The Impact of the One Big Beautiful Bill Act on Medicaid in Kentucky

Nancy Galvagni

Testimony before the Medicaid Oversight and Advisory Board

July 30, 2025

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The Kentucky Hospital Association is pleased to be with you to share facts about the new federal law, and how it will affect our State Directed Payment Program, which we call the Hospital Rate Improvement Program (HRIP).

For those who may not be familiar with the program, HRIP is a Medicaid state-directed payment program, that allows Kentucky Medicaid to access additional federal funds, at no cost to the state. The hospitals pay a provider tax to cover the state's portion of the cost of the program.

Currently, hospitals are able to receive funding at 95% of the statewide average commercial rate for both inpatient and outpatient Medicaid services, which is crucial, since base Medicaid payments are well below the actual cost of caring for Medicaid patients.

Importantly, HRIP is also a value-based program and hospitals must meet certain quality improvement criteria to earn a portion of the funds.

Perhaps unsurprisingly, with the additional resources HRIP provides, hospitals have been able to focus on quality, and quality has been measurably improving in a number of areas. Our hospitals have been investing in more training, and undertaking additional measures to improve health outcomes for our patients.

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We have been able to reduce unplanned readmissions from a double-digit percentage to a single-digit percentage in just a few short years.

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We have been able to reduce unplanned readmissions from a double-digit percentage to a single-digit percentage in just a few short years.

This has been made possible by wise use of HRIP resources to focus on treatment of Sepsis and reducing infection rates, and we are seeing success on both fronts.

KHA has established a Sepsis Consortium in which all hospitals participate, and that consortium has allowed for the sharing of best practices, training, and implementation of procedures that identify sepsis and allow for quick treatment, which saves both lives and money.

HRIP has made it possible to screen 96% of patients visiting the Emergency Room for sepsis and, if they screen positive, to receive quick treatment.

Other infections have been reduced due to HRIP providing critical resources. This reduction in infection is good for patients, and saves the Medicaid program resources by avoiding the cost of longer hospital stays.

Opioid use is also being reduced thanks to the Kentucky Statewide Opioid Stewardship (SOS) program that KHA established in 2019.

Measures from that program have been incorporated into the HRIP program, and a sustained focus on reduction in opioid prescribing, has resulted in successful reductions of multiple opioid prescriptions.

Virtually no patients leave the hospital with multiple opioid prescriptions, and alternate pain management has become the standard for things like ankle sprains and aftercare for non-complicated vaginal births.

HRIP is also allowing hospitals to focus on new mothers, in a way that wasn't possible before these resources were available. This is important, because nearly half of all births in Kentucky are covered by the Medicaid program.

Post-partum depression is a real and present danger to the health and lives of new mothers. HRIP has allowed Kentucky hospitals to screen new mothers for post-partum depression and substance use disorder within two weeks of discharge from the hospital. If they screen positive, the hospitals are able to refer the new mothers to resources to help them.

HRIP has also allowed hospitals to screen for suicidal ideation, and over 1 million patients visiting the emergency room have been screened.

As you may know, suicide is the second leading cause of death for youth and young adults, exceeded only by traumatic injury.

We often hear about the Social Determinants of Health. What that really means is things like food insecurity and lack of transportation. These determinants of health are important drivers in unplanned readmissions.

Hospitals have undertaken a vital effort in screening patients and frequently refer patients to resources.

The hospitals are also key partners in the new Food is Medicine program along with Commissioner Jonathan Shell, at the Department of Agriculture.

This program, while separate from HRIP, works in conjunction to help patients to receive more fresh, local Kentucky produce and proteins. It is a benefit to the patients, hospital employees, hospital visitors, and Kentucky farmers.

KHA is exceptionally proud of the role we play in the functioning of the HRIP program. We are proud of the quality improvements and have been excited about the potential for further transformation of health care in Kentucky.

KHA has provided training for more than one thousand people in just the short time the HRIP average commercial rate program has been in place. We've engaged top experts to help hospitals have access to the best information and best practices for helping patients.

KHA also collects hospital data for our partners at Medicaid and provides feedback to hospitals on their performance. Remember HRIP is a value-based program and performance by all hospitals across the state is critical.

HRIP has allowed hospitals to invest in their staff with both training and salaries. At a time when there has been a wave of hospital closures and staff salaries have been stagnant in other states, HRIP has provided the resources to allow staff pay to keep pace with inflation. As a result, vacancies for all staff and for registered nurses have been reduced by 40% since 2022 with the help of HRIP.

Fewer staff vacancies mean better care for patients, better outcomes, and reduced readmissions.

HRIP has been absolutely transformational for health care in Kentucky.

Without HRIP, Kentucky's hospitals would be operating at a negative seven percent (7%) margin, and that would mean less access to vital treatments and less access to care in

general. Sadly there are those who do not want to hear these facts.

To be perfectly clear, the margin numbers are NOT developed by the Kentucky Hospital Association.

Kaufman-Hall, a consulting firm routinely relied upon by state agencies in Kentucky, has studied the impact of HRIP, and reported that, because of HRIP, hospitals have, on average, about a two percent (2%) margin, and without the program, the margin drops, on average, to a negative seven percent (7%).

While hospitals, in many ways, are not typical businesses, no enterprise can operate at a loss for very long. That means, without HRIP, hospitals will be forced to reduce services, lay off highly trained and talented staff, and in some cases cease operations entirely. There has been a great deal of talk in the media about potential hospital closures because of the phasing down of state directed payment programs like HRIP.

Those numbers come from the Sheps Center at the University of North Carolina.

The Sheps Center has studied the financial situation of rural hospitals for many years, and is well respected. According to the Sheps Center, Kentucky faces the loss of thirty-five (35) hospitals because of the phase down of state directed payments.

The Kentucky Hospital Association cannot say with certainty, exactly how many, or exactly which hospitals may close. The number could be greater or less than what the Sheps Center has predicted. The bottom line, is the HRIP program is being phased down by 90% over a period of several years. That is a fact, available for anyone to read in the OBBB Act.

According to the formula in the new law, when it is fully phased in, Kentucky will lose approximately $2.2 billion from HRIP and an additional $1.4 billion from our teaching hospitals. That is a $3.6 billion loss to the state, and it cannot help but have a negative impact on health care in this Commonwealth.

This is not fear-mongering, this is simply a fact. The Kentucky Hospital Association is simply dealing with the facts, based on the available studies, and the funding formula in the new law - and those facts tell an ugly story about the future of health care in our state.

We do not have to speculate about these matters, because we have seen the loss of service and even hospital closures in states that do not have a program like HRIP.

The good news is, the impact will not be immediate. The phase down does not begin until 2028.

So, the logical questions are, how did we get here, and what is the path forward? Sometimes a page of history is worth a volume of logic.

The KHA worked closely with Chairman Guthrie in developing the House version of the new law. He carefully balanced the needs of hospitals, and the savings needed, to meet the requirements of the federal budget resolution.

Chairman Guthrie, and the staff of the House Energy and Commerce Committee, listened to our advice, and the information about how our HRIP program sets what should be the national standard for state directed payments.

Chairman Guthrie was able to preserve the program, and we embraced the need for a work requirement and other commonsense provisions he needed.

In fact, KHA had supported the work requirement when the Bevin Administration had sought to introduce it here in the state.

The Kentucky delegation in the U.S. House, was very helpful, in working both with Chairman Guthrie, and in approaching the speaker of the U.S. House, to pass the Guthrie-designed bill. Chairman Comer, Chairman Rogers, and Congressman Barr all answered our calls for help.

The Executive Office of the President of the United States reached out to KHA, to ask for our endorsement of the bill. We were happy to endorse the House-passed version. Unfortunately, the product that came from the U.S. Senate, was dramatically different, and a great disappointment.

As U.S. Senator Bill Cassidy of Louisiana said, Guthrie used a scalpel to make the necessary changes to Medicaid. Unfortunately, the Senate then applied a chain saw to it.

One of the things the U.S. Senate did not seem to consider, was how the loss of resources in Medicaid, will close services for all patients, not just those covered by the Medicaid program.

When the bill returned to the House, despite efforts by Chairman Guthrie, with support from the rest of the Kentucky delegation, there was no way to make further changes to the bill with a looming July 4th deadline.

That leaves us to deal with consequences, of a phase down of a program, that was approved by the first Trump Administration, and continued by the Biden Administration. In fact, the head of Medicaid at the federal level praised Kentucky, for having the gold standard for how the program should work.

Despite the gains in quality from our state directed payment programs, and instead of allowing the programs to continue, the new law cuts the program over several years, and caps Medicaid payments at the Kentucky Medicare rate.

The Medicare rates are federally set, using an antiquated formula that takes money out of Kentucky and other southern states, to pay more to high-cost states like California, New York, Connecticut, and Massachusetts.

A discussion of the Medicare payment system is beyond the time we have today, but what you need to know, is that Medicare rates are so low in Kentucky, that Medicare and Medicaid pay essentially the same, and are well below the actual costs to deliver patient care.

The bottom line, is that when the cuts are fully implemented, the HRIP payments will be virtually wiped out. The new law's phase down of the provider tax will limit the ability of Kentucky hospitals to access all of the dwindling available funds for the HRIP program.

Rural hospitals are most at risk, because they treat a higher proportion of government patients. Demand for care is rising, the cost of delivering care is rising, all at a time that Medicaid reimbursement is being drastically cut.

While the Senate bill contains a Rural Transformation Fund, it is unclear how much money Kentucky will receive. One-half of the fund is equally divided among the states, and we are not yet aware of the standards for the rest of the fund to be distributed. Whatever Kentucky receives will be only a fraction of what HRIP provides.

Hospitals are already starting to review which services will have to be curtailed, or ended, once the phase down starts. Sadly, that also will entail determining which, and how many, staff positions will need to be eliminated.

The hospital association will, of course, continue to work with our federal partners to correct the flawed phase down provisions in the new law. We will also be seeking your support for changes both at the federal and state level.

The hospitals understand the state cannot replace the loss of billions in federal funding, and we appreciate the General Assembly being such a good partner in supporting HRIP over the last few years.

We are likely to come to the General Assembly with a proposal regarding the state provider tax hospitals currently pay, but which does not support hospital services. Also, your support for the 340B Drug Pricing Program is going to be even more important, as we lose funding for HRIP.

We also understand that some do not wish to believe the facts about the future of the HRIP program, and the consequences it will have, for both access to care, and the economy of the state. That is their right, but we must make every effort to find ways to serve our patients in the face of potentially devastating losses of resources.

Our patients don't have the luxury of pretending there are no cuts to Medicaid.

Thank you again for having us with you. We are eager to work with you and to be a resource as you are working on making sure Medicaid is solvent over the long-haul. We share your goal.