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KBRA Releases Research – States Face a Heavy Lift From OBBBA's Medicaid Rules

KBRA releases research discussing the impact of the One Big Beautiful Bill Act's (OBBBA) effect on states arising from its Medicaid rules. For states, significant changes to Medicaid result from OBBBA provisions that reduce federal funding, limit how states raise their share of funding, or add new administrative costs.

Since the enactment of the OBBBA in July 2025, KBRA has analyzed, across multiple reports, the potential credit impacts of the changing relationship between the federal government and state and local governments. This relationship has been altered through a variety of provisions in the law and through separate actions taken by the administration, including the funding freeze placed on critical mass transit projects. Looking ahead, states face a multitude of financial pressures resulting from the recasting of the federal relationship with states and localities. In addition, OBBBA has also altered the Medicaid landscape. In this commentary, KBRA addresses notable pain points for states arising from OBBBA's Medicaid provisions, with a focus on fiscal and administrative challenges.

Key Takeaways

- Policy changes in Washington are shifting greater responsibility for funding certain federal programs, particularly low-income medical care, to state and local governments.
- Among the Medicaid provisions with the largest federal spending reductions are work requirements, provider taxes, state-directed payments, and the moratorium on the Medicare Savings Program final rule.
- KBRA believes changes involving work requirements, provider taxes, state-directed payments, and eligibility redeterminations may have the largest impacts for states due to their combined fiscal and administrative implications.
- OBBBA's Medicaid changes will place pressure on states to close the coverage and financial gaps that emerge as implementation occurs while addressing the knock-on effects of federal policy changes such as the expiration of enhanced premium tax credits.

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