JLBC Staff Analysis of the Federal Budget Reconciliation Bill (H.R. 1) on Arizona State Budget

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What's New

This September edition of our JLBC Staff Analysis of H.R. 1, the federal budget reconciliation legislation, includes the following new information:

- Preliminary Arizona Department of Revenue interpretation of how H.R. 1 would affect state income tax forms. (p. 6)
- The federal Scholarship Granting Organization Tax Credit and its interaction with similar state tax credits. (p. 7)
- AHCCCS and DES' initial cost estimates of their administrative costs to implement H.R. 1 (pp. 8, 11)
- Federal reimbursement of state border security costs and 287g agreements. (p. 15)

Executive Summary

- H.R. 1, earlier known as the One Big Beautiful Bill, was signed into law on July 4, 2025. Numerous provisions will impact Arizona's budget.
- H.R. 1 made significant changes in federal income tax laws. The state currently conforms its individual and corporate income tax to certain sections of federal law. H.R. 1 conformity could reduce state General Fund revenues by up to $(438) million in FY 2026 and some $(300) million in following years. Conformity would require a change in state statute.
- H.R. 1 will reduce the state's 6% hospital provider assessment to 3.5% by FY 2032. This provision will not directly affect General Fund spending, but will reduce resources available to hospitals and other health providers.
- New Medicaid work requirements and more frequent eligibility determinations will reduce AHCCCS enrollment. While the projected FY 2027 benefit reduction is $(435) million, the General Fund share is only $(15) million due to the low match rate of the affected population.
- AHCCCS has submitted a FY 2027 budget request for $19 million from the General Fund for the administrative cost of implementing the Medicaid requirements.
- The state share of Supplemental Nutrition Assistance Program (SNAP) administrative costs will increase from 50% to 75% in FY 2027 at a General Fund cost of $33 million. The state may also have to begin paying a portion of the SNAP benefit costs in FY 2028 if our error rate is too high.
- DES is requesting $26 million for additional staff to reduce the SNAP error rate.
- Across all these issues, Arizona's H.R. 1's General Fund cost could be as high was $459 million in FY 2026 and $399 million in FY 2027. These estimates are not JLBC Staff recommendations and the actual costs will depend on policy decisions by the Legislature and the Governor.
- These ongoing costs could be offset by a new one-time federal program to reimburse states for the cost of border security since 2021. Arizona has applied for $760 million in reimbursement, but the federal criteria or timeline for awarding these grants is uncertain.
- As a general caveat, any H.R. 1 cost estimates are highly speculative. H.R. 1 is complicated legislation and our current interpretations of the bill's provisions are subject to change as the federal government provides additional implementation guidance.

Federal Impacts of H.R. 1 Provisions on Arizona General Fund Budget

Table 1

		A	B	C
		FY 2026 ($ in M)	**FY 2027** ($ in M)	**FY 2028** ($ in M)
	Tax Conformity			
	Revenue Adjustments - Preliminary ADOR Conformity Interpretation			
1	Increase SALT Deduction from $10k to $40k through 2029	(79.7)	(67.3)	(70.7)
2	Require 0.5% Floor on Deduction of Itemized Charitable Deduction	-	16.9	17.3
3	Establish Permanent Full Expensing for Certain Business Property	(31.8)	(20.8)	(15.2)
4	Restore Full Expensing of Domestic Research and Development Expenditures	(50.5)	(30.8)	(20.7)
5	Restore Higher Deduction on Business Interest	(9.8)	(9.3)	(8.5)
6	Increase Small Business Expensing Allowance from $1.25M to $2.5M	(10.0)	(8.4)	(7.0)
7	Create Special 100% Depreciation Allowance for Certain Non-Residential Production Property	(45.5)	(51.7)	(51.1)
8	Make Opportunity Zone Program Permanent along with Other Changes to the Program	-	42.8	(8.1)
9	All Other Provisions	(0.4)	5.8	7.1
	Subtotal - Preliminary ADOR Conformity Interpretation	**(227.7)**	**(122.7)**	**(156.9)**
	Revenue Adjustments - Additional Federal Provisions			
10	Establish Additional $6,000 Deduction for Seniors through 2028	(53.7)	(53.6)	(54.3)
11	Create New Auto Loan Interest Deduction through 2028	(12.6)	(18.8)	(23.1)
12	Reduce Income Tax on Tips through 2028	(23.6)	(17.9)	(18.8)
13	Reduce Income Tax on Overtime through 2028	(76.5)	(59.8)	(53.6)
14	Increase Standard Deduction ($750/$1,500)	(44.2)	(45.0)	(46.2)
15	Allow Non-Itemizers to Deduct $1,000/$2,000 of Charitable Contributions	-	(18.2)	(19.0)
16	Establish Trump Accounts and Contribution Pilot Program - Minimal Estimated Impact	-	-	-
	Subtotal - Additional Federal Provisions	**(210.6)**	**(213.4)**	**(215.0)**
	Total - Revenue Adjustments - All Tax Conformity	**(438.3)**	**(336.1)**	**(371.9)**
	Scholarship Granting Organization Tax Credit			
17	Create New $1,700 Federal Tax Credit Similar to Existing State STO Credit - See Appendix F	-	-	-

Federal Impacts of H.R. 1 Provisions on Arizona General Fund Budget

Table 1

		A	B	C
		FY 2026 ($ in M)	FY 2027 ($ in M)	FY 2028 ($ in M)
	Supplemental Nutrition Assistance Program (SNAP)			
	Benefit Changes - SNAP			
18	Expand Work Requirements and Other Provisions (Federal Funds Only)	-	-	-
	Administrative Costs - SNAP			
19	Increase State Share of SNAP Administrative Costs from 50% to 75%	-	32.7	44.2
20	Require State Cost Sharing of Benefits if Error Rate Is 6% or Higher	-	-	138.7
21	Increase Administrative Funding to Lower SNAP Error Rate (Agency Request)	7.5	26.3	26.3
22	Expand Work Requirements - Administrative Costs (Agency Request)	1.8	-	-
	Total - Spending Adjustments - SNAP	**9.3**	**59.0**	**209.2**
	Medicaid			
	Enrollment Changes			
23	Establish Medicaid Work/Community Engagement Requirement (80hrs/Month)	-	(9.0)	(19.3)
24	Require Semiannual Rather than Annual Redeterminations for Expansion Population Above 100% FPL	-	(3.7)	(7.4)
25	Eliminate Medicaid Eligibility for Refugees, Asylum Grantees, & Others	-	(2.4)	(3.2)
26	Reduce Expansion Federal Match Rate for Emergency Medicaid from 90% to 64%	-	Non-GF	Non-GF
27	Reduce Retroactive Coverage Prior to Eligibility from 3 Months to either 1 or 2 Months	-	(0.3)	(0.5)
	Subtotal - Enrollment Changes	**-**	**(15.4)**	**(30.4)**
	Provider Payment Changes			
28	Reduce the Provider Tax Rate from 6% to 3.5% between FY28 and FY32 - See Appendix D	Non-GF	Non-GF	Non-GF
29	Limitations on State Directed Payments - See Appendix D	-	-	-
30	New Rural Hospital Grant (Minimum $100 Million Annually)	-	-	-
	Administrative Costs/Other			
31	Add FTE Positions for Work Requirements/More Frequent Redeterminations (Agency Request)	11.0	18.8	20.3
32	Require State Cost Sharing if Error Rate above 3% (beginning FY30)	-	-	-
	Total - Spending Adjustments - Medicaid	**11.0**	**3.4**	**(10.1)**

Federal Impacts of H.R. 1 Provisions on Arizona General Fund Budget

		A FY 2026 ($ in M)	B FY 2027 ($ in M)	C FY 2028 ($ in M)
	Law Enforcement			
33	Federal Reimbursement of Border Security Costs (Exec Request of $760 million)	-	-	-
34	Federal Reimbursement of 287g State/Local Border Law Enforcement Officers	-	-	-
	Total - Law Enforcement	-	-	-
	Grand Total - Federal Impacts of H.R. 1 on Arizona General Fund Budget 1/	**458.6**	**398.5**	**571.0**

1/ Excludes impact of reduced collections from the state's 2% Insurance Premium Tax.

Tax Conformity Provisions

The state of Arizona mostly conforms to federal income tax law in two different aspects:

1) Arizona tax returns generally use federal definitions of taxpayer income as the starting point from which to calculate the amount of state individual income and corporate income tax liability. The relevant measures are adjusted gross income (AGI) for individual income tax and corporate taxable income (CTI) for corporate income taxes.
2) Arizona's individual income tax itemized deductions are mostly based on federal itemized deductions that appear in the federal Schedule A.

The state typically matches federal income tax revisions which have an impact on AGI/CTI/Itemized deductions, otherwise known as standard conformity. The state, however, needs to change its statutes to achieve this objective. Conformity legislation, however, is relatively simple. Our current statute links to the federal tax code in place for Tax Year 2024. If the state were to conform to H.R. 1, we would insert that statutory reference into our own state tax code. By doing so, the state does not have to replicate the detailed federal legislation in our own statutes.

What's New Based on recent conversations with the Arizona Department of Revenue, their initial interpretation is that only certain business provisions will affect federal AGI and CTI. In addition, the only major changes that would affect the federal itemized deductions are the deduction for state and local taxes (otherwise known as SALT) and a new limitation on charitable deductions.

The detailed list of these provisions appears in both Table 1 and Appendix A under the header of "Preliminary ADOR Conformity Interpretation." The net General Fund revenue loss of these provisions is projected to be $(228) million in FY 2026 and $(123) million in FY 2027.

The significance of the ADOR interpretation is that they would design the state tax forms accordingly. As a result, these federal provisions would not appear as separate lines on the state tax form since they are already built into AGI/CTI.

The state tax forms are typically finalized in November/December in time to print the materials and work with online tax preparation services. ADOR also usually adds a statement to its forms that they have assumed that the Legislature will enact a standard conformity bill, and if that does not happen, the taxpayer may need to amend their return. We do not yet know whether 1) actual federal forms will match the ADOR interpretation and 2) if Governor's office will agree with ADOR's perspective on the tax form design.

Many of the most well-known H.R. 1 tax law changes, such as reduced taxation for tips and overtime and two increases in standard deductions would not be part of ADOR's interpretation of standard conformity. These tax law changes appear in Table 1 and Appendix A under the header of "Additional Federal Provisions." By enacting legislation, the state has the option of adopting some or all these additional provisions. For example, Arizona made the discretionary choice in 2019 to match the state standard deduction to the federal level.

These additional provisions would have a General Fund revenue loss of $(211) million in FY 2026 and $(213) million in FY 2027. When combining ADOR's conformity interpretation and the additional provisions, the overall General Fund revenue loss is projected at $(438) million in FY 2026 and $(336) million in FY 2027.

Federal Tax Credit for Individual Contributions to Scholarship Granting Organizations

What's New H.R. 1 establishes a new federal tax credit program for organizations granting scholarships to students for various "qualified elementary and secondary education expenses," which include tuition, fees, uniforms, transportation, supplies, and other expenses. H.R. 1 calls these organizations "Scholarship Granting Organizations" (SGOs). This federal tax credit will be available beginning January 1, 2027 (Tax Year 2027). H.R. 1 requires the Governor—or another individual, agency, or entity authorized by state law—to opt in to the SGO tax credit program for Arizona residents to receive the federal tax credit.

H.R. 1 caps SGO credits at $1,700 per tax filer (single or married filing jointly) and specifies that the amount of the federal credit must be reduced on a dollar-for-dollar basis by the amount available as a credit for state income tax purposes. Arizona law currently provides 2 similar tax credits to state taxpayers filing individually or married filing jointly: the "Original" and the "Switcher" tax credits for donations to School Tuition Organizations (STOs). For Tax Year 2026:

- The "Original" tax credit is capped at $787 for individual taxpayers, and $1,570 for married taxpayers filing jointly.
- The "Switcher" tax credit is capped at $784 for individual taxpayers, and $1,561 for married taxpayers filing jointly.

Taxpayers must meet the cap for the "Original" credit before claiming any portion of the "Switcher" credit. The dollar-for-dollar reduction requirement in H.R. 1 would appear to reduce the opportunity for the federal tax credit to supplant the state tax credits. However, we will need to await further federal guidance before drawing any definitive conclusions regarding the interaction between the federal tax credit and Arizona STO credits.

Supplemental Nutrition Assistance Program (SNAP) Provisions

SNAP is a federal low-income food assistance program administered by the Arizona Department of Economic Security (DES). Prior to H.R. 1, the federal government paid 100% of the cost of SNAP benefits. The federal government and the state each paid 50% of the administrative costs of the program.

Administrative Costs

At least 3 provisions of H.R. 1 could have a substantial impact on state costs:

1) Starting in October 2026 (FY 2027), the state share of administrative costs will increase from 50% to 75%. We project this provision will cost Arizona $33 million in FY 2027 and $44 million in FY 2028.
2) Starting in October 2027 (FY 2028), a state will begin to pay a percentage of SNAP benefit costs if their error rate in administering the program is 6% or above. The state share percentage gradually increases as the error rate climbs above 6%. The FY 2028 payment will be based on the lower of the FY 2025 or FY 2026 error rate. The state's error rate has fluctuated over the last several years. It was 11.4% in in FY 2023 and was 8.8% in FY 2024. The preliminary rate for FY 2025 is 10.4%. If Arizona's error rate is between 8% and 10% in either FY 2025 or FY 2026, the state would be responsible for 10% of the SNAP benefit cost. In that circumstance, the cost would be $139 million in FY 2028. If the error rate between 10% and 13.3%, the state share of benefits would be 15%, which would equate to a projected state cost of $208 million in FY 2028. During the first 2 years of implementation, if the error rate is above 13.3%, the state is not required to contribute.
3) ***What's New*** The state may choose to increase its administrative resources to reduce the error rate below 6%. As a result, we are using DES' proposed administrative cost estimates in their FY 2027 budget submission to the Governor in September as a starting point for consideration. DES has requested $26 million from the General Fund and $35 million in Total Funds to hire additional FTE positions for this purpose. This projected cost does not reflect a JLBC Staff recommendation.

The higher administrative matching ratio and the additional error rate staff combined would cost Arizona $59 million from the General Fund in FY 2027.

Benefits

H.R. 1 also includes provisions which will reduce participation in SNAP or reduce the level of benefits. Apart from the potential state cost-sharing if Arizona's error rate is too high, the federal government pays 100% of benefits and would therefore accrue any savings associated with these provisions:

1) Expands the number of recipients required to participate in 80 hours per month of employment or participation in a state-administered work program. The upper age limit for the work program was increased from 54 years of age to 64. In addition, households will now be subject to the work requirement if their youngest dependent is 14 years of age or older (compared to 18 years of age previously). H.R.1 eliminated work-related exemptions for veterans, homeless individuals and former foster youth while maintaining them for the disabled. Tribal members are exempt from the work requirements.

2) Limits the broad-scale waiver of work requirements to geographic areas with unemployment rates of more than 10%. Previously, waivers were available if there was an "insufficient number of jobs" in an area. Prior to H.R. 1, the work requirements were only in place in Maricopa County. Currently, only Yuma County has an unemployment rate exceeding 10%.
3) Reduces or eliminates utility and internet deductions in calculating a household's net income. This provision has the effect of increasing net income, which would either reduce the SNAP benefit level or disqualify a household.
4) Revises components of the annual inflation adjustment, which will have the effect of slowing the rate of benefit increases.

These changes are projected to reduce FY 2027 SNAP benefits by $(289) million, which is approximately 13.5% of total benefits issued in Arizona.

Further detail on the SNAP provisions is included in *Appendix B and Appendix E*.

Medicaid Enrollment Changes

The Arizona Health Care Cost Containment System (AHCCCS) administers the Medicaid program to provide health care to low-income Arizonans. The federal government and the state share the cost of the program. The state share of benefit costs ranges between 64% and 90%. With some exceptions, administrative costs are shared on a 50%/50% basis. In almost all circumstances, H.R. 1 did not change the match rate proportions.

Benefits

H.R. 1's primary impact on state General Fund benefit spending results from provisions that potentially reduce the number of Medicaid participants. In developing our analysis, we relied on a prorated share of the Congressional Budget Office (CBO) estimates for the federal legislation. CBO is the JLBC Staff counterpart for the U.S. Congress.

Based on CBO estimates, the H.R. 1 Medicaid enrollment reduction provisions are expected to reduce Total Fund Medicaid spending in Arizona by $(363) million starting in FY 2027 (excluding provider assessment and state directed payment changes described below). The General Fund share of the benefit savings is projected to be $(15) million. *Please see Appendices C and E for more details*. The two most significant provisions are scheduled to begin on January 1, 2027:

- Redetermine eligibility of the "expansion" population semiannually rather than once a year. We project this requirement would generate Total Fund FY 2027 savings of $(123) million, including $(4) million from the General Fund.
- Require the Medicaid expansion population to work or participate in "community engagement" activities for 80 hours a month. This provision is estimated to reduce total benefit spending by $(299) million in FY 2027, including $(9) million from the General Fund. The federal Department of Health and Human Services (HHS) may allow a state to delay implementation to no later than January 1, 2029 if the state is demonstrating a good faith effort to comply.

The low General Fund share of the savings is explained by 2 factors: 1) These two policies only apply to the expansion population. The federal government pays for 90% of the cost of this group. 2) Of the 10% state share, most of the acute medical expenses are paid by the Hospital Assessment and the General Fund only pays for behavioral health costs.

The expansion population includes certain adults and excludes children under 19. Childless adults qualify if their annual income is below 133% of the Federal Poverty Level (FPL), which equates to $21,000 for a 1-person household. Parents qualify under the expansion program if their income is between 106% of FPL and 133% of FPL. At 133% of FPL, the eligibility limit is $43,000 for a family of 4. The current expansion population is 446,000 as of September 2025.

We think the CBO scoring of the work-related provisions has several limitations:

- There is not a substantial track record of states implementing a work requirement. Arkansas ran its program for 9 months before being stopped by a court order and Georgia began enrolling participants in June 2023.

- The magnitude of the impact will depend on the response of recipients, which is much more difficult to predict in advance compared to a more quantitative provision such as a change in a match rate.
- CBO appears to assume that numerous unspecified states will receive waivers to delay their work requirement until 2029. CBO's full scoring of the savings does not occur until FY 2030 thereby making their estimates in earlier years less useful. If Arizona applies and receives a waiver, we may not experience any enrollment reductions until the latter half of FY 2029 or early FY 2030.

By FY 2030, these two provisions are estimated to reduce enrollment by (171,000) members. Most of this decline (144,000) would be associated with the work requirements.

What's New *Administrative Costs*

Implementing the redetermination and work-related eligibility requirements will result in new AHCCCS administrative costs. Unlike the benefit estimates, the Congressional Budget Office did not disaggregate any specific administrative costs associated with H.R. 1.

As a result, we are using AHCCCS' proposed administrative cost estimates in their FY 2027 budget submission to the Governor in September as a starting point for consideration. AHCCCS estimates its FY 2027 administrative costs to be $19 million from the General Fund and $71 million in Total Funds. These projected costs do not reflect a JLBC Staff recommendation.

AHCCCS proposes to add 320 new FTE positions for the following functions:

- 290 FTE for monitoring the work requirements and conducting the more frequent eligibility redeterminations.
- 10 FTE for IT functions.
- 20 FTE for other positions such as human resources and finance.

Of the $71 million in total funds, $18 million would be for contracted IT expenses. H.R. 1 includes one-time funding of $200 million nationwide to assist states in implementing the work requirements. We project that Arizona would receive approximately $4 million of this funding. This amount could potentially reduce the $71 million request.

Medicaid Provider Payment Changes

In addition to eligibility restrictions, H.R. 1 includes other provisions that would reduce Medicaid provider reimbursement relative to current law. The two most significant provisions are limitations on provider assessments and state directed payments.

Provider Assessments

The federal government allows states to fund a share of Medicaid spending via assessments on health care providers. Prior to H.R. 1, federal law capped the assessment at no more than 6.0% of net patient service revenues. The assessments serve to draw down additional federal Medicaid dollars.

H.R. 1 prohibits states from establishing any new provider assessments or increasing existing assessments if the current rate is below 6%. Additionally, the bill reduces the upper maximum assessment rate by (0.5)% each year between FY 2028 and FY 2032 for states such as Arizona that have participated in the Medicaid expansion under the federal Affordable Care Act.

Under state law, AHCCCS is required to establish an assessment on hospitals. In FY 2026, the current assessment rate is effectively 6.0% of combined hospital inpatient and outpatient service revenues. Under H.R. 1, Arizona's rate would fall to 5.5% in FY 2028 and eventually reach 3.5% in FY 2032.

AHCCCS deposits the assessment collections into the 2 following funds:

- Funds necessary to cover the state match costs of Medicaid expansion adults are deposited into the Hospital Assessment Fund (HAF). Although state law does not explicitly give either fund priority, a state trigger statute repeals the HAF and eliminates coverage for certain expansion adults if revenues from the assessment are insufficient to fund expansion population costs. As a result, we assume that AHCCCS will continue to ensure that HAF receives sufficient revenues.

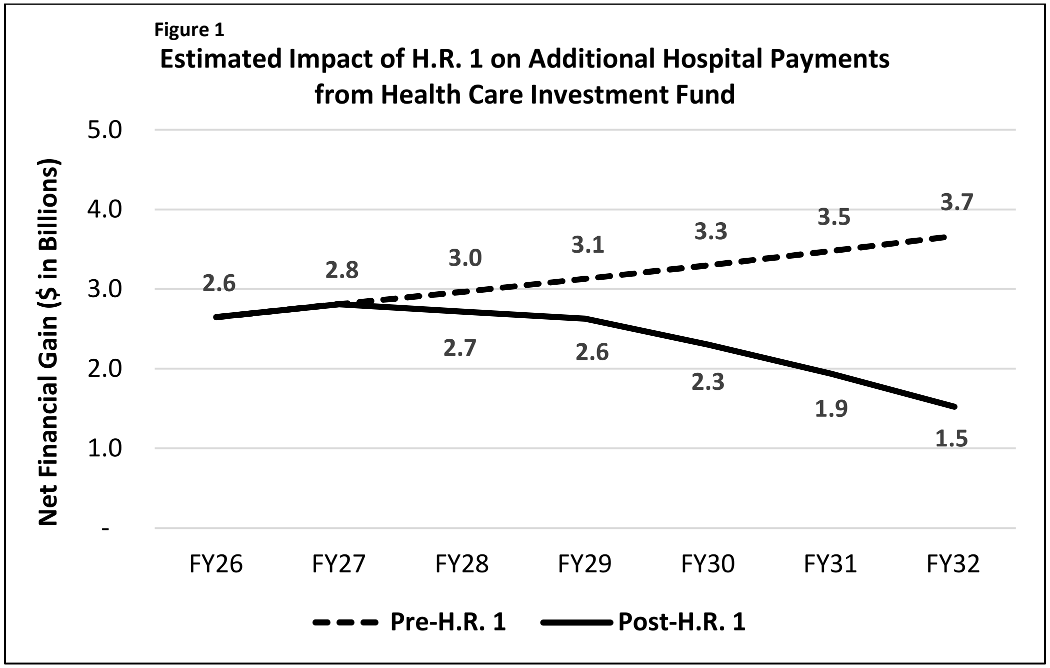
- The remaining monies are deposited into the Health Care Investment Fund (HCIF) to increase payments to hospitals, physicians, and dentists above current Medicaid reimbursement rates. Hospitals generally receive 80% or more of these payments.

In FY 2026, Arizona's 6.0% assessment is expected to generate $1.5 billion for state matching funds. Of that amount, we project that AHCCCS will use $529 million to pay for the Medicaid expansion requirements. By FY 2032, that Medicaid expansion amount is expected to rise to only $577 million as growth slows due to the redetermination and work requirements.

Of the $1.5 billion in FY 2026 assessment collections, the remaining $989 million is available as state match in the HCIF to draw down $2.6 billion in federal Medicaid funds. The $2.6 billion represents the net financial gain to Arizona hospitals. If the 6% cap had been retained, we project that the net financial gain would have increased to $3.7 billion in FY 2032.

With the gradual reduction in the assessment rate, the state will draw down less in federal funds. This loss can be viewed from one of two perspectives as displayed in *Figure 1* and *Appendix D*:

- Relative to FY 2026, the hospitals' net financial gain from additional payments is expected to decline from $2.6 billion in FY 2026 to $1.5 billion in FY 2032, or a loss of $(1.1) billion.
- Relative to the projected pre-H.R. 1 FY 2032 estimates, the net gain would decline from $3.7 billion to $1.5 billion, or a loss of $(2.1) billion.



Caveats to this analysis include:

1) Arizona's provider assessment is levied against a combination of hospital inpatient and outpatient revenues. Our analysis assumes that revenue level increases by 5% annually.
2) While the state's base insurance premium tax (IPT) is 1.7%, the IPT Medicaid revenue tax rate is 2.0%. By FY 2032, the state's IPT revenues would decline by $(30) million compared to current levels due to the reduction in total hospital Medicaid revenues.
3) The reduction in the provider assessment rate occurs between FY 2028 and FY 2032. This type of long-run implementation schedule can lead to revisions in the original legislation for any number of reasons.

State Directed Payment Reductions
In addition to limitations on provider assessments, H.R. 1 also reduces the maximum level of "state directed payments." State directed payments (SDP) consist of mandatory supplemental reimbursement to Medicaid providers over and above base reimbursement rates established by contracted Medicaid health plans. Under current law, the maximum total payment rate for Medicaid providers (including base reimbursement and state directed payments combined) is capped at the "average commercial rate," which is the average payment each provider would typically receive from a private health plan.

For Medicaid expansion states, H.R. 1 reduces the maximum total payment rate to the "Medicare payment rate," which is usually lower than the average commercial rate. SDP programs already in effect would have to begin phasing down their payments annually beginning January 1, 2028 until the total payment rate reaches the Medicare rate.

Arizona's largest directed payment program is the Health Care Investment Fund. The phase-down in state directed payments may require additional reductions to the Health Care Investment Fund over and above our estimates described above. Whether such reductions would materialize would depend on how AHCCCS' total payment rates compare to the Medicare payment rate after accounting for reductions in the provider assessment cap. We will need additional data from AHCCCS to determine the potential magnitude of such reductions.

In addition, based on federal reports on state directed payments for Arizona in effect for FY 2025, we believe there are at least 6 other state directed payment programs that would be subject to the Medicare payment rate cap from H.R. 1. These programs totaled $1.1 billion Total Funds for FY 2025, including $793 million of federal funds, with the state match primarily being provided by local governments or the University of Arizona. As with the HCIF, we would need AHCCCS to provide additional data to determine what reductions would be required to comply with the Medicare payment rate cap.

Rural Hospital Grant Program
H.R. 1 appropriated $50 billion nationwide over 5 years ($10 billion annually) to support rural health initiatives. Of this amount, half will be distributed equally between the states. Arizona would receive approximately $100 million each year for 5 years. The federal Department of Health and Human Services will have the discretion to distribute the other 50% of the monies based on state applications. The application deadline is November 5, 2025, and awardees will be announced by December 31, 2025. The program is designed to improve rural healthcare access and may offset at least a portion of the losses to rural hospitals from the new limitations on provider assessments.

Law Enforcement Provisions

What's New

Border Security Reimbursements

H.R. 1 includes a provision which allocates $10 billion to the State Border Security Reinforcement Fund within the Department of Homeland Security to be granted to states for costs associated with actions taken on or after Jan. 21, 2021 to combat border security related crimes (the House Engrossed version of the bill allocated $12 billion to the fund). Specifically, states are eligible to receive reimbursements for the following actions: 1) preparation and construction of a border wall, fence, or barrier along the southern border, 2) detection and interdiction of illicit substances and persons who have unlawfully entered the U.S. and have committed a crime under federal, state, or local law, and 3) relocation of persons who are not lawfully present in the U.S. from small population centers to other domestic locations.

The H.R. 1 provision further stipulates that these monies will be available for reimbursement until September 30, 2034. States are required to apply for this funding with evidence of immigration costs incurred during the aforementioned period and a description of how the state plans to allocate the funds. The federal Department of Homeland Security will begin to accept applications no later than October 3, 2025. H.R. 1 does not provide a formula for distributing these funds to individual states.

In a letter to the Department of Homeland Security dated July 31, 2025, Governor Hobbs requested reimbursement totaling $759.7 million of immigration costs incurred on or after Jan. 21, 2021. Additional information regarding the reimbursement request can be found in a press release on the Arizona Governor's website. The Arizona Speaker of the House of Representatives and the Senate President sent their own September 10 letter to Homeland Security requesting reimbursement of $744 million for immigration costs.

U.S. Immigration and Customs Enforcement (ICE) Reimbursements

H.R. 1 includes $29.85 billion to ICE, to remain available through September 30, 2029, to assist in recruiting, hiring, training, and retaining personnel to carry out immigration enforcement activities. Amongst other approved uses, these monies can be spent on 287(g) agreements, which are made between state or local law enforcement and ICE which authorizes local officers to perform specified immigration officer functions under the direction of the federal agency.

The Department of Homeland Security announced that, starting on October 1, 2025, participating state and local law enforcement agencies will have the following funding opportunities:

1) full reimbursement for the annual salary and benefits of each trained 287(g) officer, including overtime coverage up to 25% of the officer's annual salary, and

2) quarterly performance awards based on the successful location of those individuals without lawful presence and "overall assistance to further ICE's mission." The award ranges between $500 and $1,000 per officer.

We are unable to estimate the total reimbursements received by Arizona law enforcement agencies as it will ultimately depend not only on the level of participation in 287(g) agreements, but also how much of the $29.85 billion is available for state and local law enforcement. Currently, the following Arizona law enforcement agencies have 287(g) agreements: Arizona Department of Corrections, Cochise County Sheriff's Office, La Paz County Sheriff's Office, Mesa Police Department, Navajo County Sheriff's Office, Pinal County Sheriff's Office, Yavapai County Sheriff's Office, and Yuma County Sheriff's Office.

Preliminary ADOR Conformity Interpretation

	Provision	Changes to Federal Law	Effective	$ Millions FY 2026	$ Millions FY 2027	$ Millions FY 2028
1)	Limitation on Individual Deductions for Certain State and Local Taxes ("SALT Deduction") [3/]	Increases the cap for the SALT deduction from $10,000 to $40,000 for taxpayers making less than $500,000 in TY 2025. The deduction cap phases down at a 30% rate, from $40,000 to $10,000, for taxpayers making over $500,000. Increases this cap by 1% each year from TY 2026 through TY 2029. Beginning in TY 2030, the SALT deduction will be capped at $10,000. [IIT impact]	TY 2025 to TY 2029	($79.7)	($67.3)	($70.7)
2)	0.5 Percent Floor on Deduction of Contributions Made by Individuals [3/]	Sets a floor on the itemized charitable deduction, so that charitable contributions below 0.5% of adjusted gross income (AGI) are not eligible for the deduction. (For example, a taxpayer with an AGI of $100,000 cannot deduct the first $500 of charitable contributions. [IIT impact]	TY 2026 and after	$0.0	$16.9	$17.3
3)	Full Expensing for Certain Business Property (100% Bonus Depreciation) Sec. 168(K)	Establishes 100% bonus depreciation <u>permanently</u> for business investments in machinery, equipment, and other short-lived assets from Jan. 19, 2025, onward. (Under TCJA, bonus depreciation is equal to 40% in 2025, 20% in 2026, and 0%, beginning in 2027.) [IIT impact; no CIT impact due to Arizona not conforming to this provision for corporations]	Property acquired after 1/19/2025	($31.8)	($20.8)	($15.2)
4)	Full Expensing of Domestic Research and Development Expenditures Sec. 174	Permanently restores full expensing for businesses' domestic research and development (R&D) investments, retroactive from January 1, 2025 onwards. Since 2022, domestic R&D investments have had to be amortized (i.e., deductions spread out) over five years. Allows retroactivity to the beginning of 2022 (not just the beginning of 2025) for small businesses that meet an average annual gross receipts threshold of $31 million or less. [IIT & CIT impact]	TY 2025 and after (but retroactive to TY 2022 for small businesses)	($50.5)	($30.8)	($20.7)
5)	Increased Deduction of Business Interest	Businesses can deduct interest costs up to 30% of their earnings. HR 1 revises the definition of earnings so as permit greater interest deductions. Earnings previously excluded interest and taxes (EBIT). HR 1 now also excludes depreciation and amortization costs in determining earnings (EBITDA).	TY 2025 and after	($9.8)	($9.3)	($8.5)
6)	Increased Dollar Limitations for Expensing of Certain Depreciable Business Assets (Small Business Expensing) Sec. 179	Permanently increases the Sec. 179 expensing allowance targeted at small businesses, from a maximum of $1.25 million to a maximum of $2.5 million in 2025. Raises the threshold at which the expensing allowance begins to phase out for Sec. 179 property, from $3.13 million to $4 million in 2025. Both amounts above are indexed for inflation after 2025. [IIT & CIT impact]	TY 2025 and after	($10.0)	($8.4)	($7.0)

1/ JLBC Staff estimate based on prorating the nationwide impact as projected by the congressional Joint Committee on Taxation (JCT) staff, which provides the official scoring of federal tax legislation.

2/ The conformity section is split into 2 sections. The state typically conforms its tax laws to certain changes in federal laws. The "Preliminary ADOR Conformity" section reflects the department's initial perspective on the provisions that would reflect standard conformity. All other H.R. 1 tax provisions are included in the "Additional Federal Provisions" section. The state's adoption of any federal tax law provision requires a statutory change.

3/ JLBC Staff has requested an ADOR model run for this provision which may affect the scoring.

State Tax Conformity Detailed Estimates [1/ 2/]

				$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
7)	Special Depreciation Allowance for Qualified Production Property Sec. 168(N)	Creates temporary, 100% depreciation for non-residential structures (i.e., real estate) that is placed in service in the U.S. before Jan. 1, 2031, for which construction begins between Jan. 19, 2025, and Jan. 1, 2029, and that is used for "qualified production activity." "Qualified production activity" includes manufacturing, refining, agricultural production, or chemical production. [IIT & CIT impact]	TY 2025 and after	($45.5)	($51.7)	($51.1)
8)	Permanent Renewal and Enhancement of Opportunity Zones	The Opportunity Zone (OZ) program provides certain tax benefits, such as a deferral of capital gains that are reinvested into a Qualified Opportunity Fund (QOF) in a low-income area. The QOF invests in businesses or properties in these areas. The bill sunsets currently designated OZs on December 31, 2026 (rather than December 31, 2028, as provided under prior law). As a result, taxes on deferred capital gains will be paid sooner, resulting in an FY 2027 revenue gain. The bill establishes a new, permanent OZ program, with OZ designations every 10 years, beginning January 1, 2027. This provision will generate new deferred capital gains starting in FY 2028, thereby resulting in a revenue loss. The bill also narrows the definition of low-income community from 80% of the statewide median income to 70%. [IIT & CIT Impact]	TY 2027 and after	$0.0	$42.8	($8.1)
9)	Other Smaller Provisions	These provisions require additional analysis. We will need to obtain ADOR's analysis of which of these provisions would be considered part of AGI/CTI and which would be placed in the Additional Federal Provisions section.	Various	($0.4)	$5.8	$7.1
	Subtotal - Preliminary ADOR Conformity Interpretation			**($227.7)**	**($122.7)**	**($156.9)**

Additional Federal Provisions

				$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
10)	Additional $6,000 Deduction for Seniors (which phases out for income above $75,000/$150,000) [3/]	Creates an additional standard deduction for taxpayers over 65 from 2025 through 2028. The deduction is equal to $6,000 per individual and phases out at a 6% rate for single taxpayers making above $75,000 and married taxpayers making above $150,000. At this rate, the deduction is totally phased out for single taxpayers making above $175,000 and married taxpayers making above $250,000. This provision is frequently described as eliminating federal income taxes on Social Security benefits. HR 1 does not literally eliminate federal taxation of these benefits, but instead provides this additional deduction to offset the federal tax impact for most Social Security households. Arizona already exempts all Social Security benefits from state income taxes, but the state could still choose to conform to this higher deduction for taxpayers over 65. The senior deduction is available whether a taxpayer takes the standard deduction or itemizes their deductions. [IIT impact]	TY 2025 to TY 2028	($53.7)	($53.6)	($54.3)
11)	New Auto Loan Interest Deduction	Creates a new deduction for certain auto loan interest from 2025 through 2028. The deduction is limited to $10,000 overall and phases out at a 20% rate for single taxpayers making above $100,000 and married taxpayers making above $200,000. The deduction only applies to vehicles that are completed (i.e., assembled) in the U.S., and are new vehicles (not used). The auto loan deduction is available whether a taxpayer takes the standard deduction or itemizes their deductions. [IIT impact]	TY 2025 to TY 2028	($12.6)	($18.8)	($23.1)
12)	Reduce Taxation on Tips	Adds a deduction for qualified tips from 2025 through 2028. Includes a $25,000 limit on the amount of the deduction, and the deduction is generally limited to occupations that the Treasury Secretary certifies “customarily and regularly” received tips before 2025. The deduction phases out at a 10% rate for single taxpayers making more than $150,000 and married couples making more than $300,000. The tips deduction is available whether a taxpayer takes the standard deduction or itemizes their deductions. [IIT impact]	TY 2025 to TY 2028	($23.6)	($17.9)	($18.8)

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1/ JLBC Staff estimate based on prorating the nationwide impact as projected by the congressional Joint Committee on Taxation (JCT) staff, which provides the official scoring of federal tax legislation.

2/ The conformity section is split into 2 sections. The state typically conforms its tax laws to certain changes in federal laws. The "Preliminary ADOR Conformity" section reflects the department's initial perspective on the provisions that would reflect standard conformity. All other H.R. 1 tax provisions are included in the "Additional Federal Provisions" section. The state's adoption of any federal tax law provision requires a statutory change.

3/ JLBC Staff has requested an ADOR model run for this provision which may affect the scoring.

State Tax Conformity Detailed Estimates [1/][2/]

				$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
13)	Reduce Taxation on Overtime	Adds a deduction for qualified overtime compensation from 2025 through 2028. There is a $12,500 limit on the amount of the deduction ($25,000 for married couples). The deduction applies to the extra compensation a taxpayer earns in overtime, not their entire compensation during overtime. (For example, an employee who earns $20/hour base pay and $30/hour as overtime pay, would be eligible for the deduction on the incremental $10/hour earned during overtime.) The deduction phases out at a 10% rate for single taxpayers making more than $150,000 and married couples making more than $300,000. The overtime deduction is available whether a taxpayer takes the standard deduction or itemizes their deductions. [IIT impact]	TY 2025 to TY 2028	($76.5)	($59.8)	($53.6)
14)	Increase of Standard Deduction ($750/$1,125/$1,500) [3/]	Adds $750 to the standard deduction for single taxpayers, $1,125 for head of households, and $1,500 for married couples in 2025, so that the standard deduction in 2025 is $15,750 for single filers, $23,625 for head of household filers, and $31,500 for married couples filing jointly. Continues to adjust the standard deduction for inflation after 2025. [IIT impact]	TY 2025 and after	($44.2)	($45.0)	($46.2)
15)	Permanent and Expanded Reinstatement of Partial Deduction for Charitable Contributions of Individuals Who Do Not Elect to Itemize [3/]	Creates a deduction for charitable contributions from 2026 onwards for those who do not itemize deductions, equal to $1,000 for single taxpayers and $2,000 for married couples. Arizona statute allows an individual who takes the standard deduction for state income tax purposes to increase their standard deduction by 33% (this percentage is adjusted for inflation annually) of their charitable contributions that otherwise would have been deductible if they had elected to itemize their tax return. Because this state deduction for non-itemizers is similar to the one provided under HR 1, there could be some interactions between the state and federal provisions that affect the scoring of the state conformity cost. For this reason, additional research and analysis may be needed. [IIT impact]	TY 2026 and after	$0.0	($18.2)	($19.0)
16)	Trump Accounts and Contribution Pilot Program	Creates a new tax-advantaged savings account called a Trump Account. Accounts are available only for children under the age of 18 for whom a social security number has been issued. For US citizens born between January 1, 2025, and December 31, 2028, the federal government will contribute $1,000 per child to every eligible account. Parents, family members and employers may contribute up to $5,000 annually to a Trump Account, indexed for inflation. There is no tax liability on capital gains until funds are withdrawn from the account. Amounts from these accounts may not be distributed to beneficiaries until after they have reached age 18. Most of the federal cost is related to the $1,000 contribution by the federal government to the Trump Account. Since the federal government's contribution to the new accounts will not affect federal adjusted gross income, this provision is expected to have a minimal state-level impact. [IIT impact]	TY 2025 and after	-	-	-
	Subtotal - Additional Federal Provisions			**($210.6)**	**($213.4)**	**($215.0)**
	Total - All Tax Conformity			**($438.3)**	**($336.2)**	**($371.9)**

Benefit Changes

					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
18)	Expand Work Requirements and Other Provisions (Federal Funds Only)	Modifies the SNAP work requirements. Under current law, non-disabled SNAP enrollees aged 16-59 are subject to a general work requirement that requires registration for work, accepting a job if offered, and, if already employed, not quitting a job or reducing work hours. In addition, able-bodied adults without dependents (ABAWDs) aged 18-54 are subject to an additional work requirement of a minimum of 20 hours per week of employment or participation in a state-administered work program. Individuals subject to the additional work requirement may only receive SNAP benefits for 3 months in a 36-month period unless they comply with the additional work requirement.	Based on Congressional Budget Office (CBO) analysis, we estimate these provisions reduce SNAP benefit spending by (13.5)%, or $(288.7) million. The (13.5)% assumption is based on CBO's scoring of these reductions relative to its baseline estimates. These reductions would be due to both lower caseloads associated with expanded work requirements and lower benefit allotments. SNAP benefit allotments for each household are calculated by comparing net income available for food purchases to the cost of the Thrifty Food Plan. The $(288.7) million of savings would not have a direct impact on the General Fund as SNAP benefits are currently 100% federally funded. However, as discussed in more detail below, the state may soon be required to contribute to the cost of SNAP benefits. As a result, in addition to generating federal savings, these provisions would also reduce the amount the state contributes if and when the state match is implemented.	Date of Enactment (7/4/2025)	$0.0	$0.0	$0.0

Provision 18 continued on next page.

1/ Please see *Appendix E* for information on non-General Fund impacts of H.R. 1 Medicaid provisions.

SNAP Benefit Provisions Detailed Estimates [1/]

					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
18)	Expand Work Requirements and Other Provisions (Federal Funds Only) Contd.	H.R. 1 modifies the additional work requirement as follows: • Increases the minimum age required for an exemption from 55 to 65. • Includes adults with dependents if the dependents are aged 14 or older. • Adds exemption for tribal members. • Removes exemption for homeless individuals, veterans, and former foster youth aged 24 or younger • Limits geographic waivers of the work requirements. Other H.R. 1 provisions: • Reduce the growth of future SNAP benefit increases. Under prior law, SNAP adjustments reflected both inflation and changes in consumers' typical market basket of goods. H.R. 1 limits future increases to changes in the Consumer Price Index. • Eliminate the use of a utility and internet deductions in calculating a household's net income.	The new limits on work requirement waivers would also affect Arizona. Under prior law, the federal government could grant waivers if there were not a "sufficient number of jobs" in a geographic area. Under that criteria, the federal government only applied the work requirements in non-tribal areas of Maricopa County. H.R. 1 limits the use of waivers to jurisdictions with an unemployment rate above 10%. Only Yuma County currently has an unemployment rate above 10%.		$0.0	$0.0	$0.0
	Subtotal - Benefit Changes				**$0.0**	**$0.0**	**$0.0**

SNAP Administrative Cost Provisions Detailed Estimates 1/

					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
19)	Administrative Cost Sharing	Increases the state's share of SNAP administrative costs from 50% to 75%. The federal share will decline from 50% to 25%.	We estimate that the 25% increase to the state share generates a cost of $44.2 million on an annual basis, but the cost would be $32.7 million in FY 2027 since the provision does not become effective until October 2026. This estimate is based on a federal Office of Management and Budget (OMB) report that shows Arizona spent $160.9 million in total on SNAP administration in FFY 2023. Our estimate assumes this amount grows at an annual rate of 2% based on CBO projections of administrative cost increases within SNAP.	10/1/2026	$0.0	$32.7	$44.2
20)	Benefit Cost Sharing/ Error Rates	Adds a state matching requirement for SNAP benefits that is based on the state's payment error rate. States will be exempt if their error rate is below 6%. As the error rate increases above 6%, states are required to pay an increasing percentage of the SNAP benefit costs *(Please see table below.)* On a one-time basis, states with error rates above 13.3% are exempt from the benefit share provisions for up to 2 years after the regular October 2027 effective date. On an ongoing basis, a state's benefit share will be based on its error rate 3 years prior. In FFY 2028, the state will have the choice of using its FFY 2025 or FFY 2026 error rate. Error Rate — State Match 0%-5.99% — 0% 6%-7.99% — 5% 8%-9.99% — 10% 10% or more* — 15% *In FFY 2028 and FFY 2029, no cost share if >13.3%.	The FY 2028 cost of this provision will depend on the state's error rate in FFY 2025 or FFY 2026. In the last 3 years, the state's error rate has been: • FFY 2022 = 11.4% • FFY 2023 = 11.4% • FFY 2024 = 8.8% We lack a reliable means of estimating the error rate for either FFY 2025 or FFY 2026, the two benchmarks for the FFY 2028 rate. As a result, our estimate is based on Arizona maintaining its current error rate of 8.8%. At that level, we estimate that the state cost will be $185.0 million on an annual basis, but the cost would be $138.7 million in FY 2028 since the provision does not become effective until October 2027. This estimate assumes that SNAP benefits in Arizona will equal $1.85 billion by FFY 2028. Our estimate assumes that in the absence of SNAP benefit and eligibility changes required by H.R. 1, SNAP benefit spending in Arizona would have grown to $2.14 billion by FFY 2028 based on national baseline growth estimates from CBO, or approximately 2% each year. However, we have reduced the $2.14 billion figure by (13.5)% to $1.85 billion to reflect other benefit and eligibility reductions included in H.R. 1 discussed above.	10/1/2027	$0.0	$0.0	$138.7

SNAP Administrative Cost Provisions Detailed Estimates [1/]

					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
21)	Increase Administrative Funding to Lower SNAP Error Rate (Agency Request)	See H.R. 1 provision above.	In its September 2025 budget submission, the Department of Economic Security (DES) requested ongoing administrative funding of $26.3 million from the General Fund for additional staff in FY 2027. The DES request does not reflect JLBC Staff recommended funding levels. More analysis is needed of the agency budget request and the Governor's office will also recommend a funding level in their January budget proposal.	-	$7.5	$26.3	$26.3
22)	Expand Work Requirements - Administrative Costs (Agency Request)	See H.R. 1 provision above.	In its September 2025 budget submission, DES requested a one-time $1.8 million General Fund supplemental in FY 2026 to address the increase in administrative workload related to expanded work requirements. The DES request does not reflect JLBC Staff recommended funding levels. More analysis is needed of the agency budget request and the Governor's office will also recommend a funding level in their January budget proposal.	Date of Enactment (7/4/2025)	$1.8	$0.0	$0.0
	Subtotal - Administrative Costs				**$9.3**	**$59.0**	**$209.2**
	Total Cost - SNAP Provisions				**$9.3**	**$59.0**	**$209.2**

Enrollment Changes

					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
23)	New Medicaid Work/Community Engagement Requirement - Savings	Requires states to impose work requirements on the Medicaid expansion population in order to qualify for Medicaid. Adults aged 19-64 are subject to the work requirements, but the following are exempt: • Pregnant women and parents/caretakers of children aged 13 and under. • Blind or disabled individuals. • Tribal members. • Medically frail individuals, including those with a substance use disorder, disabling mental disorder, or serious/complex medical condition. • States have the option to exempt individuals experiencing a short-term hardship, such as living in a high-unemployment county or traveling to receive necessary medical care. An individual must either be working or participating in a qualifying work-related activity for at least 80 hours in a month. Qualifying work-related activities include: • Community service. • A work program. • An educational program (at least half-time). • Any work that generates a monthly income that is the equivalent of working at least 80 hours per month at the federal minimum wage.	Although these work requirements will go into effect in January 2027, H.R. 1 gives federal regulators the authority to exempt states from the work requirements for up to 2 years if the state is unable to comply by this date and demonstrates a good faith effort to come into compliance. The impact on Arizona over the next several years will ultimately depend on the capacity of AHCCCS to begin administering the new work requirements and whether the federal government grants the state an extension in the event that AHCCCS applies for one. CBO scoring appears to assume that a portion of states will be granted extensions as the estimated federal savings are phased in over the next several years. We estimate that this provision will result in a Total Fund reduction of $(298.8) million in FY 2027 and $(641.1) million in FY 2028 by prorating CBO scoring in these years. However, this prorating methodology is likely imprecise for estimating the impact to any one state. CBO's estimated federal savings stabilizes by FFY 2030, likely reflecting that H.R. 1 does not allow for extensions beyond January 2029. By prorating these numbers, we estimate that this provision will result in a Total Fund annual reduction of $(1.60) billion in FY 2030, including $(48.1) million from the General Fund, $(112.3) million from the HAF, and $(1.44) billion from Federal Funds. We estimate that this level of savings would be associated with a decline in caseloads of approximately (144,000) individuals. However, please note that this estimate is highly speculative for several reasons and that it only reflects our estimate for when the state reaches full implementation, which may not be until FY 2030.	1/1/2027	-	($9.0)	($19.3)

1/ Please see *Appendix E* for information on non-General Fund impacts of H.R. 1 Medicaid provisions.

Medicaid Enrollment Benefits Detailed Estimates [1/]

					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
24)	Semiannual Redeterminations for Expansion Population - Savings	Increases the frequency states are required to renew the eligibility of Medicaid expansion adults from at least every 12 months to at least every 6 months. The Medicaid expansion population consists of childless adults with incomes up to 133% of the Federal Poverty Level (FPL) and parents and caretaker relatives with incomes between 106% and 133% of FPL. Tribal members are exempted from the more frequent redeterminations. As of September 2025, there were 446,000 adults enrolled in Arizona's Medicaid expansion program.	Based on Arizona's prorated share of the Congressional Budget Office (CBO) estimate of the expansion population, this provision will result in a Total Fund annual reduction of $(245.1) million, including $(7.4) million from the General Fund, $(17.2) million from the Hospital Assessment Fund (HAF) and $(220.5) million from Federal Funds. We estimate that this level of savings would be associated with a decline in enrollment of the equivalent of approximately (27,000) individuals. We estimate the savings will be halved in FY 2027 since the provision does not become effective until January 2027.	1/1/2027	-	($3.7)	($7.4)
25)	Eliminate Medicaid Eligibility for Refugees, Asylum Grantees, and Others	Limits the eligibility of lawfully present immigrants for Medicaid and CHIP to lawful permanent residents, certain Cuban and Haitian immigrants, and citizens of the Freely Associated States (COFA migrants) lawfully residing in the U.S. Eliminates eligibility for refugees, asylees, and individuals granted humanitarian parole for at least 1 year.	Based on a prorated share of CBO scoring of this provision, this provision will result in a $(15.7) million Total Fund annual reduction, including $(3.2) million from the General Fund, $(730,000) from the HAF and $(11.8) million from Federal Funds. This reflects an estimated 25% state match contribution as a blended average across the various AHCCCS population categories. We estimate the savings will be 75% of the annual amount in FY 2027 since the provision does not become effective until October 2026.	10/1/2026	-	($2.4)	($3.2)
26)	Reduction in Federal Match for Emergency Medicaid	Under prior law, individuals that did not qualify for full Medicaid and CHIP solely on the basis of immigration status could still qualify for coverage of emergency services (including labor and delivery) through the Federal Emergency Services (FES) program. The federal government had reimbursed Medicaid expansion adults receiving FES at a 90% federal match. This H.R. 1 provision reduces the 90% match to the state's regular match rate.	Only expansion adults with incomes up to 133% FPL currently receive a 90% match and will therefore be impacted by this provision. Additionally, because the physical health care costs of expansion adults, including FES, are covered by an assessment on hospitals, this provision does not have a General Fund impact. FES spending for the population currently receiving a 90% match is $63.2 million Total Funds an on annual basis. We estimate that a reduction in the match rate to 64% generates $16.3 million of additional state costs that are covered by the HAF and a corresponding $(16.3) million in federal savings.	10/1/2026	-	Non-GF	Non-GF

Medicaid Enrollment Benefits Detailed Estimates [1/]

					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
27)	Reduce Retroactive Coverage	Under prior law, individuals could receive coverage of health care services furnished in any of the 3 calendar months prior to the month of their application. H.R. 1 reduces retroactive coverage to 1 month for expansion adults and 2 months for members of the traditional Medicaid population. The impact on Arizona is limited to only pregnant women and children as the state currently operates under a federal waiver that already limits retroactive coverage to the first day of the month of application for all populations except pregnant women and children.	Based on currently available AHCCCS data, we estimate that this provision would result in a Total Funds reduction of $(1.5) million, including $(540,000) from the General Fund and $(1.0) million from Federal Funds. These estimates assume that retroactive expenditures are, on average, evenly distributed across the 3-month period. We estimate the savings will be halved in FY 2027 since the provision does not become effective until January 2027.	1/1/2027	-	($0.3)	($0.5)

<u>Subtotal - Enrollment Changes</u>	**-**	**($15.4)**	**($30.4)**

Provider Payment Changes

					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
28)	Limitations on Provider Taxes	See Summary Narrative and Appendix D		10/1/2027	Non-GF	Non-GF	Non-GF
29)	Limitations on State Directed Payments	Limits the total state directed payment (SDP) rate for inpatient hospital and nursing facility services to 100% of the Medicare rate for states that have expanded Medicaid and 110% for states that have not expanded. This provision initially grandfathers SDPs approved prior to H.R. 1's enactment, but gradually reduces these grandfathered SDPs' reimbursement levels each year beginning January 2028 until they reach the specified Medicare limit. SDPs are payments that a Medicaid state agency directs managed care organizations (MCOs) to make to specific health care providers. SDPs must meet certain criteria, such as advancing provider quality objectives, and receive federal approval.	<u>Hospital Directed Payments</u> Hospital directed payments, also referred to as "HEALTHII" payments *(See Appendix D),* are the largest example of SDPs within AHCCCS. Because the revenues from the hospital assessment are the source of the HEALTHII payment state match, this provision does not have an impact on General Fund expenditures. However, if HEALTHII payments were to be reduced when grandfathered SDPs begin to experience reductions in FY 2028, this could have an impact on General Fund revenue from IPT payments. <u>Valleywise</u> AHCCCS recently began providing SDPs to the Valleywise system of public hospitals via a new program called the Safety Net Services Initiative (SNSI). Similar to HEALTHII payments, Valleywise provides the state match for SNSI, and therefore this provision does not have an impact on General Fund expenditures but may impact IPT revenue beginning in FY 2028. There are a number of directed payment programs within AHCCCS beyond those listed above. We need further input from the federal government and AHCCCS regarding which programs, if any, will eventually be limited by this provision of H.R. 1.	Date of Enactment (7/4/2025)	-	-	-

Medicaid Provider Payment Detailed Estimates [1/]

					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
30)	New Rural Hospital Grants	H.R. 1 appropriated $50 billion nationwide over 5 years ($10 billion annually) to support rural health initiatives. Of this amount, half will be distributed equally between the states. The federal Department of Health and Human Services will have the discretion to distribute the other 50% of the monies based on state applications. The application deadline is November 5, 2025 and awardees will be announced by December 31, 2025. The program is designed to improve rural healthcare access.	Arizona would receive approximately $100 million annually through FY 2030 through the program's formula distribution of equal dollar shares to each state. Arizona may also qualify for additional funding from the discretionary portion of the federal grant program.	12/31/2025			
	Subtotal - Provider Payment Changes				-	-	-

Medicaid Administrative Cost Detailed Estimates [1/]

Administrative Costs/Other

	Provision	Changes to Federal Law	Estimated Impact on Arizona	Effective	$ Millions FY 2026	$ Millions FY 2027	$ Millions FY 2028
31)	Add 320 FTE Positions for Work Requirements/More Frequent Redeterminations (Agency Request)	See H.R. 1 provision above.	In its September 2025 budget submission, AHCCCS requested $18.8 million General Fund ($71.4 million Total Funds) in administrative funding in FY 2027, including 320 FTE Positions, to comply with H.R. 1. AHCCCS anticipates the annualized cost is $20.3 million General Fund ($76.7 million Total Funds). The AHCCCS request does not reflect JLBC Staff recommended funding levels. More analysis is needed of the agency budget request, and the Governor's office will also recommend a funding level in their January budget proposal. H.R. 1 includes one-time funding of $200 million nationwide to assist states in implementing the work requirements. We project that Arizona would receive approximately $4 million of this funding.	1/1/2027	$11.0	$18.8	$20.3
32)	State Cost Sharing for Error Rate Above 3%	Requires federal regulators to reduce federal matching funds associated with erroneous payments made by states above the allowable error rate of 3% for individuals that were either ineligible for Medicaid or when insufficient information is available to confirm eligibility.	Federal regulators currently audit states on 3-year cycles for improper payments. The results of Arizona's most recent audit were published in November 2024, which showed that the state's error rate related to eligibility determinations was 1.5%. The next audit will likely be published in November 2027. We lack a reliable means of projecting future error rates. If Arizona maintained its current error rate of 1.5%, this would be within the allowable range and there would not be a fiscal impact. However, in the previous audit published in November 2021, Arizona's eligibility error rate was 16.3%, in which case this could potentially represent a General Fund fiscal impact. The impact will depend on the volume of improper payments in future years.	10/1/2029	-	-	-

	FY 2026	FY 2027	FY 2028
Subtotal - Administrative Costs	**$11.0**	**$18.8**	**$20.3**
Total - Spending	**11.0**	**3.4**	**(10.1)**

Medicaid IPT Revenue Impacts [1/]

General Fund Revenue Loss

					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
	Reduction in State's 2% Insurance Premium Tax (IPT) Collections	Under state law, health insurers pay a 2% tax on their premium revenue, including their Total Medicaid revenue, to the General Fund. While H.R. 1 does not affect this 2% tax directly, several of its provisions will likely impact IPT revenue levels.	Based on Total Fund premium reductions, the state's General Fund IPT collections would begin to decline in FY 2027. The revenue loss will also depend on any reductions related to state directed payments and Affordable Care Act Health Care Exchanges, which are not incorporated into these estimates.	--	-	($8.7)	($18.0)

Total - State Revenue Impacts - Medicaid	**-**	**($8.7)**	**($18.0)**

Medicaid Provider Assessment Detailed Estimates

Table 2

Pre-H.R. 1 Hospital Assessment Analysis ($ in Millions)

		FY26	FY27 [3/]	FY28	FY29	FY30	FY31	FY32
A	Total Hospital Inpatient/Outpatient Revenues [1/]	25,292	26,557	27,884	29,279	30,743	32,280	33,894
B	Pre-H.R. 1 Assessment Rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
C	State Match to Draw Down Federal Funds (A x B)							
D	Medicaid Expansion (HAF) [1/]	529	549	577	605	636	667	701
E	Additional Hospital Payments (HCIF) [2/]	989	1,044	1,096	1,151	1,209	1,269	1,333
F	**Total State Match (D+E)**	**1,518**	**1,593**	**1,673**	**1,757**	**1,845**	**1,937**	**2,034**
G	Pre-H.R. 1 Net Gain (Total Fund Less State Match)							
H	Medicaid Expansion	827	875	918	964	1,013	1,063	1,116
I	Additional Hospital Payments	2,648	2,813	2,967	3,129	3,300	3,479	3,667
J	**Pre-H.R. 1 Total Net Gain (H+I)**	**3,475**	**3,688**	**3,886**	**4,094**	**4,312**	**4,542**	**4,783**

1/ Assumes a baseline annual growth rate of 5%.
2/ Includes $71 million that are used for additional payments to physicians and dentists.
3/ Includes a $100 million General Fund backfill of the HAF in accordance with the 3-year spending plan associated with the FY 2025 enacted budget.

Table 3

Post-H.R. 1 Hospital Assessment Analysis ($ in Millions)

		FY26	FY27 [4/]	FY28	FY29	FY30	FY31	FY32
K	Total Hospital Inpatient/Outpatient Revenues [1/]	25,292	26,557	27,884	29,279	30,743	32,280	33,894
L	Post-H.R. 1 Assessment Rate	6.0%	6.0%	5.5%	5.0%	4.5%	4.0%	3.5%
M	State Match to Draw Down Federal Funds (K x L)							
N	Medicaid Expansion (HAF) [1/2/]	529	530	522	481	512	543	577
O	Additional Hospital Payments (HCIF) [3/]	989	1,044	1,011	983	872	748	609
P	**Total State Match (N+O)**	**1,518**	**1,574**	**1,534**	**1,464**	**1,383**	**1,291**	**1,186**
Q	Post-H.R. 1 Net Gain (from Federal Matching $)							
R	Medicaid Expansion	827	802	790	724	754	786	819
S	Additional Hospital Payments	2,648	2,813	2,715	2,630	2,302	1,935	1,525
T	**Post-H.R. 1 Total Net Gain (R+S)**	**3,475**	**3,615**	**3,505**	**3,354**	**3,056**	**2,721**	**2,344**

1/ Assumes a 5% baseline annual growth rate.
2/ Incorporates estimated losses in coverage from other provisions of H.R. 1.
3/ Includes $71 million that are used for additional payments to physicians and dentists.
4/ Includes a $100 million General Fund backfill of the HAF in accordance with the 3-year spending plan associated with the FY 2025 enacted budget.

H.R. 1 Impacts on Arizona Total Funds Budget [1/]

Appendix E

		A	B	C	D	E	F	G	H
		FY 2027 General Fund ($ in M)	**FY 2027 Hospital Assessment ($ in M)**	**FY 2027 Federal Funds ($ in M)**	**FY 2027 Total Funds ($ in M)**	**FY 2028 General Fund ($ in M)**	**FY 2028 Hospital Assessment ($ in M)**	**FY 2028 Federal Funds ($ in M)**	**FY 2028 Total Funds ($ in M)**
	Supplemental Nutrition Assistance Program (SNAP)								
	Benefit Changes								
18	Work Requirements and Other Provisions	-	-	(288.7)	(288.7)	-	-	(288.7)	(288.7)
	Administrative Costs								
19	Increase State Share of SNAP Administrative Costs from 50% to 75%	32.7	-	(32.7)	-	44.2	-	(44.2)	-
20	Require State Cost Sharing of Benefits if Error Rate Is 6% or Higher	-	-	-	-	138.7	-	(138.7)	-
21	Increase Admin Funding to Lower SNAP Error Rate (Agency Request)	26.3	-	8.8	35.1	26.3	-	8.8	35.1
22	Expand Work Requirements - Administrative Costs (FY26 Only - $1.8 M)	-	-	-	-	-	-	-	-
	Subtotal - Spending Adjustments - SNAP	**59.0**	**-**	**(312.6)**	**(253.6)**	**209.2**	**-**	**(462.8)**	**(253.6)**
	Medicaid								
	Enrollment Changes								
23	New Medicaid Work/Community Engagement Requirement	(9.0)	(21.0)	(268.8)	(298.8)	(19.3)	(45.0)	(576.9)	(641.1)
24	Semiannual Redeterminations for Expansion Population	(3.7)	(8.6)	(110.3)	(122.6)	(7.4)	(17.2)	(220.5)	(245.1)
25	Eliminate Medicaid Eligibility for Refugees, Asylum Grantees, Others	(2.4)	(0.5)	(8.9)	(11.8)	(3.2)	(0.7)	(11.8)	(15.7)
26	Reduction in Federal Match for Emergency Medicaid	-	12.2	(12.2)	-	-	16.3	(16.3)	-
27	Reduce Retroactive Coverage	(0.3)	-	(0.5)	(0.8)	(0.5)	-	(1.0)	(1.5)
	Provider Payment Changes								
28	Limitations on Provider Assessments - See Appendix D [1/]	-	-	-	-	-	-	-	-
29	Limitations on State Directed Payments (to be determined) [1/]	-	-	-	-	-	-	-	-
30	New Rural Hospital Grant (Minimum $100 M Annually)	-	-	-	-	-	-	-	-
	Administrative Costs/Other								
31	Add Positions for Work Requirements/Redeterminations (Agency Request)	18.8	-	52.6	71.4	20.3	-	56.4	76.7
32	State Cost Sharing for Error Rate Above 3% (starts in FY30)	-	-	-	-	-	-	-	-
	Subtotal - Spending Adjustments - Medicaid	**3.4**	**(17.9)**	**(348.1)**	**(362.5)**	**(10.1)**	**(46.6)**	**(770.1)**	**(826.8)**
	General Fund Revenue Loss								
	Lower Insurance Premium Tax Collection	(8.7)	-	-	(8.7)	(18.0)	-	-	(18.0)

1/ No General Fund impact.

Comparison of State Tuition Organization Tax Credits and Federal Scholarship Granting Organization Tax Credit [1/]

	Provision	State Law	Federal Law
1)	Eligible Recipients	There is no income cap for STO scholarship awardees in the "Original" or the "Switcher" programs. An STO may consider the financial need of applicants when awarding scholarships. <u>Private School "Original"</u> An STO awardee may not be enrolled in a public school or a recipient of an Empowerment Scholarship Account. <u>Private School "Switcher"</u> In addition to the requirements of the "Original" program, recipients of "Switcher" scholarships must also meet one of the following criteria: - Attended public school for at least 90 days in the prior year. - Is a dependent of a member of the armed forces. - Is entering Kindergarten. - Received an STO scholarship in the previous year under one of the previous criteria. - Was homeschooled or received an ESA in the prior year. ESA and STO payments cannot be received in the same year.	SGOs may only award scholarships to students whose household income is no more than 300% of the area median gross income ($303,300 for Arizona in FY 2025; actual limit could be higher or lower in specific area of the state).
2)	Allowable Uses of Scholarship	An STO may only award a scholarship or tuition grant to a student for attendance at a "qualified school" that does not discriminate based on any protected class and that requires any personnel that have unsupervised contact with children to be fingerprinted. "Qualified schools" include: - A preschool that offers services to students with disabilities. - A nongovernmental primary school. - A nongovernmental secondary school.	An SGO may award a scholarship for any of the following in connection with enrollment in a "public, private, or religious school": - Expenses for tuition, fees, academic tutoring, special needs services, books, supplies, and other equipment. - Expenses for room and board, uniforms, transportation, and supplementary items and services. - Expenses for the purchase of any computer technology or equipment or Internet access and related services. There are no restrictions on the types of school that a child receiving an SGO scholarship may attend.

Comparison of State Tuition Organization Tax Credits and Federal Scholarship Granting Organization Tax Credit 1/

	Provision	State Law	Federal Law
3)	Annual Tax Credit Cap	Private School "Original" $769 single / $1,535 married filing jointly - Adjusted annually for inflation Private School "Switcher" $766 single / $1,527 married filing jointly - Adjusted annually for inflation	$1,700 for all taxpayers for any tax year
4)	Non-Profit Status	Student Tuition Organizations (STOs) must be a 501(c)(3) nonprofit.	Same.
5)	Operational Expenditures	STOs must spend at least 90% of income on scholarships.	Same.
6)	Provision of Scholarships	STOs may not limit the availability of scholarships to only students of one school.	SGOs must provide scholarships to at least 10 students who do not all attend the same school.
7)	Prioritization of Scholarships	STOs receiving "Switcher" donations must prioritize those donations to students and siblings of students on any scholarship waiting list the STO may maintain.	SGOs must prioritize students who received a scholarship in the previous school year, then students whose siblings received a scholarship in the previous school year.
8)	Donor Benefit to Themselves	STO donors may recommend a specific beneficiary to the STO, but the STO has final authority on which students to award scholarships to. A donor may not condition their or others' donation on the awarding of a scholarship to a specific student, including their own dependent child.	SGOs may not earmark contributions for scholarships on behalf of any particular student.
9)	Carry-Forward of Unused Benefit	An STO donor may carry forward tax credits earned for donations to STOs for up to 5 years.	Same.

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1/ This analysis excludes a "public school extracurricular" tax credit available under state law. Arizona Department of Revenue guidance specifically prohibits an Arizona taxpayer from claiming the public school extracurricular tax credit on donations to third parties (such as an SGO), while the federal tax credit may only be claimed on donations to third-party SGOs; as such, we believe there likely would not be any direct interaction between the credits. However, Arizona residents would likely still be able to receive SGO donations on comparable public school expenses.