



MEMORANDUM

Date: April 8, 2025

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: Jan Leshner 
County Administrator

Re: **Arizona Policy Brief – Federal Medicaid Cuts & Arizona’s Economy**

The attached Policy Brief, prepared by Rounds Consulting Group, in cooperation with the Arizona Chamber Foundation, reviews and reports on what the anticipated reduction in the federal Medicaid program might mean to Arizona residents and the state’s economy. The Policy Brief notes that, “[t]he primary conclusion from this research is that the economic consequences of federal spending reductions at the scale that are being considered will be significant. For context, the economic impact on the state of Arizona will fall somewhere between a significant recession and the Great Recession that caused massive fiscal trauma for multiple years.”

Highlights of the report include:

- Medicaid is funded through a mix of federal, state and local contributions, with federal funding covering nearly three-quarters of the program’s approximate \$21.1 billion annual budget. A reduction in federal Medicaid funding would have statewide economic and healthcare impacts, affecting both the healthcare industry and Arizona’s broader economy.
- Under Proposition 204, passed by voters in 2000, Arizona is legally required to provide Medicaid coverage for individuals earning less than 100% of the federal poverty level. This mandate means that even if federal support is reduced, the State must still fund these healthcare services.
- In 2013, in response to the Affordable Care Act passed in 2010, the Arizona Legislature expanded Medicaid coverage to 133% of the federal poverty level. Included in the legislation was a “trigger”. If the federal match for Medicaid were to fall below 80% for the expansion population, the expansion would be rescinded.
- Arizona is one of nine “trigger statute” states, which means that a reduction in enhanced federal matching rates under the Affordable Care Act directly affects Medicaid expansion and eligibility for Arizona residents.
- As of January 2025, the population in Pima County on Arizona’s Medicaid program, the Arizona Health Care Cost Containment System (AHCCCS), is 298,886.


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The Honorable Chair and Members, Pima County Board of Supervisors
Re: **Arizona Policy Brief – Federal Medicaid Cuts & Arizona’s Economy**
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- With each \$1.0 billion reduction in Medicaid spending, Arizona would experience:
 - A loss of more than 36,000 jobs across multiple industries,
 - \$1.7 billion in reduced labor income,
 - A \$33.7 billion contraction in overall economic activity, and
 - A \$138.1 million decline in state and local tax revenues.

- Medicaid funding reductions would result in the loss of approximately 5,264 jobs in Pima County resulting in a reduction in county-level economic output of \$542.7 million.

In conclusion, the report states, “[a]ll Arizonans, regardless of their insurance status, would feel the effects of overcrowded emergency rooms, healthcare facility closures, longer wait times for care, fewer medical professionals, a rise in uninsured populations, and increasing health insurance premiums for individuals and employers.”

Staff will continue to monitor and report to the Board on the potential impact to Pima County of the various federal initiatives.

JKL/anc

Attachment

c: Carmine DeBonis, Jr., Deputy County Administrator
Steve Holmes, Deputy County Administrator
Theresa Cullen, MD, MS, Director, Pima County Health Department
Sarah Davis, Senior Advisors, Pima County Administrator’s Office
Chair and Members, Board of Health



ARIZONA POLICY BRIEF: Federal Medicaid Cuts & Arizona's Economy

April 2025

Prepared By:



Rounds Consulting Group

In Cooperation With:



ARIZONA CHAMBER
FOUNDATION



ARIZONA POLICY BRIEF

Federal Medicaid Cuts & Arizona's Economy

Note: This policy brief represents a modest expansion of the Executive Summary from the full report under the same title. See the full report for more detail.

The Medicaid program is expected to be heavily impacted by deficit reduction efforts underway by Congress. The related program funding reductions will produce economic consequences beyond the fact that fewer people within the state will have access to health care. At the present time, there are reduction targets but no single proposal for how the funding reductions will be achieved. Therefore, states can only examine scenarios related to how the reduction in Medicaid funding could impact their economies.

Synopsis of Economic Findings

This analysis quantifies the economic losses that will be realized by the state of Arizona under multiple spending reduction scenarios. The first scenario is the most user friendly in that it calculates the economic losses associated with each \$1.0 billion reduction in Medicaid spending in Arizona.

This means that when the federal government produces a formal proposal, the economic consequences can be expanded to match the proposed spending reduction. For example, if it is estimated that the spending reduction by the federal government in the state of Arizona will equal \$10.0 billion, the economic values associated with the aforementioned increment will need to be expanded tenfold.¹

The primary conclusion from this research is that the economic consequences of federal spending reductions at the scale that are being considered will be significant.

For context, the economic impact on the state of Arizona will fall somewhere between a significant recession and the Great Recession that caused massive fiscal trauma for multiple years.

¹ The negative economic impacts will further increase over time as the healthcare industry in Arizona weakens with more aggressive federal spending reductions.



The analysis also models the economic impacts to Arizona associated with an estimated annualized \$1.9 billion reduction in spending and a \$7.5 billion reduction in spending. These targeted amounts are based on research conducted by KFF, a reputable national organization that conducts research on topics such as healthcare policy.

The exact scale of the impact on the state's economy will depend not only on the federal government's approach, but also on how the state responds. Again, these are currently unknown values.

The remainder of the accompanying research provides a *brief* examination of how Medicaid spending flows throughout the state's economy, what population groups could be impacted, and provides context into how state policymakers may need to respond.

What is not captured in the \$1.0 billion example is the fact that as additional federal government spending reductions occur, additional negative impacts on the state's healthcare industry will also be realized.

In the long-term this adds to the economic losses that are captured in the following analyses, but are not part of each \$1.0 billion reduction in spending estimate. However, the \$1.0 billion example increment still provides perspective into the short-term scale that different proposals related to reductions in federal government spending on Medicaid programs will impact the overall economy.

Arizona's Medicaid Program

Arizona's Medicaid program, the Arizona Health Care Cost Containment System (AHCCCS), provides healthcare insurance for over 2.0 million Arizonans.² The program primarily serves low-income individuals, children, and those with long-term care needs. For perspective, the Medicaid population in Arizona includes:

- Over 1.0 million adults,
- More than 750,000 children (ages 0-17), and
- Over 70,000 individuals with long-term care needs, including those with developmental disabilities.

AHCCCS provides insurance coverage for services such as hospital and emergency room services, primary care, mental health and behavioral health services, as well as prescription drugs and specialty treatments and specialty care such as dialysis and cancer treatments. It is the primary funder of long-term care services, providing access to nursing homes,

² AHCCCS Population Statistics (January 2025) and Arizona Office of Economic Opportunity Population Statistics (2024).



assisted living facilities, and in-home healthcare support for seniors and disabled individuals.

Medicaid is funded through a mix of federal, state and local contributions, with federal funding covering nearly three-quarters of the program’s approximate \$21.1 billion annual budget.³ A reduction in federal Medicaid funding would have statewide economic and healthcare impacts, affecting both the healthcare industry and Arizona’s broader economy.

It should be noted, under Proposition 204 (Prop 204), passed by voters in 2000, that Arizona is legally required to provide Medicaid coverage for individuals earning less than 100% of the federal poverty level (FPL). This mandate means that even if federal support is reduced, the state must still fund these healthcare services.

Estimates for the total AHCCCS population, by Arizona county, is displayed in the following figure:

AHCCCS Population by County (January 2025)		
County	Estimate	% Share of Overall Population
Apache	34,513	51.9%
Cochise	41,803	32.6%
Coconino	35,516	23.7%
Gila	13,066	24.2%
Graham	17,734	44.2%
Greenlee	1,779	18.4%
La Paz	6,609	38.6%
Maricopa	1,194,133	25.3%
Mohave	71,628	31.4%
Navajo	51,721	46.7%
Pima	298,886	27.5%
Pinal	111,685	23.1%
Santa Cruz	22,240	44.0%
Yavapai	54,542	21.7%
Yuma	93,117	42.7%
Total	2,048,972	26.9%

Source: Arizona Health Care Cost Containment System; Arizona Office of Economic Opportunity (2024 Population by County)

³ AHCCCS Appropriation Status Report (December 2024).



Federal Medicaid cuts would force state leaders and healthcare providers to make difficult budgetary and programmatic decisions, including:

- Lowering hospital and provider reimbursements,
- Reducing or eliminating non-mandatory benefits,
- Redirected funding from other state programs to cover Medicaid costs, or
- Raising state taxes to offset funding losses.

Arizona's Healthcare Industry

Arizona's healthcare sector is a major economic driver, contributing more than \$38.0 billion to the state's gross domestic product (GDP) and employing more than 470,000 workers.^{4 & 5}

It is the second largest employment sector in the state, spanning hospitals, clinics, long-term care facilities, outpatient services, and specialized practices. In addition to direct patient care, the sector supports a wide network of high-quality related industries throughout Arizona, including medical device production, biotech, and research and development.

With total annual wages in excess of \$32.0 billion and average salaries 8.4% higher than the state average, the healthcare industry fuels economic activity, supports consumer spending, and drives state and local tax revenues.^{6 & 7} As one of the largest and fastest growing sectors, any disruptions (such as Medicaid funding cuts) could have far-reaching consequences for Arizona's economy.

Economic and Fiscal Impacts of Medicaid Funding Reductions

Given the scale of potential federal cuts, a combination of budgetary adjustments would likely be necessary. However, without clarity on how and when these reductions may be implemented, precisely quantifying their financial and economic impacts remains challenging.

To provide a measurable reference point, the analysis focuses on the economic effects of an incremental \$1.0 billion example reduction in overall Medicaid spending, regardless of the specific mechanism of implementation. With each \$1.0 billion reduction in Medicaid spending, Arizona would experience:

⁴ U.S. Bureau of Economic Analysis Real State GDP (2023)

⁵ Arizona Office of Economic Opportunity Employment Estimates (2024)

⁶ U.S. Bureau of Economic Analysis Real Income by Industry (2024)

⁷ Arizona Office of Economic Opportunity Occupational Wages (2024)

- A loss of more than 36,000 jobs across multiple industries,
- \$1.7 billion in reduced labor income,
- A \$3.7 billion contraction in overall economic activity, and
- A \$138.1 million decline in state and local tax revenues.

The effects of Medicaid funding reductions are not strictly linear – as cuts deepen, more healthcare providers will reach financial breaking points. This would trigger a cascade of service line reductions, hospital and clinic consolidations, and, in some cases, full facility closures – affecting health care for all Arizonans, not just those with Medicaid coverage.

These structural changes would accelerate job losses and magnify economic disruptions statewide, with rural areas and small businesses facing the greatest risks due to their higher reliance on Medicaid reimbursements.

Moreover, AHCCCS spending is deeply integrated into Arizona’s healthcare system – nearly all hospitals and around 107,000 healthcare providers participate in AHCCCS. Any reduction in Medicaid coverage would cause a sharp increase in the uninsured population.

Increases in uninsured individuals would lead to higher uncompensated care costs for hospitals and providers, increased financial strain on safety-net healthcare facilities, and further economic instability in Arizona’s healthcare sector.





To summarize, the overall impacts for **each \$1.0 billion** reduction in federal Medicaid spending in Arizona equates to:

Impact on State GDP

Each \$1.0 Billion Reduction in Medicaid Spending = Reduction of \$3.7 Billion in State GDP

Impact on State Employment

Each \$1.0 Billion Reduction in Medicaid Spending = Loss of 36,400 Jobs Across Arizona

Impact on State Labor Income

Each \$1.0 Billion Reduction in Medicaid Spending = Reduction of \$1.7 Billion in Wages & Salaries

Impact on State & Local Tax Revenues

Each \$1.0 Billion Reduction in Medicaid Spending = Loss of \$138.1 Million in Taxes Annually

Source: Rounds Consulting Group, Inc.

As previously noted, the long-term impacts associated with each \$1.0 billion reduction in federal government spending increases as the cumulative total increases. For example, the \$7.5 billion KFF scenario produces a loss of approximately 300,000 jobs (see the following section). Extrapolating the impacts from the \$1.0 billion example would yield a loss of 270,000 jobs. The difference, or 30,000 jobs, is due to the long-term impacts associated with the reduction in spending further weakening the state's healthcare industry over time.



Arizona faces additional fiscal challenges due to its status as one of nine “trigger statute” states, meaning that a reduction in enhanced federal matching rates (FMAP) under the Affordable Care Act (ACA) would directly affect eligibility, costs, and existing funding mechanisms.

According to KFF, should the federal government decrease the enhanced FMAP rates for expansion populations to normal FMAP rates, the state would face a funding loss of \$1.9 billion, nearly double the economic impacts outlined above. If Arizona were to discontinue Medicaid coverage for its expansion population entirely, it would result in a \$7.5 billion reduction in Medicaid spending, according to KFF.⁸

Our analysis shows that in the case of a \$7.5 billion reduction in spending (when fully realized), the economic consequences would be comparable to those experienced during the Great Recession, including:

- ***A loss of 300,000 jobs across multiple industries,***
- ***A \$14.0 billion in reduction in labor income,***
- ***A \$30.9 billion decline in total economic activity, and***
- ***A \$1.1 billion annual reduction in state and local tax revenues.***

It should be noted that the elimination of the portion of the expansion population with incomes below 100% of FPL would also be in conflict with Arizona’s voter approved Prop 204, likely leading to litigation.

As healthcare providers attempt to offset these losses, costs may be shifted onto private insurers, leading to higher insurance premiums for businesses and individuals. Given that most Arizona businesses are small businesses, rising premiums could force employers to reduce or eliminate insurance offerings, creating a negative feedback loop that generates:

- More uninsured individuals,
- Higher uncompensated care costs,
- Even greater financial strain on hospitals, and
- Further increase in private insurance premiums.

These cascading effects underscore how Medicaid funding reductions extend beyond healthcare, affecting Arizona’s entire economic landscape, including employment, business costs, household finances, and long-term economic stability.

⁸ The \$1.9 billion and \$7.5 billion spending reduction estimates are based on state-by-state projections from KFF regarding the potential elimination of the enhanced federal match rate (FMAP) for Medicaid expansion. See KFF’s full analysis: <https://www.kff.org/medicaid/issue-brief/eliminating-the-medicaid-expansion-federal-match-rate-state-by-state-estimates/>



Impacts on Arizona's Counties

Medicaid funding reductions would result in job losses across every county in Arizona, affecting both direct healthcare employment and industries that rely on the healthcare sector – such as medical supply chains, local service providers, and businesses that depend on the presence of hospitals, clinics, and healthcare professionals.

Over time, these cuts would exacerbate existing healthcare workforce shortages, particularly in rural areas where provider availability is already limited.

To assess the regional economic impact of each \$1.0 billion reduction in Medicaid spending, this analysis applied a proportional allocation approach based on Medicaid expenditures across Arizona's counties.

Each county's share of total spending was used to distribute the reduction proportionally rather than use enrollment figures. This approach more accurately reflects where the economic effects will occur – where services are delivered, but not necessarily where enrollees reside.

In many cases, individuals travel outside their home counties to receive specialized care or to access providers unavailable locally. By using expenditure data, the analysis captures the cross-county service patterns and ensures that the estimated economic losses align with healthcare activity. The proportional spending reductions were then modeled to estimate:

- Job losses by county, both in healthcare and other industries,
- Reductions in labor income, reflecting lost wages and salaries,
- Declines in overall economic activity, including indirect and induced effects, and
- Reductions in state and local tax revenues.

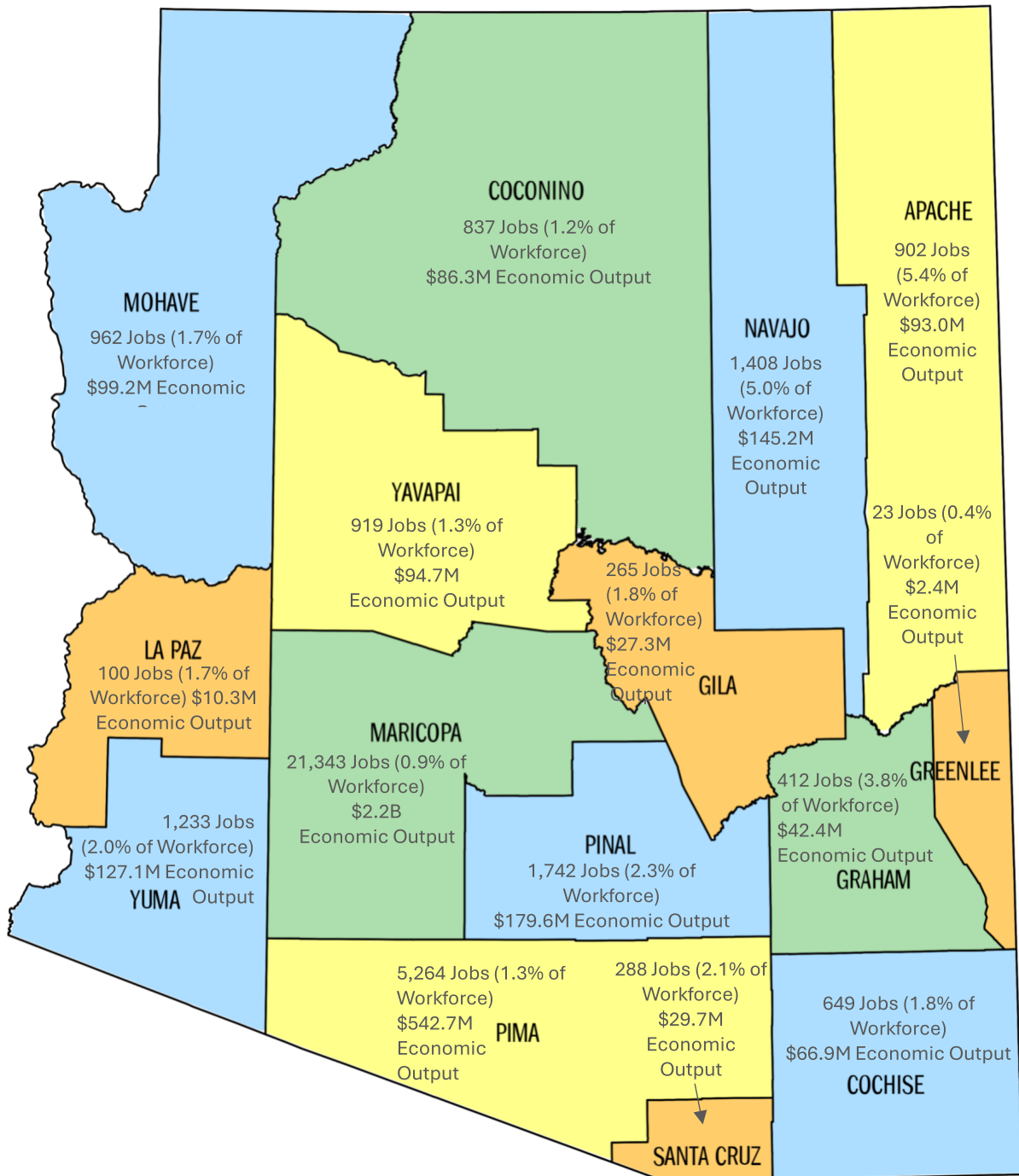
As previously noted, the incremental \$1.0 billion example can be scaled to match potential Medicaid spending reductions under different scenarios. To estimate the effects of larger funding reductions, the results can be multiplied accordingly.

For example, a \$10.0 billion spending reduction would produce impacts roughly 10x greater than those shown in the incremental example.



Economic Impact of Each \$1.0 Billion Reduction in Medicaid Spending by Arizona County

Note: Estimates represent the number of lost jobs (each county's job loss as a share of its total workforce) and reductions in county-level economic output. Source: Rounds Consulting Group, Inc.



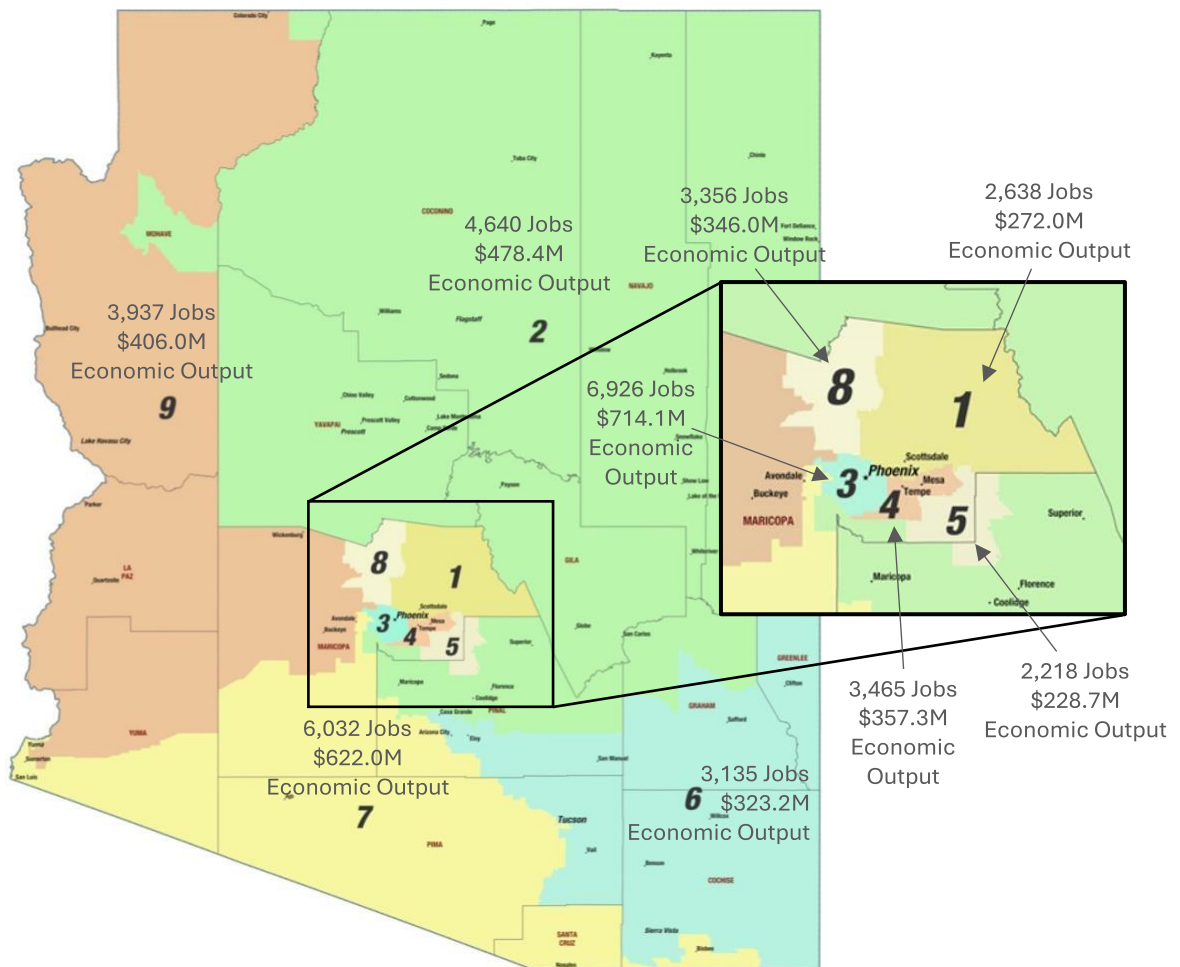
Impacts on Arizona's Congressional Districts

The economic consequences of Medicaid funding reductions can also be assessed at the Congressional District level using Medicaid enrollment data as a proxy for spending (since spending at the district-level was unavailable). This approach provides a reasonable and practical alternative to direct expenditure-based modeling.

To estimate district-level effects, this analysis allocated the incremental \$1.0 billion example reduction proportionally based on each Congressional District's share of total AHCCCS enrollees.

Economic Impact of Each \$1.0 Billion Reduction in Medicaid Spending by Arizona Congressional District

Note: Estimates represent the number of lost jobs and reductions in district-level economic output. Source: Rounds Consulting Group, Inc.





Impacts on the State's Healthcare Industry

To provide an additional perspective on how the effects of Medicaid spending reductions ripple through the economy, the following analysis monetizes *each* 10% decline in healthcare industry jobs as an incremental benchmark. An increment was once again required because the federal Medicaid reduction proposal is not a final document. Each 10% reduction in the state's healthcare industry employment equates to roughly a \$3.0 billion reduction in spending that translates into:

- An estimated 47,160 direct job losses in hospitals, clinics, and medical facilities.
- The economic multiplier effects would lead to an additional 57,960 job losses across various industries, bringing the total job loss to 105,120 statewide.
- Every healthcare job lost leads to 1.2 additional jobs lost in other industries.
- Retail trade (-11,207 jobs) and manufacturing (-5,786 jobs) would be among the hardest-hit industries, as lower consumer spending and reduced healthcare demand weaken business activity.
- Transportation and warehousing (-5,212 jobs) and finance and insurance (-2,848 jobs) would experience losses due to supply chain disruptions and declining healthcare-related transactions.
- The total economic loss from a 10% contraction in the healthcare sector is estimated at \$16.9 billion in lost economic output.
- State and local governments would lose \$672.1 million annually in tax revenue, straining funding for education, infrastructure, and public safety.

Conclusions & Observations

All Arizonans, regardless of their insurance status, would feel the effects of overcrowded emergency rooms, healthcare facility closures, longer wait times for care, fewer medical professionals, a rise in uninsured populations, and increasing health insurance premiums for individuals and employers.

These policy decisions carry significant economic and social consequences. Cuts to Medicaid could destabilize Arizona's healthcare industry, increase the burden on emergency services, and reduce the overall quality of care for residents.



Additionally, reduced federal funding may force the state to make long-term structural changes to its Medicaid program, altering which Arizonans can receive health care coverage and what services will be provided.

While the exact details of potential federal Medicaid cuts and Arizona's response remain uncertain, the scale of economic losses is clear – the negative repercussions would reach recession-level impacts.

The impacts would also offset much of the economic growth from the past tax cuts and the creation of high return-on-investment economic development programs.

In response to federal funding cuts, Arizona's elected officials and healthcare administrators will be forced to consider:

- **Reducing Medicaid enrollment** by tightening eligibility criteria, which could leave tens of thousands of low-income residents without healthcare coverage. This may require Arizona to seek voter approval.
- **Cutting provider reimbursement rates**, leading to financial strain on hospitals, clinics, and long-term care facilities—especially in rural areas.
- **Limiting covered benefits** by eliminating certain services, reducing access to preventive care, and increasing reliance on emergency rooms.
- **Raising taxes or reallocating funds** from other state priorities, such as education and infrastructure, to fill the Medicaid funding gap.
- **Shifting costs to employers and private insurers**, potentially increasing healthcare premiums and out-of-pocket expenses for all Arizona residents.

Without a clear understanding of how federal cuts will be implemented, state leaders and healthcare providers must prepare for a range of scenarios and consider proactive strategies to mitigate the economic and public health risks associated with any Medicaid reductions.



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