June 6, 2025

The Honorable John Thune
Majority Leader
United States Senate

The Honorable Chuck Schumer
Minority Leader
United States Senate

Dear Leader Thune and Leader Schumer,

On behalf of the National League of Cities (NLC) and the nation's more than 19,000 cities, towns and villages, we ask for your support of local government priorities as the Senate advances consideration of "The One, Big, Beautiful Bill Act" (H.R. 1) as directed by the FY25 concurrent budget resolution to advance the Trump-Vance agenda.

We reiterate our overarching priorities for the legislation, as outlined in our letter dated April 14, 2025 (linked here). We are pleased to see that the House bill preserves and improves several policies and programs important to local governments, most importantly **preserving the tax-exempt status of municipal and private activity bonds.** Tax-exempt municipal bonds are the lifeblood of local infrastructure, providing a critical financing mechanism for everything from water systems to roads and public safety buildings, all while saving taxpayers money.

Cities and towns will also benefit from the increased cap on **the State and Local Tax (SALT) deduction,** which is a positive step forward in ensuring Americans are not double taxed on the income already used to pay mandatory state and local taxes, the enhancement of **Low-Income Housing Tax Credits,** and the extension of the **Opportunity Zone** program. **As the Senate moves forward on the legislation, we urge you to retain these critical priorities for local governments.**

Unfortunately, the House bill also contains provisions with negative consequences for local governments, including possible delays and cancellations of economically important projects underway at the local level. **As such, we urge the Senate to consider the following changes:**

- **Reverse changes to clean energy tax credits to preserve the utility of the Elective Pay provision for local governments.** While the House bill does not explicitly eliminate the Elective Pay provision of the Inflation Reduction Act (IRA), the changes to the tax credits that local governments are utilizing significantly limit and undermine the availability of the program for cities and towns. The proposed changes jeopardize current and future projects in communities, meaning that fewer projects are likely to come online to help meet growing U.S. energy demands. The Internal Revenue Service shared that over 600 state and local governments filed for direct pay in November 2024.

According to the Local Government Direct Pay Tracker, which allows communities to submit their project data to a public dashboard, solar and electric vehicle projects are the two most implemented project types from local governments. However, the House bill outright repeals two key tax credits for electric vehicles and alternative fuels (45W, 30C) and sets an accelerated phase out of the technology-neutral production and investment credits (45Y, 48E), effectively eliminating the ability of local governments to claim these elective pay credits.

Moreover, changes to the rules and requirements around supply chains and entities and project start dates are overly burdensome for local governments and would make many projects ineligible for direct pay. **With billions of dollars in public and private sector investments and thousands of jobs at risk, we urge the Senate to reverse course and preserve the clean energy tax credits available to local governments through Elective Pay.** Doing so will provide the economic certainty needed to sustain these investments, thereby expanding U.S. capabilities in these strategic sectors and enhancing America's energy independence.

- **Prevent clawback of Congressionally authorized program funding already awarded to local governments and being used to create economic opportunities.** The House bill repeals funding from several grant programs established by the IRA, including the Neighborhood Access program. While the bill rescinds unobligated funds, local governments must invest significant local resources to prepare projects to win grant funding, so the real effect of the federal clawback squanders the initial investment and puts local governments into a budget crisis to make up for the federal portion, while jeopardizing a project that was already publicly promised to your shared constituents.

  Repealing the authorization for programs will impact ongoing local economic development, cause undue financial stress on local governments and jeopardize the environmental and economic benefits these programs would have made just as projects are moving forward. **Congress must at least define "unobligated" to hold harmless projects with multiple phases or where the federal or state government prevented a grant agreement from being signed by a local government sponsor.** Keeping these programs moving on time and on budget will ensure cities, towns and villages can maximize their own capital investments and strategies for planning and budgeting purposes.

- **Eliminate proposed 10-year moratorium on state and local government regulation of artificial intelligence.** The moratorium is an intrusion into state and local authority, potentially limiting the ability of localities to conduct procurement, governance, and basic operation of governmental functions without interference. In the absence of comprehensive federal artificial intelligence legislation, this language also limits the ability of local governments to protect themselves and their residents' interests. The provision also lacks a direct nexus to the federal budget and should be removed to prevent violation of the Byrd Rule.

- **Preserve state flexibility and minimize funding cuts to Medicaid to ensure the program can be tailored to local priorities.** The House bill contains $715 billion in healthcare cuts, the majority of which come from Medicaid, which is the largest program providing medical and health-related services to low-income individuals in the United States. While these cuts are estimated to reduce the deficit by at least $715 billion over

10 years, the Congressional Budget Office also estimates that 13.7 million Americans will become uninsured by 2034 as a result of these changes. Medicaid is a federal-state-local partnership that provides health coverage to approximately 79 million Americans, including children, seniors, people with disabilities and low-income adults. It covers 38 million children, funds 40% of all births, supports rural hospitals, and is the largest payer of long-term care and behavioral health services. Expansion has provided additional federal funding to 41 states, increasing access to care, particularly for those with substance use disorders. The proposals included in the House bill would force states to reduce services, restrict eligibility or shift costs to local governments.

Thank you for considering the views of cities, towns and villages as the Senate moves forward on this important legislation. We encourage you to directly solicit the views of local elected officials in your states as well. If NLC can be of assistance, or if you have any questions, please contact Irma Esparza Diggs, NLC Senior Executive and Director of Federal Advocacy, at 202-626-3176 or diggs@nlc.org.

Sincerely,

Clarence E. Anthony
CEO and Executive Director

CC: Members of the United States Senate