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GOVERNMENT RELATIONS

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TRP Special Report: Key Provisions for Local Governments in the Final Budget Reconciliation bill

Moments ago, the House and Senate passed the final version of the budget reconciliation package, sending the nearly 900-page bill (text) to President Trump's desk for signature. The Senate approved the bill 51-50, while the House passed the final version 218 - 214. House GOP leadership successfully swayed more than a half dozen holdouts to support the bill's passage, with only Reps. Thomas Massie (R-KY) and Brian Fitzpatrick (R-PA) joining Democrats in opposing it. Among other things, the legislation increases the debt limit by $5 trillion.

The bill includes a wide variety of provisions. These include the permanent renewal of the opportunity zone (OZ) program, enhancements to the Low-Income Housing Tax Credit (LIHTC), an increase to the limit on the State and Local Tax (SALT) deduction, and various changes to Medicaid and Supplemental Nutrition Assistance (SNAP) eligibility. Notably, the One Big Beautiful Bill does not include a provision limiting the ability of state and local governments to regulate artificial intelligence (AI) models and systems, which had previously been considered for inclusion in both chambers.

TRP has compiled an updated list of provisions in or out of the bill that are more relevant to public sector entities.

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Municipal and Private Activity Bonds, AI, Opportunity Zones, LIHTC, and NMTC (Back to top)

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 exclusion significant.

Private Activity Bonds (PABs) – The bill 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.

AI Moratorium – A provision in earlier versions of the House and Senate reconciliation proposals that would have prevented states or any U.S. political subdivisions from enforcing any law or regulation regulating AI models, systems, or automated decision systems for a 5- or 10-year period, has been removed and was not included in the final bill.

Sec. 70421: Permanent Renewal and Enhancement of Opportunity Zones – The bill creates a permanent Opportunity Zone (OZ) program, creating rolling, 10-year OZ designations beginning on January 1, 2027. The bill institutes a reporting requirement for the OZ program and narrows the definition of a "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 a new step-up basis for standard qualified opportunity funds (QOF) and qualified rural opportunity funds (QROFs) which would allow investors to receive a 10 percent basis step-up and a 30 percent basis step-up respectively after five years.

Sec. 70422: Permanent Enhancement of Low-Income Housing Tax Credit (LIHTC) – The legislation permanently increases LIHTC allocations by 12 percent, a previously temporary increase that had expired in 2021. Additionally, the law will require that a building must derive at least 25 percent – down from 50 percent under prior law – of its financing from tax-exempt bonds to receive a four-percent credit without first receiving a credit allocation from the State housing credit ceiling.

Sec. 70423: Permanent Extension of New Market Tax Credits (NMTC) – The bill permanently extends the NMTC program, which would otherwise expire on December 31, 2025.

STATE AND LOCAL TAX DEDUCTIONS AND CHILD TAX CREDIT (BACK TO TOP)

Sec. 70120: Limitation on Individual Deductions for Certain State and Local Taxes (State and Local Tax Deductions) – The bill raises the State and Local Tax (SALT) Deduction from $10,000 to $40,000, with an income limitation of $500,000. The cap and income limit will increase by 1 percent yearly through 2029 – however, the limit will revert to $10,000 in 2030.

Sec. 70104: Child Tax Credit (CTC) – The bill permanently increases the CTC to $2,200, indexing the credit amount to inflation. Additionally, the bill requires both parents and all children in the family to be U.S. citizens with valid social security numbers to meet the eligibility criteria.

MEDICAID AND SNAP (BACK TO TOP)

As expected, the legislation includes significant Medicaid reforms, including a range of provisions aimed at reducing federal spending by tightening program eligibility. This is anticipated to lead to fewer individuals participating in the program.

Sec. 71109: Undocumented Immigrant Medicaid Eligibility - The bill narrows the scope of Medicaid and Children's Health Insurance Program (CHIP) eligibility for immigrants and prohibits federal financial participation for such payments beginning October 1, 2026, unless the individual is a resident of one of the 50 states, the District of Columbia, or a U.S. territory, and: (1) a citizen or national of the U.S.; (2) undocumented immigrants who are lawfully admitted for permanent residence under the Immigration and Nationality Act, excluding undocumented visitors, tourists, diplomats, and certain foreign students; (3) certain undocumented immigrants who have been granted the status of Cuban and Haitian entrant, or (4) an individual who is lawfully residing under the Compacts of Free Association (COFA).

Sec. 71120: 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 currently exempt from most out-of-pocket costs.

Beginning October 1, 2028, this new law will require states to impose cost-sharing for covered services for Medicaid expansion enrollees with family incomes exceeding 100 percent of the federal poverty line. Cost sharing 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.

However, the bill specifies that 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. Under this bill, states must not also impose any cost-sharing requirements for certain primary care services, mental health care services, substance use disorder services, or services furnished in FQHCs, certified community behavioral health clinics, or rural health clinics.

Sec. 71115: Provider Taxes - Beginning October 1, 2026, of the bill establishes a hold harmless threshold of zero percent for any state that has not enacted and imposed a provider tax on a class of providers, effectively "freezing" the current provider tax structure a state has upon enactment. Additionally, the legislation modifies the "hold harmless" standard for health care-related provider taxes under Medicaid, which limits how much states can tax providers without triggering federal penalties. Currently capped at 6 percent, the bill phases down the threshold for expansion states beginning October 1, 2026, to 3.5 percent by FY 2032, while preserving the 6 percent cap for non-expansion states. As provider taxes are used by states to assist with their share of Medicaid financing, this may result in financing gaps.

Sec. 71401: Rural Health Transformation Program – The bill creates a Rural Health Transformation Program offering $50 billion in funding from FY 2028 to FY 2032 to rural hospitals.

Subtitle A, Sec. 10101 – 10108: Supplemental Nutrition Assistance Program (SNAP) – The bill reduces funding for SNAP by limiting future increases to the cost of the Thrifty Food Plan, the basis for SNAP, and requiring states to pay for part of the cost of SNAP benefits based on each states' payment error rates. States with payment error rates higher than six percent will be required to contribute up to 15 percent towards SNAP starting in fiscal year 2028. Meanwhile, the federal share of SNAP administrative costs will be reduced from 50 percent to 25 percent beginning in FY 2027.

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 of those subject to the work requirement to 64 and lowers the exemption age of dependent children to under 14.

Finally, energy assistance rules are tightened, allowing households to automatically qualify for standard utility allowances or income exclusions only if they contain elderly or disabled members.

ENVIRONMENT AND ENERGY (BACK TO TOP)

Sec. 60026: Project Sponsor Opt-In Fees for Environmental Reviews - The legislation reforms permitting to accelerate approval by allowing project sponsors to pay a user fee of 125 percent of the expected cost of environmental review in exchange for expedited permitting timelines limited to one-year.

Sec 50402: Rescission of Inflation Reduction Act (IRA) funded EPA and DOE Programs -

The bill rescinds unobligated funds (although it does not deauthorize the programs) for many IRA funded EPA programs, including:

- Sec. 60001: Funding for Clean Heavy-Duty Vehicles.
- Sec. 60002: Repeal of Greenhouse Gas Reduction Fund — also known as the "Green Bank" program, with $27 billion in IRA funding intended to mobilize private capital toward clean energy and climate projects.
- Sec. 60003: Funding for Diesel Emissions Reductions.
- Sec. 60004: Funding to Address Air Pollution —to improve air monitoring infrastructure. Sec. 60005: Funding to Address Air Pollution at Schools.
- Sec. 60006: Low Emissions Electricity Program.
- Sec. 60013 Funding for Greenhouse Gas Air Pollution Plans and Implementation Grants — for the development and implementation of "Climate Pollution Reduction Grants."
- Sec. 600016: Environmental and Climate Justice Block Grants.

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.

Sec. 50402: Repeals; Recissions - The bill rescinds unobligated funds from several IRA energy-related programs, including:

- State-Based Energy Efficiency Training Grants.
- DOE's Loan Programs Office (LPO) — originally meant to cover the cost of credit subsidies associated with loan guarantees for "unproven" energy technologies.
- Energy Infrastructure Reinvestment Financing.
- Tribal Energy Loan Guarantee Program.
- Transmission Facility Financing.
- Grants to Facilitate the Siting of Interstate Electricity Transmission Lines.
- Interregional and Offshore Wind Electricity Transmission Planning, Modeling, and Analysis.
- Advanced Industrial Facilities Deployment Program.

Chapter 5, Subchapter A: The bill eliminates several IRA energy-related tax credits, including:

- 45V Clean Hydrogen PTC – terminates the credit for projects that begin construction after 2027.
- 45Y Clean Electricity Production Credit & 48E Clean Energy Investment Credits – phases out production and investment tax credits for wind and solar facilities. The provisions allow wind and solar facilities to obtain the credits if construction begins within one year of the bill's enactment, but projects that begin construction after that date must be placed into service before the end of 2027 to qualify for the credits. The provisions delay phase outs for geothermal and nuclear power facilities that begin construction by 2033, with facilities receiving 100 percent of the credit in 2033, 75 percent in 2034, 50 percent in 2035, and 0 percent in 2036.
- 30D Clean Vehicles Tax Credit Tax Credit – terminates the consumer credit for the purchase of certain electric vehicles acquired after Sept. 30, 2025.
- 45W Commercial Clean Vehicles Tax Credit – terminates the credit for the purchase of commercial electric vehicles acquired after Sept. 30, 2025.
- 25D Residential Clean Energy Credit – terminates the tax credit for homeowners installing residential solar panels, solar water heaters, wind turbines, geothermal heat pumps, or battery storage is terminated for expenditures made after Dec. 31, 2025.
  25E Used Clean Vehicles Tax Credit - This consumer credit for the purchase of used electric vehicles is terminated for vehicles acquired after Sept. 30, 2025.
- 30C Alternative Refueling Property Tax Credit – The tax credit for the installation of electric vehicle charging stations or other alternative fuel refueling property (e.g. hydrogen fueling) is terminated for property placed in service after June 20, 2026.
- 25C Energy Efficiency Home Improvement Credit – The 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) is terminated for property placed in service after Dec. 31, 2025.

Sec. 50303: Renewable Energy Revenue Sharing – The Senate bill allows counties to receive 25 percent of revenue from wind and solar energy projects that take place on federal lands.