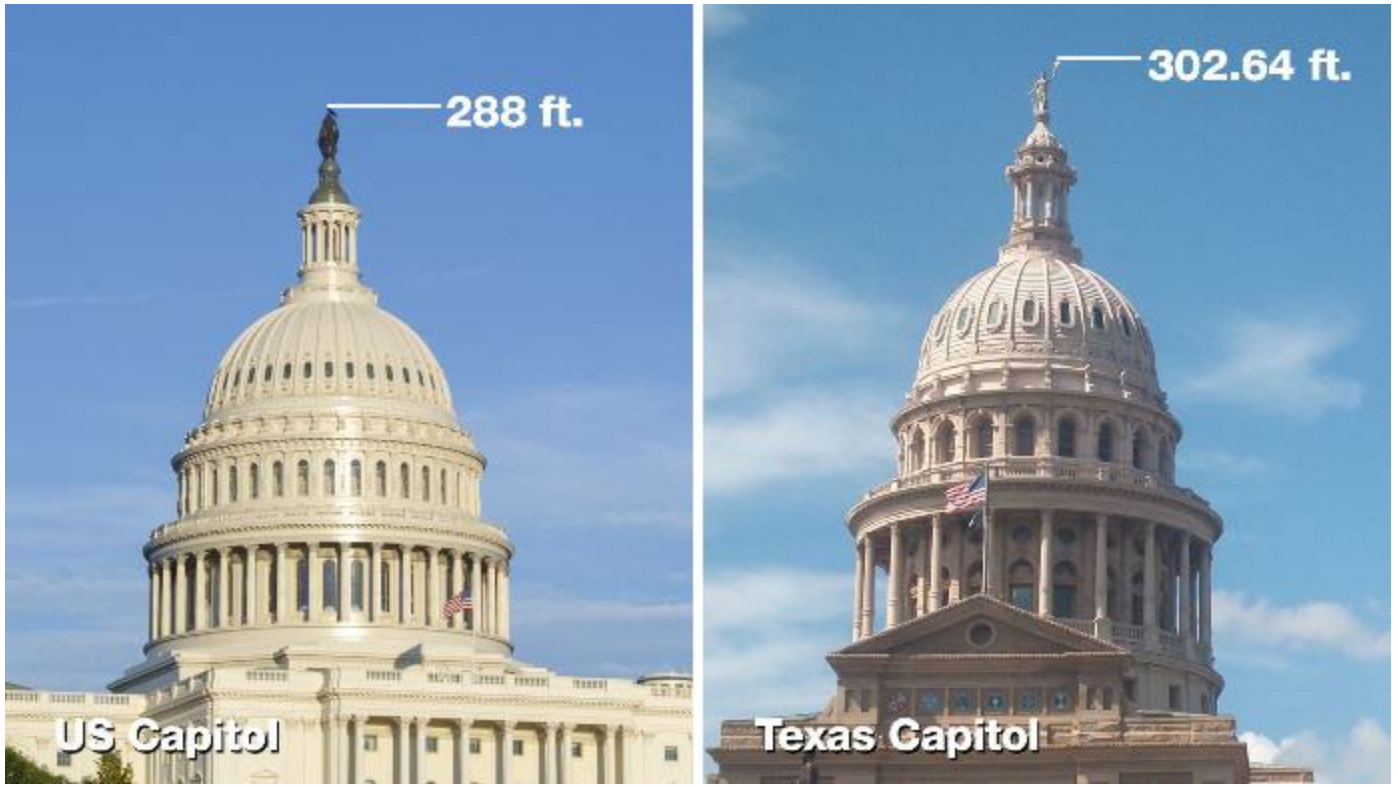
Inside the Domes: Medicaid Changes, the State Legislature, and What's Next for Texas

September 15, 2025



89th Texas Legislature

89th Session THA Budget Priorities

- Ensure continuation of Medicaid reimbursement add-on payments for trauma, safety-net and labor and delivery, including the rural add-on for labor and delivery care.
- Maintain funding for the state's trauma care network to ensure Texas hospitals' participation in this critical and voluntary program.
- Direct the Texas Health and Human Services Commission to model an inpatient hospital rate rebasing in collaboration with industry stakeholders.

89th Session – State Budget (2026-2027)

- Approx. **$4 billion increase** to Medicaid over last biennium, funding projected caseload increase but not cost growth.
- Medicaid reimbursement add-on payments for trauma, safety-net and labor and delivery, including the rural add-on for labor and delivery care all level funded.
- $63M increase for cost-based rural hospital outpatient payments
- $15M for new rural OB-GYN add-on payment
- **$**134M for rural hospital stabilization grants and other efforts
- Rural Hospital Telepsychiatry Consultations maintained at $7.4M

89th Session Budget – Workforce

- GME expansion grants now funded at $299M
- Loan repayment programs level funded
  - $35.5M for Physician Education Loan Repayment Program
  - $28M in biennium for Mental Health Loan Repayment Program
  - $7M for Nurse Faculty Loan Repayment Program
- Professional Nursing Shortage Reduction Program funded at $46.8M

THA Supported Legislation that Passed ✓

- **HB 18** (Rural hospital stabilization)
  - Creates State Office of Rural Hospital Finance (HHSC)
  - Texas Rural Hospital Officers Academy (HHSC / Higher Ed.)
  - Financial Stabilization Grant Program
  - Emergency Hardship Grant Program, Innovation Grant Program
  - Rural Hospital Support Grant Program.
- **SB 815** (Prohibits AI in utilization review)
- **HB 3812** (Gold Card Law Cleanup)
- **HB 1327, HB 3347, HB 3505 –** (LPPF Reauthorization) Continues Harris, Collin, Denton, Northeast TX Tricounty LPPFs; Creates Burnet County LPPF

Other Notable Bills that Passed THA Neutral 🤷 or Opposed ❌

- **HB 138** (Fiscal impact statements on insurance mandates) 🤷
- **HB 1612** (Cash price) 🤷
  - Hospitals must offer uninsured individuals who are not charity eligible a cash price of either Amounts Generally Billed +25%, or Lowest Contracted Rate +50%.
- **SB 331** (More facilities subject to price transparency) 🤷
- **SB 1318** (Physician non-competes) ❌

Dead Bills (Could Rise from Grave) ☠ 

THA Supported

- **HB 3265** (340B contract pharmacies) – died in House Calendars

THA Neutral or Opposed

- **SB 1232** (Facility fees) – never reached Senate floor
- **HB 139** (Skinny health insurance plans) – died on House floor
- **HB 2747** (Material change transactions) - died in House Calendars
- **HB 3708** (Charity care) – died in House Calendars
- **HB 4012** (Criminalizing billing disputes) – died on House floor

An Act to provide for reconciliation pursuant to title II of H. Con. Res. 14

or

H.R. 1

or

The One Big Beautiful Bill Act (OBBBA)

Finding $885 Billion in Medicaid

Overall Savings Target = $5 Trillion

Components of the President's plan included -

- Make the 2017 tax cuts permanent,
- Exempt tips, overtime and seniors' Social Security from taxes,
- Additional funding for border security,
- Tax reductions for the middle class,
- Doubles the child tax credit,
- SALT tax credits,
- ETC.

Texas Medicaid Is Different

- Texas Operates a ***LEAN, cost-effective*** Medicaid Program
- **Texas has the lowest percentage of Medicaid spending above federal minimums of any state.**
- Limited expansions means limited room for contraction.

What impact will OBBBA have on Texas hospitals?

1 Financing (Provider taxes)	2 Payment rates	3 Enrollment

Impact of Provider Tax Freeze

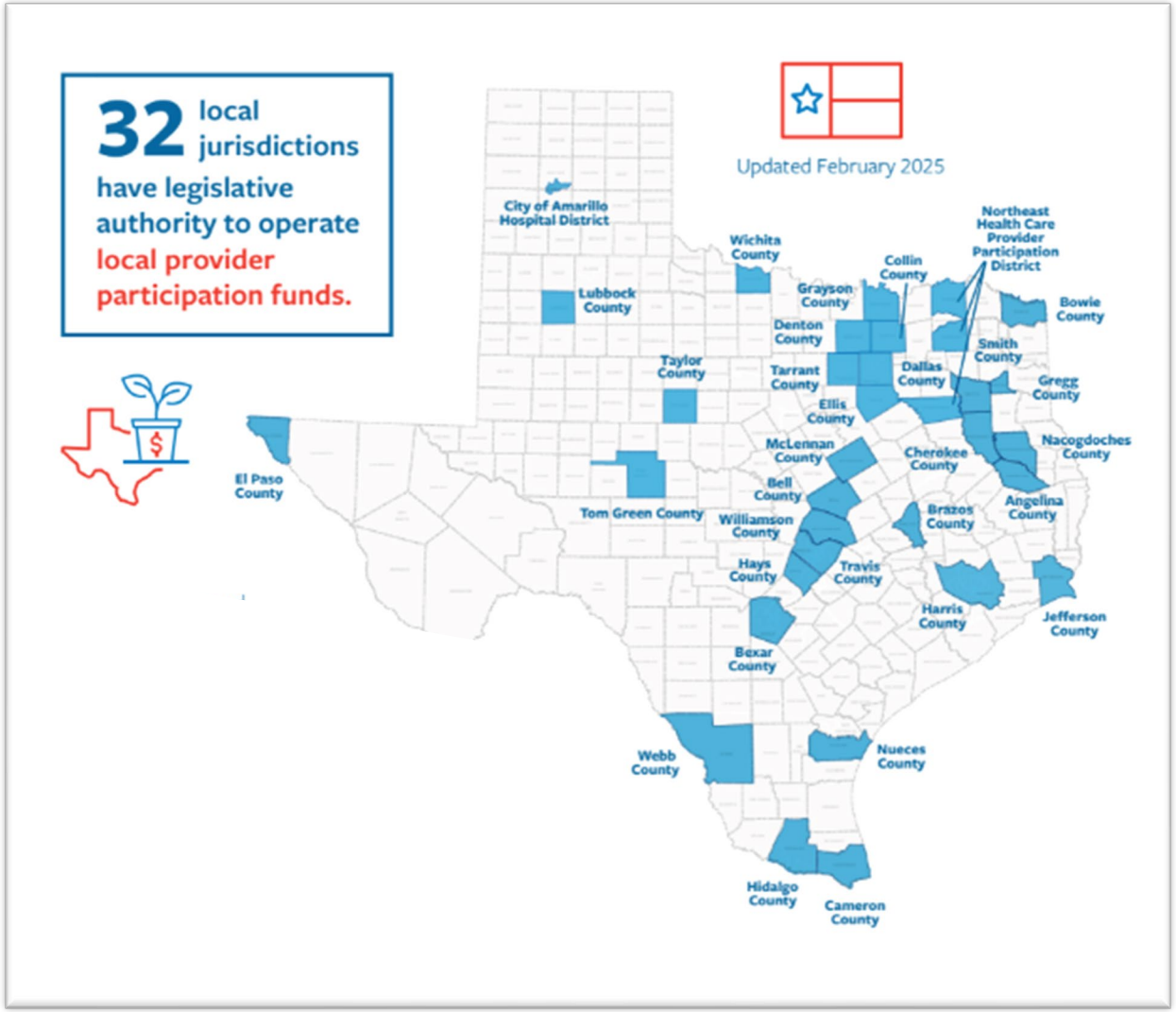
All States	Nonexpansion States	Expansion States
• No new provider taxes may be established. • Existing provider taxes frozen at rates enacted or imposed as of July 4, 2025.	• Safe harbor threshold remains 6% of net patient revenue • Any existing tax modified after Oct. 1, 2026 loses its grandfathering.	• Safe harbor threshold decreases by 0.5% per year starting in FFY 2028, from 6% to an eventual floor of 3.5%

FEDERAL FISCAL PERIOD	PROVIDER TAX CAP FOR EXPANSION STATES
FFY2028	5.5%
FFY2029	5.0%
FFY2030	4.5%
FFY2031	4.0%
FFY2032	3.5%

Texas' Provider Taxes = Local Participation Funds (LPPFs)

Local Matching Funds for Supplemental Payments

- As governmental entities, public hospital districts can IGT for themselves. Private hospitals cannot.
- Local governments in Texas use LPPFs to generate non-federal dollars from private hospitals.
- LPPF dollars are transferred to HHSC to fund Medicaid supplemental payments and draw down matching federal funds.
- LPPFs have operated in Texas since 2013.
- **LPPFs fund $10 billion of Texas' $55 billion Medicaid program.**



Texas Hospital Directed Payment Programs, FY 2025

Program	Pays	Approved Size	LPPF Funded?
Comprehensive Hospital Increase Reimbursement Program (CHIRP)	Hospitals	$6.5 billion	Yes
Texas Incentives for Physicians and Professional Services (TIPPS)	Physician groups (hosp. affiliated)	$787 million	Yes
Rural Access to Primary and Preventive Services (RAPPS)	Rural health clinics (some hosp. owned)	$22 million	Yes
Quality Incentive Payment Program (QIPP)	Nursing facilities (some hosp. owned)	$1.75 billion	No
	TOTAL	**$9.1 billion**	

DPPs require annual CMS approval.

Texas Hospital Supplemental Payment Programs, FY 2025

Program	Pays	Approved Size	LPPF Funded?
Uncompensated Care (UC) pool	Hospitals (8% other)	$4.5 billion	Yes
Disproportionate Share Hospital (DSH)	Hospitals	$2.2 billion	No
Hospital Augmented Reimbursement Program (HARP)	Hospitals	$1.4 billion	Yes
Medicaid Graduate Medical Education (GME)	Hospitals	$360 million	Yes
Aligning Technology by Linking Interoperable Systems (ATLIS)	MCO incentive paying hospitals	$910 million	Yes
Network Access Improvement Program (NAIP)	Hospitals	$300 million	No
		TOTAL $9.7 billion	

Supplemental payments do not require annual CMS approval.

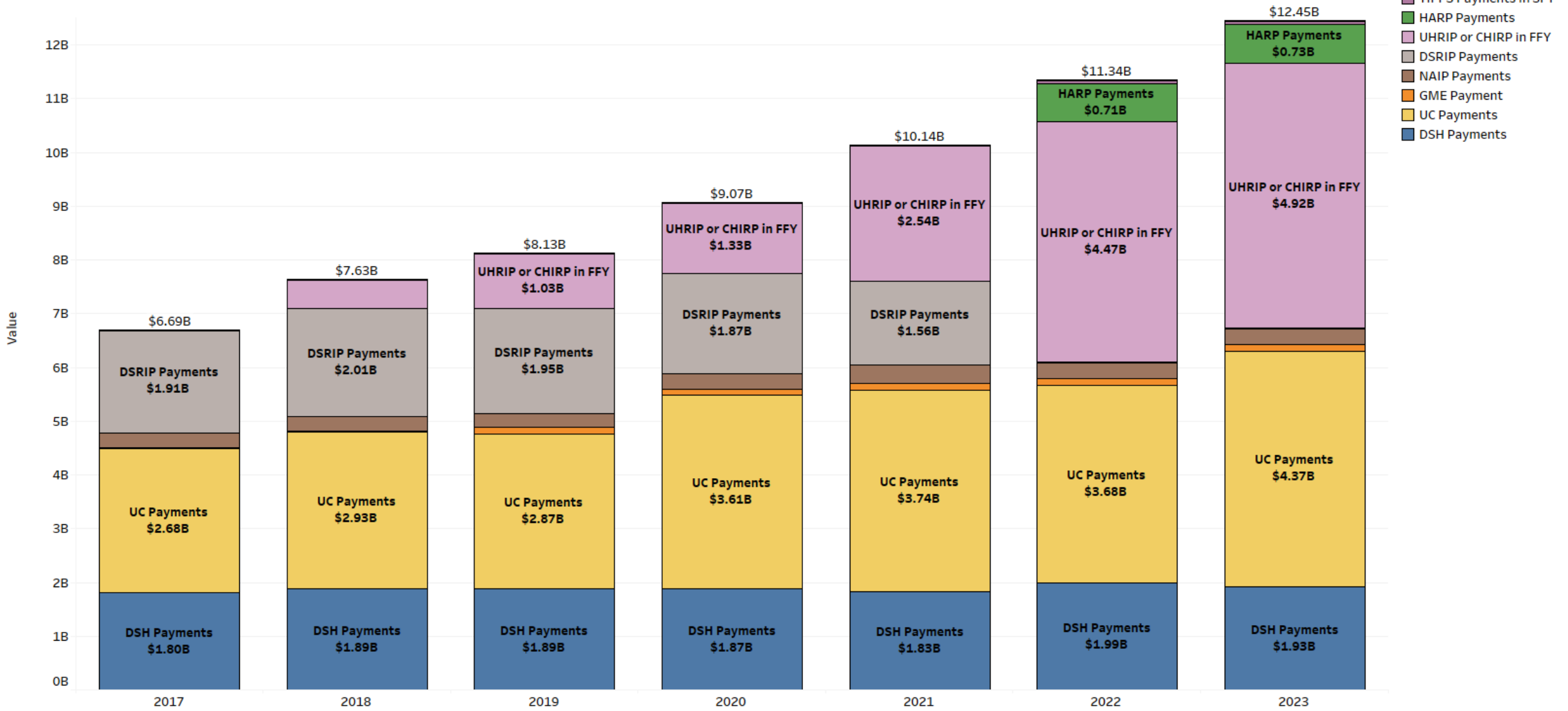
The Net Patient Revenue Doom Spiral

- Net patient revenue growth sustains supplemental payments.
- Net patient revenue loss puts downward pressure on supplemental payments when tax rates are fixed.
- Loss of supplemental payment revenue decreases NPR.
- Medicaid financing much more sensitive to economic downturns, coverage loss, changes in state or federal payment policy (incl. non-Medicaid payments).
- Will states step in to stabilize with general revenue?

What impact will OBBBA have on Texas hospitals?

1 Financing	2 Payment rates (State Directed Payments)	3 Enrollment

Growth of Supplemental Payments over Time



RAPPS Payments in SFY, TIPPS Payments in SFY, HARP Payments, UHRIP or CHIRP in FFY, DSRIP Payments, NAIP Payments, GME Payment, UC Payments and DSH Payments for each FFY Year. Color shows details about RAPPS Payments in SFY, TIPPS Payments in SFY, HARP Payments, UHRIP or CHIRP in FFY, DSRIP Payments, NAIP Payments, GME Payment, UC Payments and DSH Payments. The marks are labeled by RAPPS Payments in SFY, TIPPS Payments in SFY, HARP Payments, UHRIP or CHIRP in FFY, DSRIP Payments, NAIP Payments, GME Payment, UC Payments, DSH Payments, RAPPS Payments in SFY, TIPPS Payments in SFY, HARP Payments, UHRIP or CHIRP in FFY, DSRIP Payments, NAIP Payments, GME Payment, UC Payments and DSH Payments. Details are shown for RAPPS Payments in SFY, TIPPS Payments in SFY, HARP Payments, UHRIP or CHIRP in FFY, DSRIP Payments, NAIP Payments, GME Payment, UC

Impact of State Directed Payment Restrictions

Current approved SDPs and certain preprints (including Texas's) are grandfathered at approved levels until the **first rate year following January 1, 2028**, when all grandfathered SDPs will begin a **phase down of 10% per year** until the total payment rate reaches 110% Medicare for non-expansion states, 100% Medicare for expansion states.

Anticipating Directed Payment Impacts

3 unknowns

Where is the ceiling?

NEW: On Sept. 5, CMS approved 2026 CHIRP at $9.1 billion

Where is the floor?

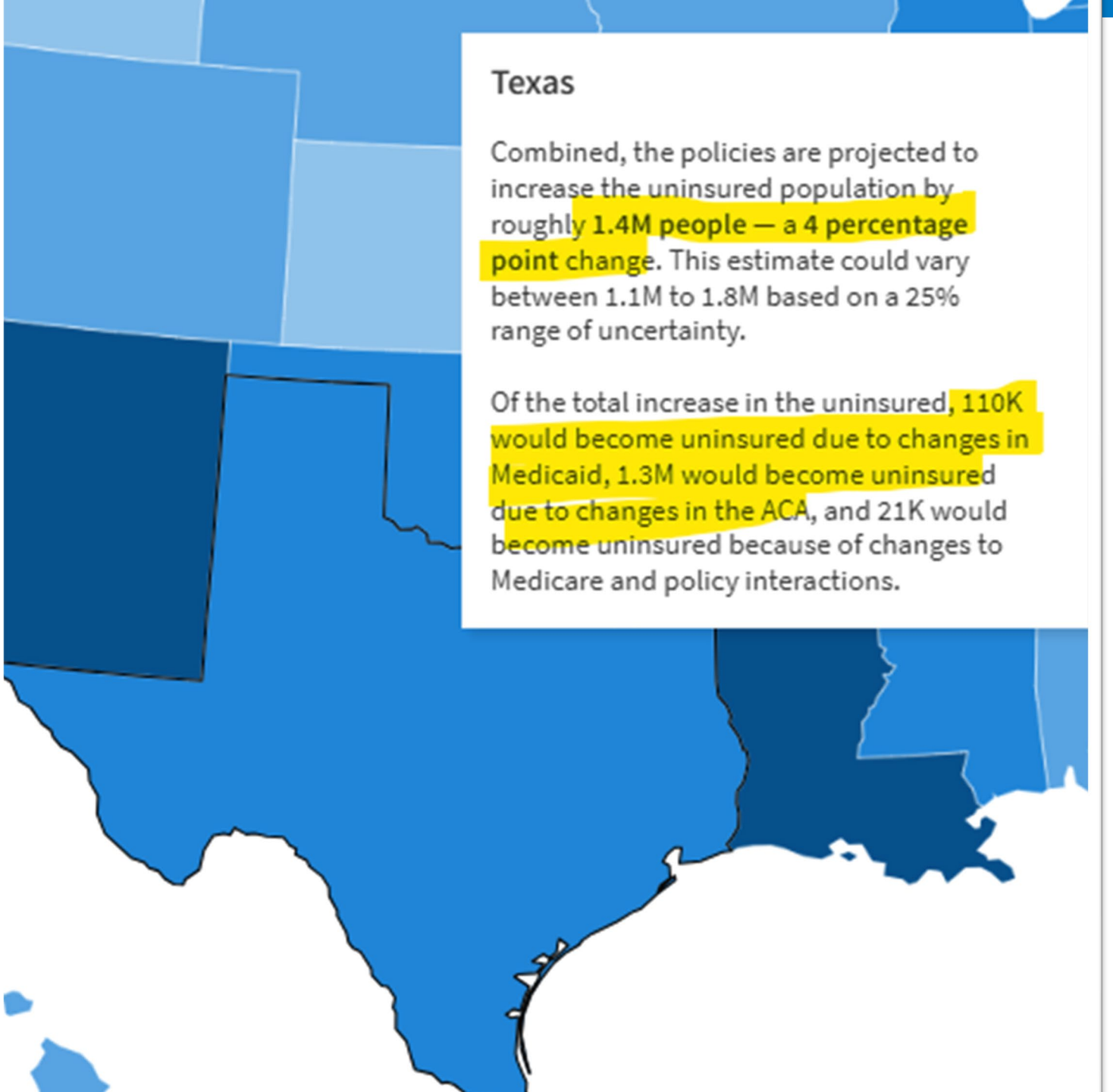
What is the rate of descent?

What impact will OBBBA have on Texas hospitals?

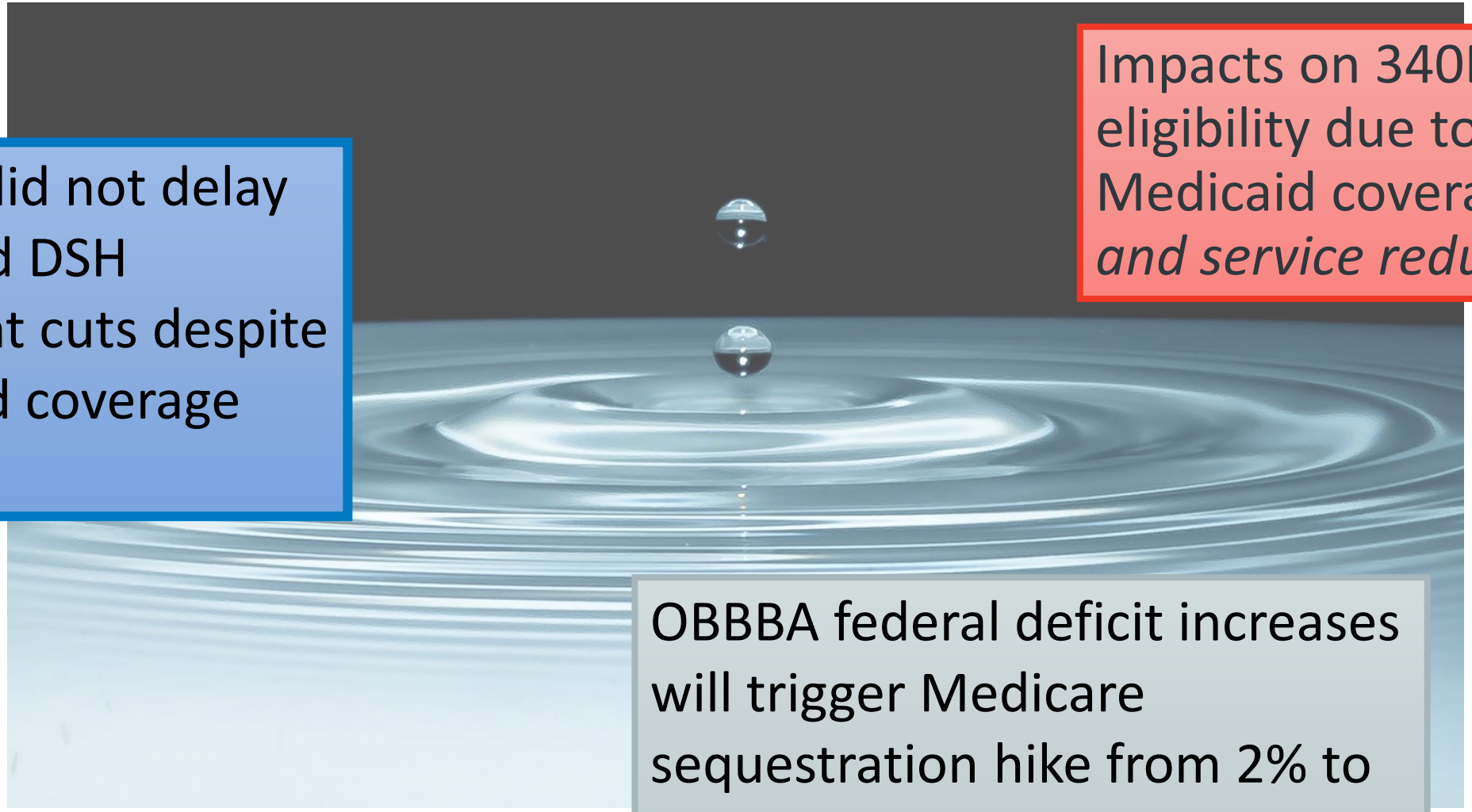
1 Financing	2 Payment rates	3 Enrollment

Texas' potential coverage losses result more from expiring EPTCs than Medicaid.

The opposite is true in Expansion states.



Other Strategic Considerations



OBBBA did not delay Medicaid DSH allotment cuts despite expected coverage losses.

Impacts on 340B eligibility due to Medicaid coverage loss *and service reductions*

OBBBA federal deficit increases will trigger Medicare sequestration hike from 2% to 4% starting October 1, 2025.


70
60
50
40
30
20
May 2025
Jul 2025
Sep

Centene Corp

NYSE: CNC

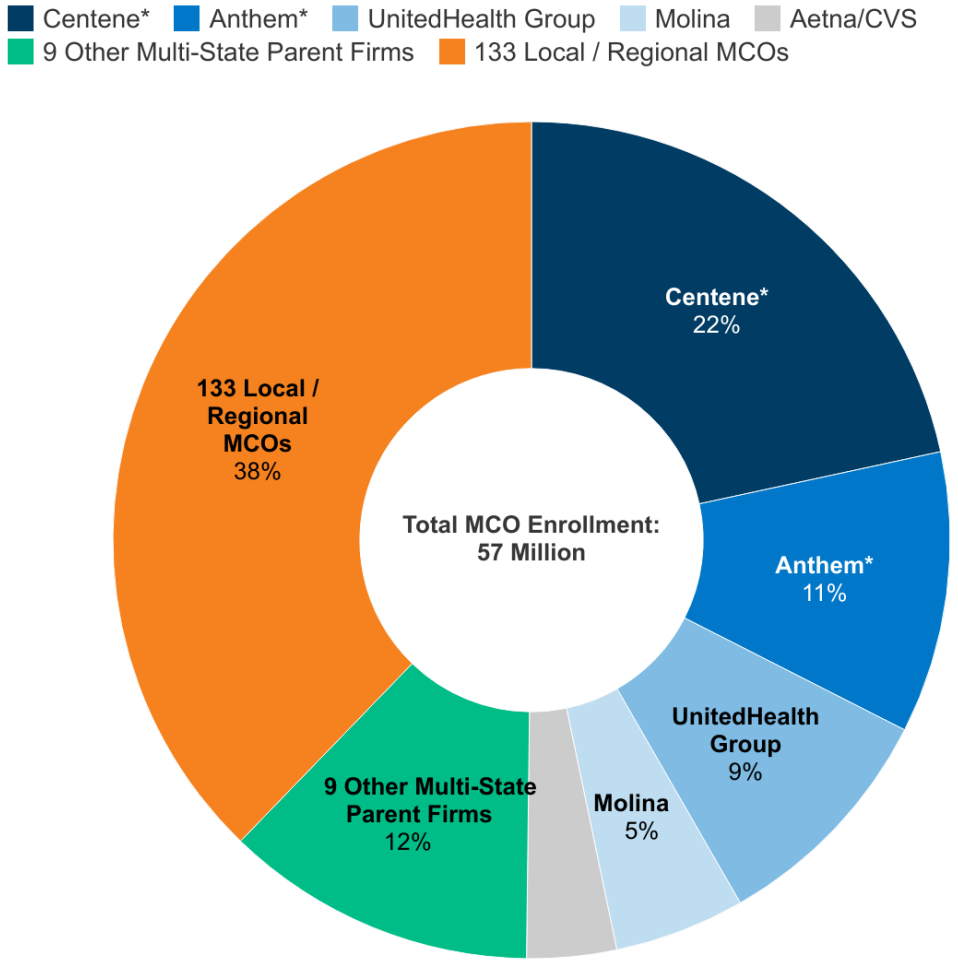
MCO Implications

- Payer behavior and administrative burden
  - Denials, delays, prior auth burdens, retrospective reviews and recoupments
- Increased financial stress on hospitals
- What protections are needed?
- Contracting and access risks

Figure 1

Five For-Profit, Publicly Traded Companies Have Half of the Medicaid MCO Market.

Share of total comprehensive Medicaid MCO enrollment as of July 1, 2020:



NOTE: Data are as of July 1, 2020. A parent firm is a firm that owns Medicaid MCOs that provide comprehensive services to Medicaid beneficiaries in two or more states. Aetna was acquired by CVS Health in November 2018 and is therefore referred to as "Aetna/CVS." WellCare was acquired by Centene in January 2020. Anthem changed its name to Elevance Health in 2022.

SOURCE: KFF analysis of Medicaid Managed Care Enrollment Reports, Centers for Medicare and Medicaid Services, U.S. Department of Health and Human Services, 2022.

KFF

OBBBA Rural Health Transformation Funding

- $50 billion available to states, $10B per year each of FY 2026-2030
  - 50% to be distributed equally amongst all approved states
  - 50% will be allocated by CMS based on a variety of factors including rural population, the proportion of rural health facilities in the state, the situation of certain hospitals in the state, and other factors to be specified by CMS
- Extensive state flexibility in use of funds
- States authorized to retain 10% for administration
- Non-hospital providers may be eligible
- First awards anticipated by Dec. 31. 2025

Upcoming Battles in Washington

THA Federal Budget Priorities

- Medicaid DSH Cuts – 10/1/25
  - Scheduled for 2026-2028
  - $800M annual loss in Texas
- Sequestration – From 2% to 4%
  - IPPS - $170M
  - OPPS - $71M
- Low-volume Adjustment – 10/1/2025
  - $365.3M over 10 years
- Pandemic-Era Telehealth Flexibilities
- Medicare Hospital-At-Home Program


Texas Hospital Association

Texas Hospitals 2025-2026

Federal Policy Priorities

THA priorities for the 119th Congress include:

1. STOP SITE-NEUTRAL PAYMENT POLICIES.

2. PROTECT TEXAS' SAFETY-NET HOSPITALS FROM DEVASTATING FUNDING CUTS.

3. PRESERVE STATE FUNDING OPTIONS FOR MEDICAID.

4. SUPPORT RURAL HOSPITALS BY CONTINUING CRITICAL PAYMENT PROGRAMS.

5. PROTECT ACCESS TO THE 340B DRUG PRICING PROGRAM.

9. SUPPORT PERMANENCE FOR TELEHEALTH FLEXIBILITIES AND THE HOSPITAL-AT-HOME PROGRAM.

10. PROTECT HEALTH CARE WORKERS FROM VIOLENT ENCOUNTERS ON THE JOB.

Enhanced Premium Tax Credits

- American Rescue Plan Act of 2021
  - Expanded assistance for enrollees already eligible for premium tax credits
  - Enhanced credits for households over 400% of FPL
- Impact if No Extension
  - Sizable increase in out-of-pocket costs
  - 1 million Texans will lose coverage by 2034

Enhanced Premium Tax Credits

- Example 1:
  - Family of four - $60k Household Income (200% FPL)
  - Monthly premium increase from $100 to $326 - $2000 annually
- Example 2:
  - Family of four - $125k Household Income (416% FPL)
  - Monthly premium increase from $885 to $1,519 - $7,600 annually

Federal Regulatory Changes

Final FFY 2026 IPPS

- Conversion Factors
  - Federal Operating Rate - $6,752.61 - +1.94%
  - Federal Capital Rate - $524.15 – +2.35%
- Texas Rural Wage Index - $515M
- Total DSH Pool - $16.55B - +18.1%
- Transforming Episode Accountability Model

Proposed CY 2026 OPPS

- Comments Due 9/15/2025
- OPPS Conversion Factor - $91.747* - +2.89%

Proposed CY 2026 OPPS

- Invalidated 2018-2022 340B Drug Reimbursement Policy and CMS Remedy
  - 340B hospitals repaid in 2024
  - OPPS hospitals payback 0.5% of OPPS payments for 16 years
  - CMS now proposing payback of 2% over 6 years
- Conversion Factor
  - ~~$91.747 - +2.89%~~
  - $89.958 - +0.88%

Proposed CY 2026 OPPS

- Drug Acquisition Cost Survey
  - All hospitals surveyed
  - Precursor to payment cuts for 340B drugs
- Payment for Off-Campus Outpatient Departments
  - Propose to pay at PFS rate for drug administration services (Rural SCHs exempt)
  - RFI on expanding to on-campus outpatient services
  - RFI on additional services

Proposed CY 2026 OPPS

- Removal of Inpatient Only List over 3 Years
  - Musculoskeletal services targeted in 2026
  - Temporarily exempt from two midnight rule

Proposed CY 2026 OPPS

- More Price Transparency Changes
  - Reporting of actual payment amounts when standard “charges” are based on percentages or algorithms
  - Requires encoding of name of CEO, president, or senior hospital official designated to oversee reporting of true, accurate, and complete data
  - Requires encoding of organizational (Type 2) National Provider Identifier
  - Proposes to allow hospitals opportunity to reduce CMP by 35% by waiving right to ALJ hearing

Wasteful and Inappropriate Service Reduction (WISeR) Model

- New CMS Innovation Center model imposing new prior authorization requirements in **traditional Medicare** on providers in Arizona, Ohio, Oklahoma, New Jersey, **Texas**, and Washington beginning 01/01/2026 and ending December 31, 2031
  - Impacted providers will have the choice of submitting a request for prior authorization or go through a post-service/pre-payment medical review
  - If requesting prior authorization, provider may either –
    - Submit PA request directly to the model participant
    - Submit PA request to their MAC who will then forward the request to the model participant

Wasteful and Inappropriate Service Reduction (WISeR) Model

- List of services included in Request for Applications available at https://www.cms.gov/files/document/wiser-model-rfa.pdf
  - Examples of selected services: skin and tissue substitutes, electrical nerve stimulators, knee arthroscopy for knee osteoarthritis
  - Does not apply to inpatient only services, emergency services, and those that would pose a substantial risk to patients if substantially delayed

HRSA 340B Rebate Model

- 2024 – 5 Drug Companies Seek Rebate Models
  - HRSA says no
  - Drug companies sue
- August 2025 – HRSA issues applications for 340B Rebate Model Pilot Program
  - "OPA will collect comments on the structure and application process of the 340B Rebate Model Pilot Program, as outlined in the Notice. OPA will consider comments received but is under no obligation to respond to or act on the comments."
- September 2025 – AHA requests DoJ and FTC investigation

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