



January 7, 2026

The Honorable Josh Shapiro
Governor of Pennsylvania
225 Main Capitol Building
Harrisburg, PA 17120

Dear Governor Shapiro:

As Pennsylvania continues to navigate real fiscal constraints, we understand the difficulty of meeting competing priorities across state government. We also recognize that the administration and the General Assembly have been exploring ways to stretch limited resources and consider new approaches where possible. With that context in mind, we offer several practical, budget-conscious strategies that can help stabilize the commonwealth's health care system in the years ahead.

Pennsylvania's hospitals are facing severe financial strain. Rising expenses and inflation, persistent workforce shortages, and increasing demand for complex care have pushed many facilities—especially community and rural hospitals—to the edge. At the same time, Medicaid underpayment continues to widen the gap between hospitals' cost for providing essential services and the reimbursement they receive.

Pennsylvania hospitals are currently reimbursed, on average, 71 cents for each dollar they spend providing care to individuals with Medicaid coverage. This longstanding underfunding will worsen when the provisions of H.R. 1 are implemented and average Medicaid reimbursement drops to only 64 cents on the dollar. This direct funding reduction—coupled with the staggering rise in uncompensated care anticipated from Medicaid coverage losses and potential expiration of enhanced premium tax credits—will jeopardize access to emergency care, maternity services, behavioral health care, and other critical programs that communities depend on.

Already, fewer than half of the commonwealth's acute care hospitals are operating with margins necessary for long-term stability and more than a third are experiencing multi-year losses. Without sustainable payments, more hospitals and essential services will close.

We ask that Medicaid reimbursement to hospitals reflect the actual cost of providing care; however, we acknowledge the state's fiscal constraints and competing demands. The proposals outlined below seek to help stabilize local hospitals by combining tangible steps both the administration and General Assembly could take.



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As you develop the next budget, we respectfully request your leadership in implementing targeted, practical solutions to stabilize hospitals. In doing so you will strengthen the commonwealth's health care infrastructure and ensure Pennsylvania communities are healthy, vibrant, and economically competitive. Two strategies in particular offer immediate support that could gradually develop into critical investments to sustain access to hospital care over the next five years:

1. Maximize funding through Fee-for-Service (FFS) rates via either or a combination of the following strategies:

- Increase base FFS rates for targeted hospital services**

The Medicaid FFS fee schedule has remained largely stagnant for decades. Increases have largely been limited to federally required annual changes and other minimal adjustments, even as the cost of providing care has grown dramatically. While Pennsylvania is a managed care state, increasing base FFS rates for targeted, high-impact services could increase managed care organization payments to hospitals over time. Such a change would directly support hospitals that serve the largest share of Medicaid patients and have the least flexibility to absorb financial losses. Updating certain rates is one of the most transparent and structurally sound investments the commonwealth can make.

- Create a new FFS hospital supplemental payment**

Establishing a new hospital-specific supplemental FFS payment for widely utilized services—examples include emergency departments, behavioral health, and surgical care—offers a straightforward way to draw down additional federal matching dollars and provide immediate relief to hospitals across the state. This assumes there is upper payment limit room available.

Proposed state investment and federal match for either or a combination of the options above, assuming \$100 million available in upper payment limit:

- State: \$32.5 million each year
- Federal: \$67.5 million each year
- Total: \$100 million

2. Gradually increase support for the Distressed Hospital Fund



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Without intervention, as many as 12–14 hospitals could close over the next five years as a result of well-documented trends, funding cuts and rising uncompensated care. As such, the distressed hospital fund will need to increase significantly beyond current commitments.

Currently, hospitals pay a statewide Quality Care Assessment to the commonwealth, of which the state takes a portion (\$452 million) to balance the state budget. The state should commit to incrementally decreasing its share from the dollars generated by hospitals and redirect that funding to the dedicated distressed hospital fund that is already established under the Department of Community and Economic Development. We propose a phased-in approach—\$50 million per year for a commitment of \$250 million by year five—to allow the state to build this support responsibly while ensuring that financially vulnerable hospitals receive sustained, predictable relief.

Taken together, these actions would offer meaningful support to a hospital field that is working tirelessly to maintain access, uphold quality, and meet the needs of every community across the commonwealth.

HAP and Pennsylvania's hospital community stand ready to partner to ensure Pennsylvania is a national leader in protecting access to high quality care. We share your goal of making Pennsylvania the best place to live, work, and grow. We cannot have healthy, vibrant, and economically competitive communities without strong hospitals. Stable hospitals mean good jobs, strong growth, and access to services that make our families and communities healthier and safer.

We appreciate your continued commitment to the health and well-being of Pennsylvania's residents and your willingness to consider these proposals in the upcoming and future state budgets.

Sincerely,

Nicole Stallings
President and CEO

Cc: Secretary Dr. Valerie Arkoosh, Department of Human Services
Secretary Zachary Reber, Budget Office