STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of January 27, 2026

TO: Mayor and Members of the City Council

VIA: Dante Hall, City Manager

SUBMITTED BY: Christie Crowl, City Attorney

SUBJECT: Overview of H.R. 1 ("One Big Beautiful Bill Act") and Potential Impacts on Local Governments

RECOMMENDED ACTION:

Receive and file report.

BACKGROUND:

In 2025, Congress enacted H.R. 1, commonly referred to as the One Big Beautiful Bill Act ("OBBBA"). The legislation is a comprehensive federal statute addressing a wide range of fiscal, tax, and programmatic policies. OBBBA consolidates multiple policy initiatives into a single bill and represents one of the most significant federal legislative actions affecting taxation and federal spending in recent years.

OBBBA was enacted through the federal budget reconciliation process, which allows certain fiscal legislation to pass with a simple majority vote in the U.S. Senate. As a result, OBBBA primarily focuses on federal revenues, mandatory spending programs, and tax policy, rather than discretionary appropriations.

OBBBA was signed into law on July 4, 2025 and is being implemented in phases, with certain provisions taking effect immediately and others phased in over several fiscal years.

ANALYSIS:

<u>Overview of Major Components of H.R. 1</u>

OBBBA's major components generally fall into the following categories:

1. **Federal Tax Policy Changes:** OBBBA makes multiple amendments to the Internal Revenue Code affecting individuals and businesses, including temporary adjustments to the federal cap on the State and Local Tax (SALT) deduction, modifications to certain business tax provisions, and the preservation of the federal tax exemption for municipal bonds and private activity bonds used by state and local governments to finance infrastructure.

2. **Mandatory Spending and Entitlement Program Reforms:** OBBBA includes changes to large federal mandatory spending programs, such as health and nutrition assistance programs like Medicaid and the Supplemental Nutrition Assistance Program (SNAP), through funding reductions, eligibility modifications, and new administrative or work-related requirements intended to control federal expenditures over time.

3. **Infrastructure and Federal Grant Programs:** OBBBA rescinds or limits certain previously authorized but unobligated federal funds for transportation, environmental, and climate-related programs, while also authorizing or modifying selected public safety, homeland security, and emergency preparedness grant programs.

4. **Energy and Environmental Policy Adjustments:** OBBBA modifies, phases down, or eliminates certain federal clean energy, emissions reduction, and climate-related tax incentives and programs that were enacted under prior federal laws.

5. **Economic Development and Investment Provisions:** OBBBA includes provisions intended to encourage private investment and economic development, including adjustments to tax incentives affecting capital investment, housing, and designated development areas.

<u>Potential Impacts of H.R. 1 to Local Governments</u>

While the impacts of OBBBA to local government operations continue to be assessed, the following are key takeaways for cities:

Municipal Finance and Infrastructure:

- <u>Preservation of Municipal Bond Exemption</u>. OBBBA preserves the tax-exempt status for municipal and private activity bonds, which support local government infrastructure financing and serve as a critical financial tool for cities.
- <u>Temporary SALT Cap Increase</u>. The legislation temporarily increases the federal SALT deduction cap from $10,000 to $40,000 (indexed annually through 2029) with phaseouts starting for households earning over $500,000, which may influence resident tax burdens and local economic conditions during the period the higher cap is in effect.

- Changes to Tax Credits for Local Projects. Many federal tax credits tied to energy and climate resiliency projects that qualified for direct payment (elective pay) under prior law are limited, phased out, or eliminated, including certain credits for clean vehicles and charging infrastructure, potentially reducing federal support for local initiatives in these areas.
- Rescission of Unobligated Grants. OBBBA rescinds unobligated funds from several Inflation Reduction Act programs and eliminates specific federal grant initiatives, such as Environmental Justice Block Grants, Climate Pollution Reduction Grants, and the Neighborhood Access and Equity Program, which could affect local infrastructure and environmental projects that depend on federal participation.

Housing and Economic Development:

- Low-Income Housing Tax Credit Enhancements. OBBBA includes enhancements to the Low-Income Housing Tax Credit (LIHTC), which is an indirect federal subsidy used to finance the construction and rehabilitation of low-income affordable rental housing. The legislation increases 9 percent credit allocations by 12 percent and lowers the threshold for private-activity bond financing from 50 percent to 25 percent, starting in 2026, potentially facilitating more affordable housing development in partnership with private investors.
- Modifications to Opportunity Zones. The legislation makes permanent the Opportunity Zones program, which offers tax benefits for reinvesting capital gains in designated communities, and modifies the tax incentives and eligibility rules, which may affect long-term investment strategies in those communities.

Health and Human Services:

- Medicaid and SNAP Reforms. OBBBA includes changes requiring states to implement work requirements for Medicaid and SNAP and shifts more administrative and financial responsibility to states. Reduced federal funding for these programs could indirectly affect local service demand and safety net needs. Moreover, cuts to Medicaid and SNAP could put more pressure on state budgets, which could in turn constrain municipal budgets.

Environmental and Energy Impacts:

- Reduction of Clean Energy Incentives. OBBBA reduces or phases out many clean energy tax credits and incentives created under prior federal law, including those for solar, wind, electric vehicles, and electric vehicle charging infrastructure. This may reduce federal support for municipal sustainability initiatives and energy projects.

Considerations for Cities

In addition to the changes enacted through OBBBA, the federal administration is continuing a broad review of federal grants and contracts to identify waste, fraud, abuse, and projects associated with diversity, equity, and inclusion initiatives. This evolving federal landscape creates additional uncertainty for cities relying on federal funding and should be considered alongside the impacts of OBBBA.

In the near term, cities may wish to focus on:

- Risk management and funding preservation strategies, including reviewing active and pending federal grants to assess viability, timing constraints, and potential exposure to rescission or recoupment;
- Evaluating compliance with federal grants and assessing risk exposure and mitigation options;
- Accelerating eligible projects (e.g., solar, wind, electric vehicles, and electric vehicle charging infrastructure) to take advantage of federal tax credits and elective pay provisions before phaseouts occur; and
- Exploring alternative funding sources such as state programs, regional initiatives, philanthropic organizations, and climate resilience financing mechanisms.

Over the longer term, cities may consider emphasizing fiscal resilience and diversified financing by leveraging preserved municipal bond tools for infrastructure investment, monitoring evolving federal and Internal Revenue Service guidance to ensure compliance, developing multi-source capital strategies that combine bonds with state, private, and philanthropic funding, and strengthening budget stabilization and reserve policies.

FISCAL IMPACT:

OBBBA may have indirect fiscal implications over time due to changes in federal funding levels for state- and county-administered programs, potential reductions in certain federal grant opportunities, and increased demand for community services. Any fiscal impacts are expected to be dependent on future state and federal implementation, and staff will continue to monitor developments and incorporate relevant considerations into the City’s budget and financial planning processes.

ATTACHMENTS:

None.