



MEDICAID

Federal Medicaid Cuts & Arizona's Economy

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ABSTRACT

Rounds Consulting Group, Inc. was commissioned by the Arizona Chamber Foundation to analyze the potential economic impacts of federal Medicaid program cuts and the resulting effects of reduced Medicaid spending on Arizona’s economy.

The specifics of the potential federal Medicaid cuts remain uncertain, and funding reductions could take various forms. These may include lower federal matching rates to states, stricter eligibility criteria, reduced benefits or participation requirements, cuts to provider reimbursement rates, a shift to state block grants, or other program changes that would decrease federal funding for Arizona.

Medicaid financing is an interconnected system that combines federal, state and local funding. As a result, reductions in federal Medicaid funding trigger additional funding losses at other levels, amplifying the economic impact.

These combined funding reductions affect both Arizona’s healthcare services and the broader economy. However, without clarity on how and when federal funding cuts might be implemented, precisely quantifying their financial and economic impact remains challenging.

Accordingly, this analysis does not focus on the mechanisms behind potential federal funding reductions. Instead, it provides a gauge to help quantify and scale the potential economic losses of decreased Medicaid spending in Arizona, irrespective of how reductions may be implemented.

Note: This analysis focuses specifically on estimating the economic impacts of potential reductions in federal Medicaid funding in Arizona. It is not intended to serve as a comprehensive review of Medicaid program operations. However, the findings may be useful to state leaders and stakeholders as they engage in discussions about the implications of proposed funding changes and may help inform decision-makers by providing relevant economic context.

Research Methodology

Given the uncertainty surrounding the type, scale, and timing of potential Medicaid cuts, this analysis begins by examining the economic effects of each \$1.0 billion incremental reduction in Medicaid spending.



The modeled reduction reflects a combination of federal, state, and local spending reductions without assuming a specific mechanism of implementation. As a result, the estimated economic impacts can be scaled to match different Medicaid spending reduction scenarios.

For example, if the estimated spending reduction impacts reach \$10.0 billion (including the loss of federal and local monies), then the estimated increment can be multiplied by 10x, and so on. The analysis of each \$1.0 billion incremental reduction includes:

- A breakdown of the economic impacts by Arizona's counties, and
- An examination of effects across Arizona's Congressional Districts.

In addition, the analysis includes estimates on the economic impacts of two potential federal spending reduction scenarios identified by KFF for Arizona. KFF is a non-profit organization that conducts research focused on health policy. The two scenarios include:

- A loss of \$1.9 billion in annualized federal funding that results if Arizona is required to backfill cuts related to Medicaid expansion, and
- A larger loss of \$7.5 billion in annualized federal funding that would occur if Arizona does not backfill cuts related to Medicaid expansion.

Notably, significant Medicaid funding reductions may lead to broader economic disruptions, potentially leading to recessions both in Arizona and across the country.

Beyond the immediate fiscal effects, Medicaid spending reductions also carry long-term economic risks. Reduced healthcare access can lead to weaker educational and workforce outcomes, ultimately lowering productivity and tax revenues. These mid- to long-term consequences exacerbate the fiscal challenges stemming from Medicaid funding cuts.

Intended Uses of the Research

This analysis follows established industry methodologies and incorporates proprietary economic impact modeling. Unless otherwise cited, all estimates in this report are based on calculations conducted by the authors using industry-standards.

Partial use of this report without context may lead to misinterpretations. Thus, readers are encouraged to consider the entire document when drawing conclusions. While efforts were made to ensure accuracy, changing economic conditions could influence the validity of these estimates over time.



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EXECUTIVE SUMMARY

The proposed reductions by the federal government related to state Medicaid funding will produce economic consequences beyond the fact that fewer people within the state will have access to health care.

At the present time, there is no single proposal for the funding reductions. 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 federal spending in Arizona.

This means that when the federal government produces a formal proposal, the economic consequences can be directly 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 simply need to be expanded tenfold.

The analysis also models the economic impacts associated with an estimated \$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 organization that conducts research on topics such as healthcare policy.

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.



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.

The exact scale of the impact on the state's economy will depend not only on the federal government's proposal, but also on how the state responds to the proposal. 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.

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.¹ 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.

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.² A reduction in federal Medicaid funding would have statewide economic and healthcare impacts, affecting both the healthcare industry and Arizona's broader economy.

¹ AHCCCS Population Statistics (January 2025) and Arizona Office of Economic Opportunity Population Statistics (2024).

² AHCCCS Appropriation Status Report (December 2024).



It should be noted, under Proposition 204 (Prop 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 (FPL). This mandate means that even if federal support is reduced, the state must still fund these healthcare services.

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.^{3 & 4} 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.^{5 & 6} 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.

³ U.S. Bureau of Economic Analysis Real State GDP (2023)

⁴ Arizona Office of Economic Opportunity Employment Estimates (2024)

⁵ U.S. Bureau of Economic Analysis Real Income by Industry (2024)

⁶ Arizona Office of Economic Opportunity Occupational Wages (2024)



To provide a measurable reference point, the analysis initially focuses on the economic effects of a \$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:

- ***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. ***This is why the full dynamic impact related to the Medicaid funding reductions needs to be considered conservative over the long-term.***

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, leading 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.

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 FMAP rates decrease for expansion populations, 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.⁷

⁷ 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-medicare-expansion-federal-match-rate-state-by-state-estimates/>



With a \$7.5 billion reduction in spending, 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 reduction in state and local tax revenues.***

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. Extrapolating the impacts from the \$1.0 billion example would yield a loss of 270,000 jobs. The difference, or 30,000 lost jobs, is due to the long-term impacts associated with the reduction in spending further weakening the state's healthcare industry over time.

It should be noted that the elimination of a portion of the expansion population with incomes below 100% of FPL would 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.

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 the incremental \$1.0 billion example 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, 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.

The following map illustrates the estimated job losses (including each county's job loss as a share of its total workforce) and economic output declines by county for the incremental \$1.0 billion example. As previously noted, the incremental \$1.0 billion example can be scaled to match potential Medicaid spending reductions under different scenarios.

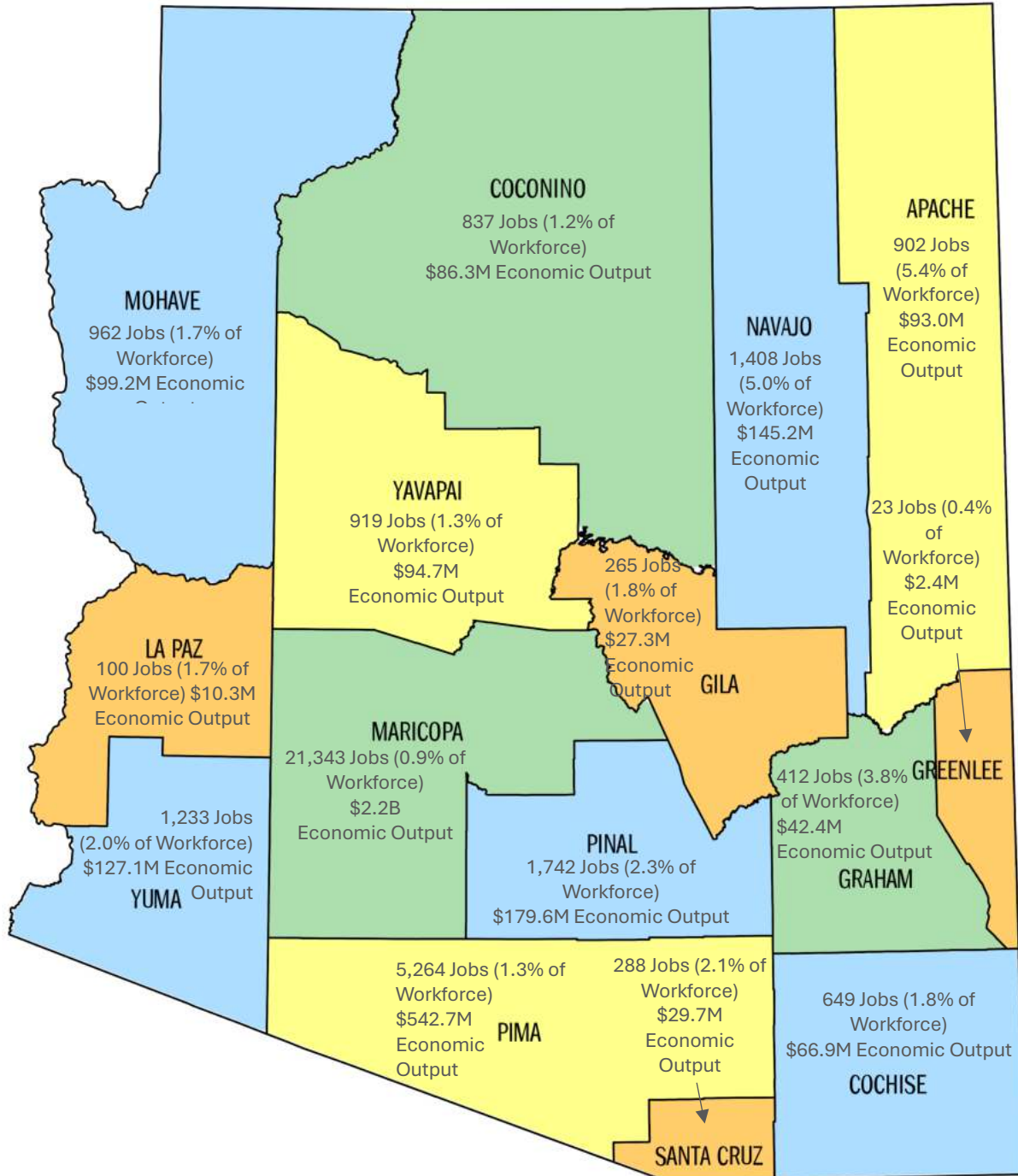
To estimate the effects of larger funding reductions, the results can be multiplied accordingly – for example, a \$10.0 billion spending reduction would produce impacts roughly 10x greater than those shown here.





Figure 1: 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 total workforce) and reductions in county-level economic output. Source: Rounds Consulting Group, Inc.





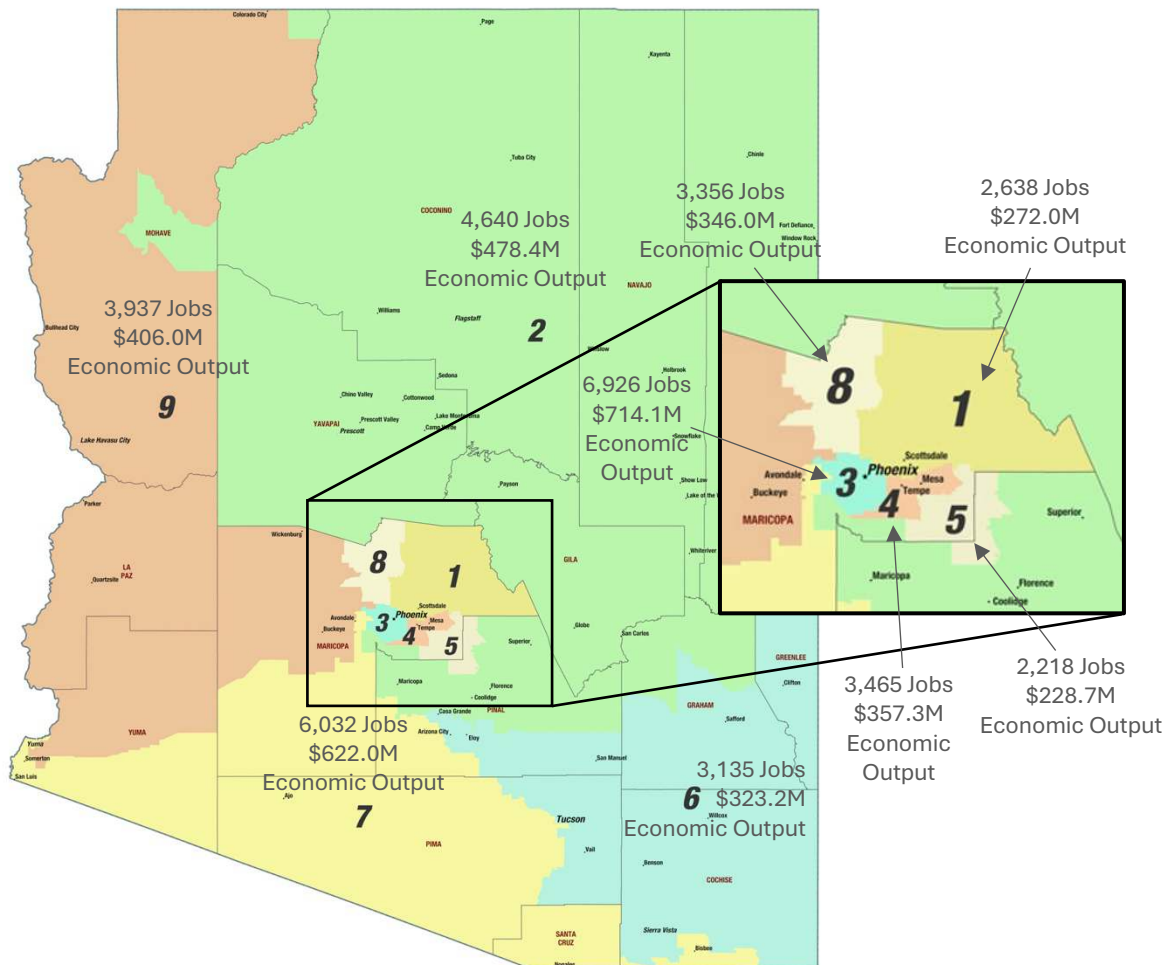
Impacts on Arizona's Congressional Districts

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. These adjusted figures were then inputted into an economic impact model to quantify the resulting job losses, income reductions, declines in economic activity, and tax revenue losses within each district.

Figure 2: 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 a 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:

- A 10% contraction in healthcare employment would result in 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

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.



Moreover, 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.

The impacts would offset much of the economic growth from 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.

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.

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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MEDICAID BACKGROUND

AHCCCS is the state’s Medicaid program, and the state’s largest insurer, providing healthcare insurance for over 2.0 million Arizonans.⁸ AHCCCS serves Arizona’s disadvantaged and low-income residents, including children, seniors, and individuals with disabilities, providing access to medically necessary services, medications and therapies and access to a network of qualified health care professionals and care settings such as clinics and hospitals.

The program is financed through a combination of federal, state and local funding sources, with federal funds covering more than 70% of Arizona’s Medicaid expenditures.⁹

Demographics of Arizona’s Medicaid Population

The age, geographic distribution, and socioeconomic background of Arizona’s Medicaid population include:

- **Newborns, Infants, Children and Adolescents:** Nearly 38% (over 800,000 individuals) of AHCCCS enrollees are children under 18, receiving preventive care, vaccinations, and essential health services.¹⁰
- **Adults:** Approximately 55% (over 1.0 million individuals) of AHCCCS members are working-age adults (18-64), many of whom are low-income workers employed in industries such as retail, food service, healthcare support, and other service-based sectors. Medicaid allows them to maintain access to care while remaining in the workforce.¹¹
- **Elderly and Disabled Individuals:** Over 70,000 individuals enrolled in Medicaid are seniors or individuals with disabilities, many of whom rely on long-term care, home-based services, or skilled nursing facilities. Two-thirds of nursing facility stays are covered by Medicaid¹². These individuals often have complex and high-cost medical needs, making Medicaid a critical funding source for their care.¹³

⁸ AHCCCS Population Statistics (January 2025) and Arizona Office of Economic Opportunity Population Statistics (2024).

⁹ AHCCCS Appropriation Status Report (December 2024).

¹⁰ AHCCCS Population Statistics (July 2024) and Arizona Office of Economic Opportunity Population Statistics (2024).

¹¹ AHCCCS Population Statistics (July 2024) and Arizona Office of Economic Opportunity Population Statistics (2024).

¹² AHCCCS At-A-Glance (2022)

¹³ AHCCCS Population Statistics (July 2024).

- Geographic Distribution:** Medicaid populations are more heavily concentrated in Arizona’s rural and tribal areas when measured as a share of the total population. In urban counties such as Maricopa, Pima, and Pinal, Medicaid enrollees represent between 23.1% and 27.5% of the total population. However, this share increases significantly in many rural counties – reaching as high as 51.9%.

Medicaid Spending in Arizona – Funding for Hospitals and Clinics

Medicaid funding plays a crucial role in Arizona’s health care delivery system. Medicaid payments keep Arizona’s hospitals, clinics, and healthcare providers financially stable. Each year, Medicaid payments account for approximately \$21.1 billion in spending across the state. These funds are distributed across various categories, including:¹⁴

- Hospitals and Emergency Rooms:** Medicaid payments go towards hospital services, covering surgery, medical testing, inpatient hospital stays and emergency care for uninsured and low-income patients.

Hospitals rely on these reimbursements to sustain operations and avoid financial distress, especially in rural and underserved areas. In many communities, these payments are a significant percentage of the total income for a hospital.

- Primary Care Providers and Clinics:** Medicaid spending supports community health centers, including Federally Qualified Health Centers (FQHCs) and rural clinics, which receive a significant portion of their funding from reimbursements.



¹⁴ AHCCCS Appropriation Status Report (December 2024).



These facilities deliver essential preventative care, chronic disease management, and maternal health services. Without Medicaid reimbursements, many of these clinics would face closure or service reductions.

- **Long-Term Care Facilities:** AHCCCS funds Arizona’s long-term care services, including nursing homes, assisted living facilities, and in-home healthcare support for seniors and disabled individuals. Medicare pays for skilled nursing or long-term care only in very limited circumstances. Medicaid is the primary payer for long-term care, and funding reductions would place significant financial strain on these providers.
- **Mental Health and Behavioral Health Services:** Medicaid funds mental health and substance abuse treatment programs. This includes psychiatric services, addiction treatment centers, and crisis intervention programs. A reduction in funding could increase rates of untreated mental illness and addiction-related hospitalizations.
- **Prescription Drugs and Specialty Medications:** Medicaid covers prescription drug costs, ensuring access to life-saving medications for chronic conditions such as diabetes, heart disease, and HIV/AIDS. Funding cuts may result in reduced drug coverage or restricted access for Medicaid patients.
- **Specialty and Outpatient Services:** Medicaid spending supports outpatient services such as physical therapy, dialysis, cancer treatments, and diagnostic imaging. These services are essential for managing chronic diseases and preventing costly hospitalizations.

Given that Medicaid is a major funding source for Arizona’s healthcare system, any reductions in federal funding could severely disrupt these essential services, leading to closures, staff layoffs, and reduced access to care for millions of patients across the state.





ANALYSIS METHODOLOGY

The goal of this analysis is to estimate the economic consequences of potential Medicaid funding reductions in Arizona. However, because Medicaid is financed from an interrelated combination of federal, state and local funding sources, and because the extent and structure of the cuts remain uncertain, it is impossible to determine exactly where reductions will be made.

This could occur through lower reimbursement rates, fewer covered services, reduced enrollment, or other policy changes. To address this uncertainty, an incremental approach was developed to provide an estimate of economic impacts for each \$1.0 billion reduction in total Medicaid spending.

The economic model assumes that with each \$1.0 billion reduction in Medicaid spending, a corresponding reduction occurs in healthcare sector spending, employment, wages, and tax revenues. This allows for an adaptable framework that can be adjusted based on the final scope of funding reductions.

Effects and Threshold for Closures

While the incremental approach provides a baseline, it is important to note that the economic impact of Medicaid spending reductions is not strictly linear. Therefore, as the incremental example is scaled, the economic estimates can be considered conservative.

As reductions become more severe, hospitals and healthcare providers will reach a financial breaking point where they are unable to absorb losses through minor cost-saving measures. This means that:

- With spending reductions, providers may respond by cutting costs – such as reducing staff hours, delaying new investments, or limiting the services they provide in a geographic area.
- As spending reduction increase, cash dwindles and financial losses mount. Providers will be forced to limit or eliminate services or close entirely, particularly in rural areas where Medicaid makes up a higher share of hospital and clinic revenue, potentially leaving entire communities without access to health care or hospital services.
- Once closures occur, the economic impact accelerates, leading to greater job losses and a compounding effect across the economy. A hospital or major clinic closure has cascading consequences, including:



- Loss of jobs for healthcare workers and support staff.
- Increased patient loads on remaining hospitals, causing overcrowding and reduced quality of care for all patients.
- Higher travel costs and longer wait times for rural patients seeking medical care.
- Reduced demand for healthcare-adjacent industries (e.g., medical suppliers, diagnostic labs, home healthcare).

As a result, each additional dollar cut from Medicaid spending has a disproportionate impact, meaning that the more the state's funding is reduced, the greater the total economic loss relative to the initial reduction.

Economic Modeling and Key Assumptions

An economic and fiscal impact model provides a quantifiable method to estimate the economic activity of a particular activity in a given area. Impacts can be used to measure existing activity and to measure potential expansions/contractions of an area's economy resulting from changes in economic activity.

Typically, the level of economic effects resulting from the activity is estimated in terms of economic output, jobs, labor income, and tax revenues. These are defined as:

- Economic output captures the broader level of economic activity, or the total value of goods and services produced in the region, similar to how statistics like gross domestic product (GDP) capture economic volume in individual states and across the country.
- A job is simply one person working a full-time job over a one-year period.
- Labor income represents the income earned by employees. The earnings component is used to measure the total change in income throughout the economy due to economic or business activity.
- Tax revenues refer to the estimated annual government tax revenues that are generated by a particular project, policy, business, development, or activity in a given area. For example, the types of government taxes analyzed include sales taxes, state income taxes, and property taxes, among others. The types of activities subject to these taxes include payrolls, retail sales, and real/personal property, to name a few.



The economic and fiscal impacts that occur as a direct consequence of the initial activity create additional activity in the regional economy. This relationship is known as the multiplier effect.

The basis for multiplier effects is the interdependencies between industries, how one industry impacts other sectors, and the cycle of spending and re-spending within the regional economy.

An input-output model is used to generate these multipliers. These multipliers quantify relationships among industries and estimate the extent to which the area being analyzed can capture sales, economic activity, and job impacts within the region.

Input-output models measure impacts based on their source. Direct effects are the result of the initial activity being analyzed. The multiplier effects, or secondary effects, are measured as either indirect or induced. These are defined as:

- Direct effects, or impacts, measure the economic activity at an individual site or the initial economic change attributed to the event under consideration. The healthcare industry is heavily dependent on Medicaid, meaning that cuts will have a direct impact on hospitals and clinic revenues, leading to staff reductions, service limitations, and facility closures.
- Indirect impacts capture additional economic output, labor income, employment, and tax revenue changes as a result of decreased demand in the industries that supply services or products to healthcare providers.
- Induced impacts capture additional output, labor income, employment, and tax revenue changes generated as a result of decreased spending in the local economy made by the households of both the direct healthcare workers and indirect employees.

A commonly used input-output model framework for generating economic multipliers is called IMPLAN (short for “impact analysis for planning”). Originally developed by the U.S. Forest Service in the 1970s, the responsibility for developing IMPLAN data sets shifted to the University of Minnesota as demand grew for regional models.

Now, IMPLAN runs as a private organization and is the leading provider of nationwide economic impact data and analytical software. The RCG custom economic impact model employs this input-output methodology.



Economic Impact by Geographic Area

To estimate the economic impact of each \$1.0 billion example reduction in Medicaid spending by geographic region, the analysis used a proportional allocation approach based on current Medicaid expenditures and enrollment across different areas of the state. The methodology involved the following steps:

- Baseline Spending Analysis – Medicaid spending data provided by AHCCCS was collected and analyzed for each region, reflecting existing healthcare expenditures and program utilization. Medicaid enrollment by Congressional District was collected from KFF.
- Proportional Reduction – The incremental \$1.0 billion spending reduction was distributed proportionally across all regions based on their current share of total Medicaid expenditures or enrollment.
- Economic Impact Modeling – The resulting spending reductions by region were then used as inputs in an economic impact model to estimate regional economic impacts.

This approach ensures that each region’s estimated impact aligns with its reliance on Medicaid funding, providing a realistic and region-specific measure of the economic consequences of funding reductions.

Data Sources and Model Inputs

To estimate these impacts, this analysis relies on a combination of primary and secondary data sources, including:

- AHCCCS Financial Reports: To determine total spending, spending by category, and the percentage of the healthcare sector reliant on Medicaid funding.
- AHCCCS Enrollment Data: To determine the total Medicaid population in Arizona and demographic breakdowns.
- U.S. Bureau of Economic Analysis GDP and Expenditures data: To analyze Arizona’s total and healthcare industry GDP and healthcare spending data, providing context on the industry’s economic contributions.
- U.S. Bureau of Labor Statistics/Arizona Office of Economic Opportunity Arizona Employment & Wage Data: To quantify healthcare employment levels, occupations, wages, and industry growth trends in Arizona.



- **IMPLAN Input-Output Modeling:** To estimate direct, indirect, and induced economic impacts, including secondary effects in other industries.
- **Arizona Department of Revenue State & Local Tax Data:** To calculate the fiscal effects of reduced healthcare sector activity on state and local tax collections, including income, sales, and property tax revenues.

Additional Resources

This analysis is based on a combination of publicly available data, industry research, and proprietary economic modeling. Key data sources include federal, state, and industry reports related to healthcare employment, economic contributions, and Medicaid funding structures.

Additionally, research from academic institutions, government agencies, and industry organizations was used to provide context on the broader economic effects of healthcare funding reductions. The following sources were utilized in the development of this report:

- *10 Things to Know About Medicaid*, KFF (2025), <https://www.kff.org/medicaid/issue-brief/10-things-to-know-about-medicaid/>.
- *A Medicaid Per Capita Cap: State by State Estimates*, KFF (2025), <https://www.kff.org/medicaid/issue-brief/a-medicaid-per-capita-cap-state-by-state-estimates/>.
- *Congressional District Interactive Map: Medicaid Enrollment by Eligibility Group*, KFF (2025), <https://www.kff.org/medicaid/issue-brief/congressional-district-interactive-map-medicaid-enrollment-by-eligibility-group/>.
- *Eliminating the Medicaid Expansion Federal Match Rate: State-by-State Estimates*, KFF (2025), <https://www.kff.org/medicaid/issue-brief/eliminating-the-medicaid-expansion-federal-match-rate-state-by-state-estimates/>.
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Analysis Disclosure

This analysis relies on the latest available data from national and local sources. While every effort has been made to ensure accuracy, the actual economic impacts of Medicaid funding reductions may vary based on policy decisions, market conditions, and other external factors.

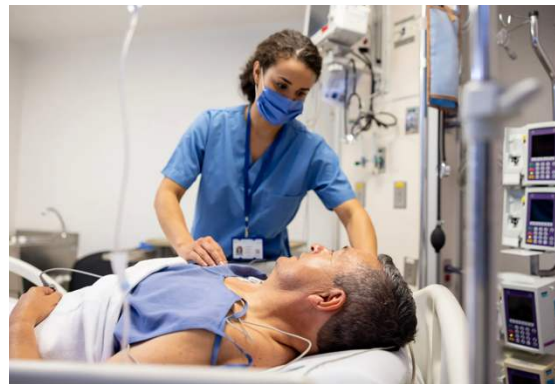
The economic and fiscal effects of Medicaid cuts will depend on how reductions are implemented, how providers and policymakers respond, and broader economic conditions at the time of implementation. This report should be used as a framework to understand potential risks and trade-offs, rather than a definitive projection of future outcomes.



ECONOMIC IMPACT OF EACH \$1.0B REDUCTION IN MEDICAID SPENDING

Arizona’s healthcare industry is one of the largest economic drivers, contributing \$38.1 billion to state GDP and supporting 471,600 jobs.¹⁵ A cut in Medicaid funding would result in hospitals, clinics, and healthcare providers facing immediate financial strain, especially those in rural areas where Medicaid reimbursements constitute a larger portion of operating revenue. Potential consequences include:

- Reduction in provider payments leading to operational cutbacks and layoffs.
- Closure of rural hospitals or clinics, disproportionately affecting underserved communities.
- Increased uncompensated care costs for hospitals, shifting the financial burden to insured patients and taxpayers.



Because the exact extent and method of Medicaid cuts remain uncertain, this analysis evaluates the impact incrementally, estimating economic effects for each \$1.0 billion reductions in Medicaid spending. This allows for a flexible framework that can be scaled based on the final scope of funding changes.

However, the economic impact is not linear – as Medicaid spending reductions increase, the effects become more severe and disproportionate. Therefore, when utilizing the incremental impact example, the full dynamic spending reduction within Arizona must be first calculated.

Initially, providers may respond by reducing staff, limiting services, or delaying capital investments, but at a certain threshold, they will be forced to close facilities entirely. This creates compounding losses beyond the immediate funding reduction:

¹⁵ U.S. Bureau of Economic Analysis Real State GDP (2023) and Arizona Office of Economic Opportunity Employment Estimates (2024).

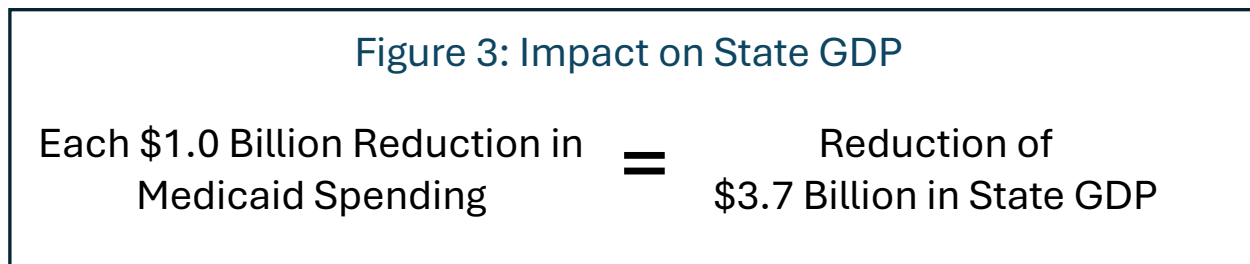


- A hospital closure eliminates not just direct healthcare jobs but also indirect and induced employment in industries that rely on the facility, such as suppliers, retail, and local businesses.
- Rural areas will face even greater losses, as travel distances for medical care increase, leading to higher patient costs and worse health outcomes.
- State and local tax revenues will decline at an accelerating rate as more facilities shut down and fewer healthcare workers remain employed.

This cascading effect means that each additional Medicaid cut causes exponentially larger economic disruptions, making the true cost of reductions greater than the initial dollar amount lost.

Impact on State GDP and Business Activity

Medicaid spending supports a broad network of healthcare services, pharmaceuticals, medical equipment suppliers, and administrative operations. Each \$1.0 billion reduction in Medicaid spending would lead to an overall state GDP contraction of \$3.7 billion, with ripple effects across industries that rely on healthcare-driven spending.¹⁶



Source: Rounds Consulting Group, Inc.

Employment Losses

The healthcare sector directly employs 471,600 Arizonans, but Medicaid funding also sustains jobs in related and dependent industries.¹⁷ Each \$1.0 billion reduction in Medicaid spending could result in total job losses of 36,400 affecting:¹⁸

- Healthcare professionals (doctors, nurses, medical technicians, home health aides).

¹⁶ Author's Calculations.

¹⁷ U.S. Bureau of Economic Analysis Real State GDP (2023) and Arizona Office of Economic Opportunity Employment Estimates (2024).

¹⁸ Author's Calculations.



- Support staff (administrative workers, medical billing specialists, custodial staff, food service workers in hospitals).
- Retail and service industries (businesses that rely on the spending power of healthcare workers, including restaurants, grocery stores, and small businesses near hospitals and clinics).
- Transportation and logistics (medical supply chains, ambulance services, and pharmaceutical distribution).
- Pharmaceuticals and medical equipment manufacturing (companies supplying drugs, medical devices, and hospital equipment).
- Professional and support services (legal, accounting, consulting, and IT firms that provide services to hospitals, clinics, and healthcare providers).

Figure 4: Impact on State Employment

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

Source: Rounds Consulting Group, Inc.

Loss of Labor Income

As jobs are eliminated or wages reduced, Arizona will experience a decline in total labor income, including wages, salaries, and benefits. The reduction of each \$1.0 billion in Medicaid spending could result in:

- A total reduction of labor income by \$1.7 billion, impacting both direct healthcare workers and employees in related industries.¹⁹
- Lower disposable income for affected workers, reducing household spending on goods, services, and housing.
- Increased financial strain on Arizona families, particularly in low-income and rural communities where Medicaid funding supports a larger share of jobs.

¹⁹ Author's Calculations.



- Long-term economic ripple effects, as reduced earnings slow consumer demand, affect business revenues, and limit overall economic growth.

Figure 5: Impact on State Labor Income

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

Source: Rounds Consulting Group, Inc.

Lost State and Local Tax Revenues

A decline in healthcare-related economic activity resulting from each \$1.0 billion reduction in Medicaid spending translates into lower state and local tax revenues, including:

- An estimated annual \$84.9 million in lost state tax revenues from lost income and decreased consumer spending.
- An estimated annual \$53.2 million in lost local (county and municipal) tax revenues from decreased consumer spending and lost property tax revenue due to business closures or workforce reductions.
- A total loss of \$138.1 million in state and local tax revenues each year.

Figure 6: 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.



ECONOMIC IMPACTS BY ARIZONA COUNTY

To estimate the regional economic impact of each \$1.0 billion reduction in Medicaid spending, this analysis applied a proportional allocation approach based on current Medicaid expenditures and enrollment across different areas of the state. Each county's share of the total spending was used to distribute the reduction proportionally.

These adjusted spending levels were then used in an economic impact model to assess county job losses, income reductions, and declines in economic activity and tax revenues, providing a data-driven, location-specific analysis of the funding cuts.

The following table summarizes the economic and fiscal losses of each \$1.0 billion reduction in Medicaid spending by county. County-level enrollment estimates are summarized in the Appendix.

Figure 7: Losses by County – Each \$1.0B Loss in Medicaid Spending

County	Jobs	Labor Income	Economic Output	State Taxes	Local Taxes	Total Taxes
Apache	902	\$42,123,700	\$93,014,700	\$2,107,400	\$1,320,900	\$3,428,300
Cochise	649	\$30,319,600	\$66,949,500	\$1,516,900	\$950,800	\$2,467,700
Coconino	837	\$39,089,900	\$86,315,600	\$1,955,600	\$1,225,800	\$3,181,400
Gila	265	\$12,383,700	\$27,344,900	\$619,500	\$388,300	\$1,007,800
Graham	412	\$19,218,600	\$42,437,300	\$961,500	\$602,700	\$1,564,200
Greenlee	23	\$1,096,300	\$2,420,800	\$54,800	\$34,400	\$89,200
La Paz	100	\$4,686,600	\$10,348,700	\$234,500	\$147,000	\$381,500
Maricopa	21,343	\$996,592,600	\$2,200,605,700	\$49,858,600	\$31,251,300	\$81,109,900
Mohave	962	\$44,927,900	\$99,206,700	\$2,247,700	\$1,408,900	\$3,656,600
Navajo	1,408	\$65,756,100	\$145,198,000	\$3,289,700	\$2,062,000	\$5,351,700
Pima	5,264	\$245,787,000	\$542,729,500	\$12,296,500	\$7,707,400	\$20,003,900
Pinal	1,742	\$81,354,100	\$179,640,400	\$4,070,100	\$2,551,100	\$6,621,200
Santa Cruz	288	\$13,433,400	\$29,662,800	\$672,100	\$421,200	\$1,093,300
Yavapai	919	\$42,906,900	\$94,744,100	\$2,146,600	\$1,345,500	\$3,492,100
Yuma	1,233	\$57,553,600	\$127,085,900	\$2,879,400	\$1,804,800	\$4,684,200
Total	36,348	\$1,697,230,000	\$3,747,704,600	\$84,910,900	\$53,222,100	\$138,133,000

Note: May not sum to totals due to rounding. In 2025 dollars.
Source: Rounds Consulting Group, Inc.



ECONOMIC IMPACTS BY CONGRESSIONAL DISTRICT

The economic impacts can also be analyzed at the Congressional District level by using Medicaid enrollment data as a proxy for spending. This approach provides a reasonable and practical alternative to direct expenditure-based modeling.

To estimate district-level effects, each Congressional District’s share of total AHCCCS enrollees was used to proportionally allocate each \$1.0 billion reduction in Medicaid funding. These adjusted figures were then input into an economic impact model to quantify the resulting job losses, income reductions, declines in economic activity, and tax revenue losses within each district.

The following table summarizes the economic and fiscal losses of each \$1.0 billion reduction in Medicaid spending by Congressional District. District-level enrollment estimates are summarized in the Appendix.

Figure 8: Losses by Congressional District – Each \$1.0B Loss in Medicaid Spending

District	Jobs	Labor Income	Economic Output	State Taxes	Local Taxes	Total Taxes
AZ 01	2,638	\$123,170,181	\$271,975,780	\$6,162,094	\$3,862,397	\$10,024,491
AZ 02	4,640	\$216,669,334	\$478,434,072	\$10,839,773	\$6,794,363	\$17,634,136
AZ 03	6,926	\$323,390,590	\$714,088,486	\$16,178,942	\$10,140,951	\$26,319,893
AZ 04	3,465	\$161,813,349	\$357,304,923	\$8,095,377	\$5,074,177	\$13,169,555
AZ 05	2,218	\$103,573,136	\$228,702,956	\$5,181,671	\$3,247,868	\$8,429,540
AZ 06	3,135	\$146,387,563	\$323,242,780	\$7,323,639	\$4,590,452	\$11,914,091
AZ 07	6,032	\$281,678,005	\$621,981,672	\$14,092,099	\$8,832,919	\$22,925,018
AZ 08	3,356	\$156,697,655	\$346,008,804	\$7,839,444	\$4,913,758	\$12,753,202
AZ 09	3,937	\$183,850,187	\$405,965,126	\$9,197,861	\$5,765,213	\$14,963,074
Total	36,348	\$1,697,230,000	\$3,747,704,600	\$84,910,900	\$53,222,100	\$138,133,000

Note: May not sum to totals due to rounding. In 2025 dollars.
Source: Rounds Consulting Group, Inc.



ECONOMIC IMPACT OF FMAP REDUCTIONS

Federal policy changes affecting Medicaid’s federal matching rates could have significant budgetary and economic consequences for Arizona, particularly for the state’s Medicaid expansion population, impacting both eligibility and costs.

Medicaid operates with a federal matching guarantee without a cap on federal expenditures. The federal medical assistance percentage or “FMAP” is determined by a formula set in law designed to provide a higher federal match rate for lower-income states and certain populations.

Under the Affordable Care Act (ACA), Arizona’s expanded Medicaid provides coverage for approximately 500,000 low-income adults, including:

- 434,000 childless adults (0%-100% FPL) required by Arizona’s Prop 204,
- 66,000 adults (0%-133% FPL) covered under the ACA expansion.

The federal government pays 90% of the costs for the expansion population, while the state cost of Medicaid expansion is primarily funded by a special hospital assessment.

Arizona imposes a 6% hospital assessment, the maximum allowed under federal law, generating \$682 million to fund Medicaid expansion. An additional \$741 million is collected to draw down federal funds for payment increases to hospitals, physicians, and dentists, creating a total state and federal funding package of \$3.1 billion.²⁰

Arizona is one of nine states with a “trigger statute,” meaning Medicaid expansion is automatically terminated if:

- The ACA is repealed,
- The federal match rate drops below 80%, or
- The hospital assessment is insufficient to cover state expansion costs.

Congress is currently considering proposals to reduce the federal deficit by at least \$880 billion over the next 10 years, most of which are expected to come from the Medicaid program. Analysis by national health care research groups estimates Arizona’s “share” of those Medicaid cuts to be from \$1.8 - \$2.0 billion, annualized.²¹ The following analysis

²⁰ Source: Medicaid Funding and the Hospital Assessment, Joint Legislative Budget Committee, January 27, 2025

²¹ The Commonwealth Fund and KFF.



examines the fiscal and economic impacts of these potential spending reductions, using estimates from the KFF.²²

Although Congress has yet to specify the mechanism for achieving the reductions, any reductions to Medicaid spending mean Arizona lawmakers would need to make a policy choice to either:

- Backfill lost federal funds through state budget cuts or tax increases , or
- Forgo backfilling lost federal funds and instead reduce total Medicaid program spending.

One example of a federal approach to reduce Medicaid spending would be to eliminate the enhanced FMAP for ACA Medicaid expansion. This change would result in an annual loss of between \$1.9 billion and \$7.5 billion in federal Medicaid funding for Arizona.²³ As a result, up to 30% of the AHCCCS population could be affected, either through eligibility reductions, coverage losses, or increased state costs to maintain coverage (subject to policy decisions). The following sections explain the economic consequences of those policy choices.

Scenario #1: Arizona Maintains Medicaid Expansion but Absorbs the Cost

In this scenario, Arizona continues Medicaid expansion and fully absorbs the \$1.9 billion annual reduction in federal funding.²⁴ While enrollment and total Medicaid spending remain unchanged, the financial burden shifts from the federal government to Arizona taxpayers.

To maintain coverage, the state would need to find \$1.9 billion in additional revenue, likely through spending cuts, tax increases, or both. Given existing budget constraints (including voter-protected funding for K-12 education and federal mandates on programs like Medicaid) Arizona would face difficult trade-offs:

- Spending cuts to social services, education, and economic development programs,
- Tax increases to generate the necessary funding, or
- A combination of both, requiring significant structural changes to state programs.

²² 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/>

²³ *Eliminating the Medicaid Expansion Federal Match Rate: State-by-State Estimates*, KFF (February 2025), <https://www.kff.org/medicaid/issue-brief/eliminating-the-medicaid-expansion-federal-match-rate-state-by-state-estimates/>.

²⁴ Based on KFF estimates.



As an example, if Arizona offsets only \$400 million through spending cuts, the state would still need to generate \$1.5 billion annually through tax increases. This would represent a 9% increase in total state revenues above FY 2025 levels, requiring:

- Raising the state sales tax by 2%, or
- Reversing Arizona’s recent income tax cuts, which established a flat 2.5% tax rate.

However, implementing \$1.5 billion in tax increases would have economic consequences:

- Higher tax burdens could slow economic growth,
- Consumer spending and investment could decline, and
- The resulting slowdown would reduce tax revenues by an estimated \$600 million annually.

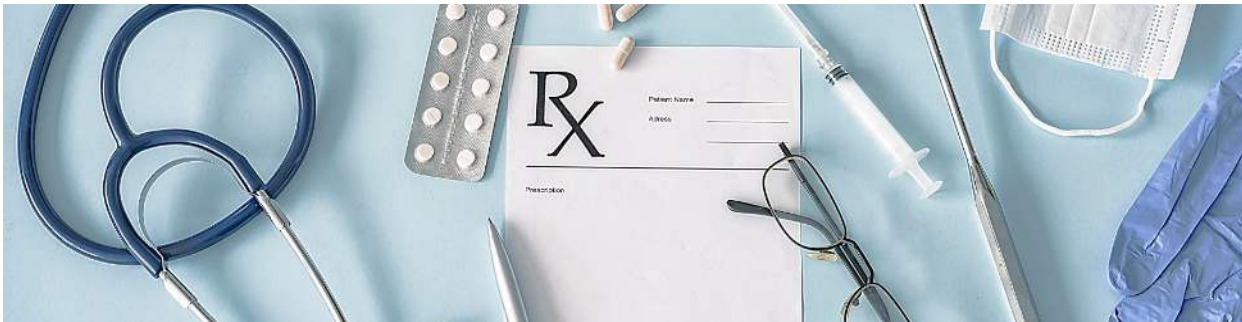
Thus, the total fiscal impact of this cost shift scenario would amount to an estimated \$2.5 billion in annual losses for the state, leading to a loss of 130,000 jobs and \$500.0 million in lost state and local tax revenues. For perspective, this is nearly half of the total job losses Arizona experienced during the Great Recession, or what is typically seen in a moderate economic downturn.

Figure 9: Economic Impact of a \$1.9B Reduction in Federal Medicaid Funds

Note: Based on KFF estimates of federal Medicaid funding reductions in Arizona.

130,000	\$5.9B	\$13.1B	\$500.0M
Full-Time Equivalent Job Losses	Reductions in Labor Income	Losses in Economic Activity	State & Local Tax Revenues Losses
Total number of jobs losses across the state.	Total losses in employee-earned wages.	Total losses in state gross domestic product.	Total state, county, and municipal tax revenue losses.

Source: Rounds Consulting Group, Inc.





Scenario #2: Arizona Discontinues Medicaid Expansion

In this scenario, Arizona does not backfill lost federal funding and instead drops the ACA Medicaid expansion, resulting in a \$7.5 billion annual reduction in Medicaid spending.²⁵ This would trigger:

- The loss of Medicaid coverage for approximately 500,000 Arizona residents,
- Litigation related to the state’s Prop 204 population,
- A significant decline in federal healthcare funding, and
- Severe economic and fiscal impacts across the state.

Using the KFF estimate of a \$7.5 billion annual reduction in Medicaid spending, Arizona would experience 299,900 job losses, \$14.0 billion in lost labor income, \$30.9 billion in economic output losses, and \$1.1 billion in lost state and local tax revenues.

For perspective, these economic losses would be comparable to those experienced during the Great Recession but with a key difference: the Great Recession was a temporary economic shock. In this case, the economic contraction would be permanent, as Medicaid spending and healthcare coverage would be permanently reduced.

Beyond the immediate economic fallout, the long-term implications of mass coverage losses would be profound. Losing healthcare access is strongly correlated with lower education attainment, lower lifetime earnings, and reduced economic mobility. This would further decrease state and local tax revenues while increasing costs over time, creating additional fiscal pressures on Arizona’s economy.

Figure 10: Economic Impact of a \$7.5B Reduction in Medicaid Spending

Note: Based on KFF estimates of Federal Medicaid spending reduction in Arizona if Medicaid expansion is discontinued.

299,900	\$14.0B	\$30.9B	\$1.1B
Full-Time Equivalent Job Losses	Reductions in Labor Income	Losses in Economic Activity	State & Local Tax Revenues Losses
Total number of jobs losses across the state.	Total losses in employee-earned wages.	Total losses in state gross domestic product.	Total state, county, and municipal tax revenue losses.

Source: Rounds Consulting Group, Inc.

²⁵Based on KFF estimates



IMPACT ON THE STATE'S HEALTHCARE INDUSTRY

The healthcare sector is a pillar of Arizona's economy, generating billions of dollars in economic activity and employing hundreds of thousands of workers across the state. As one of the fastest-growing industries, healthcare plays a critical role in job creation, income generation, and state tax revenues.

- **Healthcare Industry GDP Contribution:** Arizona's healthcare sector contributes \$38.1 billion, accounting for approximately 9.0% of the state's total GDP.²⁶ The sector's economic impact extends beyond direct patient care, influencing pharmaceutical manufacturing, medical device production, and research and development.
- **Total Healthcare Employment:** The industry employs approximately 471,600 workers, making it the 2nd largest employment sector in Arizona.²⁷ These jobs span hospitals, private practices, specialty clinics, long-term care facilities, and outpatient services.
- **Wages and Income:** Healthcare workers in Arizona earn a combined \$32.2 billion in wages and salaries annually, with the industry offering stable, high-quality employment.²⁸ The sector provides jobs at multiple skill levels, from entry-level healthcare aides to highly specialized medical professionals.
- **Higher Earnings Compared to Other Industries:** On average, healthcare workers (average wage of \$68,300) earn 8.4% more than the average Arizona worker (average wage of \$63,000), making the sector a key driver of middle-class income and economic mobility.²⁹

Higher wages in healthcare contribute to stronger consumer spending and tax revenues, reinforcing the industry's broader economic impact.

Given the size and economic importance of Arizona's healthcare industry, any disruptions caused by Medicaid funding cuts could have widespread consequences, including reduced hospital revenues, job losses, and declining tax revenues that support public services.

²⁶ U.S. Bureau of Economic Analysis Real State GDP (2023)

²⁷ Arizona Office of Economic Opportunity Employment Estimates (2024)

²⁸ U.S. Bureau of Economic Analysis Real Income by Industry (2024)

²⁹ Arizona Office of Economic Opportunity Occupational Wages (2024)



Figure 11: Profile of Arizona’s Healthcare Industry

471,600	\$68,300	\$32.2B	\$38.1B
Healthcare Jobs in Arizona	Average Wage of Workers	In Labor Income Across Arizona	In State Gross Domestic Product
Total number of healthcare jobs across the state.	Average annual wage of healthcare workers in Arizona	Total employee-earned wages and salaries.	Total direct economic output produced by the healthcare industry.

Economic Impact of Each 10% Decline in Arizona’s Healthcare Industry

Given the economic significance of Arizona’s healthcare industry, any disruption, such as those caused by reductions in Medicaid funding, could have widespread consequences.

Due to the uncertainty surrounding the scale and structure of potential federal Medicaid reductions, the following example illustrates the economic impact of *each* 10% decline in the healthcare sector as an incremental benchmark.

Each 10% reduction in the state’s healthcare employment base equates to roughly a \$3.0 billion reduction in spending.



This approach allows for estimating the potential effects of varying levels of funding reductions, providing an example of the possible economic risks.

A 10% contraction in Arizona’s healthcare industry would reverberate across multiple areas of the state’s economy. The contraction would result in:

- **Job Losses:** A direct loss of 47,160 healthcare jobs (10% of the current healthcare employment base) would multiply into a total job loss of 105,120 across all industries



throughout the state (see the following subsection for breakdown of job losses by industry). This includes 57,960 indirect and induced job losses, driven by reduced supply chain activity and lower consumer spending as displaced healthcare workers cut back on goods and services.

- Labor Income Decline:** The loss of employment would result in a \$7.6 billion decline in labor income, significantly impacting household earnings and consumer spending power. Given that healthcare jobs typically offer above-average wages, the loss of these positions would disproportionately affect middle-class economic stability.
- Economic Output Reduction:** The healthcare sector is a key economic driver in Arizona, and a 10% decline would lead to a \$16.9 billion loss in total economic output. This would not only affect direct patient care providers but also industries connected to healthcare spending, such as pharmaceutical providers, medical device production, patient deliver providers, and research and development.
- State and Local Tax Revenue Losses:** The economic contraction would reduce revenue streams that fund essential public services, such as education, infrastructure, and public safety.

A 10% decline in the healthcare sector would result in a \$672.1 million annual loss in state and local tax revenues, putting additional strain on government budgets and potentially leading to service reductions or tax increase to compensate for the shortfall.

The example of a 10% decline serves as a scalable framework for understanding the potential consequences of different levels of Medicaid funding reductions. If funding cuts trigger a more significant contraction in the healthcare sector, these impacts would compound, accelerating job losses, reducing healthcare access, and increasing economic instability statewide.

Figure 12: Economic Impact of Each 10% Decline in Arizona’s Healthcare Industry

105,120	\$7.6B	\$16.9B	\$672.1M
Full-Time Equivalent Job Losses	Reductions in Labor Income	Losses in Economic Activity	State & Local Tax Revenues Losses
Total number of jobs losses across the state.	Total losses in employee- earned wages.	Total losses in state gross domestic product.	Total state, county, and municipal tax revenue losses.

Source: Rounds Consulting Group, Inc.



Job Loss Detail – Each 10% Decline in Arizona’s Healthcare Industry

A 10% reduction in the healthcare sector, resulting in the loss of 47,160 healthcare jobs, would have widespread consequences beyond hospitals and medical facilities. Due to the interconnected nature of the economy, these initial job losses would trigger further employment declines in tangential and supporting industries.

For every healthcare job lost, another 1.2 jobs are lost in other industries, bringing the total estimated employment impact to 105,120 jobs statewide. These secondary job losses occur through two primary mechanisms:

- **Indirect Job Losses** – These result from reduced demand for goods and services from businesses that supply the healthcare sector, such as medical equipment manufacturers, transportation services, pharmaceutical companies, and professional services.
- **Induced Job Losses** – These occur when displaced healthcare workers and other affected employees reduce their household spending, leading to job losses in consumer-facing industries like retail, hospitality, and entertainment.

The 57,960 indirect and induced job losses would spread across nearly every major sector of Arizona’s economy:

- **Retail Trade (-11,207 jobs)** – As one of the largest employment sectors in the state, retail businesses would experience significant losses due to declining consumer spending.
- **Manufacturing (-5,786 jobs)** – Lower demand for medical equipment, pharmaceuticals, and healthcare-related products would contribute to job reductions in Arizona’s manufacturing sector.
- **Transportation and Warehousing (-5,212 jobs)** – Reduced medical supply shipments, patient transportation services, and decreased consumer demand for goods would negatively impact logistics and distribution jobs.
- **Healthcare and Social Assistance (-4,884 jobs)** – Beyond the direct impact on hospitals and clinics, additional job losses would occur in private practices, outpatient services, and long-term care facilities.



- **Arts, Entertainment, and Recreation (-4,592 jobs)** – As disposable income declines, spending on entertainment, fitness, and recreational activities would decrease, leading to employment cuts.
- **Finance and Insurance (-2,848 jobs)** – With fewer insured individual and reduced healthcare transactions, employment in finance and insurance (particularly in claims processing, underwriting, and medical billing) would decline.
- **Accommodation and Food Services (-2,193 jobs)** – Restaurants, hotels, and other hospitality businesses would experience job losses due to reduced dining and travel spending.
- **Professional, Scientific, and Technical Services (-1,036 jobs)** – High-skilled industries that provide legal, accounting, and consulting services to healthcare organizations would also see employment declines.
- **Public Administration (-1,013 jobs)** – The loss of tax revenue from declining wages and economic activity could lead to job reductions in government agencies.
- **All Other Industries (-19,189)** – The contraction of the healthcare industries would further extend to all other industries across the state including, agriculture, utilities, construction, and education, among others.





Figure 13: Job Losses Due to Each 10% Decline in Arizona’s Healthcare Industry

Industry	Jobs
Healthcare	47,160
Secondary (Indirect & Induced) Impact	57,960
Agriculture, Forestry, Fishing and Hunting	3,592
Mining, Quarrying, and Oil and Gas Extraction	913
Utilities	162
Construction	614
Manufacturing	5,786
Wholesale Trade	523
Retail Trade	11,207
Transportation and Warehousing	5,212
Information	3,024
Finance and Insurance	2,848
Real Estate, Rental, and Leasing	837
Professional, Scientific, and Technical Services	1,036
Management of Companies and Enterprises	681
Administrative, Waste Management, and Support Services	2,194
Educational Services	1,318
Healthcare and Social Assistance	4,884
Arts, Entertainment, and Recreation	4,592
Accommodation and Food Services	2,193
Other Services	5,332
Public Administration	1,013
Total	105,120

Note: Based on and sorted by U.S. Bureau of Labor Statistics North American Industry Classification System (NAICS) codes. May not sum to total due to rounding.

Source: Rounds Consulting Group, Inc.



CONCLUSIONS

AHCCCS provides healthcare coverage for over 2.0 million Arizonans.³⁰ The program operates through a federal-state matching system, with federal contributions covering over 70% of annual costs.³¹ Any reduction in federal Medicaid funding would require Arizona’s policymakers and healthcare providers to make difficult decisions, that could include:

- Reducing hospital and provider reimbursements,
- Limiting enrollment,
- Scaling back covered benefits, or
- Identifying new revenue sources to offset the shortfall.

Although the specific structure of potential Medicaid cuts remains uncertain – whether through a reduced federal matching rate, a shift to block grants, or a broader restructuring of the funding model – this analysis does not focus on the mechanisms of these reductions. Instead, this study evaluates the economic consequences of Medicaid spending reductions, regardless of how they are implemented.

While policy details continue to evolve, the economic risks remain clear. Medicaid reductions would weaken Arizona’s healthcare system, trigger widespread job losses, reduce household income, and generate broader fiscal and economic challenges across the state. Understanding these impacts is critical for state leaders, healthcare providers, and policymakers as they prepare for potential changes in federal funding.

Analysis and Key Findings Summary

This analysis highlights several critical economic and fiscal consequences of Medicaid spending reductions. Key findings include:

- **Arizona’s GDP would decline by approximately \$3.7 billion** with each \$1.0 billion reduction in Medicaid spending, reflecting the loss of economic activity driven by healthcare services.
- **Total job losses could reach 36,400 under this incremental example**, impacting not only healthcare workers but also employees in retail, professional services, transportation, and other sectors connected to healthcare.

³⁰ Source: AHCCCS Population Statistics (January 2025) and Arizona Office of Economic Opportunity Population Statistics (2024).

³¹ Source: AHCCCS Appropriation Status Report (December 2024).



- **Labor income would decline by \$1.7 billion**, reducing household spending and slowing overall economic growth.
- **State and local tax revenues would decrease by \$138.1 million**, affecting funding for public services, including education, infrastructure, public safety, and social programs.
- **If Arizona discontinues Medicaid expansion**, it would result in a permanent reduction of federal healthcare funding, triggering severe economic losses comparable to the Great Recession and the loss of healthcare coverage for over 500,000 residents.
- **Rural healthcare facilities would be at heightened risk of closure**, disproportionately affecting low-income and underserved communities and impacting all residents in those areas.
- **Shift financial burdens onto hospital, insured patients, and taxpayers**, as healthcare service reductions would increase emergency room overcrowding and reduce access to quality medical care for all Arizonans.
- **The economic impact is not fully linear but can still be extended** to other increments of federal reductions in Medicaid spending. As cuts deepen, providers will reach a financial breaking point, leading to facility closure that accelerate job losses and economic disruptions.





APPENDIX A: MEDICAID PROFILE IN ARIZONA

The following section provides a summary of AHCCCS enrollment estimates, including demographic breakdowns, geographic distribution, and other key statistics relevant to Arizona’s Medicaid population. These data points help contextualize the scope and reach of the AHCCCS program, highlighting the populations most affected by potential funding reductions.

Demographic Profile

The data in Figure A1 provides insight into the total population and gender distribution of Medicaid recipients in Arizona. The total AHCCCS population is 2,048,972 (as of January 2025), with females comprising a more significant share (53.2%) than males (46.8%).

The gender disparity in enrollment may reflect the increased healthcare needs of women, particularly in maternal and reproductive health services, preventive care, and chronic disease management. Additionally, women are more likely to be single parents and caregivers, making them more eligible for Medicaid assistance.

Figure A1: AHCCCS Population by Gender (January 2025)

Category	Estimate	% Share
Total	2,048,972	100.0%
Males	958,919	46.8%
Females	1,090,053	53.2%

Source: Arizona Health Care Cost Containment System

The age distribution of the AHCCCS population reflects the program’s critical role in providing healthcare coverage across various life stages. Children (ages 0-17) represent the second-largest group (38.6%), highlighting the importance of Medicaid in ensuring access to infant and pediatric care, immunizations, and early developmental health services.

The largest age group within AHCCCS is adults aged 22-64, making up 47.3% of the total enrollment. This segment likely includes low-income working adults, individuals with disabilities, and those covered through Medicaid expansion under the Affordable Care Act (ACA). The 18-21 age group accounts for 6.5%, likely consisting of young adults transitioning out of pediatric Medicaid or those qualifying due to income eligibility or disability status.

Older adults (ages 65-79 and 80+) make up 7.7% of AHCCCS enrollment, reflecting the program's role in providing supplemental coverage for low-income seniors, particularly those dually eligible for Medicare and Medicaid. The relatively smaller proportion of elderly enrollees is expected, as many seniors primarily rely on Medicare for healthcare services, with Medicaid offering additional support for long-term care and out-of-pocket expenses.

Figure A2: AHCCCS Population by Age Group (July 2024)

Age Group	Estimate	% Share
Total Population*	1,982,414	100.0%
Child 0-17	764,878	38.6%
Adult 18-21	128,805	6.5%
Adult 22-64	936,838	47.3%
Adult 65-79	120,572	6.1%
Adult 80+	31,321	1.6%

Note: Total excludes Specified Low-income Medicare Beneficiary (SLMB) and Qualified Individual Program (QI1). The population will not match the Population by Category Report total due to the timing of the reports.
 Source: Arizona Health Care Cost Containment System

Geographic Profile

AHCCCS populations are more heavily concentrated in Arizona’s rural counties when measured as a share of the total population. In urban counties such as Maricopa, Pima, and Pinal, AHCCCS enrollees represent between 23.1% and 27.5% of the total population. However, this share increases significantly in many rural counties – reaching as high as 51.9%.





Figure A3: AHCCCS Population by County (January 2025)		
County	Estimate	% Share of Overall County 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)

Figure A4: AHCCCS Population by Congressional District (2024)		
District	Estimate	% Share of Overall District Population
AZ 01	156,500	19.5%
AZ 02	275,300	33.0%
AZ 03	410,900	50.5%
AZ 04	205,600	25.2%
AZ 05	131,600	15.3%
AZ 06	186,000	22.9%
AZ 07	357,900	44.1%
AZ 08	199,100	24.9%
AZ 09	233,600	26.5%
Total	2,156,500	28.3%

Source: KFF's State Health Facts; U.S. Census Bureau (2023 Population by Congressional District)



Births Covered by Medicaid

The most recent data from 2021 estimated that nearly half (47%) of all births in Arizona were covered by the AHCCCS.³² This significant proportion underscores the critical role that AHCCCS plays in ensuring that low-income women have access to essential healthcare services during pregnancy, childbirth, and the postpartum period.³³

The relevance of this coverage cannot be overstated, as it has direct implications for the health of both mothers and infants, particularly among populations who may otherwise be unable to afford or access such care.

Without AHCCCS, many women, particularly those in rural areas or with limited income, might not have access to regular prenatal visits, which are critical for identifying potential complications early.

According to the Kaiser Family Foundation, Medicaid programs like AHCCCS have been shown to reduce maternal mortality and improve birth outcomes by making healthcare more accessible.³⁴

Additionally, AHCCCS coverage extends to postpartum care, which helps ensure that both mothers and newborns receive ongoing medical support and preventive services, reducing the risks of health issues after birth.

³² Kaiser Family Foundation (KFF). *Maternal and Infant Health in Arizona*. Retrieved January 30, 2025, from <https://www.kff.org/interactive/womens-health-profiles/arizona/maternal-infant-health/>

³³ Arizona Health Care Cost Containment System (AHCCCS). (2022, April 1). *AHCCCS Expands Postpartum Coverage to 12 Months*. Retrieved January 30, 2025, <https://www.azahcccs.gov/shared/News/GeneralNews/postpartumcoverage.html>

³⁴ Freeman, M. P., & Westhoff, C. L. (2020). *The Impact of Medicaid Expansion on Maternal Health Outcomes: Evidence and Implications for Public Policy*. *PubMed Central*. Retrieved January 30, 2025, <https://pmc.ncbi.nlm.nih.gov/articles/PMC8475675/#:~:text=Medicaid%20expansion%20has%20been%20shown,expansion%2C%20significant%20care%20gaps%20exist.>



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