Impacts of H.R. 1 Provisions – Medicaid

House Health and Human Services Committee Presentation

January 26, 2026

H.R. 1 Medicaid General Fund Impacts (Enrollment)

		FY 2027 ($ in M)		FY 2028 ($ in M)
	Medicaid			
	Enrollment Changes (See Appendix A)			
1	Establish Medicaid Work/Community Engagement Requirement (80hrs/Month)	(9.0)		(19.3)
2	Require Semiannual Rather than Annual Redeterminations for Expansion Population Above 100% FPL	(3.7)		(7.4)
3	Eliminate Medicaid Eligibility for Refugees, Asylum Grantees, & Others	(2.4)		(3.2)
4	Reduce Expansion Federal Match Rate for Emergency Medicaid from 90% to 64%	Non-GF		Non-GF
5	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)**

H.R. 1 Other Medicaid Impacts (Provider Payments/Admin)

		FY 2027 ($ in M)		FY 2028 ($ in M)
	Medicaid			
	Provider Payment Changes (See Appendix B)			
6	Reduce the Provider Tax Rate from 6% to 3.5% between FY28 and FY32 (See Appendix C)	Non-GF		Non-GF
7	Limitations on State Directed Payments	-		-
8	New Rural Health Care Grant ($167 Million in First Year)	-		-
	Administrative Costs/Other (See Appendix D)			
9	Add 150 FTE Positions for Work Requirements/More Frequent Redeterminations (Governor = $14.4 M)	-		-
10	Require State Cost Sharing if Error Rate above 3% (beginning FY30)	-		-
	Total - Spending Adjustments - Medicaid (See Appendix E)	**(15.4)**		**(30.4)**

Appendices

Appendix A: Medicaid Enrollment Provisions

					State Impact		
					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
1	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.	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.	1/1/2027	-	($9.0)	($19.3)

Appendix A: Medicaid Enrollment Provisions

					State Impact		
					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
1	New Medicaid Work/Community Engagement Requirement - Savings (cont.)	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.	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)

Appendix A: Medicaid Enrollment Provisions

					State Impact		
					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
2	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 November 2025, there were 435,000 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)
3	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)

Appendix A: Medicaid Enrollment Provisions

					State Impact		
					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
4	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
5	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)
	Subtotal - Enrollment Changes				-	**($15.4)**	**($30.4)**

Appendix B: Medicaid Provider Payment Provisions

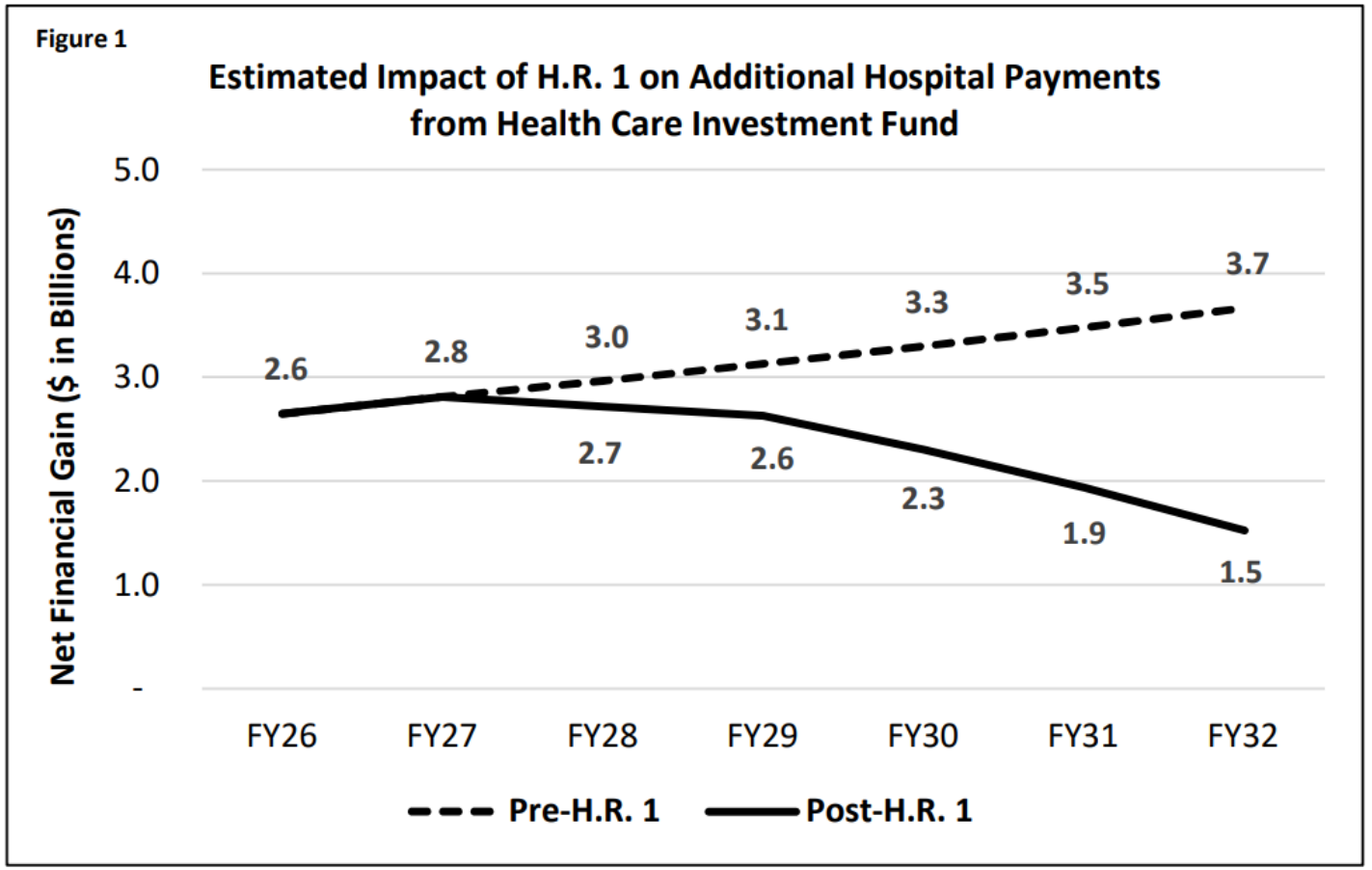
					State Impact		
					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
6	Limitations on Provider Taxes	See Appendix C	See Appendix C	10/1/2027	Non-GF	Non-GF	Non-GF
7	Limitations on State Directed Payments	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, 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)	-	-	-

Appendix B: Medicaid Provider Payment Provisions

					State Impact		
					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
8	New Rural Health Care 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 was November 5, 2025, and awardees were announced on December 29, 2025. The program is designed to improve rural health care access.	Arizona will receive $100 million annually through FY 2030 through the program's formula distribution of equal dollar shares to each state. Arizona also qualified for additional funding from the discretionary portion of the federal grant program. It will receive $67 million in these funds for the initial year of the grant. In total, Arizona's annual award amount in FY 2026 is $167 million, which the state has until the end of the following federal fiscal year to spend. The average award for states is $200 million annually.	12/31/2025	-	-	-

Appendix C: Reduction of Provider Tax Rate from 6% to 3.5%

- Estimated to Reduce Hospital Net Financial Gain from Tax to $1.5 B by FY32



Appendix D: Medicaid Admin Provisions

					$ Millions	$ Millions	$ Millions
	Provision	**Changes to Federal Law**	**Estimated Impact on Arizona**	**Effective**	**FY 2026**	**FY 2027**	**FY 2028**
9	Add 150 FTE Positions for Work Requirements/More Frequent Redeterminations (Governor Request)	See Appendix A	In its January budget proposal, the Governor requested $14.4 million General Fund in one-time administrative funding in FY 2027, including 150 FTE Positions, to comply with H.R. 1. The Governor's request does not reflect JLBC Staff recommended funding levels. More analysis is needed of the request. 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	-	-	-
10	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	-	-	-

Appendix E: H.R. 1 Impacts on AHCCCS Total Funds Budget

		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)
	Medicaid									
	Enrollment Changes									
1	New Medicaid Work/Community Engagement Requirement	(9.0)	(21.0)	(268.8)	(298.8)		(19.3)	(45.0)	(576.9)	(641.1)
2	Semiannual Redeterminations for Expansion Population	(3.7)	(8.6)	(110.3)	(122.6)		(7.4)	(17.2)	(220.5)	(245.1)
3	Eliminate Medicaid Eligibility for Refugees, Asylum Grantees, Others	(2.4)	(0.5)	(8.9)	(11.8)		(3.2)	(0.7)	(11.8)	(15.7)
4	Reduction in Federal Match for Emergency Medicaid	-	12.2	(12.2)	-		-	16.3	(16.3)	-
5	Reduce Retroactive Coverage	(0.3)	-	(0.5)	(0.8)		(0.5)	-	(1.0)	(1.5)
	Provider Payment Changes									
6	Limitations on Provider Assessments (See Appendix C) 1/	-	-	-	-		-	-	-	-
7	Limitations on State Directed Payments (to be determined) 1/	-	-	-	-		-	-	-	-
8	New Rural Health Care Grant ($167 Million in First Year)	-	-	-	-		-	-	-	-
	Administrative Costs/Other									
9	Add 150 FTE Positions for Work Requirements/Redeterminations (Governor = $14.4 M GF)	-	-	-	-		-	-	-	-
10	State Cost Sharing for Error Rate Above 3% (starts in FY30)	-	-	-	-		-	-	-	-
	Subtotal - Spending Adjustments - Medicaid	**(15.4)**	**(17.9)**	**(400.7)**	**(433.9)**		**(30.4)**	**(46.6)**	**(826.5)**	**(903.5)**
	General Fund Revenue Loss									
	Lower Insurance Premium Tax Collection	(8.7)	-	-	(8.7)		(18.0)	-	-	(18.0)

1/ No General Fund impact.