UNIVERSITY OF CALIFORNIA

Final FY 2025 Budget Reconciliation Legislation Summary

Background

On July 1, by a vote of 51-50, the U.S. Senate passed H.R. 1, the final budget reconciliation legislation bill, which was then sent to the U.S. House of Representatives, where it passed by a vote of 218-214, on July 3, allowing the bill to be sent to the President to be signed into law. You can find UC's July 1 letter to the California House delegation urging them to oppose the final bill and raising concerns over the impact of the legislation on the University community here.

Final passage of the bill follows months of debate and was preceded by passage in the House of an earlier version of H.R. 1 on May 22, 2025 by a vote of 215-214. You can find UC's letter to the California House delegation outlining concerns in the initial House-passed bill here.

In addition to extending the Tax Cuts and Jobs Act of 2017, the bill makes significant cuts to student financial aid, Medicaid and the Supplemental Nutrition Assistance Program (SNAP), and makes changes to the U.S. Tax Code that impact public and nonprofit institutions. Below is a summary of the final reconciliation legislation as it relates to UC.

Education Provisions

The final bill includes a number of provisions of concern to UC that would reduce access to higher education for students and make college less affordable, including:

- **Pell Grants** (Sec. 83004): The bill includes a provision that would make students who receive grants or scholarships covering their entire cost of attendance (COA) ineligible to receive a Pell Grant, even if otherwise eligible for the program.
- **Borrowing Limits for Undergraduate and Graduate Students** (Sec. 81001):
  - Undergraduate Loan Limits: The bill maintains current limits for annual and aggregate borrowing.
  - Graduate Loan Limits: The bill caps annual loan limits at $20,500 for graduate students and $50,000 for professional students. The aggregate limit would be capped at $100,000 for graduate students and $200,000 for professional students.
- **Parent PLUS Loan Program** (Sec. 81001): The bill includes new Parent PLUS loan limits restrictions: a $20,000 per year cap per dependent student and a $65,000 aggregate limit per dependent student (without regard to amounts forgiven, repaid, canceled or discharged).
- **Student Loan Repayment Plans** (Sec. 82001): The bill eliminates nearly all repayment plans for new borrowers and replaces them with a standard payment and a new income-based "Repayment Assistance Program." However, borrowers under the existing REPAYE or the Biden-era SAVE plan would be able to remain on their current repayment plan until July 1, 2028.
- **Risk-Sharing** (Sec. 84001): The bill creates an accountability measure for institutions of higher education. Specifically, the provision compares median earnings of cohorts of students who have exited the program within a certain timeframe, depending on the credential level, against the earnings of high school or bachelor's degree graduates,

depending on the program credential level. Similar to the Gainful Employment framework, programs failing to meet this earnings threshold in two of three years would lose eligibility to participate in the Direct Loan Program for two years. After one year of failure, institutions would have to provide disclosures to students.

- **Grad PLUS Loan Program** (Sec. 81001): The bill eliminates the Grad PLUS Loan program.
- **Deregulation** (Sec. 85001): The bill would revert the Borrower Defense and Closed School Discharge regulations to those in place prior to promulgation of regulations by the Biden administration but does not prohibit further rulemaking on the topics. The bill would also prohibit the secretary of education from promulgating any regulation or taking any executive action that is economically significant and results in a subsidy cost to the government.

Health Care Provisions

The final bill includes a number of provisions that change current law related to Medicaid and Medicare reimbursement:

- **Lowering Limits on Medicaid State-Directed Payments (SDPs)** (Sec. 71116): The bill caps new Medicaid SDPs at Medicare rates in Affordable Care Act (ACA) Medicaid expansion states like California. The bill includes grandfathering for existing state-directed payments submitted or approved prior to the bill but requires the Centers for Medicare and Medicaid Services (CMS) to reduce grandfathered SDPs by 10 percentage point per year starting in 2028 until they reach Medicare rates.
- **Federal Medical Assistance Percentage (FMAP) Cut for Utilization of Emergency Medicaid by Undocumented Individuals** (Sec. 71110): The bill cuts the FMAP paid for services provided to undocumented individuals through the Emergency Medicaid program from the ACA adult expansion FMAP to the state's traditional Medicaid FMAP. In California this would result in a cut from 90% to 50% federal match for undocumented individuals not covered by the state-only program for those with unsatisfactory immigration status.
- **Lowering Limits on Medicaid Provider Taxes and Changing Existing Uniformity Requirements** (Sec. 71115, 71117): Currently, states are allowed to tax health care providers for up to 6% of net patient revenue to fund the non-federal share of Medicaid payments. The bill would gradually reduce the 6% limit by 0.5% per year starting in 2028 until it reached 3.5% in 2032. The bill also contains a provision that alters how CMS calculates whether a provider tax meets existing uniformity requirements. The provision is likely to cause challenges for several Medicaid financing mechanisms in California including the Hospital Quality Assurance Fee and the Managed Care Organization Tax. The provision takes effect immediately but gives the secretary discretion to offer up to three years of transition.
- **Restrictions on Medicaid Eligibility and Enrollment** (Sec. 71119, 71107, 71120): The bill puts significant new bureaucratic barriers in place for Medicaid-eligible patients seeking health insurance—including requiring states to establish new "community engagement requirements" (also known as work requirements) by Dec. 31, 2026. The bill also requires more frequent eligibility redetermination for states (now every six months), and new cost sharing provisions starting Oct 1, 2028 for Medicaid beneficiaries with incomes greater than 100% of poverty. These hurdles are likely to result in many

Californians who should be covered by Medicaid losing their health care coverage due to technicalities and financial burdens they are unable to meet.

- **Rural Health Transformation Program** (Sec. 71401): The bill includes $50 billion for a Rural Health Transformation Program. Over the next five years, CMS will distribute $10 billion per year to states to support rural health transformation projects. Half the funds would be split evenly by state, the other half determined by the CMS administrator based on a number of factors related to rural health care. California would likely be eligible to receive $100 million under the program in each of the next five years under the bill. The state would need to submit an application to CMS to receive the funds. CMS decisions for first year funding are required by Dec. 31, 2025.
- **Modification of cuts to the Medicare Physician Fee Schedule** (Sec. 71202): The bill includes a temporary patch to the Medicare physician fee schedule to increase payments by 2.5% in 2026.

Tax Provisions

The bill includes changes to the U.S. Tax Code that could impact UC, including the following provisions:

- **Expanding the Tax on Executive Compensation within Tax-Exempt Organizations** (Sec. 70416): This provision expands the excise tax on employees within tax-exempt organizations earning over $1,000,000 per year. This change will impose new tax liabilities on UC and will adversely impact the University's ability to recruit and retain leaders and top-level professionals. This provision applies to taxable years beginning after December 31, 2025.
- **Termination and Restrictions on Clean Electricity Investment Credit** (Sec. 70513): This provision phases out the clean electricity investment credit at various phases depending on the technology involved. The provision phases out investments in wind and solar energy for any qualified property placed in service by the taxpayer after Dec. 31, 2027, which is part of an applicable facility, which disincentives important investments in clean energy. Restrictions on material assistance being provided by prohibited foreign entities are included. Additional restrictions are included on energy storage technologies and other technology areas. UC has invested significant resources to utilize these critical investments in energy infrastructure for energy efficiency and cost savings, such as investments in solar, batteries, microgrids and other energy technologies. The repeal of this credit removes one of the financing mechanisms available to support these investments.
- **Termination and Restrictions on Clean Electricity Production Credit** (Sec. 70512): This section terminates the clean electricity production tax credit for wind and solar facilities placed into service after Dec. 31, 2027. A provision in the bill also restricts material assistance from prohibited foreign entities.
- **Termination of Energy Efficient Commercial Buildings Deduction** (Sec. 70507): This section phases out Section 179D of the tax code, which is an energy tax incentive that has contributed towards the construction and design of energy efficient buildings. Removing this provision will eliminate one of the tax incentives that has helped to provide cost savings for making investments in the construction and design of energy

efficient buildings at UC. Section 179D will not be available for any property where the construction begins after June 30, 2026.

- **0.5% Floor on Deduction of Charitable Contributions by Individuals who Itemize** (Sec. 70425): This provision requires taxpayers to meet a floor of at least 0.5% in charitable donations of their total income, before qualifying to deduct charitable giving from their itemized tax returns. The effective date for this provision applies to tax years beginning after Dec. 31, 2025.
- **Permanent Deduction for Charitable Contributions by Individuals who do not Itemize** (Sec. 70424): This provision allows individuals who do not itemize their tax returns to take a charitable giving deduction of up to $1,000 in donations for single tax filers and $2,000 for married filing jointly for tax years beginning after Dec. 31, 2025. This provision is a significant improvement over current law that will encourage charitable giving to universities and other non-profits from the 93% of Americans who take the standard deduction.
- **Additional Expenses Treated as Qualified Higher Education Expenses for Purposes of 529 Accounts** (Sec. 70413): This provision expands the types of expenses that 529 education savings accounts can be used to pay for to include additional qualified higher education expenses.
- **1% Floor on Deduction of Charitable Contributions by Corporations** (Sec. 70426): This provision would require corporations to make at least 1% of its income in charitable contributions prior to being able to deduct such donations from their tax returns. The effective date begins for tax years after Dec. 31, 2025.
- **Exclusion for Employer Payments of Student Loans** (Sec. 70412): This provision makes permanent and indexes for inflation Section 127, the provision in existing tax law that allows employees to receive up to $5,250 in educational assistance from their employer. The effective date applies to payments in tax years after Dec. 31, 2025.

Agriculture and SNAP Provisions

The bill includes changes that could impact UC, including the following provisions:

- **National Education and Obesity Prevention Grant Program** (Sec.10107): This section eliminates funding for Supplemental Nutrition Assistance Program (SNAP) Education (SNAP-Ed) after federal fiscal year (FY) 2025. SNAP-Ed provides critical nutrition education services throughout the nation. In California, the UC-based SNAP-Ed Cal Fresh Healthy Living program provides SNAP-Ed nutrition education services in 34 counties via the UC Cooperative Extension.
- **Matching Funds Requirements** (Sec. 10105): This section makes changes to SNAP to require states to provide a cost-share match to the federal government based on the state’s payment error rate for processing benefits. The bill includes an exemption from the cost-share requirement if a state has a less than 6% error rate. The new state-cost share match requirement could impose significant budgetary pressures on states, including California, that could make it more difficult for college students and their families facing food insecurity to receive SNAP benefits. States will be required to begin paying any cost-share rate that applies in FY 2028. For FY 2028, states will be able to choose the applicable matching funds rate based on the state’s error rate in FY 2025 or

FY 2026. However, starting in FY 2029, the state's responsibility will be calculated using the payment error rate averaged from the three prior years.

- **Modifications to SNAP Work Requirements for Able-Bodied Adults** (Sec. 10102): This section makes changes to the SNAP program that limit the availability of exceptions for individuals from meeting SNAP work requirements. SNAP work requirements will be generally applicable to individuals between the ages of 18-65 with a few exceptions. Exceptions include a parent or other member of a household with responsibility for a dependent child under 14 years of age; a pregnant woman; if a person is medically certified as physically or mentally unfit for employment; and certain other narrow exceptions. This section could make it more difficult for low-income college students and their families to continue to access SNAP benefits.
- **Research** (Sec. 10604): The bill provides funding to carry out several important programs:
    - Urban, Indoor, and Other Emerging Agriculture Production, Research Education, and Extension Initiative;
    - Foundation for Food and Agriculture Research;
    - Specialty Crop Research Initiative;
    - The Research Facilities Act; and
    - Emergency Citrus Disease research and Development Trust Fund (Sec. 10607 Miscellaneous)

Defense Provisions

The bill includes $250 million for quantum research and $250 million for Artificial Intelligence (AI) research at the Department of Defense.

For additional information, please contact:

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