

Blank Rome Government Relations LLC



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2025 Budget Reconciliation Roadmap: Impacts and Action Steps

OVERVIEW

The budget reconciliation process is a critical legislative tool that allows Congress to pass budget-related measures with a simple majority in the Senate, bypassing the filibuster and expediting passage of significant legislative priorities. Established under the Congressional Budget Act of 1974, reconciliation is designed to align revenue and spending with Congress' annual budget resolution. This mechanism is particularly valuable when one party controls Congress and the White House, as it allows major initiatives to advance without bipartisan support. However, reconciliation is subject to strict rules, including the "Byrd Rule," which restricts provisions to those with direct budgetary impacts, i.e., with direct impact on either spending or revenues.

Prior Uses of Reconciliation

During President Trump's first term, budget reconciliation was a key tool for advancing significant legislative priorities, including the Tax Cuts and Jobs Act of 2017, which enacted sweeping tax changes. Similarly, the Biden Administration utilized reconciliation to pass key components of its agenda, such as the American Rescue Plan Act of 2021, which provided critical pandemic relief and economic stimulus. These examples highlight reconciliation's utility in enacting transformative policies under unified government control.

Trump and Congressional Agenda for Reconciliation

For the incoming Trump administration and Republican-majority Congress, reconciliation will be instrumental in enacting an ambitious agenda, that encompasses tax

provisions, border security, energy production and deregulation, and defense funding. As stakeholders in energy, maritime, transportation, trade, defense, and railway, and Native American and Alaska Native affairs, all stakeholders should prepare for significant opportunities and risks as these measures take shape.

RECONCILIATION STRATEGY: ONE BILL OR TWO?

President-elect Trump's position on the scope and structure of reconciliation has evolved in recent weeks. While initially favoring a single comprehensive package, he has expressed openness to a two-bill strategy. The first bill would focus on energy, border security, and defense, while the second would address tax provisions and broader fiscal priorities.

House Speaker Mike Johnson (R-LA) has strongly advocated for a single reconciliation bill, arguing that it is the most efficient way to advance Trump's agenda within the first 100 days. Johnson's approach is supported by House Budget Committee Chairman Jodey Arrington (R-TX) and House Ways and Means Chairman Jason Smith (R-MO), who believe a unified package will maximize legislative momentum. However, Senate Republicans, including Budget Committee Chairman Lindsey Graham (R-SC), have emphasized the urgency of addressing border security and defense separately to mitigate national security risks, with tax policy changes following later this year in a second bill. This internal debate could impact the timeline and scope of reconciliation efforts.

SCOPE OF POTENTIAL LEGISLATION

Tax Provisions

Tax changes are expected to play a significant role in the reconciliation process, with the extension of the 2017 tax cuts at its core. These extensions aim to provide continued relief for businesses and high-earner individuals while reducing corporate tax rates further to enhance global competitiveness and attract investment. Additional measures under consideration include eliminating taxes on tipped income to support the service industry, eliminating taxes on Social Security benefits, simplifying the tax code by reducing brackets, and eliminating certain deductions to streamline compliance and reduce costs. A new revenue-generating mechanism involving tariffs on imports is also being proposed.

Border Security and Defense

Border security and defense funding are poised to feature prominently in the reconciliation agenda. Significant allocations are anticipated for border wall construction, advanced surveillance technologies, and enhanced U.S. Customs and Border Protection and Immigration and Customs Enforcement operations. Simultaneously, the military will receive increased funding to address strategic vulnerabilities and modernize equipment. These measures not only aim to provide immediate legislative wins but also to mitigate pressing national security concerns.

Energy Policy

Energy policy will focus on streamlining permitting processes for critical infrastructure projects, such as pipelines, renewable energy installations, and oil and gas export terminals. Domestic energy production will be promoted through the reduction of regulatory barriers, particularly in the oil, gas, and nuclear sectors. Further, energy independence initiatives, including incentives for clean energy and advanced technology adoption, will be advanced. However, proposals to reform environmental protections, such as the National Environmental Policy Act ("NEPA") review process, are expected to face legal and public opposition, even as they aim to accelerate project timelines. Whether or not permitting reform meets the Byrd Rule by saving tax revenues remains to be seen.

Debt Ceiling

Debt ceiling adjustments are also on the table, with plans to raise the debt limit within the reconciliation package to ensure government solvency and avoid market disruptions.

To secure support from conservative members, this increase will likely be paired with \$2.5 trillion in spending cuts over ten years, focused on discretionary spending and the reduction of waste and inefficiencies. It remains to be seen whether these tax cuts can be balanced out simply with discretionary spending cuts. Balancing the debt limit increase with long-term fiscal sustainability will be a key focus.

TENTATIVE TIMELINE AND LEGISLATIVE ACTIONS

- **Early February:** Adoption of a budget resolution with reconciliation instructions is expected, providing the framework for committees to draft detailed legislation.
- **March 14, 2025:** Deadline to pass final fiscal 2025 spending bills to avoid a government shutdown.
- **Early April:** House passage of the reconciliation package, with the goal of Senate approval by the end of April or early May.
- **May 2025:** Final reconciliation measures enacted, aligning with Trump's first 100 days.
- It is important to note that this is an ambitious one-bill strategy timeline, and dates could be delayed due to lengthy negotiations. A two-bill approach may stretch until the end of the 2025 calendar year to meet the deadline for expiration of the original Trump tax cuts.

IMPLICATIONS FOR STAKEHOLDERS

Energy

In the energy sector, increased project approvals and decreased regulatory hurdles may present significant opportunities for developers of fossil fuels, renewables, and nuclear energy. However, potential reforms of environmental protections may lead to legal risks for stakeholders. Moreover, the introduction of tariffs on imports, aimed at funding reconciliation priorities, could disrupt supply chains for energy infrastructure projects reliant on imported materials and potentially cause consumer prices to rise, creating inflation-related risks. This may be ameliorated if the incoming Administration, as reported, focuses the tariffs on only certain critical imports. This may, though, positively impact domestic energy producers due to an increased demand for low-cost, non-tariffed energy.

Maritime and Transportation

The maritime and transportation sectors stand to benefit from infrastructure investments that could drive growth in port modernization and rail projects. Streamlined regulatory approvals are expected to accelerate construction timelines, creating additional opportunities for stakeholders involved in large-scale projects. However, proposed discretionary spending cuts could reduce the availability of federal grants that support critical transportation infrastructure upgrades.

Native American/Alaska Native Affairs

For Native American and Alaska Native communities, the reallocation of federal funding poses a significant risk to vital services, including healthcare, education, and housing programs. Advocacy will be essential to ensure equitable treatment and representation in legislative negotiations. Despite these challenges, tribes, native organizations, and corporations may find opportunities to leverage energy and infrastructure investments to promote economic development, including through federal contracts, provided their interests are safeguarded in the reconciliation process.

WHAT TO WATCH**Legislative Developments**

The reconciliation strategy debate between a single comprehensive package and a two-bill approach will significantly shape the legislative process. Stakeholders should closely monitor the resolution of this debate, as it will determine the sequencing, timeline, and scope of legislative priorities. The progress of key committees in drafting specific provisions will also be critical to understanding how reconciliation impacts various industries.

Stakeholder Advocacy

Proactive stakeholder advocacy will play a vital role in shaping favorable outcomes. Engaging with congressional offices to advocate for specific language in reconciliation provisions, particularly those impacting energy, defense, transportation, trade, and tribal programs, will be essential. Building coalitions to amplify industry voices and address shared concerns about proposed cuts or regulatory changes can further strengthen advocacy efforts.

Market Impacts

Additionally, stakeholders should evaluate the market implications of proposed tax policies, including corporate rate reductions and import tariffs, to understand their potential impact on profitability and supply chain operations. Assessing the implications of energy deregulation measures on project feasibility and financing opportunities will also be critical. Finally, stakeholders should prepare for potential shifts in federal funding priorities, particularly those affecting grant-dependent programs and projects, to mitigate risks while seizing new opportunities.

Next Steps

Our team is closely tracking these developments and is prepared to help stakeholders navigate the reconciliation process. Whether advocating for favorable provisions or mitigating potential risks, we provide strategic guidance tailored to individual stakeholders' priorities. To discuss how Blank Rome Government Relations can support your organization, please contact us today.

For more information or assistance, please contact

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