ALLIANCE of SAFETY-NET HOSPITALS

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April 21, 2025

The Honorable Brett Guthrie
Chairman
Energy and Commerce Committee
United States House of Representatives
Washington D.C. 20515

The Honorable Buddy Carter
Chairman
Subcommittee on Health
Energy and Commerce Committee
United States House of Representatives
Washington D.C. 20515

The Honorable Neal Dunn, M.D.
Vice Chairman
Subcommittee on Health
Energy and Commerce Committee
United States House of Representatives
Washington D.C. 20515

Dear Chairman Guthrie, Chairman Carter, and Vice Chairman Dunn:

As the House Energy and Commerce Committee works on legislation to be included in the upcoming reconciliation bill, the Alliance of Safety-Net Hospitals would like to call to your attention three matters involving Medicaid that are of vital importance to community safety-net hospitals across the country: Medicaid provider taxes, state-directed Medicaid payments, and federal Medicaid matching funds.

Community Safety-Net Hospitals

Community safety-net hospitals like those that are part of the Alliance of Safety-Net Hospitals are generally located in areas with large numbers of low-income, medically vulnerable residents, and these mission-driven providers also offer services that many other hospitals do not because those other hospitals know those services will almost always lose money – services like delivering babies, providing behavioral health care, operating substance use treatment programs, and more. Community safety-net hospitals do not back away from this challenge. Instead, they routinely embrace it, knowingly jeopardizing their own financial health because they recognize that their communities need these services – and not just their communities' low-income residents, either. Often, community safety-net hospitals are the only place that those who live anywhere near community safety-net hospitals can find these services. Without these hospitals, entire communities, not just their low-income residents but their privately insured neighbors as well, would lose access to such vital, life-saving care – and to the many good jobs those hospitals provide for those who live in these communities and beyond.

Community safety-net hospitals have an enormous stake in the outcome of the Energy and Commerce Committee's current deliberations for the simple reason that such hospitals care for far more Medicaid patients than the typical American hospital. As you know, both Medicaid and Medicare underpay hospitals for the care they deliver – Medicaid especially, egregiously so. Hospitals lose money on virtually every Medicaid patient they serve, which means that the more Medicaid patients they serve, the more money they lose – and community safety-net hospitals serve vast numbers of such patients. Hospitals with a larger base of privately insured patients have ample opportunities to compensate for their occasional Medicaid losses but community safety-net hospitals do not because they serve relatively few privately insured patients.

Medicaid Provider Taxes

Medicaid provider taxes are a common, legitimate tool for helping state governments finance their share of their Medicaid programs. According to KFF,[1] 49 of the 50 states currently have such taxes – all of them approved after rigorous review by the Centers for Medicare & Medicaid Services under the leadership of both political parties. Provider taxes are the ultimate demonstration of providers putting their money where their mouth is, and today, they are a major building block underlying the foundation of state Medicaid programs. Any effort to undermine provider taxes would greatly damage that foundation and in some states would almost certainly cause it to crumble. The Alliance of Safety-Net Hospitals urges the Energy and Commerce Committee not to propose any new limits on the ability of states to levy provider taxes to help finance their Medicaid programs.

State-Directed Medicaid Payments

Another vital tool for states to manage their scarce Medicaid resources is state-directed Medicaid payments. This mechanism enables states to direct the managed care plans that serve their Medicaid population to supplement the payments they make to ensure adequate participation in their provider networks and to ensure adequate access to selected medical services – typically, services that are in high demand but for which the plans chronically underpay. In so doing, the states help ensure access to vital types of care. This is exactly what so many policymakers in Washington advocate: letting officials at the local and state levels make critical decisions about how to use their state and federal resources. As the Medicaid and CHIP Payment and Access Commission (MACPAC) explained in a recent issue brief,[2] state-directed payments have been a powerful, effective tool in helping state Medicaid programs preserve access to difficult-to-find medical services while ensuring underpaid providers that they can count on receiving the resources they need to continue offering those services. As with provider taxes, state-directed payments are not something states can implement on their own: they must submit proposals for the introduction of such payments to the Centers for Medicare & Medicaid Services and their applications are subject to careful scrutiny and can only be implemented upon the approval of that agency. The Alliance of Safety-Net Hospitals urges the Energy and Commerce Committee to ensure that states can continue to use this vital tool.

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[1] KFF, "*5 Key Facts About Medicaid and Provider Taxes*," March 26, 2025.
[2] Medicaid and CHIP Payment and Access Commission, "*Directed Payments in Medicaid Managed Care*," October 2024.

Federal Matching Funds for the Medicaid Expansion Population

Finally, the Alliance of Safety-Net Hospitals is concerned about the possibility that the Energy and Commerce Committee may consider proposing a reduction of the federal Medical Assistance percentage (FMAP), the rate at which the federal government matches state Medicaid expenditures, for the Medicaid expansion population. Today, 40 of the 50 states and the District of Columbia have willingly taken this incentive to expand Medicaid eligibility and some of the remaining ten states are currently considering doing so. Medicaid expansion has been a great success: today, 21 million Americans are enrolled in Medicaid specifically as a result of Medicaid expansion[3] and the rate of uninsured Americans remains at historic lows in most places. Without this money, states would be faced with a terrible choice: raise taxes or kick tens or even hundreds of thousands of people out of their Medicaid programs. Medicaid expansion reflects unmistakable progress, providing a vital lifeline to so many lower-income Americans who otherwise would have little or no access to health care. The Alliance of Safety-Net Hospitals urges the Energy and Commerce Committee to preserve enhanced funding for the Medicaid expansion that has made this revolutionary improvement possible.

Committee Deliberations

As the Energy and Commerce Committee considers what it might propose to improve the Medicaid program, the Alliance of Safety-Net Hospitals urges you not to limit the ability of states to levy provider taxes or to use state-directed Medicaid payments to ensure the continued financial viability of vital medical services and to protect the enhanced FMAP rate for the Medicaid expansion population that has led to one of the most important increases in the rate of insured Americans since Medicaid's launch 60 years ago.

We appreciate your consideration of our perspective and welcome any questions you have about our views or the requests we have made.

Sincerely,

Ellen J. Kugler
Executive Director

CC: Members of the Energy and Commerce Committee

[3] KFF, "*Medicaid Expansion Enrollment*," June 2024.