NR | HHS | Public Safety | Transp. | Other Ed. | Higher Ed. | Public Schools | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Federal Funds | $- | $5,108 | $29,463 | $1,941 | $146,885 | $11,820,509 | $308,450 | $579,514 | $34,564 | $907,952 | $579,500 | $14,413,884 |
| Other | $- | $45,149 | $1,726,503 | $162,741 | $165,282 | $2,682,952 | $210,179 | $724,140 | $16,604 | $2,221,919 | $1,500 | $7,956,968 |
| General Fund | $6,035 | $458,419 | $210,630 | $105,643 | $130,823 | $3,066,525 | $569,609 | $- | $94,025 | $1,387,569 | $4,606,475 | $10,629,717 |

# Federal Spending Reductions

**MEDICAID**

$860 billion total Medicaid spending in FFY23, $606 billion in federal share.

At 82.9 percent, New Mexico received the highest federal matching rate.

In FY26, the state's Medicaid program is projected to spend about $11.4 billion, including $8.8 billion in federal revenue.

If 12 percent to 13 percent cuts were considered at the federal level this would amount to more than $1.1 billion.

| Examples of Medicaid Programs (Projected Spending FY26) (in millions) | | |
|---|---|---|
| | Federal | State |
| Medicaid Waiver for People with Developmental Disabilities | $766.7 | $305.2 |
| Medicaid Behavioral Health | $936.5 | $177.7 |
| Long-Term Services and Supports | $1,332.1 | $512.7 |
| Medicaid Expansion - Physical Health | $1,909.9 | $201.7 |
| Medicaid Fee For Service | $814.7 | $170.9 |
| Hospitals with New HDAA Surcharge | $1,195.1 | $304.9 |

# Federal Spending Reductions

| | Projected Nat'l 10-year Savings | Approximate 10-yr loss to New Mexico |
|---|---|---|
| Convert Medicaid to a per capita capped system | Up to $900 b | $6.5b |
| Eliminate the enhanced matching rate for ACA expansion population | $561 b | $4.1b |
| FMAP penalty for states covering undocumented immigrants with own funds | TBD | |
| Limit provider taxes (ex Health Care Delivery and Access Act) | $175b | $2.4b |
| Repeal Medicaid Eligibility Rule (require annual eligibility interviews) | $164 b | $2.2b |
| Establish work requirements | $100 b | $1.4b |
| Standardize the administrative matching rate to 50% | $69 b | $757.6m |
| Impose limits on state-directed payments in Medicaid (all rate increases enacted in last several years are through state-directed payments) | Up to $25 b | Up to $350m |
| Repeal Nursing Home Minimum staffing rule (savings for Medicare/Medicaid) | Up to $22 b | Up to $308m |

Per capita caps would also tie Medicaid revenue to medical inflation.

The ACA expansion population is matched with 90 percent federal revenue. The match would drop to about 75 percent for 270 thousand individuals.

Provider tax for nursing facilities and hospitals that is matched with federal revenue and sent back to facilities.

Some administrative matching rates are 90 percent/10 percent such as for the MMISR IT project.

# Federal Spending Reductions

**SNAP**

House Resolution directed the Agriculture Cmt. to reduce spending by not less than $230b over 10 years, much of which is expected to come from SNAP. This represents a ~19% cut to the program.

NM receives about $1.35b in funding for SNAP benefits and for state administration annually.

Unclear *how* SNAP would be reduced – could come from a reduction in benefits, but also from fraud reduction, work requirements, or ending broad-based categorical eligibility.

Proportionally, NM could lose up to **$257m** annually in SNAP funding.

# Federal Spending Reductions

**School Lunches**

Proposal to change the "community eligibility provision" threshold by which a school can serve all free meals to all students from the current 25% of kids eligible for free lunches to 60%.

NM law requires the state to provide funding for universal free meals, and the state would be on the hook to cover and lost federal funding.

NM has ~515 schools with free lunch percentages between 26% and 59% with covering about 202.5 thousand kids. Assuming the state has to pick up an additional $2 in meal cost per day per kid, the cost shift to the state would be **$72.9m** annually.

# Federal Spending Reductions

**<u>TANF</u>**

Major proposals are to reduce TANF by 10%, establish TANF work requirements, and eliminate the federal TANF contingency fund.

NM Receives **~$14m** in TANF contingency funding each year.

A 10% TANF reduction would mean a loss of **~$11m** per year to NM.

# Federal Spending Reductions

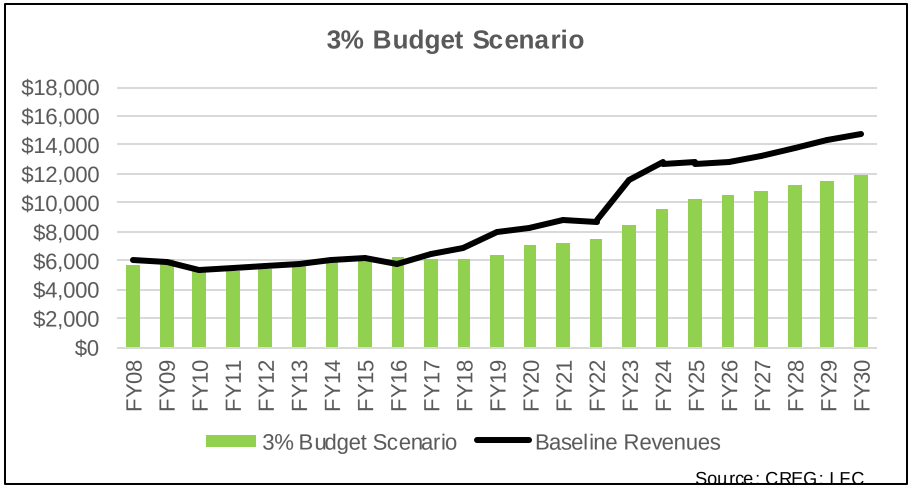
**Other**

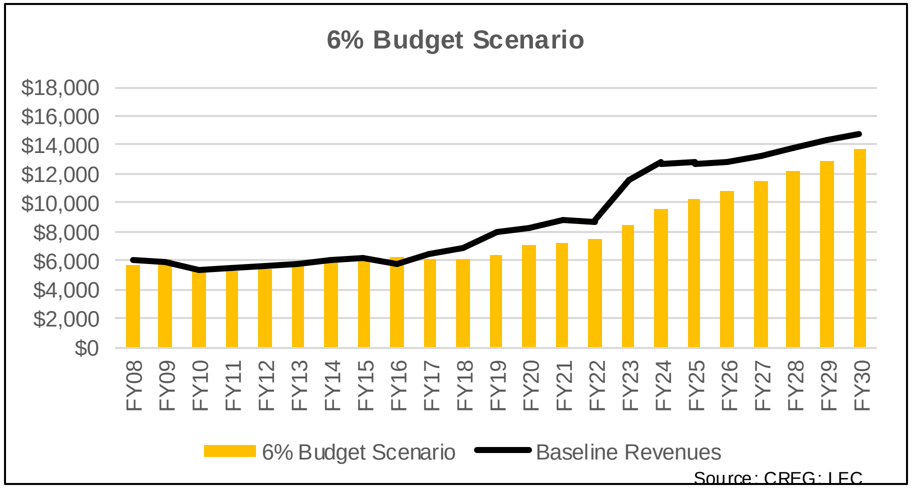
- Social Services Block Grant (SSBG) – proposal to eliminate. Funds for to CYFD and ALTSD in NM and would collectively lose **~$10.1m** each year from this elimination.

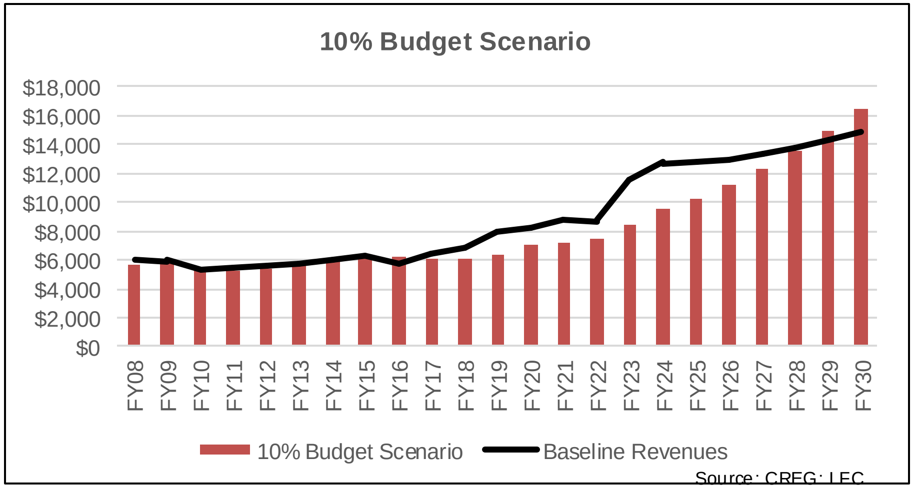
- ACA Prevention and Public Health Fund (PPHF) – proposal to eliminate. PPHF provides money to several federal health programs. Estimates that NM receives **~$10m** annually from programs supported by those funds.

- IIJA & IRA funds - no recission of IIJA funds but Congress may change which projects are eligible for FFY26. IRA funding primarily impacts taxes and federal programs.

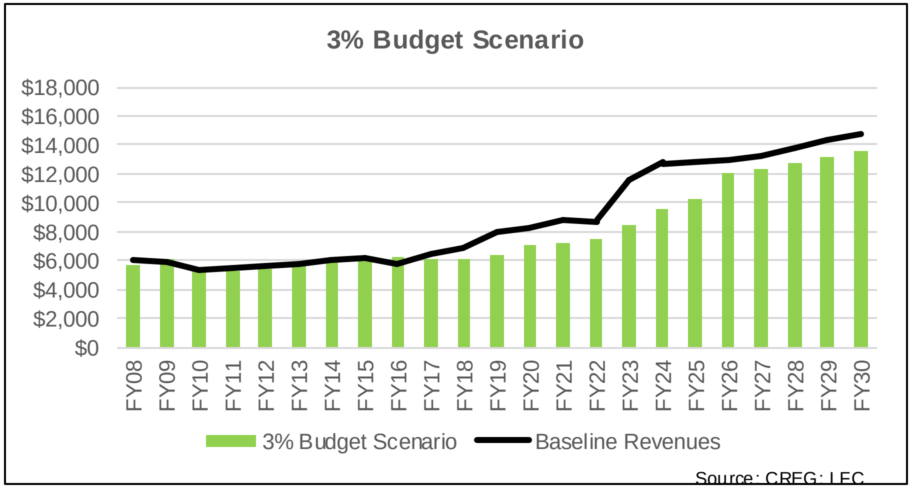
# Potential Budgetary Outlooks

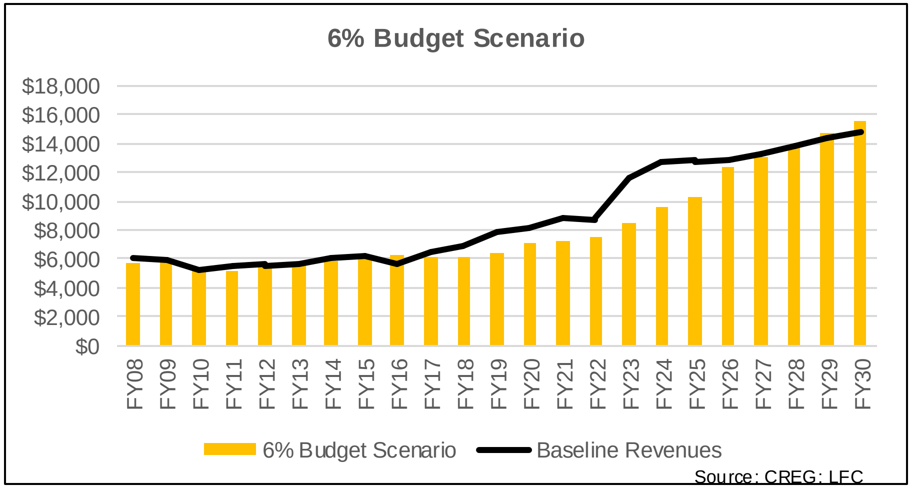


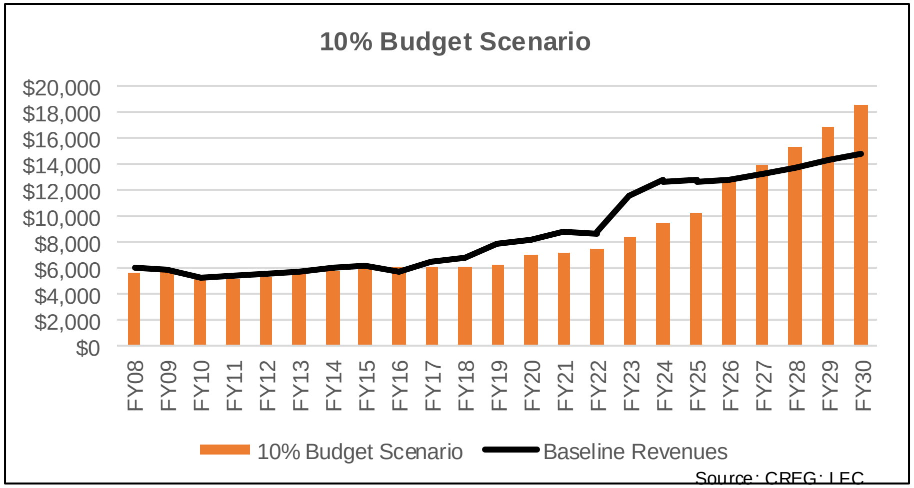



# Potential Budgetary Outlooks: with $1.5 billion of backfill in FY26



Questions?

# THANK YOU