The Hospital + Healthsystem Association of Pennsylvania

September 17, 2026

The Honorable Valerie A. Arkoosh, MD, MPH
Secretary
Pennsylvania Department of Human Services
625 Forster Street
Harrisburg, PA 17120

Dear Secretary Arkoosh,

As the commonwealth develops its preliminary 2027–2028 budget recommendations, we urge the Department of Human Services (DHS) to include targeted investments that strengthen Pennsylvania's hospitals and protect communities' access to care.

Hospitals' financial challenges have reached a critical point. Recent data show more than 40 percent of the commonwealth's acute care hospitals operated with insufficient margins for long term stability in fiscal year 2025, with nearly 30 percent operating in the red. Those that are most distressed continue to experience growing losses. An Oliver Wyman analysis commissioned by HAP projects that these headwinds will only worsen. Pennsylvania Medicaid reimbursement is 11 percentage points below the national median, with hospitals receiving just 71 cents for every dollar spent caring for Medicaid and uninsured patients. Implementation of state-directed payment cuts through H.R. 1. alone will drop this amount to 64 cents.

These pressures directly threaten communities' access to care and critical infrastructure. A recent national health care publication noted that Pennsylvania is losing more hospitals than any other state. Oliver Wyman projected 12–14 more Pennsylvania hospitals could close by 2030, increasing the average drive to the nearest hospital by 22 minutes and resulting in approximately $900 million in lost wages. Many others will be forced to reduce services their communities depend on. This year, we have already seen a hospital close, another close its ICU, and another stop offering labor and delivery services. We know these trends will continue.

The need for action is especially urgent as Pennsylvania implements significant federal Medicaid changes. The Independent Fiscal Office (IFO) reports that Medicaid coverage losses have already begun, with approximately 100,000 Pennsylvanians losing Medical Assistance coverage over the past year. Ultimately, 280,000–310,000 Pennsylvanians are projected to lose coverage. While devastating for our communities, these coverage losses are projected to generate $220 million–$300 million in annual savings to the state budget and the IFO notes that the rise in uninsured Pennsylvanians "will increase costs for hospitals, particularly hospitals that serve a disproportionate share of low-income residents."

We believe a portion of those savings should be reinvested in the hospitals that will absorb the cost of caring for Pennsylvanians who lose coverage.

Last year, HAP offered several practical, budget conscious strategies to stabilize the commonwealth's health care system. This year, we have identified two additional proposals. Our recommendations are based on two key priorities: (1) not leaving federal dollars on the table and (2) providing predictable and sustained relief to financially vulnerable hospitals. Accordingly, we respectfully request that DHS include the following targeted investments in its preliminary recommendations for the 2027–2028 state budget:

1. **Maximize funding through Medicaid fee-for-service rates — $32.5 million**
   - Use $32.5 million in state funding to draw down federal matching dollars, (totaling $100 million) maximizing the commonwealth's investment in hospitals and services that care for Medicaid patients.
   - Increase the base fee-for-service rates for targeted hospital services.

2. **Increase support for distressed hospitals by reducing the state's take from the Quality Care Assessment — $50 million**
   Redirect $50 million of hospital-generated dollars currently retained by the commonwealth to strengthen the Distressed Hospital Fund and provide greater stability to hospitals most at risk.

3. **Reinvest a portion of Medicaid savings in hospital stability**
   Direct a meaningful portion of the $220 million–$300 million in projected state savings from Medicaid coverage losses toward hospitals facing increased uncompensated care and to services most vulnerable to reductions in coverage. This savings could be put towards funding the investments outlined above.

4. **Maximize federal Medicaid matching funds through managed care incentive payments**
   DHS should maximize the federal Medicaid funding available through its existing managed care incentive and quality-payment authorities, including the federal authority that permits incentive payments of up to 5 percent above approved capitation payments when specified performance targets are met for Physical HealthChoices, Behavioral HealthChoices, and Community HealthChoices.

   Pennsylvania already uses managed care incentive arrangements and has established a Hospital Quality Incentive Program within its Physical HealthChoices program. We recommend that DHS evaluate and, where

permissible, expand or redesign these existing arrangements to provide additional resources toward access, quality, financial sustainability, and the preservation of essential services.

Importantly, this approach could allow the commonwealth to leverage federal Medicaid matching funds rather than relying solely on state General Fund dollars. DHS should identify the amount of incentive authority currently available, the portion being used, and opportunities to increase the state's investment while maximizing federal financial participation for *each* of the three HealthChoices programs.

We share your view that hospitals are critical infrastructure necessary for Pennsylvania to have healthy, vibrant and competitive communities. The potential consequences of further hospital closures and service reductions are too significant to ignore.

We urge DHS to include these targeted proposals in its 2027–2028 budget planning and recommendations. HAP and Pennsylvania's hospitals stand ready to work with you on these and other practical strategies that protect access to care communities depend on.

Sincerely,

Nicole Stallings
President and CEO
The Hospital and Healthsystem Association of Pennsylvania