Federal Legislative Update – June 2025

On May 22, the U.S. House of Representatives narrowly approved legislation that embodies much of President Donald Trump's domestic policy agenda. The measure, known as the *One Big Beautiful Bill Act* (OBBB, H.R. 1), was cleared by a one-vote margin (215-214), with all Democrats and two fiscally conservative Republicans – Representatives Thomas Massie (R-KY) and Warren Davidson (R-OH) – voting against the bill. Two additional Republican members missed the vote, and House Freedom Caucus Chair Andy Harris (R-MD) voted "present." The rest of the Republican conference ultimately backed the package following a series of tense negotiations between party moderates and hardliners.

The centerpiece of H.R. 1 is a permanent extension of the individual income and estate tax cuts that were passed as part of the 2017 *Tax Cuts and Jobs Act*, plus provisions that reflect promises President Trump made on the 2024 campaign trail, including no taxes on tips, overtime, and interest on some auto loans. Notably, the bill advanced without a final budget score from the nonpartisan Congressional Budget Office (CBO), raising concerns among some lawmakers about its potential fiscal impacts.

To secure enough votes, House Republican leaders made significant eleventh-hour revisions during a marathon Rules Committee markup. Key changes included accelerated timelines for implementing sweeping Medicaid work requirements (from 2029 to 2027) and phasing out *Inflation Reduction Act* (IRA) tax credits for clean energy projects. In a major concession to blue-state Republicans, the bill would raise the cap on the State and Local Tax (SALT) deduction from $10,000 to $40,000, with the expanded cap gradually phased out for taxpayers earning more than $500,000.

SAFETY NET PROGRAM IMPLICATIONS

The OBBB's new accelerated timeline for Medicaid work requirements is projected to generate tens of billions of dollars in additional savings to the federal government. However, the provisions of the bill could result in even greater health care coverage losses than initially projected. Earlier estimates from CBO forecasted $715 billion in savings from proposed changes to Medicaid and the *Affordable Care Act* (ACA), with up to 8.6 million Americans projected to lose health insurance by 2034. Those estimates do not reflect the looming expiration of the ACA's enhanced premium tax credits, which could cause an additional 4.2 million people to lose coverage. Additionally, the projections fail to account for the significant administrative and financial burdens that state and county governments are likely to face under new federal mandates, including more frequent eligibility redeterminations and enforcement of new work requirements. Meanwhile, the bill retains $300 billion in cuts to the Supplemental Nutrition Assistance Program (SNAP) over the next decade.

For California, the legislation could have the following impacts:

- Early estimates from the Kaiser Family Foundation project that the legislation could reduce federal Medicaid funding to California by approximately **$9.8 billion annually – a roughly 11 percent cut.** Depending on how the state responds, **between 1.2 million and 1.9 million Californians could lose Medicaid coverage as a result**.

- The proposed changes to SNAP would likely impose a new 25 percent benefit cost-share on California due to the state's payment error rate exceeding 10 percent. For FY 2024, that cost share would amount to roughly **$3.1 billion.** In addition, California could face steep financial penalties under a new zero-tolerance threshold for payment errors. Under current rules, overpayments and underpayments only count toward the error rate if they exceed $57 (adjusted for inflation), but the legislation would eliminate that margin, further increasing the state's financial exposure.

- The legislation would raise the state share of SNAP administrative costs to 75 percent, up from the current 50/50 split with the federal government. In California, counties currently shoulder roughly 30 percent of the state's non-federal administrative burden. **If this provision had been in effect in FY 2024, it would have translated into an estimated $174 million increase in SNAP administrative costs for counties statewide.**

- Estimates also suggest that the expanded work requirements within SNAP would put **888,000 Californians** at risk of losing some or all of their SNAP benefits.

OTHER KEY PROVISIONS

Secure Rural Schools: The OBBB includes a multi-year extension of the Secure Rural Schools (SRS) program, which provides critical financial support to rural counties affected by declining timber revenues from federal lands. Last year, Humboldt County received $987,143 in SRS funding. However, with the program now expired, payments have reverted to an outdated formula based on recent timber sales, resulting in a nearly 67 percent drop in funding for counties statewide.

Wind and Solar Revenue Sharing: H.R. 1 includes a provision that would provide counties with 25 percent of revenues generated from wind and solar projects on federal lands. Notably, the provision does *not* apply to offshore wind energy projects.

Municipal Bonds: Although early discussions suggested that the tax-exempt status of municipal bonds could be at risk, the H.R. 1 ultimately preserves this key provision. According to the Public Finance Network, eliminating this exemption would have increased local borrowing costs by more than $823 billion over the next decade – an added burden equivalent to a $6,555 tax increase for every American household.

Farm Bill: The legislation includes a "skinny" Farm Bill reauthorization, primarily aimed at boosting federal support for farmers through revisions to the commodity title and expanded crop insurance programs. However, by sharply cutting nutrition programs while increasing funding for commodity supports, the package may undercut broader negotiations on a full Farm Bill renewal.

Debt Ceiling: The bill would raise the debt ceiling by at least $4 trillion, a level intended to secure the government's borrowing capacity through the midterm elections.

Extending the Trump Tax Cuts: The package would extend the expiring provisions of the 2017 *Tax Cuts and Jobs Act.* These tax cuts are set to expire at the end of the year, meaning most households would see their taxes rise without congressional action.

No Taxes on Tips or Overtime: H.R. 1 would temporarily exempt overtime pay from federal income taxes between 2026 and 2028 and allow a deduction for car loan interest, but only for vehicles manufactured in the United States.

Child Tax Credit: The legislation would expand the Child Tax Credit from $2,000 to $2,500 per child for four years. However, it would exclude nearly 4.5 million U.S. citizen children living in mixed-status immigrant households.

SEQUESTRATION CUTS

Notably**,** because H.R. 1 is not fully offset, the bill would trigger automatic spending reductions under a 2010 pay-as-you-go law unless Congress votes to waive the requirement. According to CBO, failure to act could result in $500 billion in Medicare cuts over the next ten years. Moreover, because those cuts would *still* fail to outweigh the deficit impact of the measure, key programs including the Social Services Block Grant, the Maternal, Infant and Early Childhood Home Visiting Program, and the mandatory portion of the Promoting Safe and Stable Families program could be eliminated through 2034.

OUTLOOK

While House Speaker Mike Johnson (R-LA) secured a narrow win with the passage of H.R. 1, the victory may prove short-lived as the bill is now pending before the Senate, where major revisions are expected. The measure will first undergo review by the Senate parliamentarian to determine whether it complies with reconciliation rules. Even if it clears that hurdle, the legislation faces opposition from both moderate and conservative Republicans. Senators Lisa Murkowski (R-AK), Susan Collins (R-ME), and Josh Hawley (R-MO) have raised serious concerns about the bill's Medicaid cuts, while Senators Rand Paul (R-KY), Mike Lee (R-UT), and Ron Johnson (R-WI) have argued the package doesn't go far enough to reduce the deficit.

For their part, Democrats are preparing to launch a major campaign highlighting a distributional analysis from CBO indicating that the bill would disproportionately benefit the wealthiest ten percent, while the poorest ten percent would see a net loss. With the reconciliation process requiring just a simple majority for Senate passage, Majority Leader John Thune (R-SD) can only afford to lose up to three GOP votes. However, any changes made in the Senate – which has set an internal deadline of July 4 to complete its work – will need to be approved again by the House before final passage.

Fiscal Year 2026 Appropriations Update

On May 2, President Trump unveiled an initial budget outline for fiscal year 2026, calling for approximately $163 billion in discretionary funding cuts to federal education, health, housing, and labor programs (a 22 percent reduction). At the same time, the budget proposal recommends boosting spending for defense and border security.

With regard to the U.S. Department of Health and Human Services, the administration's budget calls for a 26 percent cut in discretionary funding, including the elimination of the Low-Income Home Energy Assistance Program (LIHEAP), Community Services Block Grants (CSBG), Preschool Development Block Grants, teen pregnancy prevention programming, and more. The proposal also outlines deep cuts aligned with the ongoing reorganization and consolidations within the agency, including reductions to domestic HIV programs, multiple Maternal and Child Health programs, the elimination of multiple Health Workforce Programs, and a nearly 50 percent ($3.6 billion) cut from the Centers for Disease Control. The proposal seeks a nearly $18 billion reduction from the National Institutes for Health (NIH), as well as a $675 million cut from the Centers for Medicaid and Medicare Services (CMS) through the elimination of health equity-focused activities and Inflation Reduction Act-related outreach.

President Trump's budget also would cut funding for the Department of Housing and Urban Development by $32.9 billion, or more than 40 percent, from current levels. Moreover, the administration would reduce rental assistance programs by $26.7 billion while imposing a new two-year cap on rental aid for "able-bodied adults." In addition, the budget calls for the elimination of the Community Development Block Grant and the HOME program, while significantly cutting Homelessness Assistance Grants. Further cuts to food banks would come from the elimination of the Commodity Supplemental Food Program, which supports food assistance for seniors. The administration proposes to replace this program with so-called "Make America Healthy Again" food boxes.

Finally, the budget proposal takes aim at $646 million in Federal Emergency Management Agency (FEMA) grant programs, such the National Domestic Preparedness Consortium and FEMA's Preparedness Grants Portfolio. Notably, mandatory spending programs – including Medicaid, SNAP, the Temporary Assistance for Needy Families (TANF), and the Social Services Block Grant (SSBG) – are not addressed in the president's proposal.

Looking ahead, the Trump administration is expected to release a full FY 2026 budget proposal in the near future. For its part, the House Appropriations Committees is slated to begin marking up its FY 2026 spending bills beginning in early June, with the Senate Appropriations Committee expected to follow suit shortly thereafter.