SUMMIT STRATEGIES

DATE: July 23, 2025

TO: City of Salem

FROM: Mark Dedrick, Terry Heubert, Jannet Jiménez

RE: 2025 Reconciliation Bill Update

On July 4, 2025, President Donald Trump signed the legislation formerly known as the One Big Beautiful Bill, his cornerstone legislative package, into law. This massive tax cut and spending package will have far-reaching impacts on the economy, and many individuals who count on Medicaid and SNAP for health care and food.

Senators Jeff Merkley & Ron Wyden voted no on this legislation.

Representatives Andrea Salinas and Janelle Bynum voted no on this legislation.

The Reconciliation bill covers several issues that will affect the City of Salem, including:

Municipal Bonds

The final bill preserved tax exemptions for municipal bonds. This is a big win that the US Conference of Mayors fought hard to preserve.

Housing

The measures makes permanent a 12% increase to the 9% **low-income housing tax credits (LIHTC)** ceiling on annual state allocations starting in tax year 2026. The program primarily helps fund construction of housing for lower-income renters, along with preserving affordable rental housing. The measure will also lower the bond-financing threshold for LIHTC from 50% to 25% for projects financed by bonds starting in 2026.

The bill will also permanently extend the **New Markets Tax Credit** for private sector investments in low-income communities designated by the Community Development Financial Institutions Fund. The credit can be currently claimed for 39% of initial investment amounts over seven years.

The **Community Development Block Grant (CDBG) Program and the HOME Investment Partnerships Program** were not impacted. This is a win for cities as both programs invest in state and local government to fund projects that help build affordable housing and invest in community development.

Child Tax Credit

Under the Reconciliation Bill, the child tax credit (CTC) increases from $2,000 to $2,200 starting in 2026 and will be tied to inflation for future years. Additionally, the higher refundable portion of the child tax credit, also known as the additional tax credit, will become permanent and adjust for inflation, increasing to $1,700 for 2025.

The $200 increase would only apply to those making $200,000 a year or less or $400,000, if filing jointly.

New eligibility requirements now require a Social Security number from the guardian or parent claiming the tax credit. About 3 million children who would have qualified in the past will no longer be eligible because of this new requirement.

Transportation

The bill rescinds all unobligated balances of the **Neighborhood Access and Equity Grant** program and unobligated funding under the U.S Environmental Protection Agency:

- Climate Pollution Reduction Grants
- Clean Heavy-duty Vehicles
- Environmental Justice/ Climate Grants – There is a pending class action lawsuit.

Opportunity Zones

The measure will modify and make permanent the Opportunity Zone program, which provides tax incentives to businesses to invest in lower-income or economically distressed areas in the U.S. The 2017 law created the program, which allows temporary deferrals of taxes on capital gains and related “basis” benefits.

Opportunity Zones will be redesignated every 10 years with the next designation process beginning in July 2026 and new designations becoming effective January 1, 2027. The process for this new designation has not yet been determined.

Please note: The initial designation process was extremely fast. It would be wise for the City to begin looking at potential census tracts to recommend for designation now.

The measure would define a low-income community as a census tract that does not exceed 70% of the state’s median family income (current law requires only 80%) or has a poverty rate of at least 20% and does not exceed 125% of the state’s median family income.

The final bill will repeal a rule under current law that allows census tracts adjacent to an opportunity zone to also qualify as one.

Under the current program, investments in opportunity zones that are held for at least five years increase by 10% of the deferred gain — known as a "step-up in basis." A higher stepped-up basis generally reduces the tax liability of the owner when they sell the property.

The bill will provide a 30% step-up basis for opportunity zones in rural areas held for at least five years, instead of the regular 10%. A rural area is defined in the bill as any area except a city or town with a population greater than 50,000 and contiguous urbanized areas. For nonrural zones, the step-up basis is 10%.

Rural property holders would also be held to a lower threshold of "substantial improvements," a designation that is required before a taxpayer can receive opportunity zone benefits. This relaxed threshold requires the additional investment to equal only 50% of the cost of the property instead of 100% for rural property.

MEDICAID

State Taxes: Currently, states can use provider taxes to help finance their share of Medicaid costs and generate additional federal matching payments. States can then use those payments to provide more funding to the providers that paid the tax, as long as the tax revenue collected doesn't exceed 6% of the provider's net revenue, called the federal safe-harbor threshold.

The bill will reduce the safe-harbor threshold to 0% for states and local governments that impose new or increase provider taxes. For states and local governments that have expanded Medicaid, the bill will reduce existing thresholds by 0.5% every year starting in fiscal 2028, until it reaches 3.5% starting in fiscal 2032.

States also can only levy Medicaid provider taxes if they are uniform across all services and individuals. This rule can be waived if states demonstrate the taxes are at least "generally redistributive." The bill will stipulate that a provider tax that mainly serves Medicaid beneficiaries must not be higher than the tax levied on providers with fewer Medicaid patients, otherwise it is not generally redistributive.

The provision is similar to a rule proposed by the Trump administration in May.

Health care advocates say that these changes will negatively impact hospitals and cause closures and/or cost increases.

Rural Hospital Grants: The legislation will provide $50 billion in mandatory spending over five years for state grants to rural hospitals, which will include critical access, sole-community, or Medicare-dependent hospitals in rural areas. The new program, titled the Rural Health Transformation Program, will be available to all 50 states. States will have until December 31st of this year to apply for funds by submitting a "detailed health transformation plan" that addresses the program's aims. The federal government will distribute half of the program's $50 billion allotment equally among all states with an approved application over the next five years.

The remaining $25 billion will be distributed by Centers for Medicare and Medicaid Services (CMS) at the discretion of Administrator Dr. Mehmet Oz.

Work Requirements: The bill will require states to impose "community engagement" rules as a condition of receiving Medicaid benefits starting in 2027, or an earlier date under a state waiver. Apart from exempted groups, Medicaid beneficiaries ages 19 to 64 will have to demonstrate at least one of the following per month:

- Working at least 80 hours.
- Performing at least 80 hours of community service.
- Participating in a work program for at least 80 hours.
- Attending an educational program at least half time.
- Performing a combination of the above activities for at least 80 hours.
- Earning a monthly income that meets minimum wage requirements multiplied by 80 hours, which will be averaged over the previous six months for seasonal workers.

The measure will require states to exclude several groups from the work requirement, including:

- People in compliance with work requirements under the Temporary Assistance for Needy Families (TANF) program and Supplemental Nutrition Assistance Program (SNAP).
- Pregnant women.
- Parents or caregivers of a dependent child or individual with a disability.
- Individuals with disabilities, including blindness and substance use disorders.
- Inmates of public institutions.

The measure will specify that the exemption for parents or caregivers applies only to those with dependent children 13 years old or younger. The measure also allows states to choose not to require an individual to verify their exemptions.

States will be able to exempt an individual experiencing short-term hardships from the requirements that month. That could include factors such as hospitalization, federally declared disasters, and high unemployment rates. The measure will also consider travel to receive qualified medical treatment that is not available in their community as a short-term hardship.

States will be required to verify an applicant for Medicaid coverage is in compliance with the work requirements for at least one month, but not more than three months, before they applied. Current enrollees must meet the requirements for at least one month between eligibility checks, which states could choose to do more frequently.

If a state finds a Medicaid enrollee or applicant does not meet the work requirements, it will have to notify them of their noncompliance and explain the steps they could take to become compliant or to reapply for Medicaid coverage after they are disenrolled. Enrollees will then have 30 days after receiving a notice to prove they are compliant or exempted from the requirements, during which they will continue to receive coverage.

Enrollees who do not come into compliance or demonstrate an exemption within that period will be disenrolled, provided the state explores other avenues to provide coverage and the individual is given an opportunity to receive a fair hearing on the decision.

There is currently no federal work requirement for Medicaid, but some states have implemented them through **waivers**. Georgia is the only state with a waiver; another four have active requests pending before HHS. During President Trump's first term, several states received waivers but most were subsequently canceled.

The measure will prohibit waivers from the nationwide work requirement.

The Senate bill will allow states to request more time to implement the work rules. HHS will have to grant an exemption if the state demonstrates it is making progress toward compliance. Exemptions will expire December 31, 2028, after which no additional time could be granted.

SNAP

State Cost-Share Requirements: Beginning in fiscal 2028, states will be responsible for funding a percentage of the costs of Supplemental Nutrition Assistance Program (SNAP) benefits based on benefit payment error rates. The states' share will be:

- 15% of SNAP benefits if their payment error rate is 10% or more.
- 10% of benefits if their error rate is 8% to less than 10%.
- 5% of benefits if their error rate is 6% to less than 8%.
- 0% of benefits if their error rate is less than 6%.

The requirement will be delayed until fiscal 2029 if a state's payment error rate in fiscal 2025 is at least 20% when multiplied by 1.5. It will similarly be delayed until fiscal 2030 if the state's error rate meets that threshold in fiscal 2026.

States could use payment error rates from fiscal 2025 or 2026 to calculate their cost share for fiscal 2028. Beginning in fiscal 2029, a state's share will be based on the error rate from the fiscal year three years prior. In 2024, Oregon's error rate was 14.06%. Oregon will have until 2029 to get their error rate below 6% to avoid paying for SNAP benefits.

The federal government also will only pay 25% of a state's administrative costs for SNAP beginning in fiscal 2027 instead of the 50% it currently pays.

Currently, the SNAP program helps more 757 thousand people in the state of Oregon. That is about 17.7% of the state's population.

Work Requirements: The measure will raise the age at which "able-bodied adults without dependents" (ABAWD) will become exempt from stricter work requirements from 55 to 65. The ABAWD requirements include working for at least 20 hours per week, otherwise the individual cannot receive more than three months of SNAP benefits over three years.

The measure will modify the ABAWD exemptions to include caregivers of a dependent child younger than 14 and Native Americans.

LAND SALES

After pushback from Senate Republicans from Western states, a provision that would require mandatory sales of Bureau of Management land to allow for more housing was stripped from the final package.

IMMIGRATION AND BORDER SECURITY

State and Local Governments Grants: The bill provides $10 billion to reimburse state and local governments for expenses related to border security. Below are examples of funds that pertain to local governments:

- $450 million: The Operation Stonegarden Grant Program would support joint efforts with federal agencies to secure the border.
- $500 million: Local efforts to detect unmanned aerial systems.
- $625 million: Security planning related to the 2026 FIFA World Cup.
- $1 billion: Security planning related to the 2028 Olympics.

The law makes multiple changes to immigration and border enforcement and provides $170.7 billion in additional funding to the Department of Homeland Security (DHS) and its sub-agencies, Immigration and Customs Enforcement (ICE) and Customs and Border Protection (CBP), in addition to the Department of Defense (DOD) for activities related to the military's enforcement at the southern border. Below is a summary of how funds will be allocated:

New Application Fees: The bill implements additional fees for asylum and temporary protection status (TPS) applications. A temporary status is provided to individuals of certain countries that may experience unsafe conditions if deported to their home country. Those seeking asylum for the first time will now pay a $100 application fee in addition to the $100 fee every year the application is pending adjudication.

Immigration Detention Centers: The bill allocates $45 billion for new immigration and family detention centers, averaging an additional $10.6 billion annually through Fiscal Year 2029. This would raise ICE's yearly detention budget to at least $14 billion.

FEMA Grants: The bill would provide $2.6 billion to FEMA for the Homeland Security Grant Program, which provides funding to state and local law enforcement agencies to address national security threats.

ENERGY, OIL &GAS

Oil & Gas: The bill opens more federal land for oil, gas, and coal development. The bill provides the fossil fuel industry with billions of dollars more in government subsidies and, puts in place tax credits for using carbon dioxide in enhanced oil recovery. Furthermore, $3.2 billion in credits would go to pipeline companies investing in carbon dioxide and hydrogen projects.

The bill decreased the amount of money oil and coal companies are required to pay the government in royalties for the fossil fuels produced on federal land. Oil and gas royalties would fall from 16.7% to 12.5%, and coal royalties would fall from 12.5% to 7% through September 30, 2034.

The bill also provides $171 million to refill the Strategic Petroleum Reserve.

NEPA: The bill provides a project "fast track" where project sponsors can pay a fee totaling 125% of the cost of the review to a federal agency to receive expedited environmental reviews. Agencies would have to complete an environmental assessment within 180 days, and an environmental impact statement within one year. The final bill omitted a provision from the House bill that would have blocked judicial review of the expedited assessment or impact states.

Inflation Reduction Act: The bill effectively dismantles much of the 2022 Inflation Reduction Act, pulling back support for clean energy in favor of fossil fuels and traditional energy sources. Changes include:

- **Phaseout of certain credits:** Accelerates the phaseout for primarily wind, solar, and clean energy tax incentives created or modified by the IRA.
- **Clean fuel producer credit:** Extends the 45Z credit through the end of 2029. (The credit was originally due to expire in 2027.) Beginning in 2026, 45Z will only be available for fuel produced from feedstocks produced in the United States, Mexico, and Canada. The bill now caps the value of the 45Z credit at $1.00 per gallon (including for sustainable aviation fuel) except in the case of fuel produced from animal manure (e.g., renewable natural gas) for which the Treasury may provide for a credit value in excess of $1.00 per gallon depending upon the emissions rate of the fuel. This could limit the growth of clean fuels such as renewable diesel, specifically, for coastal facilities that rely on imported feedstocks to produce cleaner fuels. Other changes include:
    - Reducing the credit rate for sustainable aviation fuel and extending the SAF excise tax blender credit through September 30th, 2025 (with coordinating section 45Z rules).
    - Extending the small producer biodiesel credit through 2026.
    - Directing the U.S. Department of the Treasury to issue regulations on other areas needing clarification, including sales to related persons and preventing "double credits".
- **Clean hydrogen producer credit:** Phases out the section 45V clean hydrogen production credit by requiring construction on facilities to commence before January 1st, 2028.
- **Energy generation and storage credits:** Permits credits for nuclear, geothermal and energy storage and provides an increased credit for certain advanced nuclear facilities in communities with a threshold amount of employment at such facilities.
- **Wind and solar investment and production credits:** Ends wind and solar investment and production tax credits for facilities placed in service after December 31st, 2027. There

is an exception for facilities that begin construction within 12 months from the date of enactment.

- **Energy-efficient commercial buildings:** Terminates the section 179D deduction for energy-efficient commercial buildings for property the construction of which begins after June 30th, 2026.
- **New energy efficient home credit:** Terminates the section 45L credit for qualified property acquired after June 30th, 2026.
- **Alternative fuel vehicle refueling property**: Terminates the section 30C credit for property placed in service after June 30th, 2026.
- **Qualified commercial clean vehicles credit**: Terminates the section 45W credit for vehicles acquired after September 30th, 2025.
- **Transferability of clean energy credits:** Generally, allows taxpayers to transfer credits under section 6418 as long as the underlying credits are still available.
- **Clean energy provisions affecting individuals**: Terminates the individual clean energy credits, including those for:
    - Electric vehicles acquired after September 30th, 2025
    - Residential clean energy property (including solar energy property) placed in service after December 31st, 2025
    - EV charging equipment placed in service after June 30th, 2026

<u>AI Preemption</u>

The final bill removed the 10-year AI preemption, which would have prohibited state and local governments from enforcing any law or regulation governing artificial intelligence with extremely limited exceptions. If passed, it would have tied federal broadband infrastructure grants to compliance with this moratorium. The measure faced opposition from various groups, including state and local governments, consumer protection organizations, and the entertainment industry, all of whom highlighted the absence of existing federal AI regulations.