– Evaluation of Impact of Federal Medicaid Proposals on AHCCCS –

# LIMIT MEDICAID PROVIDER TAXES

## SUMMARY OF IMPACT TO ARIZONA

***If states' ability to use provider tax to fund Medicaid expenses is limited, Arizona will 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 table below illustrates current annual hospital assessment collections and the loss of revenues at various tax rates.

| Assessment Percentage | Tax Revenues | Reduced Collections | Reduced Federal Funds[1] | |
|---|---|---|---|---|
| 6.0% | 1,423,105,300 | | | Current Assessment |
| 5.0% | 1,185,921,100 | (237,184,200) | (711,552,600) | |
| 4.0% | 948,736,900 | (474,368,400) | (1,423,105,200) | |
| 3.0% | 711,552,700 | (711,552,600) | (2,134,657,800) | Proposed Limit (2028) |
| 2.0% | 474,368,400 | (948,736,900) | (2,846,210,700) | |
| 1.0% | 237,184,200 | (1,185,921,100) | (3,557,763,300) | |
| 0.0% | 0 | (1,432,105,300) | (4,296,315,900) | |

[1] Estimates based on Arizona's weighted federal matching rate. Actual federal funding changes could be higher or lower depending on the specific reductions made.

***Backfill lost provider tax revenues. If the maximum allowable provider tax was cut in half from six percent to three percent, Arizona would need to identify more than $700 million in state funds to maintain current AHCCCS coverage and payments.***

- In this scenario, Arizona would backfill the reduced provider tax revenue with other state funds (likely states general funds) so there would be no savings to the federal government.

***Decrease AHCCCS spending by the amount of reduced tax revenues and associated federal matching funds. If the maximum allowable provider tax was cut in half from six percent to three percent, Arizona would need to reduce spending by about $2.8 billion ($700 million in tax revenues and $2.1 billion in matching federal funds).***

- Broadly, there are three options for reducing AHCCCS spending: decreasing provider payments, eliminating eligibility for some populations, and reducing or ending coverage of some benefits.
- 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 the Arizona's 2014 Medicaid expansion, the state established a provider tax on hospitals.
- Federal regulations generally allow 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 funds.
- Approximately $740 million of hospital tax revenues are used to make directed payments to hospitals and to increase rates to physicians and dentists. These funds match approximately $2.3 billion in federal funds.

## FEDERAL PROPOSAL

***Congress proposes to reduce maximum allowable provider tax.***

- The House Ways and Means Committee has proposed to cut the current six percent limit to four percent in 2026 and 2027 and to three percent in later years.
- The proposal does not change eligibility standards, covered services, or payment rates. However, if states are unable to replace the lost federal funds, they will be forced to reduce program spending.