



City of
Bellevue

City Manager's
Office

DATE: June 10, 2025

SUBJECT: Federal Legislative Update, May 2025

OVERVIEW:

Republicans and President Donald Trump continue to advance their legislative agenda in Congress. This month, House Republicans unified their caucus to pass the President's tax and spending reconciliation package. Attention now turns to the Senate, where the bill faces a more challenging path due to concerns from senior members over key provisions and the constraints of parliamentary rules. Meanwhile the annual appropriations process is starting to take shape. A summary of key legislative action from the month is below.

BUDGET AND TAXES

HR 1, Tax and Spending Package

House Republicans successfully moved a sweeping tax and spending measure that will use the budget reconciliation process to bypass Democratic opposition in the Senate. HR 1, the "One Big Beautiful Bill Act," seeks to implement President Trump's priorities on tax, energy, immigration, defense, and healthcare.

After narrowly passing the House, the package now goes before the Senate, where it is expected to face an even steeper and bumpier road. As in the House, Senate Republican leaders must manage the competing demands of their moderate and conservative members. Senate Majority Leader Thune (R, SD) can only afford to lose three votes from his caucus. Already, Senator Rand Paul (R, KY) has stated he's adamantly against the measure's \$4 trillion debt limit increase. Moderate members, like Lisa Murkowski (R, AK) and Susan Collins (R, ME), object cuts to clean energy programs, Medicaid, and other social services.

An added challenge for Senate Republicans is the need to ensure that the package can meet Senate reconciliation rules, particularly the Byrd Rule, which requires that reconciliation provisions have a direct budgetary impact. Several provisions from the House-passed bill are unlikely to pass muster with the Senate Parliamentarian. Finally, Senate Majority Leader Thune must ensure that any changes made in the Senate can still gain approval in the House. For example, Senate Republicans don't see much direct benefit from one of the most expensive provisions in the House bill – the increase in the state and local tax (SALT) deduction. However, reducing or removing this provision could risk losing support House members. It's a high-stakes, high-wire act that Majority Leader Thune and House Speaker Mike Johnson (R, LA) want to accomplish by July 4th.

Despite the challenges, Republicans and President Trump remain motivated to finish. The package represents their top legislative priority, and it is one of a few chances for Republicans to enact major legislation while they hold the White House and both chambers of Congress.

Here are a few highlights of the 1,000-plus-page bill that are of interest include:

Taxes

The bill makes permanent tax rates and deduction rates from the 2017 tax law that are set to expire at the end of the year. These include the lower individual marginal tax rates, the enhanced standard deduction, the increased exemption for estate and gift taxes, and a permanently reduced deduction for foreign-derived income. Other notable extensions and changes include:

- *Child tax credit* increase - the 2017 law doubled the child tax credit to \$2,000, from \$1,000. This proposal would add \$500 for tax years 2025 through 2028. It would then permanently revert to \$2,000 afterward and be adjusted annually for inflation.
- *Paid family and medical leave tax credit* for employers would be made permanent.
- *Lower mortgage interest deduction* to the first \$750,000 of home mortgage debt, from \$1 million is made permanent.
- *Childcare* – the Employer-Provided Child Care Credit is permanently increased to \$500,000, from \$150,000. It also would increase the share of childcare expenses that can be claimed to 40 percent, up from 25 percent.
- *State and local tax (SALT)* deduction cap would be increased from \$10,000 to \$40,000 in 2025 with annual increases through 2033, after which it would be permanent.
- *Low-Income Housing Credit (LIHTC)* would be temporarily enhanced by restoring the 12.5 percent increase for annual state allocations from 2026 through 2029. The bill would also lower the bond-financing threshold for the 4 percent LIHTC from 50 percent to 25 percent for projects financed by bonds issued before 2030.
- *Corporate charitable donations* would be deductible between 1 percent to 10 percent of taxable income.
- *Research and Development (R&D) tax credit* would be modified to allow write-off of domestic R&D expenses immediately in the year paid versus over five years or over 15 years for research outside of the US.

New tax deductions for 2025-2028 include:

- *Tip income* would qualify for a tax deduction, except for “highly compensated employees.” The Federal Insurance Contributions Act would be expanded to cover tip credits for beauty services (i.e., hair and nail salons and spas). The credit is currently limited to the food and beverage industry.
- *Overtime pay* would be eligible for a deduction.
- *Enhanced Deduction for Seniors* – taxpayers over the age-65 would be able to deduct an additional \$4,000 from their taxable income.
- *Auto loans* up to \$10,000 could qualify for a deduction on the loan interest if vehicle’s final assembly was in the United States.

Debt Limit

The nation's debt limit would be increased by \$4 trillion. In May, the Treasury reported it estimates the nation's debt limit would be reached by August or September. At such time, the United States will run out of borrowing authority unless the debt limit is increased or suspended. Under reconciliation rules, the debt limit can only be increased.

Reconciliation Package Off-sets

The cost of the reconciliation package would be offset by limiting eligibility and funding for Medicaid, food assistance programs (SNAP), modifications in student loan repayments, rolling back clean energy tax credits, new immigration fees and other funding cuts. The package does not include a proposal to eliminate the tax-exempt status of municipal bonds, which local governments and other public entities had great concerns about.

Clean Energy Credits - Eliminated

- Electric vehicle tax credit of up to \$7500 for new vehicles and the \$4000 tax credit for certain pre-owned electric and hybrid passenger vehicles and commercial vehicles are eliminated.
- Residential clean energy credits for the installation of clean energy upgrades (i.e. windows, heat pumps.) are eliminated.
- Energy production and investment tax credits for certain facilities are eliminated.

Healthcare rules and limitations

Affordable Care Act (ACA) would be amended to require individuals to verify their re-enrollment eligibility annually, including income, immigration status, health coverage status, residence, and family size. ACA premium tax credits for health insurance purchased on a health exchange and the cost-sharing reductions will be limited to only lawful permanent residents; certain nationals from Cuba; and individuals from Micronesia, the Marshall Islands, or Palau. Other ACA changes include:

- Require open enrollment to occur from Nov. 15 to Dec. 15, instead of having the U.S. Department of Health and Human Services set dates each year.
- Bar Deferred Action for Childhood Arrivals (DACA) recipients from being eligible for ACA coverage or receiving related premium tax credits and cost-sharing reductions.
- Prohibit an ACA plan from including gender transition procedures as an essential health benefit, with some exceptions.
- Reduce advance premium credits for individuals by \$5 if the reduction would otherwise bring the individual's premium payments to \$0.
- Allow health insurers offering ACA plans to deny coverage for individuals who owe money for premiums.
- Funding couldn't be used for payments to a health plan that provides coverage for abortion services. The ban wouldn't apply to health plans that provide abortion coverage only if necessary to save the life of the mother or if the pregnancy is the result of rape or incest.

Medicare eligibility would also be limited to lawful permanent residents; certain nationals from Cuba; and individuals from Micronesia, the Marshall Islands, or Palau who live in the US.

Medicaid

Work Requirements: There is currently no federal work requirement for Medicaid, but some states have implemented them through waivers (i.e., Georgia). Under this bill, states will be required to impose “community engagement” rules as a condition of receiving Medicaid benefits starting on December 31, 2026. Apart from exempted groups, Medicaid beneficiaries ages 19 to 64 would have to demonstrate, at least, one of the following:

- Working at least 80 hours per month.
- Performing community service at least 80 hours per month.
- Participating in a work program at least 80 hours per month.
- 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.

Groups that can be excluded from the work requirement, including:

- People who comply with work requirements under the Temporary Assistance for Needy Families program and Supplemental Nutrition Assistance Program.
- 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.
- Individuals experiencing short-term hardships such as hospitalization, federally declared disasters, and high unemployment rates.

New Medicaid Restrictions: Medicaid contributions to states will be prohibited for:

- Enrollees whose citizenship, nationality, or immigration status hasn’t been verified. States could provide coverage during the verification process if using its own funds.
- States that make erroneous Medicaid payments, either for ineligible enrollees or services. This provision would go into effect in fiscal 2030.
- Gender transition procedures, including surgery and medication. There are exceptions for medication to help with puberty or procedures to treat certain sex development disorders.
- Payments to nonprofit family planning clinics that perform abortions, except in cases of rape, incest, or endangerment to the mother’s life.
- Other provisions would tighten eligibility standards and require regular eligibility checks on beneficiaries.
- Reduce retroactive Medicaid coverage to one month before an individual applies for Medicaid benefits. Currently, applicants can receive three months of retroactive coverage.

The measure would delay \$8 billion in scheduled Medicaid payment cuts to disproportionate share hospitals, which treat large numbers of low-income and uninsured patients. The reductions would take effect in fiscal 2029 through 2031, instead of fiscal 2026 through 2028 under current law.

Environmental Protection Agency (EPA) program rescissions include grants that help states, tribes, and localities plan for policies or projects to reduce greenhouse gas emissions. Also rescinded are grants for environmental justice projects.

Supplemental Nutrition Assistance Program (SNAP) changes include requiring states to fund 5 percent of the cost of SNAP benefits and limiting the program to noncitizens who are lawful permanent residents, certain nationals from Cuba; and individuals from Micronesia, the Marshall Islands, or Palau. Work requirements are modified to apply to those ages 18 through 64, instead of 16 through 59. The measure would also limit the exemption for adults with dependent children to those younger than seven instead of six. The age at which “able-bodied adults without dependents” would become exempt from stricter work requirements is increased to 65, up from 55. Exemptions for homeless individuals, veterans, and certain former foster care youth would end on October 1, 2030, as required by the 2023 debt limit deal (Public Law 118-5).

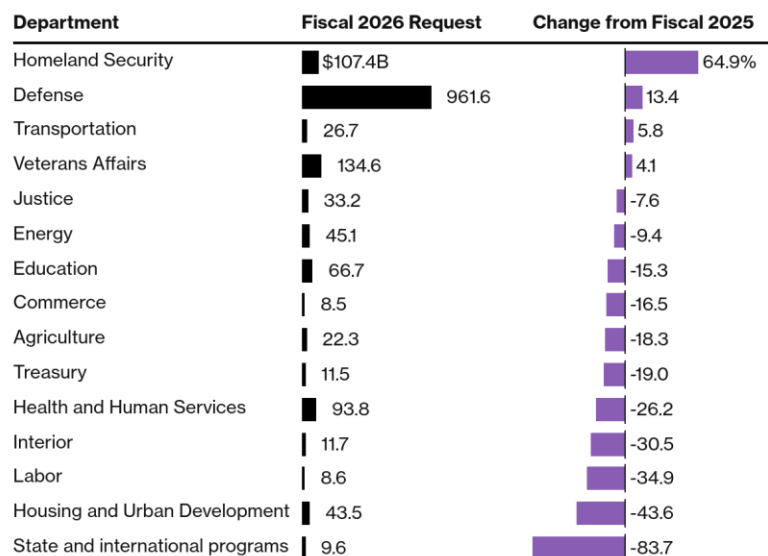
Department of Housing and Urban Development (HUD) Rescission: The measure would rescind unobligated funds from HUD’s Green and Resilient Retrofit Program. The \$1 billion program, enacted in Democrats’ 2022 climate law, funds energy-efficiency upgrades at affordable housing units.

FY 26 Appropriations

In addition to the reconciliation package, Congress has also begun work on the Fiscal Year 2026 (FY 26) Appropriations bills. In early May, the Administration released a “skinny budget” providing some details of its budget proposal, including an overall goal to cut non-defense discretionary funding by 17 percent.

(Graphic Source to right: Bloomberg Government)

With only limited details provided in the Administration’s “skinny budget,” House and Senate appropriators had limited information to begin crafting appropriations bills. Budget hearings with agency officials began in both chambers in mid-May. Last week, the White House released a more detailed budget proposal, which includes significant funding cuts – such as an \$18 billion



reduction to the National Institutes of Health, cuts to environmental infrastructure grants, a 90.9 percent decrease in EPA state grants, and reductions to certain NASA space programs. While the Administration's budget proposal is not binding, it has drawn strong bipartisan concern in Congress, with lawmakers on both sides of the aisle raising objections to many of the proposed cuts.

House Republican appropriators have announced they will formally begin drafting funding bills soon, beginning with markups for the Military Construction-VA and Agriculture-FDA subcommittees in the coming weeks. The Senate typically follows the House in the appropriations process; however, the late start on appropriations will likely require both chambers to work concurrently to get as much accomplished as possible by the fiscal year deadline of September 30. Republican leaders have often stated their goal of returning to "regular order" and avoiding the year-end omnibus spending bills that many fiscal conservatives loathe.

Both chambers are also considering congressionally directed spending requests (earmarks) once again. The City of Bellevue has resubmitted two funding requests for congressional consideration:

- Lake Washington Sanitary Sewer Lake Lines Program Project
- Grand Connection: I-405 Crossing

OTHER LEGISLATIVE MATTERS

The Opioid Epidemic Programs Renewal (HR 2483)

The House is poised to reauthorize federal programs to combat the opioid epidemic. The bipartisan "SUPPORT for Patients and Communities Act" (HR 2483), will renew funding for drug prevention and treatments programs and mental health initiatives, including:

- Authorize \$98.9 million for grants in FY 26 through FY 28 and \$100 million in FY 29 and FY 30 to support the [National Child Traumatic Stress Initiative](#) and training efforts to treat related psychological trauma.
- Authorize the use of state and tribal opioid response grants to facilitate access to products that detect the presence of substances, such as fentanyl and xylazine test strips.
- Reauthorize up to \$100 million annually through FY 30 for a Labor Department grant program to address the economic and workforce effects of substance use disorders.
- Reauthorize \$12 million annually through FY 30 for grants to support individuals in recovery transition to independent living and reenter the workforce.

While the bill has bipartisan support and the support of over 150 national organizations, nearly half of the Democrats on the committee opposed the measure, stating they lacked confidence the Trump Administration would not undermine the implementation of the Act. There have already been significant staff reductions at the Substance Abuse and Mental Health Services Administration (SAMHSA).

The House Rules Committee planned to meet June 3rd to set the terms of floor debate on the bill. A simple majority is all that's required to pass amendments and the underlying bill.

TAKE IT DOWN Act (Deep Fake Bill)

President Trump signed a bipartisan bill that aims to curb the spread of unauthorized deepfake pornography. The "TAKE IT Down Act" would make the publishing of nonconsensual sexually explicit images, including AI-generated digital forgeries (deepfakes) a federal crime. Online platforms would have 48 hours to remove content once requested by an affected individual.

BELLEVUE FEDERAL AFFAIRS

Bellevue elected leaders and leadership team are heading to Washington, D.C. for visits with the federal delegation, the Environmental Protection Agency, and Director of Intergovernmental Affairs for the White House.

Deputy Mayor Mo Malakoutian and Councilmember Dave Hamilton will share an update about the City of Bellevue and its federal priorities. The annual trip provides an important opportunity to deepen Bellevue's relationships with its federal partners and raise the profile of Bellevue's goals, vision, and priorities.