

HEALTH MANAGEMENT ASSOCIATES

– Evaluation of Impact of Federal Medicaid Proposals in H.R.1 on AHCCCS – **LIMIT MEDICAID PROVIDER TAXES**

SUMMARY OF IMPACT TO ARIZONA

If states' ability to use provider taxes to fund Medicaid expenses is limited, Arizona would have to choose between backfilling federal funds, reducing AHCCCS spending through eliminating coverage, reducing benefits, and/or cutting provider payments, or some combination of these options.

- The House's plan to prohibit future provider taxes or changes to existing taxes would not have an immediate impact, but would limit Arizona's options to address future needs.
- In addition to prohibiting new provider taxes or expansions of existing taxes, the Senate's June 27, 2025 legislation would also require Arizona to reduce its existing hospital assessment. The table below illustrates current annual hospital assessment collections, the proposed cuts, and the additional loss of federal Medicaid funds if the lost tax revenues are not replaced with other state dollars.

Fiscal Year	Provider Tax Limit	Provider Tax Revenues	Reduced Tax Collections	Reduced Federal Matching Funds ¹
Current	6.0%	\$1,423,105,300		
2028	5.5%	\$1,304,513,200	(\$118,592,100)	(\$355,776,300)
2029	5.0%	\$1,185,921,100	(\$237,184,200)	(\$711,552,600)
2030	4.5%	\$1,067,329,000	(\$355,776,300)	(\$1,067,328,900)
2031	4.0%	\$948,736,900	(\$474,368,400)	(\$1,423,105,200)
2032	3.5%	\$830,144,800	(\$592,960,500)	(\$1,778,881,500)

¹ Estimates based on Arizona's current weighted federal medical assistance percentage (FMAP). Actual federal funding changes could be higher or lower depending on the specific reductions made.

- AHCCCS continues to evaluate whether the proposed change to the test for whether a tax is "generally redistributive" would impact any taxes that comply with the current test.

Arizona could backfill lost provider tax revenues. Once fully phased-in, the Senate's proposed limits on the provider tax rate would reduce Arizona's collections by almost \$600 million. To maintain the current AHCCCS budget, the state would need to identify an equal amount of funding from another source.

- In this scenario, Arizona would backfill the reduced provider tax revenue with other state funds (likely state general funds), allowing the state to collect the same amount of federal Medicaid funds and to maintain current AHCCCS coverage and payments.

Arizona could decrease AHCCCS spending by the amount of reduced tax revenues and associated matching federal Medicaid funds. By fiscal year 2032, Arizona would need to reduce spending by almost \$2.4 billion (\$600 million in tax revenues and \$1.8 billion in matching federal Medicaid funds).

- Broadly, there are three options for reducing AHCCCS spending: decreasing provider payments, eliminating eligibility for some populations, and/or ending coverage of some optional services.
- Any actions that Arizona might take to reduce spending would need to comply with federal and state requirements. For example, most enrolled individuals are mandatory populations under federal law or covered through Arizona's voter-protected Prop 204, most covered benefits are mandatory under federal law, and provider payment rates must comply with federal requirements that payments be economical and efficient, support quality services, and facilitate enrollees' access to services.

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BACKGROUND

The cost of Medicaid services is shared between the federal government and the states.

- States rely on a variety of sources to fund their share of expenses, including general funds, local government funds, provider taxes, and tobacco settlement funds.
- In Arizona, the federal government will pay 64.34 percent of the cost of services for traditional Medicaid populations in federal fiscal year 2026 and 90 percent of costs for expansion populations.

Nearly every state – including Arizona – uses provider taxes to fund a portion of their Medicaid programs.

- Provider tax revenues are used as state matching funds to draw in additional federal Medicaid dollars. As of October 2024, all but one state has established one or more provider taxes.
- Provider taxes are paid by one or more classes of healthcare providers. As part of Arizona's 2014 Medicaid expansion, the state established a provider tax on hospitals.
- Current federal law generally allows states to impose taxes of up to six percent of provider revenues. Arizona's current hospital provider tax is 5.99 percent.

Arizona's hospital provider tax receipts will total an estimated \$1.42 billion in federal fiscal year 2025. Combined with more than \$8 billion in federal matching funds, Arizona uses these funds to pay the state share of costs for the Proposition 204 and Affordable Care Act expansion populations and to increase payment rates to certain provider types.

- Approximately \$680 million of hospital tax revenues provide the majority of state funding for approximately 500,000 Arizonans with Medicaid coverage through Proposition 204 and the adult expansion group. These funds match approximately \$6.1 billion in federal Medicaid funds.
- Approximately \$740 million of hospital tax revenues are used to make directed payments to hospitals and to increase rates for physicians and dentists. These funds match approximately \$2.3 billion in federal Medicaid funds.

FEDERAL PROPOSAL

Congress' proposed One Big Beautiful Bill Act would limit states' ability to use provider taxes to finance their Medicaid programs.

- Both the House and Senate proposals would prevent states from establishing new provider taxes or expanding existing taxes by increasing tax rates, increasing per-unit levies, or subjecting new provider classes to a tax. These restrictions would apply on or after the date of enactment of the legislation.
- For existing provider taxes, the Senate would reduce the current 'safe harbor' tax rate (that exempts provider taxes from certain federal requirements) from 6.0 percent to 3.5 percent by 2032. This limit only impacts states like Arizona that have expanded their Medicaid programs; non-expansion states would be able to maintain existing provider taxes of as much as 6.0 percent.
- Both the House and Senate proposals would tighten requirements that certain provider taxes be "generally redistributive", meaning that a tax collects revenue from providers that serve lower percentages of Medicaid beneficiaries and uses (redistributes) these funds to pay the state share of Medicaid payments. The language is similar to a proposed federal rule published in May 2025.
- These proposals do not directly change eligibility standards, covered services, or payment rates. However, if states are unable to replace the reduced provider tax revenues and associated lost federal matching funds, they will be forced to make cuts to their programs.