Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Memorandum

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TO: Interested Persons

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SUBJECT: Medicaid Impacts from the One Big Beautiful Bill Act

Overview

Medicaid is a joint federal and state insurance program that provides health care coverage to low-income families and individuals, including children, pregnant people, seniors, and people with disabilities. Colorado's Medicaid program is known as Health First Colorado and is administered by the Department of Health Care Policy and Financing (HCPF). This memorandum provides an overview of recent Medicaid changes under H.R. 1, the One Big Beautiful Bill Act (OBBBA). For additional information, see LCS's memo providing an Overview of Colorado's Medicaid Program.

H.R. 1: The One Big Beautiful Bill Act

On July 4, 2025, President Donald Trump signed H.R. 1, also known as the One Big Beautiful Bill Act (OBBBA), into law. The OBBBA spans a wide range of policy domains including taxes, national debt, military defense, border security, student loans, the Supplemental Nutrition Assistance Program, and Medicaid, among others. Changes to the Medicaid program—the largest since the Affordable Care Act (ACA) in 2010—fall within three primary categories: coverage and eligibility, financing and budgeting, and administration. The OBBBA also created a Rural Health Transformation Program to replace funding cuts elsewhere in the act that impact rural providers. Congress' nonpartisan Congressional Budget Office estimates that the OBBBA will reduce federal Medicaid spending by about $911 billion over the next 10 years, and increase the number of uninsured individuals by 10 million.[1] Some of this reduction in federal spending results from reduced services and eligibility, and some results from shifting a greater share of Medicaid costs to the states.

[1] Estimated Budgetary Effects of Public Law 119-21, Congressional Budget Office.

The following sections outline the principal Medicaid-related provisions that directly affect Health First Colorado.

Coverage and Eligibility Changes

As outlined in the sections below, the OBBBA modified several Medicaid coverage and eligibility provisions, which affects the populations and services offered by Health First Colorado. The state anticipates that these changes will disqualify some existing members and reduce enrollment from more frequent eligibility redeterminations. Fewer members enrolled in Medicaid may result in cost savings to both the state and federal government. However, at the same time, increased rates of uninsured people may also result in higher rates of uncompensated care for providers and hospitals, which could lead to increased premium rates in the private health insurance market.

Federal law sets the parameters that state Medicaid programs must meet in order to receive federal matching funds. Colorado and other affected states may choose to continue offering certain services to populations that are no longer eligible under OBBBA, but these costs must be paid exclusively from state funds.

Section 71119: Community Engagement Requirements

This OBBBA provision requires states to establish "community engagement requirements," commonly referred to as work requirements, for able-bodied adults covered through the ACA expansion. To maintain Medicaid eligibility, these individuals must perform 80 hours of work or other covered activities (community service, work force training, education, among others) in the month preceding eligibility determination. There are several exemptions to the community engagement requirements, including among other things:

- persons who already meet the work requirements for Colorado Works/Temporary Assistance to Needy Families (TANF);
- persons who are over age 64 or below age 19;
- persons who are medically frail;
- persons who belong to an Indian/Native American Tribe;
- former foster youth up to age 26;
- persons recently released from incarceration; and
- persons caring for a disabled child.

Health First Colorado does not currently require community engagement criteria for coverage or eligibility. About 377,000 members may be required to comply with community engagement requirement to maintain Medicaid eligibility.

This provision takes effect on January 1, 2027.

Section 71107: Redetermination

This OBBBA provision requires states to reassess member eligibility every six months for adults who are eligible through the ACA expansion. Health First Colorado currently conducts redetermination annually, with about 75 percent of all renewals approved through automated methods. More frequent eligibility redetermination may result in loss of Medicaid coverage for some individuals if their ineligibility is identified sooner than under the current 12-month schedule, or if they fail to complete the necessary administrative steps to ensure their redetermination is processed. Administrative costs to counties will increase to complete additional manual redeterminations, and programming costs will increase to restructure the state's eligibility system. About 377,000 members will have their eligibility assessed more frequently under this provision.

This provision takes effect on January 1, 2027.

Section 71120: Cost-Sharing Requirements

This OBBBA provision requires states to implement cost-sharing measures for certain services received by the ACA expansion population earning more than 100 percent of the FPL. Colorado may determine cost-sharing rates, but they must be above 0 percent and below $35 per service. The total cost sharing amount may not exceed 5 percent of a covered family's income annually. Health First Colorado does not currently impose cost sharing requirements, but does charge a copay for certain emergency room visits. Increased cost sharing will reduce both state and federal government expenditures on health services. However, additional copays will result in less federal matching funds, which could impact overall funding for provider payments. About 60,000 members may be affected by this provision.

This provision takes effect on October 1, 2028.

Section 71112: Retroactive Coverage

This OBBBA provision limits retroactive coverage to one month preceding enrollment for the expansion population, and two months for mandatory Medicaid populations. Health First Colorado currently grants retroactive coverage to new enrollees for up to three months

preceding the individual's application date if they meet eligibility requirements during that period and pay all required premiums. Reduction to retroactive coverage will result in cost savings to the state and federal government, but may increase uncompensated care for hospitals and providers. Anyone applying for new coverage may be affected by this provision.

This provision takes effect on January 1, 2027.

Section 71106: Asset Ceiling

This OBBBA provision establishes an asset ceiling of $1 million for home equity values when determining long-term care eligibility. Health First Colorado currently sets the asset ceiling for home equity values at $1.1 million, with a $2,000 per month asset limit for individuals and $3,000 for married members.[2] This provision may affect those members whose homes are valued between $1 million and $1.1 million. However, given that several factors contribute to income and asset limits for long-term care eligibility, the exact population affected cannot be identified.

This provision takes effect on January 1, 2028.

Section 71113: Prohibited Entity Funding

This OBBBA provision prohibits payments for family planning and reproductive healthcare to nonprofit providers who also perform abortions. Health First Colorado currently uses both state and federal funds to cover numerous family planning services such as contraceptives, office visits, surgical sterilization, and fertility assessments. About 14,000 Medicaid members in Colorado receive services through affected nonprofit providers.

As of September 2025, a federal court has issued an injunction against this provision in OBBBA. Therefore, both state and federal funds are continuing to be used to pay affected providers. Senate Bill 25B-002, enacted during the August 2025 special legislative session, allows HCPF to use state funds to continue reimbursements to nonprofits affected by this provision of OBBBA. Thus, if the injunction is overturned and the provision is allowed to take effect, costs to the state will increase to pay the entire cost of services provided by affected nonprofits, and the federal government will have cost savings.

This provision took effect on July 25, 2025.

[2] 2025 Social Security Cost of Living Adjustments Operational Memo, HCPF.

Section 71109: Immigrant Eligibility

This OBBBA provision limits Medicaid eligibility to U.S. citizens, lawful permanent residents, and other specified populations. Health First Colorado currently covers services for qualified immigrants, including lawful permanent residents, refugees, parolees, asylum-seekers, victims of trafficking, and abused women and children, among others. Reducing eligibility for certain immigrant groups will result in cost savings to the state and federal government, but may increase uncompensated care for hospitals and providers. An estimated 7,000 members may be affected by the provision.

This provision takes effect on October 1, 2026.

Financing and Budgeting Changes

The OBBBA made several changes to Medicaid financing and budgeting, which will alter funding streams and the state's share of costs for Health First Colorado. These changes include limitations to provider fee revenue and state-directed payments, which will reduce the share of Medicaid expenditures paid using state fee revenue and federal funds. Correspondingly, it could increase General Fund expenditures at the state level if the General Assembly chooses to backfill the lost revenue. Provider fees and state-directed payments largely support supplemental payments to hospitals and services for the ACA expansion population. Reduced revenue from these sources could have significant impact on supplemental payments and covered services and provider reimbursement rates, depending on actions taken by the General Assembly and HCPF.

Sections 71115 & 71117: Provider Taxes

These OBBBA provisions freeze Colorado's current provider fee for two years. Beginning in 2027, provider fees are reduced by 0.5 percentage points annually until they reach 3.5 percent. HCPF implemented emergency rules prior to passage of the OBBBA to set the Hospital Provider Fee at the maximum 6.0 percent. Thus, under the OBBBA, the fee will phase down to 3.5 percent by FY 2031-32. Over a five-year period, the reduction in provider fees will result in a reduction of $575 million in provider fee revenue and between $900 million and $2.5 billion in federal funds. As mentioned above, this revenue is used to make supplemental payments to hospitals that serve Medicaid members, as well as to pay for coverage for an estimated 425,000 Medicaid members covered under the ACA expansion.

This provision takes effect on October 1, 2027.

Section 71116: State Directed Payments

State directed payments are a funding mechanism permitted in federal law by which states draw down additional federal funds in order to increase Medicaid provider rates to equal a percentage of Medicare or commercial insurance reimbursement rates. This OBBBA provision limits state directed payments to no more than 100 percent of Medicare rates, rather than the higher commercial benchmarks previously used.

The effective date of the OBBBA provision depends on whether a program is new or already in place. For programs established after the law's enactment, the Medicare cap applies immediately. In contrast, programs that predate the law are grandfathered in until 2028. Beginning that year, state directed payments are reduced by 10 percentage points annually until they meet the Medicare rate limit.

HCPF recently submitted a proposal to create a state directed payment program to the federal government for approval, as required by House Bill 25-1213. By submitting the request for federal approval prior to the July 4, 2025, effective date of H.R. 1, it is assumed that Colorado's state directed payment program will qualify as an existing program, and therefore be subject to the later 2028 phase-down period.

Early estimates predict that Colorado will generate about $279 million in revenue from qualifying governmental transfers and draw down $446 million in additional federal funds, resulting in total program payments of $725 million in FY 2025-26. Starting in FY 2027-28, revenue and expenditures will decrease by about 10 percent annually.

This provision takes effect on January 1, 2028.

Administration

The OBBBA makes several changes to the administrative functions of Medicaid including:

- requiring state administrators to review Master Death Files quarterly to verify if a member is deceased;
- requiring state administrators to collect and verify enrollee address information through specific data sources;
- requiring state administrators to share member information with other states to reduce duplicity of enrollment; and
- revising audit procedures for measuring payment error rates.

Other Provisions

Section 71401: The Rural Health Transformation Program

This OBBBA provision appropriated $50 billion in federal funds to states to support rural providers that may experience spending cuts from other provisions of the OBBBA. Half of this funding will be distributed evenly across all states, while the other 50 percent will be distributed based on state-specific needs and opportunities. HCPF must submit an application to the federal government by Fall 2025 and funding awards will be announced by December 31, 2025. Colorado is estimated to receive at least $500 million over five years, and potentially more depending on discretional funding decisions made by the federal government.

This provision took effect on July 1, 2025.