MEMORANDUM

TO: Sustainable Strategies DC Clients & Associates

FROM: S2 Team

DATE: July 3, 2025

SUBJECT: **2025 Congressional Budget Reconciliation Legislation Enacted**

This memo provides clients and associates of Sustainable Strategies DC (S2) with an overview of provisions included in the final, enacted 2025 Budget Reconciliation legislation[1] that are relevant to your efforts in revitalization, infrastructure, economic mobility, and other responsibilities of local governments and nonprofits seeking to advance progress in your communities. The expansive bill moved through both chambers over the first half of the year and was finalized when the House adopted the Senate-passed version on July 3, 2025, concluding a months-long reconciliation process to advance the $4.5 trillion package. The final bill spans thousands of pages and includes sweeping impacts for nearly every industry and community nationwide.

Following the collapse of the FY25 appropriations process and the adoption of a year-long continuing resolution, the White House and Republicans in Congress turned to budget reconciliation as the primary vehicle for advancing major fiscal and policy priorities in 2025. Budget reconciliation is a special legislative process that allows Congress to bypass the Senate filibuster and fast-track significant fiscal changes on taxes, mandatory spending, and debt limits. This means the Senate can pass with a simple majority and limited debate

With the reconciliation bill now enacted, attention will shift to the FY26 appropriations cycle to determine agency and program funding levels, including for pending congressionally directed spending projects ("earmarks"). This reconciliation bill passed on July 3rd does **not** affect those earmark requests or other discretionary funding decisions tied to the FY26 appropriations cycle, such as agency funding levels.

However, the reconciliation bill does include a wide range of provisions that may have major implications for local and regional governments, public agencies, and nonprofit organizations across multiple sectors. These provisions span areas including infrastructure financing, clean energy deployment, workforce development, housing incentives, healthcare access, immigration enforcement and tax policy changes that could directly influence project design, funding strategies, and long-term planning at the local level.

The following memo summarizes key takeaways for local governments and nonprofits, followed by a breakdown of notable provisions organized by focus areas within the reconciliation bill. **S2 stands ready to help you understand and navigate the implications of this new $4.5 trillion law in your communities.**

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[1] AKA the "One Big Beautiful Bill".

Key Takeaways

1) Most direct funding for local governments remains intact, but cuts may still occur in this year's appropriations process.

The Budget Reconciliation law will not broadly defund or directly impact most federal agency programs and funding critical to local governments in revitalization, economic development, infrastructure, and other municipal focus areas. However, a few key funding programs enacted in the Inflation Reduction Act of 2022 are being rescinded and defunded, such as U.S. DOT Neighborhood Access & Equity grants; EPA climate and environmental justice grants; incentives for renewable energy deployment by municipalities, schools, and nonprofits; and grants for clean fuel vehicles and infrastructure.

It is important to note that there are other ways that key local funding programs remain atrisk. While not affected by this reconciliation law, key programs may still face reductions or elimination during the FY26 appropriations cycle. The President has put forth a drastic **proposed FY2026 domestic budget** for the fiscal year starting October 1, 2025, that would eliminate or significantly reduce dozens of agencies, offices, and programs that are very important to local communities – leaving it up to Congress to use its Article 1 constitutional power over the coming handful of months to decide to continue funding key programs. The President's budget serves as a policy blueprint and is not binding. Congress holds the power of the purse and will ultimately determine which programs continue to receive support. It is critical for community leaders to remain involved in conversations with your Members of Congress on protecting important federal agency programs and funds.

Further, the **White House Office of Management and Budget** and the **Department of Government Efficiency (DOGE)** are still pausing or canceling many key funding programs, impounding previously appropriated agency funding, and canceling individually awarded grants. Localities impacted by these OMB and DOGE delays and cancellations need to work with your Members of Congress and other allies to try to protect these funding programs and awards, or follow action in the federal courts, where there are over 300 suits pending against the Administration regarding federal funding and other similar issues.[2]

2) The Budget Reconciliation makes deep cuts to Medicaid, food security programs, and the human and social service safety net.

Over $1 trillion is being removed from the Medicaid system, and more than $195 billion is being cut from the Supplemental Nutrition Assistance Program (SNAP) and other food security support. The impact on low- and moderate-income residents will be significant as people lose their health insurance and face food insecurity, including children, seniors and people with disabilities. As a result, local governments and nonprofits will need to identify new efforts and resources to support community members who cannot afford or cannot access health insurance, food and other basic necessities. These cuts also place increased pressure on hospitals and healthcare systems, and could ultimately close many already struggling facilities, especially in rural areas.

The mechanisms for the cuts include both changes to eligibility and increased frequency and volume of paperwork required, placing new burdens on already-strained agencies administering these programs. New enforcement on immigration will impact local governments, as federal pressure to participate in immigration enforcement increases. It will also affect those serving the immigrant community as more people are impacted by deportations, changes in eligibility, and benefits for children who are citizens become tied the legal status of the parents.

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[2] See this site for a comprehensive tracker of these cases pending against the Administration, www.justsecurity.org/107087/tracker-litigation-legal-challenges-trump-administration/.

3) **Several provisions in the Budget Reconciliation law may benefit local economic development efforts and economic mobility.**

A number of longstanding tax incentives and place-based programs were preserved or expanded through this legislation, and some new instruments were created:

- The law revives and makes permanent the **"Opportunity Zone"** program launched in the President's first term, with some significant changes to the program. These updates include new standards for qualifying Census tracts, new capital gains treatment for qualified OZ property, and the establishment of a new "Qualified Rural Opportunity Fund" for localities with populations under 50,000 and adjacent and contiguous localities.
- The **Low-Income Housing Tax Credit** was made permanent with some new enhancements. This program supports construction of affordable apartments, renovation of existing housing, and mixed-use developments with market rate and affordable units.
- The **New Market Tax Credit** program was made permanent. This program is widely used by local governments and nonprofits for community health centers, food banks and grocery stores, educational facilities and small business incubators.
- The bill increases the **Advanced Manufacturing Investment Tax Credit** rate from 25% to 35% for investment in semiconductors, chips, machinery, automation, and other advanced manufacturing.
- The **Trump Account Pilot Program** provides $1,000 to be deposited into newly created individual retirement accounts for children under 18, born after December 31, 2024 and before January 1, 2029. Individuals, employers, and nonprofits can contribute to these accounts up to $5,000 per year.

Note that the Budget Reconciliation Bill does not enact any improvements to the Historic Tax Credit in the final bill, despite bipartisan support from many Members of Congress. Separate, bipartisan, stand-alone pieces of proposed legislation are still in consideration, but it is not clear how they will fare in this Congress.

4) **The law makes changes to charitable giving incentives for donors, and other changes impacting large nonprofit institutions.**

The Budget Reconciliation bill expands the tax-deduction for non-itemizers $1,000, incentivizing smaller donors to give. For corporations, the law creates a new "floor" of 1% of net profits before they can deduct donations to charities. The law puts additional limits on the deductibility of gifts from individuals in the top income tax bracket. The law creates a new tax deduction for gifts to nonprofits that provide scholarships to private schools.

The following sections provide a more detailed breakdown by sector of notable policy and funding changes. Please contact your S2 client manager for assistance with interpreting the details most relevant to your priorities and projects.

Impacts on Energy & Environment

The Budget Reconciliation law includes significant rollbacks of clean energy and environmental funding, totaling at least $523.5 billion in rescissions and eliminated tax credits, along with policy shifts to incentivize fossil fuel energy sectors. These changes scale back programs established under the Inflation Reduction Act, reduce incentives for clean energy adoption, and introduce new mechanisms to expedite fossil fuel-related efforts.

Notably, the law loosens restrictions and expands tax and permitting incentives for fossil fuel production and creates a new fee-based mechanism to expedite federal environmental reviews.

The final, enacted version of the legislation did remove some of the more drastic and rapid phase-outs of tax incentives for clean energy sources including wind, solar, and battery projects, but the final law will still mean the end of many of those clean energy tax credits in later years.

Many of the affected funds were unobligated balances, meaning grants and awards that had not yet been finalized or disbursed by agencies. In many cases, already obligated or awarded grants are not impacted by the rescissions in this law. However, some programs may be operating under paused disbursements or cancellations. If you have received or applied for funding under any of the programs listed below, we recommend contacting your agency program officer or grants management contact directly.

Inflation Reduction Act Rescinded and Eliminated Programs

The following IRA programs had unobligated balances rescinded under the 2025 Budget Reconciliation:

- Environmental Protection Agency
    - Greenhouse Gas Reduction Fund
    - Climate Pollution Reduction Grants
    - Environmental and Climate Justice Block Grants
- Federal Highway Administration
    - Clean Heavy-Duty Vehicle Program
    - Neighborhood Access and Equity Grant Program
    - Environmental Review Implementation Funds
- National Park Service
    - Urban and Community Forestry Grants
    - Funding for hiring park rangers, maintenance staff, emergency responders, curators, and scientists.
- National Oceanic and Atmospheric Administration
    - Coastal Resilience Programs
- Department of Housing and Urban Development
    - Green and Resilient Retrofit Program
- Bureau of Land Management
    - Funding for conservation, ecosystem restoration, and habitat projects

Inflation Reduction Act Clean Energy and Climate Tax Credits

The Budget Reconciliation law significantly alters or eliminates several major clean energy tax incentives originally enacted under the Inflation Reduction Act. Notably, it does not eliminate the direct pay provisions established under the Inflation Reduction Act, which allow tax-exempt entities such as local governments, schools, and nonprofits to receive tax credit benefits as refundable payments. However, given the broader changes to credit eligibility, expiration timelines, and credit values, the usefulness of direct pay may be reduced for certain clean energy projects. Entities relying on direct pay should carefully review project timelines. The law also does not change the rules on credit transferability, meaning eligible entities may still transfer credits to third parties. Both mechanisms remain available, although their effectiveness will depend on how quickly projects can begin and whether they still meet the revised credit requirements.

Key changes include the following:

- Clean Energy Production Tax Credit (PTC) – Wind and solar facilities must begin construction within one year of the law's enactment, or placed in service before December 31, 2027. Projects involving nuclear, geothermal, and battery storage do not face the same restrictions and credits for these projects phase out after 2032.
- Clean Electricity Investment Tax Credit (ITC) – Construction must begin on wind and solar projects within one year of the law's enactment, or the facility must come online before December 31, 2027.
- Advanced Manufacturing Production Tax Credit: Phases out the advanced manufacturing production tax credits for wind components produced and sold after December 31, 2027.
- Residential Clean Energy Credit: Phases out the residential clean energy credit for rooftop solar, geothermal heat pumps, and other home devices by December 31, 2025.
- Clean Vehicle Credit: Phases out $7,500 per-vehicle credit by September 30, 2025.
- Commercial Clean Vehicle Credit: Phases out the commercial clean vehicles credit by September 30, 2025.
- Clean Hydrogen Production Tax Credit – Construction must begin before December 31, 2027.

Impacts on Homeland Security & Immigration:

The Administration has put considerable pressure on state and local governments to cooperate in the federal crackdown on immigration, and has used threats of terminating funding for localities that do not comply. The Budget Reconciliation law will ramp up this homeland security and immigration enforcement approach, putting more than $215 billion into Immigrations & Customs Enforcement (ICE), detention centers, the border wall, and various other Department of Homeland Security (DHS) and Department of Justice (DOJ) border security and immigration enforcement programs. This includes the authorization of $13 billion in additional DHS funding for state and local grants for border security and immigration enforcement, and another $3.5 billion in DOJ grants for the same.

Eligibility for programs like Medicaid, SNAP and the new Trump Accounts will require recipients to have Social Security numbers. Children who are citizens but whose parents are undocumented will likely lose coverage for assistance. Homeless people, foster children and others who lack documentation will be impacted, making it more difficult for local governments and nonprofits to meet the needs of residents with these barriers.

Impact on Nonprofits

The law makes significant changes to charitable giving incentives for donors that will likely impact nearly all nonprofits.

Giving Incentives for Non-Itemizers Increased: The Budget Reconciliation bill expands the tax deduction for non-itemizers from $300 to $1,000 and makes it permanent, incentivizing smaller donors to give. This is a partial win for advocates of the Charitable Act that was introduced after the 2017 Infrastructure and Jobs Act increased the standard deduction, removing the ability of the majority of Americans to receive any tax incentive for their gifts to charities. Nearly 90% of Americans now utilize the standard deduction.

Giving Incentives for Itemizers Decreased: The law reduces the amount that itemizers in the top tax bracket can deduct for their charitable gifts. The law changes the deduction amount from $0.37 per dollar (the amount of the tax) to $0.35 per dollar. This change will likely depress charitable giving from high net worth individuals, which is where the largest growth in charitable giving has occurred over the last decade.

Giving Incentives for Corporations: Corporations must donate at least 1% of their taxable income before they can qualify for a charitable tax deduction. As this policy has never been tested, it is unclear what the impact will be on corporate giving. Currently, corporate giving accounts for less than 1% of all revenue to charities.

Taxes on Large Nonprofit Institutions: Nonprofits will be subject to a new tax of 18% on salaries over $1 million. A new tax was created on colleges and universities that have very large endowments, subject to certain formulas that will impact institutions with endowments over $1.5 billion.