TRP SPECIAL REPORT: KEY PROVISIONS FOR LOCAL GOVERNMENTS IN THE HOUSE BUDGET RECONCILIATION BILL

House Republicans continue their work on several portions of the reconciliation bill carrying President Donald Trump's legislative priorities on tax, immigration, energy, and more. Committee markups in Energy and Commerce (E&C), Ways and Means, and Agriculture are expected to lead to the House Budget Committee combining all the instructions into one reconciliation package as soon as Friday. However, several debates must still be resolved — including raising the $10,000 cap on state and local tax (SALT) deductions, the size and scope of cuts to public benefit programs like Medicaid and the Supplemental Nutrition Assistance Program (SNAP), and culling Inflation Reduction Act (IRA) clean energy tax credits before the House can proceed to the next steps. Meanwhile, the Senate will begin consideration of their version of a reconciliation bill after the House completes its work, but probably not until June.

TRP's new Special Report summarizes some of the provisions of interest to local governments, although they are subject to change pending further action in the House and Senate. We will keep you informed of additional modifications and other notable developments as the process unfolds.

MUNICIPAL AND PRIVATE ACTIVITY BONDS, LIHTC AND OPPORTUNITY ZONES

Municipal Bonds – The reconciliation bill does not alter the tax-exempt status of municipal bonds, which is a significant win for local governments. Elimination of the tax-exempt status was listed as a potential "pay-for" for the budget reconciliation bill earlier this year, making this initial exclusion significant.

Private Activity Bonds (PABs) – The bill also does not modify the current tax status for Private Activity Bonds, which are a tax-exempt municipal bond used to finance projects benefiting private entities, such as businesses or non-profit organizations.

Low Income Housing Tax Credit – The legislation would make certain modifications to the Low Income Housing Tax Credit (LIHTC) by providing an increase to the State housing credit ceiling for 2026 through 2029, restoring the annual 12.5 percent allocation increase which previously expired in 2021. Additionally, the current requirement mandating that a building must derive at least 50 percent of its financing from tax-exempt bonds to receive a four-percent credit without receiving a credit allocation from the State housing credit ceiling has been lowered to 25 percent. Finally, the definition of the term "difficult development areas" has been expanded to include tribal areas and rural areas, making these locations eligible for increased housing credits.

Opportunity Zones – The bill would create a second round of the Opportunity Zone (OZ) program, beginning on January 1, 2027, and ending on December 31, 2033, with a few adjustments made to previously established OZ policies. The new round would have a reporting requirement and would narrow the definition of "low-income community" to census tracts that have a poverty rate of at least 20 percent or a median family income of under 70 percent of the area median income. Additionally, the bill creates "rural qualified opportunity funds" (RQOFs) which would offer a 30 percent step-up in basis of 30 percent when held for a minimum of five years.

STATE AND LOCAL TAX DEDUCTIONS AND CHILD TAX CREDIT

State and Local Tax Deductions – The legislation would raise the State and Local Tax (SALT) deduction cap from $10,000 to $30,000 per couple ($15,000 for married taxpayers filing separately). For taxpayers with modified gross adjusted income (MAGI) over $400,000 ($200,000 if filing separately), the cap phases down by 20 percent of the excess income until it reaches $10,000 ($5,000 if filing separately). It makes the SALT cap permanent for tax years beginning after December 31, 2025. The proposal also clarifies which “specified taxes” are subject to the cap, treats substitute payments as subject to the cap, requires partnerships and S corporations to separately state these taxes, and penalizes certain mismatches between tax payments and benefits. It also bars capitalization of specified taxes and grants the Treasury authority to prevent cap avoidance.

Child Tax Credit – The legislation would make the Child Tax Credit (CTC) of $2,000 permanent – while indexing for inflation after 2026 - and preserves the higher income phase-out thresholds that would otherwise expire at the end of 2025. It also allows income from a 501(d) organization to be treated as earned income for the CTC. The measure expands the Social Security Number (SSN) requirement to claim the credit to not just the child, but also the taxpayer’s work-eligible SSN, and, for joint filers, the spouse’s work-eligible SSN, as well. For years 2025-2028, the CTC is increased to $2,500.

MEDICAID AND SNAP

As expected, the legislation includes significant Medicaid reforms, including the implementation of work requirements for able-bodied adults and, as well as a range of provisions aimed at reducing federal spending by tightening program eligibility. While the Congressional Budget Office (CBO) estimates the health-related provisions will generate $715 billion in savings over the next decade, it also projects that at least 8.6 million people will lose health insurance coverage during that time due to the changes.

Medicaid: Cost-Sharing Requirements for Medicaid Expansion Individuals – Under current law, States may opt to charge premiums and establish nominal out-of-pocket cost sharing requirements for certain Medicaid enrollees. While States can impose higher cost-sharing for targeted groups, certain populations — including children and pregnant women — are exempt from most out of pocket costs and some copayment cannot be charged for certain services. Section 4412 of the Energy and Commerce reconciliation bill would amend these requirements to require that States, beginning

October 1, 2028, impose cost-sharing for covered services on the Medicaid expansion population with a family income that exceeds 100 percent of the federal poverty line. Notably, this provision would allow States to permit Medicaid providers to require, as a condition of the provision of Medicaid services, the payment of any cost sharing obligations by the Medicaid beneficiary.

The provision includes several limitations on the cost-sharing obligations required under this bill. Specifically, States may not impose any cost-sharing requirements with respect to: (1) any pregnancy-related services, including tobacco cessation; (2) services furnished to an individual who is an inpatient in a hospital, nursing facility, or other institutions who must contribute all of their income toward the cost of their care; (3) emergency services; (4) family planning services; (5) services furnished to an individual who is receiving hospice care; and (6) the administration of vaccines. Notably, cost sharing for a specified item or service furnished to an individual who is eligible for Medicaid under Medicaid expansion is limited to $35, and the total aggregate amount of cost sharing that a State may impose for all individuals in the family may not exceed five percent of the family income, as applied on a quarterly or monthly basis. Under this provision, cost sharing for covered outpatient drugs for the expansion population are not permitted to exceed thresholds identified under current law.

Supplemental Nutrition Assistance Program (SNAP) — The House Agriculture Committee's reconciliation proposal would make large cuts to SNAP. In addition to limiting the future increases to the cost of the Thrifty Food Plan, the basis for SNAP, the proposal would also require States to pay for part of SNAP benefits passed on their payment error rates. States will be required to contribute a minimum of five percent toward SNAP benefit costs starting in fiscal year 2028, with additional contributions of up to 25 percent. Additionally, the tolerance level for errors has been reduced from $37 to $0. The federal share of SNAP administrative costs will be reduced from 50 percent to 25 percent. Additionally, the legislation makes changes to the SNAP work requirement. Under current law, the requirement applies to individuals aged 18-54, with an exception for individuals taking care of a dependent child under the age of 18. However, the bill increases the age requirement to 64 and reduces the exemption age of the dependent child to under seven.

Further changes restrict Able Bodied Adults Without Dependents (ABAWD) work requirement waivers to counties with unemployment rates above 10 percent, with waivers limited to 12 months and proportion of exempt ABAWDs in non-waived areas is reduced from eight percent to one percent. Energy assistance rules are tightened, allowing households to qualify for standard utility allowances or income exclusions only if they contain elderly or disabled members. This reduces eligibility for all other households. A new provision explicitly excludes household internet costs from SNAP shelter expense calculations. Finally, the reconciliation package explicitly limits SNAP eligibility.

ENVIRONMENT AND ENERGY

The House bill proposes to repeal a swath of environmental and energy programs and funding established under the IRA. In line with the broader Republican strategy to scale back federal climate initiatives, the legislation targets nearly all new Environmental Protection Agency (EPA) authorities created by the IRA, rescinds significant unobligated funds, and repeals two recently finalized environmental rules related to vehicle emissions and fuel economy standards.

In total, the Environment subtitle repeals over a dozen IRA-funded EPA programs — including those for air quality monitoring, school-based environmental improvements, and the Greenhouse Gas Reduction Fund (GGRF) — and blocks implementation of major Biden-era climate regulations.

Repeals and rescissions include the following environmental initiatives established under the IRA:

- **Clean Heavy-Duty Vehicles Program** — Established under Section 132 of the Clean Air Act, this program authorized grants and rebates for the purchase and deployment of zero-emission heavy-duty vehicles, such as electric school buses and freight trucks, and the development of supporting infrastructure.

- **Port Pollution Reduction Grants** — Section 133 of the Clean Air Act created a competitive grant and rebate program to reduce air pollution at U.S. ports by funding the purchase of zero-emission equipment and associated infrastructure. It is aimed at reducing localized pollution in port-adjacent communities.

- **Greenhouse Gas Reduction Fund** — Section 134 of the Clean Air Act established the EPA's Greenhouse Gas Reduction Fund (GGRF), also known as the "Green Bank" program, with $27 billion in IRA funding. It is intended to mobilize private capital toward clean energy and climate projects, especially in underserved communities.

- **Diesel Emissions Reduction Grants** — Section 60104 of the IRA provided supplemental funding to the longstanding Diesel Emissions Reduction Act (DERA) program, targeting reductions in diesel pollution in disproportionately burdened communities.

- **Air Monitoring Capacity Grants** — IRA Section 60105 appropriated funds to improve air monitoring infrastructure, including the purchase of monitoring equipment, deployment of sensors, and increased data transparency to address gaps in air quality data.

- **School Air Quality Grants** — Section 60106 of the IRA created a grant program to monitor and mitigate air pollution in and around schools, including funding for HVAC upgrades, filtration, and school building retrofits.

- **State Climate Pollution Planning Grants** — Section 137 of the Clean Air Act created a flexible grant program for State, local, and tribal governments to develop and implement greenhouse gas reduction strategies, often dubbed "Climate Pollution Reduction Grants."

- **Environmental and Climate Justice Block Grants** — Section 138 of the Clean Air Act established a $3 billion block grant program for community-led environmental justice efforts, including pollution mitigation, capacity-building, and health monitoring.

As it pertains to the energy provisions, the reconciliation bill includes broad rescissions of unobligated funds provided under the IRA, targeting a range of Department of Energy (DOE) programs supporting clean energy deployment, advanced manufacturing, and grid infrastructure. In addition to rescissions, the legislation proposes a suite of permitting reforms designed to accelerate approval for energy infrastructure projects — particularly fossil fuel and pipeline infrastructure development — by allowing project sponsors to pay user fees in exchange for expedited permitting timelines and limited judicial review. A new De-Risking Compensation Program would also be established to reimburse project sponsors for losses incurred due to permit revocation or denial.

The proposal would rescind unobligated funds from several IRA energy-related programs, including:

- **State-Based Energy Efficiency Training Grants** — This DOE program was intended to provide training assistance and education for the implementation of the IRA's Home Energy Whole-House Rebate Program or the High-Efficiency Electric Home Rebate Program for additional home energy efficiency upgrades and retrofits.

- **DOE Loan Programs Office** — The IRA provided funding to DOE's Loan Programs Office (LPO) to cover the cost of credit subsidies associated with loan guarantees for "unproven" energy technologies.

- **Advanced Technology Vehicle Manufacturing** — DOE's Advanced Technology Vehicles Manufacturing Loan Program (ATVM) provides loans to support the manufacture of eligible advanced technology vehicles and qualifying components. This includes expanded uses beyond light-duty vehicles include medium- and heavy-duty vehicles, trains or locomotives, maritime vessels including offshore wind support vessels, aircrafts, and hyperloop.

- **Energy Infrastructure Reinvestment Financing** — This DOE program focuses on new, innovative technologies, authorizing loans for retooling, repowering, or replacing energy infrastructure that has ceased operations.

- **Tribal Energy Loan Guarantee Program** — The Tribal Energy Loan Guarantee (TELG) Program supports tribal investment in energy-related projects by providing loan guarantees to federally recognized tribes, including Alaska Native villages or regional or village corporations, or a Tribal Energy Development Organization that is wholly or substantially owned by a federally recognized Indian Tribe or Alaska Native Corporation.

- **Transmission Facility Financing** — The DOE Transmission Facility Financing (TFF) Program was intended to pay direct loans to non-federal borrowers for transmission facilities in a National Interest Electric Transmission Corridor (NIETC). While a small number of NIETCs were designated, no loans were awarded from this program.

- **Grants to Facilitate the Siting of Interstate Electricity Transmission Lines** — The Transmission Siting and Economic Development (TSED) Grant Program provides grants to transmission siting authorities, including state, local, and tribal governments, to facilitate siting and permitting for certain interstate and offshore electricity transmission lines.

- **Interregional and Offshore Wind Electricity Transmission Planning, Modeling, and Analysis** — This DOE program was intended to provide funding to conduct transmission planning, modeling, and analysis regarding interregional electricity transmission and transmission of electricity generated by offshore wind and to convene relevant stakeholders to discuss these issues.

- **Advanced Industrial Facilities Deployment Program** — DOE's Industrial Demonstrations Program (IDP) provides financial assistance, such as grants, direct loans, rebates, or cooperative agreements, to industrial or manufacturing facilities to subsidize technology installations with the stated intent of reducing greenhouse gas emissions.

The proposal would also eliminate or phase out several IRA energy-related tax programs, including:

- **45V Clean Hydrogen PTC** – A production tax credit for clean hydrogen fuel, up to $3 per kilogram of hydrogen produced, for the first 10 years of operation of a qualifying facility. **The proposed legislation would terminate credit for projects that begin construction after 2025.**

- **30D Clean Vehicles Tax Credit Tax Credit** – Tax credit up to $7,500 for consumers purchasing a new plug in electric or fuel-cell vehicle. IRA introduced income and price eligibility limits and battery sourcing requirements, but removed the prior manufacturer sales cap. **The proposed legislation terminates the credit after 2026. It reinstates the manufacturer sales limitation for vehicles sold in 2026, so that vehicles from manufacturers that had sold more than 200,000 vehicles no longer qualify.**

- **45W Commercial Clean Vehicles Tax Credit** – Tax credit for businesses and tax-exempt entities to purchase new electric or fuel-cell vehicles. Credit of up to $7,500 for light duty vehicles or $40,000 for heavy trucks. **The proposed legislation terminates the credit after 2025, with a contract exception. If a vehicle is placed in service by 2032 under a binding contract signed before May 12, 2025, it can still qualify through 2032 (honoring existing orders).**

- **25D Residential Clean Energy Credit** – Tax credit for homeowners installing residential solar panels, solar water heaters, wind turbines, geothermal heat pumps, or battery storage. **The proposed legislation terminates the credit after 2025.**

- **25E Used Clean Vehicles Tax Credit -** Tax credit for buying a used electric vehicle, up to $4,000 (with income and vehicle price limitations). **The proposed legislation terminates the credit after 2025.**

- **30C Alternative Refueling Property Tax Credit** – Tax credit for installation of electric vehicle charging stations or other alternative fuel refueling property (e.g. hydrogen fueling), generally 30% of the cost up to a cap **The proposed legislation terminates the credit after 2025.**

- **25C Energy Efficiency Home Improvement Credit -** Tax credit for energy efficient home upgrades (insulation, windows, doors, HVAC, etc.), up to $1,200 per year (30% of qualified improvement costs, with specific item caps) Available through 2032. **The proposed legislation terminates the credit after 2025.**

ARTIFICIAL INTELLIGENCE REGULATIONS

The reconciliation proposal would prohibit States or any U.S. political subdivisions from enforcing any law or regulation regulating AI models, systems, or automated decision systems during the 10-year period beginning on the date of enactment of the bill. However, it is unclear whether this restriction will survive the Senate's Byrd Rule, which effectively prohibits provisions within reconciliation legislation that are deemed to be "extraneous," or not sufficiently related, to budgetary matters.