

Rural Health Federal Funding

Federal Funding Impacts by Year; Medicaid's Key Role in Rural Health

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The Menges Group

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Introduction

- This edition examines the Rural Health Transformation Program (RHTP) in the context of Medicaid and rural health. It is our second edition focused on the RHTP, a \$50 billion fund established by H.R. 1 (One Big Beautiful Bill Act) and distributed across all 50 states from FY26 through FY30.
- In the ensuing slides, we:
 - Estimate the net impact of H.R. 1's Medicaid reductions and RHTP investments on rural areas from 2026 through 2034
 - Describe Medicaid's significant role in financing care in rural communities
 - Assess whether states with the highest need across key indicators (rural Medicaid enrollment, maternal mortality, Medicaid-financed births, and rural hospital closure vulnerability) received proportional funding and proposed initiatives that address those needs

Estimated Federal Funding Impacts in Rural Areas by Year, 2026-2034

- H.R. 1 is projected to reduce federal Medicaid spending with reductions accelerating over time, ranging from \$17 billion during 2026 to \$165 billion during 2034. 15% of these reductions are estimated to occur in rural areas, based on a KFF analysis. Using this 15% figure, the table at the right compares the estimated timeline of rural Medicaid reductions with the \$10 billion in annual RHTP distributions from 2026-2030.
- The \$10 billion annual payment of RHTP funds to implement RHTP initiatives exceed estimated rural Medicaid reductions during 2026-2028.
- Cumulatively across 2026-2030 in rural areas, the estimated nationwide federal Medicaid reductions and RHTP funding are each approximately \$50 billion. However, these funds are not interchangeable at the local level, as described further on the next slide.
- If the “outyear” estimates of federal cuts prove accurate (and with no continuation of RHTP funds), rural America will experience an \$87 billion reduction in federal Medicaid spending during the four-year timeframe 2031-2034. Note, however, that the further into the future estimates of this nature are extended, the greater the potential for new policy changes and other factors to ultimately render them inaccurate.

Estimated Federal Rural Health Funding Impacts by Year (\$ billions)

Federal Fiscal Year	Total Est. Federal Medicaid Cuts	Est. Rural Cuts (15% of total)	RHTP Funds	Net Rural Federal Funding Impact	Cumulative Net Rural Impact
2025	\$0	\$0	\$0	\$0	\$0
2026	\$17	\$3	\$10	\$7	\$7
2027	\$46	\$7	\$10	\$3	\$11
2028	\$61	\$9	\$10	\$1	\$11
2029	\$92	\$14	\$10	-\$4	\$8
2030	\$111	\$17	\$10	-\$7	\$1
2031	\$128	\$19	\$0	-\$19	-\$18
2032	\$139	\$21	\$0	-\$21	-\$39
2033	\$151	\$23	\$0	-\$23	-\$62
2034	\$165	\$25	\$0	-\$25	-\$87
10 Year Total	\$910	\$137	\$50	-\$87	

Comparing RHTP Funds and Medicaid Reductions: Key Considerations

- While the previous slide presents new RHTP funding and estimated rural Medicaid reductions side by side, the H.R. 1 Medicaid cuts will often adversely affect a different group of rural residents and rural providers than those who will be favorably impacted by the RHTP funding infusion. This is due to:
 - Different mechanisms: RHTP funds state-specific health transformation initiatives, while Medicaid cuts are structural reductions to ongoing program financing, including coverage and provider payments. RHTP has limitations, including that only 15% of funds can be used for direct patient care, meaning the two funds are not interchangeable even where dollar amounts overlap.
 - Different timelines: RHTP is a five-year appropriation (FY26-FY30). Most significant Medicaid cuts do not take effect until 2027. The reductions are permanent unless further legislation reverses them.
 - Uneven state-level impacts: The national comparison masks significant state variation. Over half of the estimated \$137 billion in rural Medicaid reductions are concentrated in 12 states with large rural populations that expanded Medicaid. Additionally, future RHTP allocations may differ significantly from Year 1 amounts.
- Our comparison excludes other federal health care reductions, including ACA marketplace changes, that will also create an adverse impact on rural coverage and access.

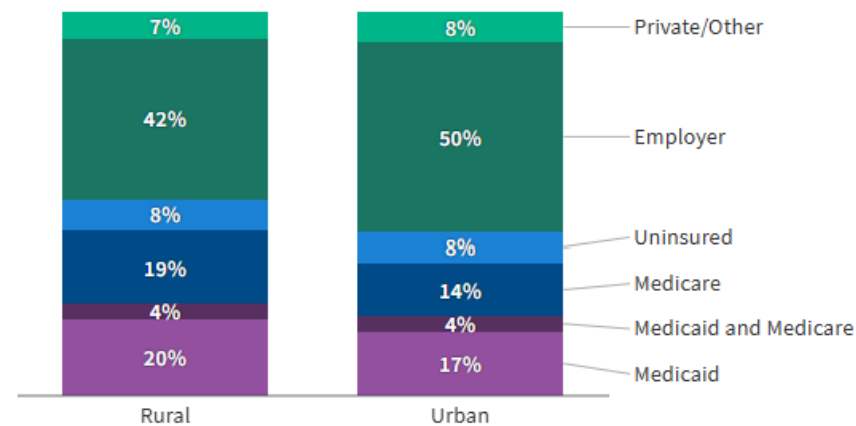
Medicaid's Significant Role in Rural Health

- Medicaid plays a major role in financing care in rural communities, with significant implications for access to services, hospital viability, and maternal health.
 - Nearly 1 in 4 (24%) people in rural areas have Medicaid coverage.
 - Medicaid covered nearly half of all births in rural areas in 2023.
 - Medicaid covers about one fifth of hospital discharges in rural areas.
 - Nearly seven in ten (69%) rural hospital closures between 2014 and 2024 occurred in states that had not expanded Medicaid at the time.

Figure 1

Nearly 1 in 4 People in Rural Areas Have Medicaid Coverage

Health care coverage by geographic area, 2023



Note: Differences in health care coverage between rural and urban areas are statistically significant at the $p < 0.05$ level.

Source: KFF analysis of 2023 American Community Survey, 1-Year Estimates. • [Get the data](#) • [Download PNG](#)

KFF

States with the Highest Proportion of Medicaid Enrollees in Rural Areas

- According to a KFF analysis, 15% of Medicaid enrollees in the United States reside in rural areas.
- Vermont (VT), Wyoming (WY) and South Dakota (SD) have the highest proportion of Medicaid enrollees with rural status. While these states rank relatively low (21st–38th) in total FY26 RHT award dollars, they move into the top tier (8th–13th) when awards are normalized by rural population.
- All three states proposed initiatives or activities to support the Medicaid population, including:
 - Supporting dual Medicare/Medicaid eligibles to receive long-term care within their communities (VT)
 - Improving clinical care coordination for dual Medicare/Medicaid eligibles (WY)
 - Providing rural Medicaid provider grants to fund regional collaborations between hospitals and clinics to coordinate services (SD)
- All three states also proposed an initiative related to workforce, including:
 - Developing a health care workforce housing program to increase housing availability for providers in rural areas (VT)
 - Providing awards to individuals interested in pursuing nursing, EMS, BH or physician pipelines (WY)
 - Expanding Community Health Worker training and certification (SD)

State	Rural Medicaid Enrollees		FY26 Workload Award		FY26 Workload Award per Rural Resident	
	Rank	Percent	Rank	Amount	Rank	Amount
VT	1	63%	32	\$95,053,740	11	\$200
WY	1	63%	21	\$105,004,743	8	\$248
SD	3	57%	38	\$89,477,607	13	\$179

States with Highest Proportion of Rural Births Covered by Medicaid

- Medicaid finances cover 4 in 10 births nationally and covers nearly half of all births in rural areas.
- Louisiana (LA), Arizona (AZ) and South Carolina (SC) have the highest percentage of births financed by Medicaid in rural areas. These states fall in the middle tier (rank 25-27) when awards are normalized by rural population.
- Of these three states, AZ is the only state that proposed a maternal health-specific initiative in its RHT application.
 - AZ will provide grants to support regional projects such as simulation training, perinatal tele-hubs and ensuring access for a maternal mental health and perinatal psychiatric crisis help lines.
 - While LA does not have a maternal health-focused initiative, one stated goal of its initiative developing a coordinated, multi-modal care infrastructure is to improve maternal health outcomes.
 - SC does not have a maternal health-focused initiative, but includes maternal health provider collaboratives as a key stakeholder to engage throughout the RHT program.

State	Births Financed by Medicaid in Rural Areas		FY 26 Workload Award		FY26 Workload Award per Rural Resident	
	Rank	Percent	Rank	Amount	Rank	Amount
LA	1	70.2%	17	\$108,374,448	25	\$98
AZ	2	63%	45	\$66,988,956	27	\$87
SC	3	61.9%	27	\$100,030,252	26	\$92

States with the Highest Maternal Mortality Rates

- The highest pregnancy-related mortality ratios were found among people residing in the most rural classifications in 2021.
- Alabama (AL), Mississippi (MS), and Tennessee (TN) experience the highest maternal mortality. Although these rank in the middle of the pack for overall FY26 RHT award levels (19th–24th), they fall to the bottom third (33rd–45th) when awards are adjusted for rural population, indicating that funding appears less targeted to rural residents in states facing the most severe maternal health outcomes.
- AL and TN have initiatives addressing maternal health. MS does not have a maternal health-specific initiative.
 - TN’s Maternal and Child Health initiative will leverage TN’s Healthcare Resiliency Program model to distribute competitive grants, support regional perinatal centers, and expand Fetal and Infant Mortality Review work into rural areas to better understand and address the root causes of maternal and infant mortality.
 - TN’s The Last Mile Initiative will launch the enhanced CHANT maternal care coordination model in 12 rural counties. The Value-Based Payment initiative will establish the Patient-Centered Obstetric Medical Home model.
 - AL’s Maternal and Fetal Health Initiative uses digital solutions to connect rural hospitals with maternal-fetal medicine specialists, increase access to telerobotic ultrasound, address obstetric service gaps, and reduce high-risk maternal and infant morbidity in underserved areas. It also expands a pilot program providing emergency labor and delivery carts to rural hospitals.

State	Highest Maternal Mortality	FY26 Workload Award		FY26 Workload Award per Rural Resident		Rural Births Financed by Medicaid
	Rank	Rank	Amount	Rank	Amount	Percent
AL	1	24	\$103,404,327	33	\$64	53.8%
MS	2	20	\$105,907,220	34	\$60	61.7%
TN	3	19	\$106,888,882	45	\$48	54.4%

States with the Highest Percentage of Rural Hospitals Vulnerable to Closure

- 432 rural hospitals across the United States are vulnerable to closure, with the highest percentage of rural hospitals vulnerable to closure found in Arkansas (AR), Mississippi (MS), and Kansas (KS). KS has the second highest number of rural hospitals vulnerable to closure with 46, second only to Texas, which has 47 vulnerable hospitals.
- Although these states rank in the top- to mid-tier for overall FY26 RHT workload award amounts (6th–20th), they fall to the middle tier (22nd–34th) when awards are adjusted for rural population.
- Only AR and KS proposed initiatives explicitly aimed at stabilizing financially vulnerable facilities.
 - AR’s System Acquisition & Facility Enhancement Fund will identify vulnerable hospitals/facilities and facilitate acquisitions, partnerships or affiliations by financially stable health systems and create shared services agreements between rural hospitals.
 - KS will support hospitals through implementation of six programs, including two grant programs (Regional Partnerships Grant Program and Rural Emergency Hospital Conversion Grant Program), projects to assist rural providers in increasing revenue and facilitating resource-sharing between urban not-for-profit health systems and rural anchor hospitals.
- MS plans to strengthen rural health infrastructure through integrating EMS with hospitals in its Coordinated Regional Integrated Systems Initiative.

State	Rural Hospitals Vulnerable to Closure		FY26 Workload Award		FY26 Workload Award per Rural Resident	
	Rank	Percent	Rank	Amount	Rank	Amount
AR	1	50%	16	\$108,779,396	29	\$83
MS	2	49%	6	\$121,898,008	22	\$105
KS	3	47%	20	\$105,907,220	34	\$60

Key Takeaways from the RHTP Year 1 Awards

- The RHTP represents a new influx of federal dollars at a time when states are contending with the impact of federal Medicaid cuts due to H.R.1. While RHTP funding roughly equates to the estimated loss of federal Medicaid dollars in rural areas over 2026-2030, the two operate on different timelines and through different mechanisms.
- Medicaid plays an outsized role in rural health systems, covering nearly one in four rural residents, nearly half of rural births, and about one-fifth of rural hospital discharges. Nearly 70% of rural hospital closures between 2014 and 2024 occurred in non-expansion states.
- Per-resident RHTP funding varies widely relative to state-level need across key health system indicators, and states took different approaches in how directly their proposed RHTP initiatives address those challenges.
- How effectively states deploy RHTP funds to build durable rural health infrastructure and capacity will be critical as federal Medicaid reductions impact state Medicaid programs.

Sources

Slide 3

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5 Slide Series Overview

Our 5 Slide Series is typically a monthly publication whereby we briefly discuss/address a selected topic outside the confines of our client engagements. The Menges Group has developed a variety of datasets that we use to support our 5 Slide Series and client projects.

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