



Ovation  
Healthcare

HEALTHCARE PLAYBOOK SERIES: H.R.1

# What Hospitals Need to Know in Response to H.R. 1

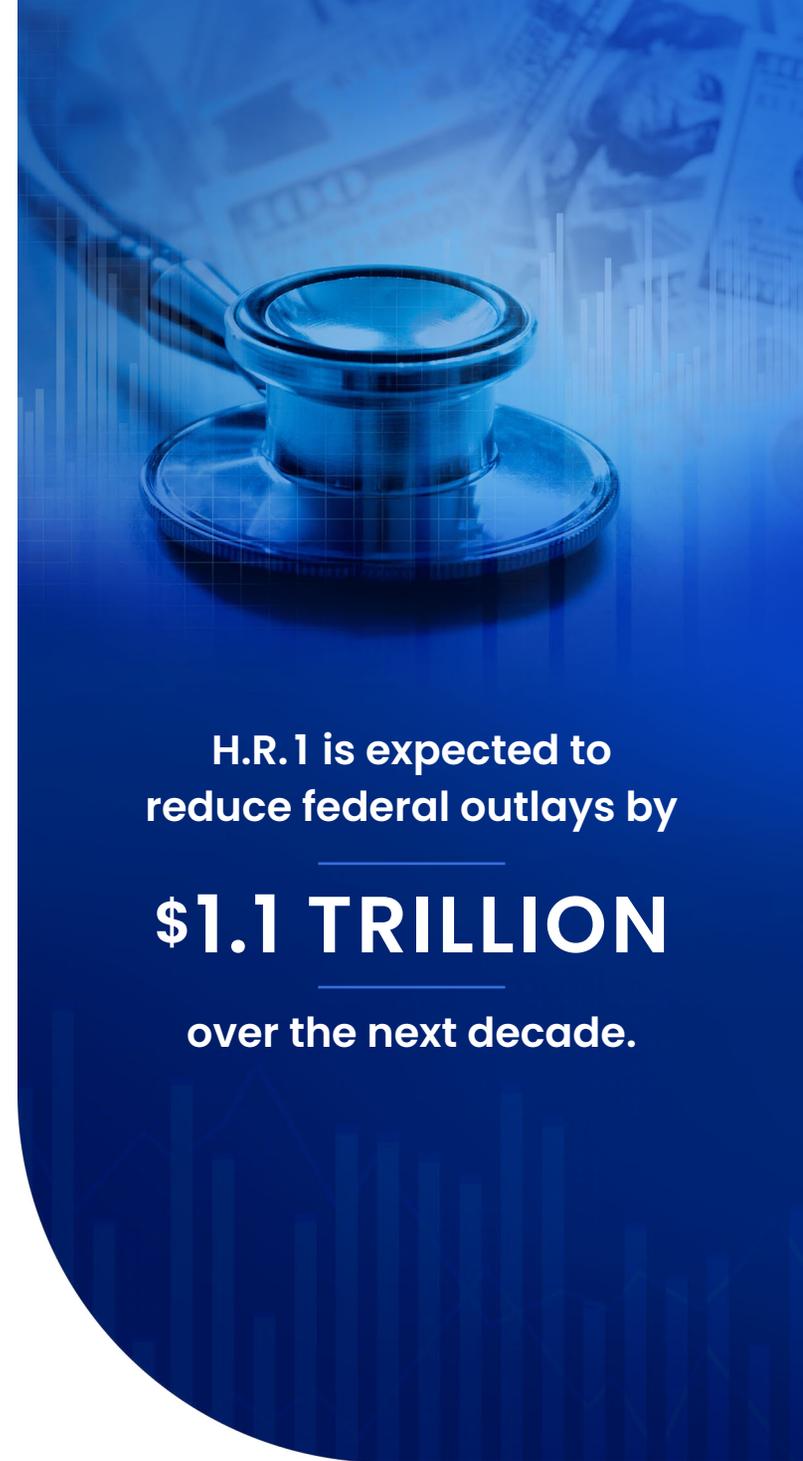
## OVERVIEW

The passage of H.R. 1 represents one of the most consequential shifts to federal health coverage and affordability programs in decades. While the legislation originated as a tax and budget reconciliation bill, its most profound downstream effects fall on Medicaid, the Children's Health Insurance Program (CHIP), and the Affordable Care Act marketplace coverage, placing independent and rural hospitals at disproportionate financial risk.

According to the Congressional Budget Office (CBO), the health coverage provisions of H.R. 1 will reduce federal outlays by approximately [\\$1.1 trillion over the next decade and increase the number of uninsured Americans by an estimated 10 million by 2034.](#) Medicaid and CHIP account for the majority of these reductions, fundamentally altering eligibility, financing mechanisms, and reimbursement dynamics across states.

Hospitals serving rural, low-income, and Medicaid-dependent populations will experience the most immediate strain as coverage losses, increased eligibility churn, and payment reductions converge. These pressures threaten operating margins, access to care, and long-term sustainability for community-based providers.

Ovation Healthcare helps **hospitals achieve 8 to 10 percent margin improvement** by strengthening operational performance across spend management, revenue integrity and revenue cycle, managed technology services, workforce analytics, payer relations, and financial planning. Built on an integrated shared services model,



**H.R. 1 is expected to  
reduce federal outlays by**

**\$1.1 TRILLION**

**over the next decade.**

The Medicaid provisions alone will result in **7.8 MILLION** additional uninsured individuals by 2034.

Ovation Healthcare is designed to **improve margins while preserving independence** and local access to care.

Now is the time for hospital leaders to act deliberately and proactively. Navigating the impact of H.R. 1 will require informed strategy, operational discipline, and coordinated advocacy to protect financial sustainability and ensure continued access to care where it matters most.

### Projected Impact of H.R. 1 Hospital Funding Cuts

H.R. 1 introduces sweeping changes to Medicaid eligibility, financing, and supplemental payment structures that will significantly affect hospital reimbursement over the next decade. [Final estimates](#) indicate that federal Medicaid spending will be reduced by approximately \$911 billion between FY 2025 and FY 2034, with total Medicaid and CHIP reductions approaching \$990 billion over the same period.

The CBO estimates that Medicaid provisions alone will result in 7.8 million additional uninsured individuals by 2034. When combined with changes to ACA marketplace subsidies and related interactions, total coverage losses are projected to reach approximately 10 million uninsured nationally. These coverage losses will increase uncompensated care, bad debt, and financial volatility for hospitals, particularly those with high Medicaid payer mix.

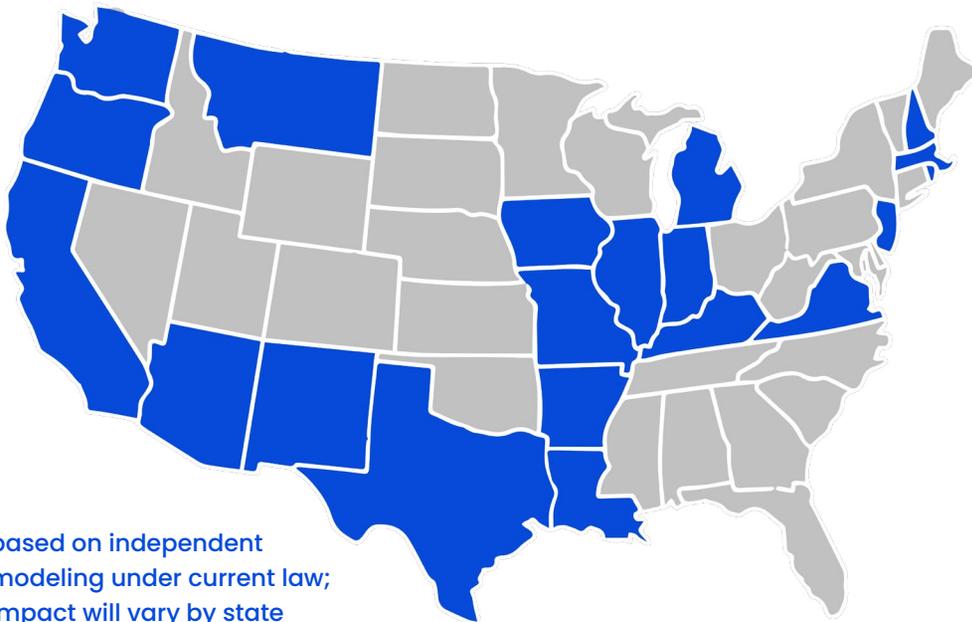
Independent modeling estimates hospitals could experience up to \$665 billion in Medicaid-related payment losses over ten years, representing roughly an 18 percent reduction in Medicaid hospital funding, with Commonwealth Fund analysis projecting operating margin declines of approximately 11.7%–13.3% in Medicaid expansion states.

**Rural hospitals are especially vulnerable.** An estimated [432 rural hospitals](#) are currently considered at risk of closure due to sustained negative margins and high dependence on Medicaid revenue. Reduced

reimbursement, increased eligibility churn, and administrative burden introduced by H.R. 1 are expected to accelerate financial distress and threaten access to care in rural and underserved communities.

As states implement new eligibility redetermination cycles, work requirements, provider tax limitations, and restrictions on state-directed payments, hospitals will face greater variability in coverage continuity and payment timing. These changes will require heightened operational readiness and proactive financial planning to mitigate risk and stabilize performance.

#### States with Highest Projected Medicaid Hospital Exposure\*



**\$665 Billion** in provider funding cuts. Direct impact to hospital operations, especially safety net and rural facilities.



**11.7 – 13.3% Reduction** to operating margins in Medicaid expansion states. Safety Net hospitals could see up to 30%.



**432 rural hospitals** are at risk of closure due to sustained negative margins and high dependence on Medicaid revenue.

## Ovation Healthcare's Strategic Advantage: Turning Risk into Resilience

Ovation Healthcare is ready to meet this moment with more than services. We are bringing the partnerships, solutions, and policy alignments needed to navigate what's next, including shifts driven by legislative changes like H.R. 1 that may affect Medicaid funding, safety net programs, and broader healthcare policy. Our key insights and best practices will help create a tailored, strategic response that fits the needs of your hospital, turning potential risk from policy uncertainty into operational resilience and long-term stability.



## Policy-Aware Guidance and Regional Collaboration That Protects Your Future

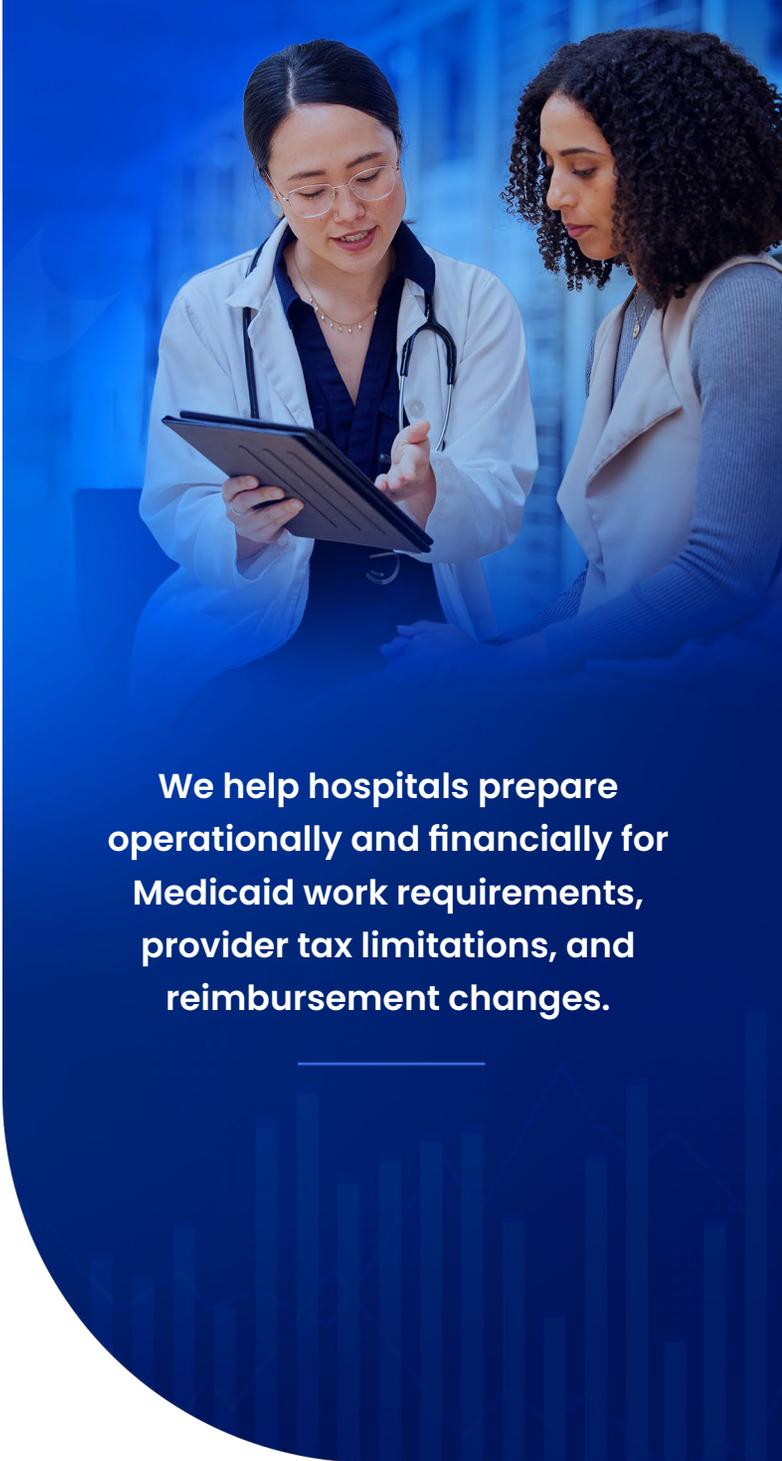
As funding structures shift, Ovation Healthcare leads with policy fluency and proactive insight, working hand-in-hand with state hospital associations, administrators, and Medicaid leaders to align on funding strategy and implementation. We help hospitals prepare for Medicaid work requirements, provider tax limitations, and reimbursement reductions, translating legislation into action. Our leadership advisory team ensures you're not just compliant but financially positioned for sustainability, ensuring hospitals in vulnerable regions don't face this alone.

## H.R. 1 and Future of Hospital Funding

The H.R. 1 legislation marks one of the most significant shifts in the healthcare funding model and brings new strategic considerations and practical guidance hospital executives and boards need to weigh when starting preparations.

Ovation Healthcare was joined by The American Hospital Association (AHA) for a [webinar](#) outlining the likely consequences healthcare will see from the passing of H.R. 1. This bill was not a healthcare-focused bill at its core; it began with a focus on tax cuts which found savings in the healthcare space. There were several key provisions from the bill that will hit hospitals directly, and Medicaid was hit hard:

- **Restricts ability of states to create and increase provider taxes**
  - Freezes existing taxes in place as of date of enactment
  - Phases existing provider tax cap for expansion states down to 3.5% by FY 2032 (nursing homes and ICFs exempted)
- **Lowers the upper payment limit for state directed payments (SDPs)**
  - 100% of the total published Medicare rate for expansion states
  - 110% of the total published Medicare rate in non-expansion states
- **Increases frequency of eligibility redeterminations to every six months for Medicaid expansion enrollees**
- **Requires states to establish work requirements for Medicaid expansion enrollees**



**We help hospitals prepare operationally and financially for Medicaid work requirements, provider tax limitations, and reimbursement changes.**



**There will be a disproportionate impact on hospitals in rural locations and with lower incomes regarding the limit of tax credits.**

**Additional provisions of note for hospitals include:**

- Establishes a \$50 billion Rural Health Transformation Program for rural providers
- Restricts eligibility for certain non-citizens under Medicaid, Medicare and the Insurance Marketplaces
- Limits use of premium tax credits
- Establishes graduate and professional annual and aggregate loan limits, including medical students
- Rescinds clean energy tax credits

It is expected that there will be a disproportionate impact on hospitals in rural locations and with lower incomes regarding the limit of enhanced premium tax credits. Some states will see a higher rate of disruption in coverage due to loss of funds, particularly in states that have not expanded Medicaid. This will place considerable financial stress on hospitals, and patients will be facing higher care costs.

It will remain important for hospitals and healthcare organizations to maintain contact with local, state, and federal government representatives to track and communicate impacts.

As conversations continue in Congress and new legislation is introduced, there will be additional key healthcare issues to watch for new movement, including:

- Site-neutral payment policies
- 340B program changes
- Hospital price transparency
- Medicare Advantage
- Workplace safety

[AHA has a dedicated website](#) to providing detailed information on the passing of the H.R. 1 legislation, timelines, Medicaid resources, webinars and podcasts and additional advisories to help organizations navigate the new changes.

## Securing Rural Sustainability

Ovation Healthcare presented a [webinar](#) in September that introduced the Rural Health Transformation Program and application criteria.

Part of H.R. 1 – Section 71401 – established a Rural Health Transformation Program which allocates \$50 billion in support for rural healthcare providers. This funding will be distributed over five years, with \$10 billion available annually from FY 2026 to FY 2030.

On September 15, 2025, The Centers for Medicare & Medicaid Services (CMS) released their application process for states to enroll in the Rural Health Transformation Program. The application period was open from September 15 through November 5, 2025, in which all 50 states submitted applications outlining plans for transforming their rural health care systems. CMS reviewed the applications, basing approval criteria on how each proposal outlined the intention to expand access, enhance quality, and improve patient outcomes through sustainable, state-driven innovation.

On December 29, 2025; [CMS announced all 50 states will receive awards](#) under the Rural Health Transformation Program. Baseline funding representing [50% of total available program funds](#) were equally distributed among approved states, based on completeness and compliance with the requirements. A rigorous, data-driven review of each state's proposed initiatives, led by federal and non-federal rural health experts, was conducted to determine distribution of the remaining 50% of available program funds; as described in the [Notice of Funding Opportunity](#).



**\$50 Billion**

Over 5 years

**Established by OBBB**

to transform care and improve outcomes in rural communities

**50% to Approved States**

**50% Based on**

Ruralness, State Policies & Quality of Application



**CMS is placing a stronger emphasis on measurable outcomes and accountability.**

As states begin to plan how they will use the awards to expand healthcare access across their rural communities, sustainability and measurable outcomes need to be aligned and transparent. Hospitals receiving funds will need to map their most urgent needs to the strategic goals and present them through a suitability lens, demonstrating collaboration and measurable impact.

CMS is placing a stronger emphasis on measurable outcomes and accountability through quality measures and value-based care incentives and is expecting states to partner with hospitals to help achieve these strategic goals and improve population health outcomes. This requires hospital and community input. While funding applications were state-driven, hospitals must be proactive and advocate their needs and be diligent in reporting the use of program funds and outcomes. **Ovation Healthcare advises coordinating with state hospital associations** to avoid fragmentation, as regional collaboration and engagement with state agencies can help keep your community's needs in the conversation and in line with sustainable initiatives.

It's important to be focused on shaping outcomes. As you continue to engage with your community and state, follow the AHA suggestions on the next page.

## As you engage your State Agency, AHA Suggests:



**Engage Early with Your State:** States control how these funds are allocated within their borders. Proactive engagement is critical:

- *Reach out to your state hospital association or state Medicaid agency now.*
- *Advocate for your hospital's inclusion in the state's Rural Health Transformation Plan.*
- *Provide input on needs like workforce, telehealth, infrastructure, and service sustainability.*



**Focus on Workforce, Infrastructure, and Telehealth:** Hospitals should identify priority areas to influence the state plan.

- *Workforce Recruitment and Retention: Use funds for competitive salaries, training, and retention bonuses.*
- *Infrastructure Modernization: Advocate for funding to repair or replace aging facilities.*
- *Telehealth Expansion: Invest in virtual care and remote monitoring to improve patient access.*



**Push for a Hospital-Centered Approach:** AHA presses CMS to favor direct hospital payments over diluted funding.

- Rural hospitals should highlight their lifeline role for:
- Emergency services
  - Chronic care management
  - Preventive care
  - Telehealth access



**Prepare for Reporting Requirements:** H.R. 1 mandates that states implement Medicaid work reporting requirements effective Jan 1, 2027.

- *Hospitals receiving funds will need to report program dollars separately in Medicare cost reports.*
- *CMS is expected to provide guidance to avoid reimbursement complications.*

Stay informed by reading through the documents and guidance. Contact local and state officials to continue increasing your network. Use your voice and your story to demonstrate the important work of your hospital. Share your data and the impact as an economic driver in your community. Leverage your strategic plan and align with your state's plan.

**Our full suite of operational solutions designed to reduce cost, optimize performance, and recover margin.**



## **Shared Services that Drive Measurable Impact**

In the wake of H.R. 1, it's imperative to control the controllables. Manage operating costs, capture all patient revenue, and collect all entitled payments. Hospitals now face a critical inflection point: adopt forward-looking strategies to preserve reimbursement, redesign cost structures, and strengthen payer alignment to remain financially sustainable.

Ovation Healthcare delivers a full suite of operational solutions designed to reduce cost, optimize performance, and recover margin. Our platform model allows hospitals to access enterprise-level capabilities—revenue cycle management, spend management, technology, financial performance, workforce management, and more—without sacrificing independence.

## **Navigating H.R. 1 Healthcare Reimbursement**

H.R. 1 has introduced new regulation and reimbursement challenges to rural health providers and providing access to quality healthcare for the communities we serve is still top priority. The impact this legislation will have on reimbursement and how it will impact providers and patients, however, is a concern.

Medicaid expansion cuts have dominated the headlines, and policy changes are driving financial pressure.

## Policy Changes Driving Financial Pressure



- 80 hrs/month community engagement required
- 6 month redeterminations, 1 month retro coverage
- Hospital response: Real time verification + financial counseling



- +11.8M uninsured by 2034 = higher uncompensated care
- Rising deductibles = more patient financial burden
- 60% of patients can't cover a \$1,000 expense
- Hospital response: flexible plans, patient portals, and early engagement



- Medicaid/CHIP capped at Medicare rates = lower reimbursement
- Site-neutral & payer tactics further cut outpatient pay
- Provider tax limits reduce supplemental funding
- Hospital response: service line analysis + stronger payer negotiations

### Medicaid Eligibility Tightening

### Rising Self Pay & Uncompensated Care

### Reimbursement & Outpatient Shifts

It may be helpful to model a best-case scenario and a worst-case scenario. Lay out your expected reimbursement changes and what the hospital could do to compensate. Play out what the forecasted negative impact might be and devise a plan to help mitigate that negative impact.

There are also implications to the Medicare/Medicaid cost report.



## Medicare/Medicaid Cost Report Implications

### PPS Hospitals

Worksheet S-10: Uncompensated Care costs to increase

- Federal Gov't share of pool may increase as uninsured population grows
- DSH pool to be reduced (\$8B) per year FY26 – FY28

### CAH Hospitals

Cost Based Medicaid Reimbursement

- 28 States use cost-based reimbursement for either IP, OP, or both
- Some are at cost, at above cost, or at below cost

So, what can hospitals do to mitigate reimbursement pressures?

- It cannot be stressed enough to work with local state hospital associations and demonstrate how the facility could use the funds in three top areas.
- Update revenue cycle operations to accommodate new requirements and capture all patient revenue and entitled payments.
- Know the expected payer payments and have an appeals process established or provider rep to contact to review discrepancies.
- Run an analysis of payer mix by service line to understand potential services that could be impacted.
- Charity care may increase as a result of changing eligibility requirements, so updating the hospital's charity policy and familiarizing staff is helpful.

For more information on the proposed reimbursement impacts, view Ovation Healthcare's [webinar: Reimbursement & Regulatory Update - Navigating H.R. 1 Reform for Healthcare](#).



## Revenue Cycle Strategies to Offset Financial Risk

H.R. 1 is reshaping how hospitals must manage revenue and sustain margins. Revenue cycle leaders are at a critical inflection point due to:

- Rising self-pay exposure
- Uncompensated care risk
- Increasing payer complexity
- Outpatient reimbursement pressures
- Escalating labor costs
- Growing payer sophistication
- Rapid technology disruption
- Overall economic volatility

Hospitals cannot assume they will be receiving funds and need to consider proactive RCM adjustments to meet the shifting landscape.



## Overview: Proactive RCM Adjustments for a Shifting Landscape



Strengthen patient access, estimation, and early out capabilities



Expand denial prevention, AR management, and performance management



Close workforce gaps with automation and shared services



Track payer behaviors driving denials



Leverage managed care teams for revenue cycle solutioning



- **Strengthen patient access, estimation, and early out capabilities:**
  - Accurate front-end processes reduce billing surprises, improve patient trust, and support early-out collections by identifying potential issues before billing.
  - Provide upfront estimates to improve transparency and offer financial counseling during registration.
  - Deploy estimation tools at point-of-service, train staff on early payment options, and implement early-out collection strategies to maximize timely revenue.
- **Expand denial prevention, AR management, and performance management:**
  - Preventing denials upfront is far more efficient than appealing after the fact.
- **Close workforce gaps with automation and shared services**
  - Contain cost to protect the margin. Optimize staffing & outsourcing with hybrid models, shared services and scalable contracts.
  - Leverage AI and automation to increase efficiency in areas of clinical appeals, coding, and call center.
  - Use analytics and benchmarking to track cost-to-collect, spot payer underpayments and target process redesign.
- **Track payer behaviors driving denials:**
  - Payers are deploying more aggressive denial strategies, including stricter utilization review and retroactive eligibility cuts. AI-driven payer tools are amplifying denials, adding administrative burden.
  - Create payer-specific playbooks, monitor denial patterns with scorecards, and escalate recurring issues to regulators or associations.

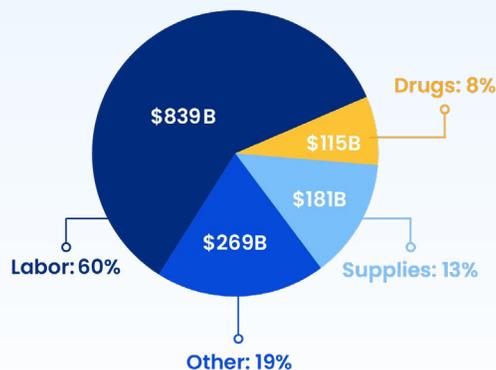
- **Leverage managed care teams for revenue cycle solutioning:**
  - Revenue cycle and managed care must work hand-in-hand to protect reimbursement. Alignment ensures payer contracts are enforced, and denials are challenged effectively.
  - Build shared dashboards to track underpayments and appeals and integrate contract modeling tools into daily revenue cycle workflows.

For more information on revenue cycle management improvement strategies to address the H.R. 1 legislation, view Ovation Healthcare’s webinar: [Navigating H.R. 1 - Revenue Cycle Strategies to Offset Financial Risk.](#)

## Smarter Spend Strategies

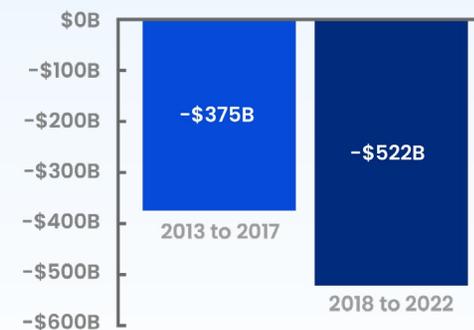
In order to offset multifaceted pressures that financial impacts will bring to healthcare organizations in the coming years, hospitals must evaluate all areas of spend management to identify opportunities for optimization and mitigate risk.

Labor constitutes largest percentage of hospital expenses



Note: Average expenses estimated by Strata Decision Technology median 2023 values across all hospital spending. Labor is inclusive of purchased services and professional fees.

Cumulative Medicaid and Medicare underpayments



Note: AHA Annual Survey 2013 to 2022 all dollars inflation adjusted to 2022 values using CPI-U from the BLS.

Ovation Healthcare's spend management team is equipped to provide support, insight, and guidance of smarter spend strategies in all areas of:

- supply chain optimization
- pharmacy management
- insurance services and human capital
- purchased services
- labor spend
- clinical performance
- physician preference items
- dietary
- medical/surgical products
- expense analytics tools
- capital budget review

Ovation Healthcare partners with hospitals to review analytics and create value propositions unique to each organization. Ovation has its own portfolio of tools and expertise, along with a national GPO agreement, to develop benchmarks that meet the needs of a hospital.

The best place to get started is by reviewing the data. Look at the staff, the patients, the community and think about how the organization can be more efficient to provide quality care and improve staff workload and balance. Look at med/surg and pharmacy; look at dietary. Pinpoint one or two initiatives in each segment and assign a different owner to each to fast-track changes and develop a pipeline to drive costs down or improve efficiency and usage.

For more information on spend management review strategies, a deeper look at resources available, and to hear member success stories, view Ovation Healthcare's [webinar: Smarter Spend Strategies in the Wake of H.R. 1](#).



## Compliance Implications

H.R. 1 dictates a lot of changes but how those changes will be administered remains to be determined. As new compliance and regulation requirements are set, they will likely be issued by Health and Human Services (HHS) and CMS; and are expected to be distributed by the end of 2026. New guidelines and regulations will require an update in compliance processes and procedures for an organization. Anticipated areas of focus for compliance will be around eligibility requirements (Medicaid/CHIP/ACA), documentation of patients and encounters, new/more frequent reporting, and rollout of cost savings.

Hospital budgets and the bottom line will be hit the hardest, so immediate action should be to develop and implement operational solutions to respond to the changes. Create processes around eligibility verification, coverage transitions, and address RCM coverage and revenue gaps. Review workforce planning and potential constraints on recruitment and retention. And anticipate changes to patient coverage and changes in patient presentation patterns.

Ovation Healthcare advises conducting a comprehensive impact assessment to determine your risk exposure based on current Medicaid enrollment, affected populations, and capacity for enhanced verification requirements. Additional considerations include:

- Leveraging relationships and community partnerships. Collaborative health networks, clinical integrated networks, and technology sharing arrangements are all ways to gain efficiencies without sacrificing independence or large investment dollars and stress.
- Leverage data and analytics to optimize operations and invest in technology to meet new compliance requirements and achieve long-term sustainability.

**We advise conducting a comprehensive impact assessment to determine your risk exposure**

- Lastly, advocacy on the state and community level will be critical for success under H.R. 1. States are developing processes to comply with new eligibility and reporting requirements, who will be passing the requirements onto their hospitals. It's important to have a state advocacy effort to influence what requirements might be, and voice concerns.

For more information on healthcare compliance implications to watch for, view Ovation Healthcare's [webinar: Compliance Under H.R. 1 – What Hospital Leaders Must Watch For](#).



## Summary

The passage of H.R. 1, the “One Big Beautiful Bill Act,” has already introduced significant changes to federal funding, Medicaid, and safety net programs, creating both challenges and opportunities for healthcare organizations. Hospitals must be proactive in advocating for themselves and their partnerships. By understanding the Rural Health Transformation Program process, engaging with local, state, and federal representatives, identifying ways to reduce financial reliance on potentially fluctuating funds, and developing a strategic plan that reflects the unique needs of your rural community, your hospital can successfully navigate this evolving landscape.

This process demands flexibility, vigilance, and strategic foresight, but your organization has overcome challenges before. Ovation Healthcare is here to guide you, helping you turn these pressures into opportunities and position your hospital for long-term resilience and growth.

Interested in learning more? Contact us at [info@ovationhc.com](mailto:info@ovationhc.com)

 Ovation Healthcare™