

**One Big Beautiful Bill Act (OBBBA):
Impact of the Rural Health Transformation Fund**

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June 23, 2025

Background

The latest Senate text establishes a \$25 billion fund for rural health care providers. The fund is not just for hospitals but would also be available to a broad range of health care providers, including rural hospitals, rural health clinics, federally qualified health centers, and community mental health centers.

- All states could qualify; to qualify, states would need to submit a rural health transformation fund application to the Centers for Medicare & Medicaid Services (CMS) by September 30, 2027.
- Available funding: The provision would allocate \$10 billion in each fiscal year (FY) 2028 and 2029, \$2 billion in FYs 2030 and 2031, and \$1 billion in FY 2032.
- Distribution approach: 50% of the funding would be allocated equally across all states with approved applications. The remaining 50% would be distributed to states at the discretion of the CMS Administrator.

Manatt Analysis

Manatt compared the size of the rural hospital funding gap generated by the latest Senate version of the OBBBA against the amount each state can reasonably expect to receive under the \$25 billion rural transformation fund.

- To estimate the amount each state would receive, Manatt equally distributed the first \$12.5 billion among all 50 states (D.C. is not eligible for the transformation fund).
- The remaining \$12.5 billion was distributed for estimation purposes among the 50 states in proportion to their share of Medicaid expenditures on rural hospitals. In practice, CMS may use different factors to distribute these dollars, but Medicaid expenditures on rural hospitals are a reasonable proxy given the purpose of the fund.

Takeaways

The new analysis highlights that **the \$25 billion fund falls far short of what is needed.**

- **Even if every single dollar of the new fund went exclusively to rural hospitals, it would not fill even half of the gap in funding for rural hospitals** created by the OBBBA.
- More specifically, the OBBBA generates **\$58 billion in Medicaid cuts** over the next ten years for rural hospitals. But **the rural transformation fund is limited to \$25 billion over this time period, which is only 43 percent of previous funding levels** (if all the funds were to go to rural hospitals).

The fund also needs to fill the funding gap faced by other providers serving rural America, including rural health clinics, federally qualified health centers, community mental health centers and opioid treatment programs. When this imperative is taken into account, it becomes even more clear that the rural transformation fund does little to solve the problems for rural health care created by passage of OBBBA.

Many of America's states with large rural populations would fare especially poorly under the fund.

- Manatt's estimates (which, as noted, for purposes of this analysis apply all of the available funds to rural hospitals), show that **southern and mid-western states with sizable rural populations that have expanded Medicaid face the largest remaining gaps.**
- These states are hit hard by the OBBBA cuts aimed at expansion states (i.e., the phasing down of provider taxes to 3.5% of revenue; work requirements, and six-month renewal). For them, the dollars available from the rural transformation fund will not offset losses due to Medicaid cuts. For example:
 - **Kentucky's** rural hospitals could receive as much as \$1 billion from the rural transformation fund, but this falls far short of the \$5.4 billion gap in their Medicaid revenue generated by the OBBBA.
 - In Iowa, the new fund fills less than a quarter (24%) of the gap generated for **Iowa's rural hospitals** by the OBBBA, leaving it with a \$2.5 billion funding gap.
 - In **North Carolina**, where rural hospitals are expected to face a funding gap of \$3 billion under the latest Senate language, the new fund would send the state approximately \$1 billion, leaving it with a remaining gap of \$2 billion for rural hospitals.
 - **Louisiana's** rural hospitals would face a \$2.2 billion funding reduction under the latest Senate bill, but only \$600 million (27%) would potentially be replaced by the rural transformation fund.

- **Missouri's** rural hospitals would face a \$1.4 billion funding reduction under the latest Senate bill, with the rural transformation fund potentially filling a little more than one-third of the gap (36%)

On the other hand, some states would receive funds that are well in excess of the funding gap for rural hospitals created by OBBA, leading to disparate results among states. This is mostly because they are states that are sparsely populated and yet receive the same share of the first \$12.5 billion as other states with much larger rural populations. And some are largely urban states with only modest expenditures on rural hospitals.

Finally, it is important to highlight that the rural transformation fund only lasts for five years while the Medicaid cuts are permanent. By fiscal year 2034, rural hospitals will face a cut of \$10.8 billion—or 26% less compared to current law—under the Senate bill, but there will be no dedicated funds available to offset these losses.

About the National Rural Health Association

NRHA is a non-profit membership organization with more than 21,000 members nationwide that provides leadership on rural health issues. Our membership includes nearly every component of rural America's health care, including rural community hospitals, critical access hospitals, doctors, nurses, and patients. We work to improve rural America's health needs through government advocacy, communications, education, and research. Learn more about the association at www.ruralhealth.us.

About Manatt Health

Manatt Health is a leading professional services firm specializing in health policy, health care transformation, and Medicaid redesign. Their modeling draws upon publicly available state data including Medicaid financial management report data from the Centers for Medicare and Medicaid Services, enrollment and expenditure data from the Medicaid Budget and Expenditure System, and data from the Medicaid and CHIP Payment and Access Commission. The Manatt Health Model is tailored specifically to rural health and has been reviewed in consultation with states and other key stakeholders. For more information, visit <https://www.manatt.com/Health>.