



HFMA Texas Gulf Coast *Lunch & Learn*

Federal & State Legislative Update

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Presentation Outline

- **2025 State Legislative Session Overview**
- **Federal Legislative & Regulatory Update**
- **2026 Election Cycle**



State Issues

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Governor Greg Abbott's 2025 Legislative Priorities

- ***School Choice* (“Vouchers”) - +/- \$8 Billion**
- **Increasing Public School Teachers’ Compensation - \$1 Billion**
- **Additional Property Tax Reductions**
- **Expansion of Career Training (including THECB’s “Health Sector Workforce Shortage Work Group” recommendations)**
- **Border Security**
- **Water Infrastructure**
- **Bail Reform**
- **Creation of the *Texas Cyber Command***
- **Promotion of Nuclear Power as a strategy for maintaining economic growth and security**
- **Improving funding and access to behavioral health services**

Lieutenant Governor Dan Patrick's 2025 Legislative Priorities

- ***School Choice* (“Vouchers”) - SB 2**
- **Increasing Public School Teachers' Compensation – SB 26**
- **Banning THC – SB 3**
- **Increase in the Homestead Exemption to \$140,000 – SB 4**
- **Dementia Prevention and Research Institute (DPRIT) – SB 5**
- **Improving Government Efficiency (*Texas DOGE*) – SB 14**
- **Adding curriculum for Texas schoolchildren, ensuring they receive comprehensive education relating to the history of, and consequences of communism – SB 24**
- ***Life of the Mother Act*, clarifying and strengthening the exceptions to Texas' abortion ban – SB 31**

Speaker Dustin Burrows' 2025 Legislative Priorities

- ***Government Efficiency (Regulatory Reform and Efficiency)*** – HB 10 and HB 12
- ***Educational Freedom/School Choice (“Vouchers”)*** – HB 2 and HB 3
- **Reform of Student Assessment and Public School Accountability** – HB 4
- **Establishment of the Dementia Prevention Research Institute of Texas (DPRIT)** – HB 5
- **Increasing Funding for Public School Funding and Teachers’ Compensation** – HB 2
- **Property Tax Cuts/Increasing Homestead Exemption** – HB 8 and HB 9
- **Rural Healthcare Services – HB 18**
- ***Health and Nutrition Standards/ Promoting Healthy Living*** - HB 25
- **Medicaid Managed Care Organizations (MCOs) Contracting** – HB 26
- **Perinatal Palliative Care Services – HB 37**
- **Establishment of Tarleton State University College of Osteopathic Medicine** – HB 125
- ***Life of the Mother Act*** – HB 44
- **Funding for Women’s Preventive Health Mobile Units in rural communities**

State Health and Human Services Priorities

- **Renewal/Continuation of *Local Provider Participation Funds* (LPPFs)**
- **Charity Care – Non-Profit, Tax-Exempt Status – *Pursuant to 2023 Budget Rider***
- **Facility Fees “Prohibition” – HB 2556, HB 2075, SB 1232 and SB 392**
 - ***Patient Financial Experience:* hospital pricing, billing, site-neutral payments**
- **Immigration Reporting – *Pursuant to Governor Abbott’s August 2024 Executive Order (GA-46):* collection and reporting of healthcare costs of Individuals “not lawfully present”**
- **340 B Drug Pricing (Discount) Program and Pharmacy Benefit Manager (PBM) Regulation**
- **Prohibition of Vaccine Mandates – (SB 407/HB 1468)**
- **Mental Health Initiatives**
- **Abortion: *Life of the Mother Act***
- ***Gender Affirming Care* prohibition**
- **Scope of Practice Issues: APRNs, pharmacist dispensing; foreign licensed physicians**

2025 Biennial Budget Dynamics

- **Texas State Comptroller Glenn Hegar reported a \$23.8 Billion “carry over” (budget surplus) during his pre-session revenue estimate. This followed a \$32.7 Billion budget surplus last session.**
- **Lawmakers had \$194.6 Billion in state general revenue available for general purpose spending for the 2026-27 biennium, reflecting a *decrease* of 1.1% from 2024-25 biennial funding levels.**
- **Hegar estimated the Texas *Economic Stabilization Fund* (“Rainy Day Fund”) would have a \$28.5 Billion balance by the end of the 2026-27 state biennium, assuming lawmakers would *not commit any RDF funding for other state needs*.**
- **Sales taxes, oil and gas *severance* taxes, and motor vehicle sales tax revenues bolstered the Texas economy and contributed significantly to the biennial budget “surplus.”**
- **Neither the Senate Finance, nor House Appropriations Committees’ “base budgets” assumed use of Rainy Day Funds.**

2025 Biennial Budget Dynamics

- **The \$13.7 Billion *Supplemental Appropriations Bill* (HB 500) – Health Sector Highlights:**
 - **Estimated \$750 Million Medicaid shortfall for FY 2025:** factors included potential reductions in federal Medicaid Disproportionate Share Hospital (DSH) program; “unwinding” of expanded coverage; and Medicaid application processing backlogs.
 - **\$934.5 Million in funding for the Texas Education Agency (TEA), to address a reduction in federal funding for the School Health and Related Services (SHARS) program, a joint HHSC/TEA program providing Medicaid reimbursement for healthcare services for Texas schoolchildren with disabilities.**
 - **\$248 Million in state general revenue (GR) for facilities construction, including for state psychiatric hospitals and mental health facilities in Harris, Tarrant and Brazoria Counties.**
 - **\$328.3 Million to expand Department of State Health Services (DSHS) laboratory capacity.**
 - **\$229.4 Million for state higher education agencies and institutions, including funds for cancer programs at designated health institutions.**

2025 Biennial Budget Dynamics

- **The \$337 Billion 2026-27 Biennial Appropriations Bill (SB 1) – Health Sector Highlights:**

- **\$80.8 Billion (all funds) for Medicaid, represented an \$8.8 Billion increase over 2024-25 spending levels**
- **Texas HHSC requested \$2.2 Billion in general revenue, to increase the base hourly rate for “community attendant services” to \$12.00 an hour**
- **HHSC requested \$386.4 Million for integrity of Medicaid eligibility determinations**
- **HHSC requested \$204.2 Million for agency information technology projects**
- **\$112.9 Million in funding for community behavioral health funding; additional inpatient psychiatric beds; and rural telehealth and telepsychiatry**
- **\$304.4 Million for Graduate Medical Education (GME) residency slots, represented a \$71 Million increase over 2024-25 spending levels**
- **HHSC requested \$117.3 Million to modernize Medicaid enterprise systems, and improve Medicaid and CHIP operations**
- **Additional funding for mental health professionals’ *loan repayment programs***

2025 State Budget Highlights: Health Sector

- **\$500,000 per state fiscal year in *new* grant funding, available to hospitals, for the development and implementation of on-site healthcare workforce apprenticeship programs**
- **Maintains funding for Sexual Assault Forensic Exam (SAFE)-ready facilities, up to \$250,000 per year, per eligible facility, totaling \$3 Million per fiscal year; lawmakers established the original funding in 2019; the funding level has increased in each subsequent legislative budget cycle**
- **Maintains hospital inpatient and outpatient funding levels, including Medicaid *add-ons* for trauma, safety net and rural hospitals; add-ons originated in 2013, resulting from MHHS advocacy, and provides an increase in base Medicaid reimbursement from 52 to 58 cents per dollar of cost of care provided for Medicaid patients**
- **Adds funding for updates to the HHSC Provider Enrollment and Management System (PEMS)**
- **Requires HHSC/DSHS to conduct a study on cost-effectiveness and feasibility of implementing and administering a *diabetes prevention program* for Medicaid recipients, including alternative interventions for Medicaid recipients who are at risk of developing Type 2 diabetes; the initial study is due 11/1/26.**
- **Includes funding for community mental health grants; increases funding by \$2.5M/year for *Healthy Community Collaboratives*. Adds \$14.7 Million per fiscal year for community-based initiatives that promote identification of mental health issues and improve access to early intervention and treatment for children and families**
- **Includes \$27 Million for youth mobile crisis outreach teams; funds 8 new mental health crisis teams, and initially prioritizing urban areas of the state**
- **Requires HHSC to study appropriate care settings for individuals with severe and persistent mental illness and co-occurring conditions (including Traumatic Brain Injury); report to the legislature is due 10/15/26.**

2025 State Budget Highlights: Health Sector

- **Appropriates \$2.5 Million per state fiscal year in grant funding for a maternal health outcomes program; the organizations selected must design and implement successful health outcome programs that reduce severe obstetric complications, offer administrative and technological support, and enhance participation in the program**
- **Appropriates \$2.5 Million per year in *new funding* for *mobile stroke units* (MSUs)**
- **Appropriates \$500,000 per year for a pediatric care center, to support developmentally appropriate care for pediatric nursing facility residents**
- **Allows Medicaid *managed care organizations* (MCOs) to cover nutrition counseling, in lieu of a service or setting covered under the current state Medicaid program**

89th State Legislative Session – Health Sector Priorities

Multiple Local Provider Participation Fund (LPPF) Bills –

- All passed both chambers and were signed by Governor Abbott.

Not For Profit/Charity Care

- Status: House bill (HB 3708) passed out of House Committee; failed to advance to the full House.

Facility Fee Prohibition

- Status: House bill (HB 2556) passed out of committee; and was held up in Calendars; the Senate companion, SB 1232, failed to advance to the full Senate.

340 B Discount Drug Program

- Status: House bill (HB 3265) passed out of Committee; failed to advance in the House.

Immigration – Reporting of the Cost of Care

- Status: House bill (HB 2587) passed out of Committee; failed to advance in the House.

Mental Health

- Multiple bills considered, as were funding mechanisms. NOTE: DPRIT (Dementia Prevention & Research Institute of Texas) established and funded via November 4 ballot measure

Trauma Funding

- Status: Trauma infrastructure funding bill (SB 1018) passed; Governor signed

Supplemental Payments Bridge Funding

- Status: The biennial appropriations bill (SB 1) did not include “bridge funding,” but state leaders can employ *budget execution authority* to offset any federal (OBBBA) cuts.



Federal Issues

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Administrative and Congressional Impacts on Health and Human Services

- **Potential Impacts of Trump Executive Orders**
- **Activity of the Department of Government Efficiency (DOGE)**
- ***Federal Hiring Freeze/Downsizing* – Office of Personnel Management (OPM); Office of Management and Budget (OMB); Congressional Budget Office (CBO)**
- **Immigration and Border Security**
- **Government Funding (Continuing Resolution “CR” passed March 14; expired September 30; federal government shutdown began upon failure of Congress to pass a *new* CR)**
- **Budget Reconciliation “Offsets:” Congress passed “OBBBA” July 3; Trump signed into law, making provisions of the 2017 Tax Cuts and Jobs Act permanent – health and human services cost reductions will be used as critical *offsets***
- **Debt Ceiling**
- **Cabinet Nominations**

Administrative and Congressional Impacts on Health and Human Services

March 14, 2025 Passage of “Continuing Resolution” (Federal Spending Bill):

- › Delayed Scheduled Medicaid DSH Cuts through 09/30/25
- › Extended (Pandemic) Telehealth Flexibilities through 09/30/25
- › Extended Medicare *Hospital at Home* Program through 09/30/25
- › Continued Medicare *Rural Extenders* (Enhanced Low-Volume Adjustments); and Medicare Rural, *Super-Rural*, and Urban Ambulance “add-ons” through 10/01/25

Executive Orders – More than 200 issued to date

US HHS Secretary Robert F. Kennedy Jr.’s implementation of “Make America Healthy Again” programs; oversight of federal HHS agency workforce reductions (40% target), agency merger/consolidation or abolition

Budget Reconciliation – Congress achieved its July 4 deadline; many core components delayed until 2027

Proposed reduction of federal grant “indirect cost” percentage threshold to 15% - National Institutes of Health (NIH) and other grant recipients continue to react to the proposal

Executive Orders – Presidents’ Power to Enact Policy, Bypass Congress

Executive order: an official document signed by the president declaring government policy



- The purpose of an executive order is to give instructions to government agencies and departments about how to execute and enforce legislation
- In recent years executive orders have been used more broadly to instruct agencies and departments how to operate in certain policy areas

Checks by
other
government
branches



JUDICIARY



- Courts may declare executive order unconstitutional if it oversteps the executive power granted by law
- Judges may postpone enforcement of executive order until a final judgement has been made

CONGRESS



- Congress may pass legislation revoking or modifying the powers it gave to a president through previous legislation
- If vetoed by the president, Congress can override with 2/3 majority vote in both chambers

Overview: Executive Orders

The Trump Administration has issued more than 200 executive orders to date.

Administrative proposals include:

- Imposing federal hiring freezes / return to work
- Creating the Federal DOGE
- Implementing new immigration / border security measures
- Eliminating DEI policies

Trump broke a record with executive orders. Here's what they did.

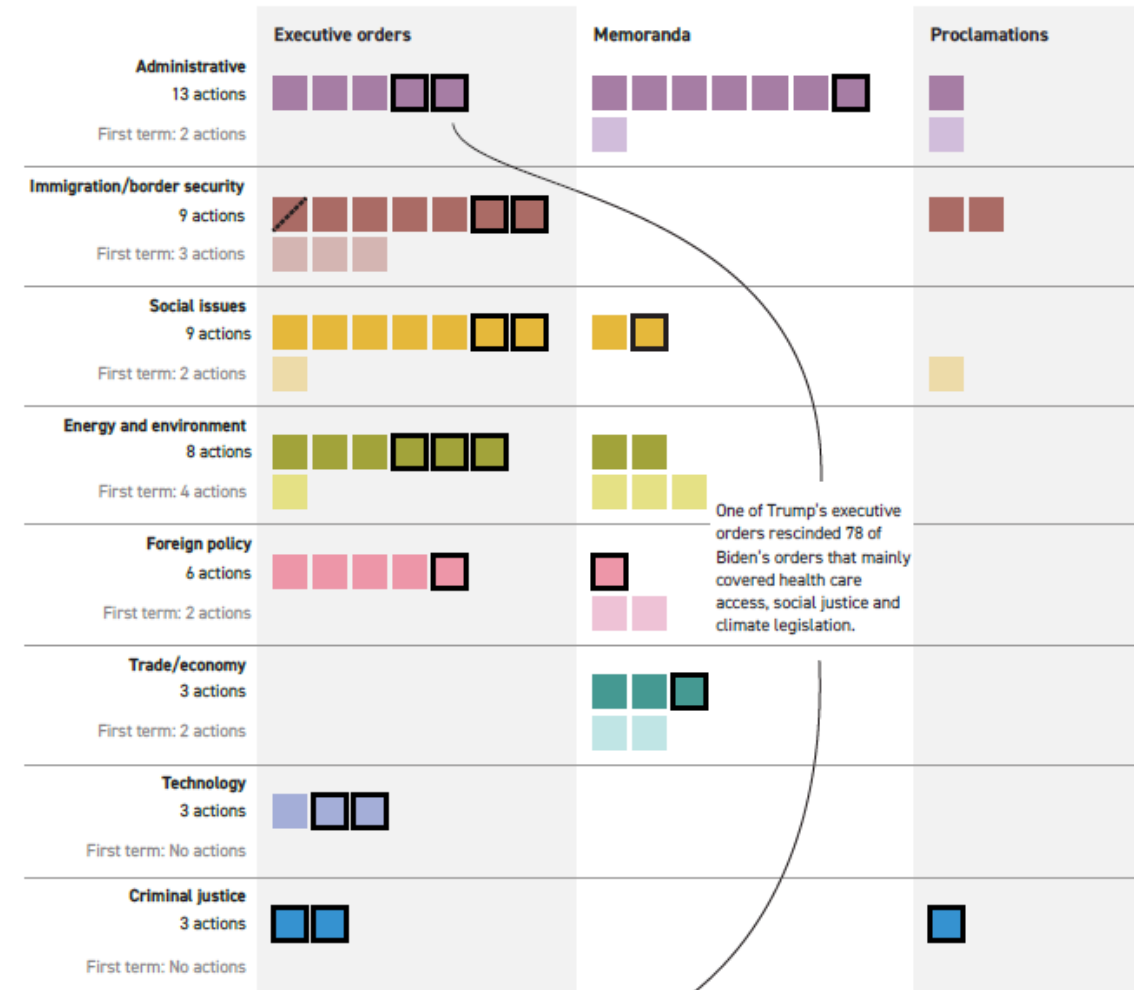
BY PAROMA SONI AND ROSMERY IZAGUIRRE | 01/27/2025

Most of President Donald Trump's 54 executive actions issued during his first week involved restructuring the government, addressing immigration and repealing diversity programs. The administrative changes included repealing former President Joe Biden's policies, implementing a federal workforce hiring freeze and creating the so-called Department of Government Efficiency. Several other actions focused on immigration and border security, the most prominent of which sought to end birthright citizenship and is already facing legal challenges in court. Other social issues that Trump tackled included ending diversity, equity and inclusion initiatives in the federal government and legally recognizing only two genders.

Executive actions signed by Trump in the first week of office, by policy area

🔍 Temporarily paused by a judge

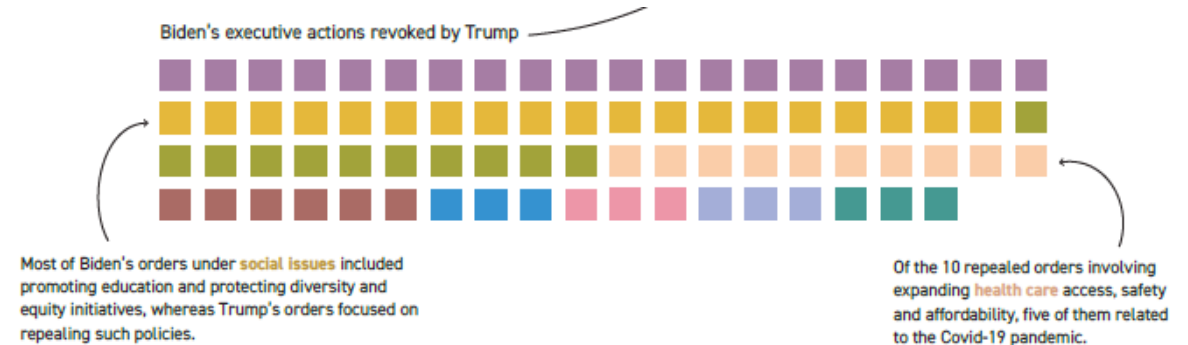
🖱 Repealing/targeting Biden or his policies



Trump's Executive Orders – Rescissions (HHS Impacts)

The Trump Administration rescinded dozens of Biden-era executive orders, including 10 health-related:

- **Organizing & Mobilizing a Unified and Effective Response to Combat COVID-19**
- **Ensuring Equitable Pandemic Response**
- **Establishing COVID-19 Pandemic Testing Board**
- **Expanding Access to Treatments for COVID-19**
- **Protecting Worker Health and Safety**
- **Strengthening Medicaid & Affordable Care Act**
- **Strengthening Access to Affordable, Quality Health Coverage**
- **Implementing Lowering Prescription Drug Costs**
- **Moving Beyond COVID-19 Vaccination Requirements for Federal Workers**
- **Withdrawing from World Health Organization (WHO)**

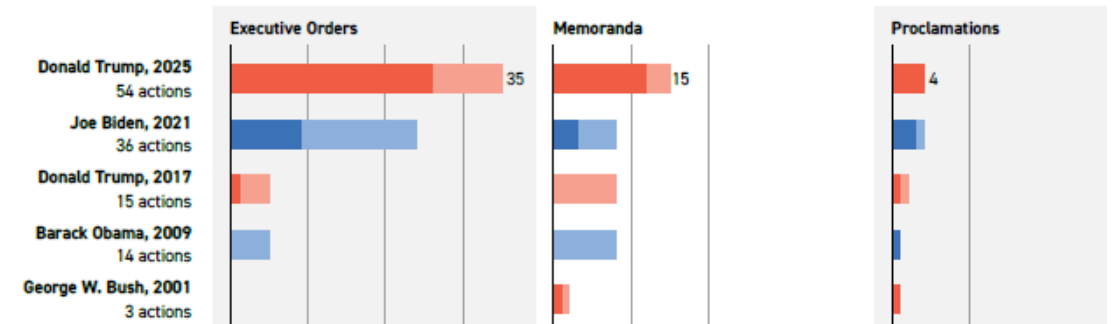


Trump signed more executive orders on Day 1 than any president signed in the first week

Trump signed 26 executive orders on his first day in office, nearly triple the nine orders Biden signed on his first day in 2021. In his previous term, Trump signed only one executive order on his first day (and another four in the first week). Former Presidents Barack Obama and George W. Bush did not sign executive orders on their first day, instead releasing memoranda or proclamations only.

Executive actions signed in the first week of office, by president

■ First day actions ■ First week actions



Tariffs and NIH Grant Funding

Update on Tariffs

- A comprehensive global tariff plan was introduced, imposing a 10% universal tariff on imported goods from all countries beginning April 5; and reciprocal tariffs on certain countries with which the U.S. has high trade deficits beginning April 9.
- After watching the volatility in the stock market, the Administration initially *paused* reciprocal tariffs for 90 days, but left the (April 5) 10% universal tariff on imported goods from all countries in effect.
- The hospital industry continues to monitor tariffs and potential financial impacts to the health sector.

Update on NIH Grant Funding

- On February 7, NIH issued a guidance document announcing that all **indirect cost** percentages for NIH grants would be **reduced to 15%**. The proposal pertained to **all new and existing grants**, and the 15% threshold became **effective February 10**.
- **On April 4, a federal judge permanently barred the NIH from implementing policies capping funding for indirect costs.**
- The *Quorum Report* shared the following universities would take the biggest hit:
 - **UT System** \$1.1B
 - **Baylor College of Medicine** \$326m
 - **Texas A&M System** \$88m
 - **University of Houston System** \$38m
 - **Rice University** \$25m

Federal Budget Reconciliation – *Proposed Potential Offsets*

Eliminate Nonprofit Status for Hospitals

\$260 billion in 10-year savings

Limit Medicaid Provider Taxes

\$175 billion in 10-year savings

Medicare Site Neutrality (SNP)

Up to \$146 billion in 10-year savings

Limit Federal Health Program Eligibility Based on Citizenship Status

Up to \$35 billion 10-year savings

Prevent Dual Classification for Hospitals Under Medicare

Up to \$10 billion in 10-year savings

Improve Uncompensated Care

Up to \$229 billion in 10-year savings

Reverse Executive Expansion of State-Directed Payments (SDPs) in Medicaid

Up to \$25 billion in 10-year savings (Informal Estimate)

Medicaid Per Capita Caps

Up to \$900 billion in 10-year savings

Ban Telehealth and Other “Facility Fees”

\$2.3 billion in 10-year savings

Federal Budget Reconciliation

- **On July 4th, the President signed into law *budget reconciliation legislation*, referred to as the *One Big Beautiful Bill Act (OBBBA)*, which included many of the Administration's priorities on taxes, border security, energy and deficit reduction. The bill included significant policy changes to Medicaid and the Health Insurance Marketplaces.**
- **The Congressional Budget Office (CBO) score indicated that the OBBBA will lead to nearly \$1 trillion in Medicaid cuts and roughly 12 million people losing Medicaid and health insurance coverage.**
- **In addition, CBO stated that changes to state-directed payments (SDPs) and *providers taxes* are estimated to save \$340 billion over 10 years, leading to drastic payment cuts to hospitals.**

Federal Budget Reconciliation, cont.

Provider Taxes (Freeze effective upon enactment; reduction begins Oct. 1, 2027)

- **Freezes existing provider taxes** in **non-expansion states**, including Texas, imposed by a state or **local unit of government**, as of the date of enactment.
- Removes the ability of a state or local unit of government to impose a new provider tax after enactment by setting the “hold harmless threshold” at 0%.

State-directed Payments (SDP cap effective on enactment; reduction effective by the rating period on or after Jan. 1, 2028)

- **Caps SDPs at 110% of the total published Medicare rate in non-expansion states.**
- SDPs approved (or where there was a good faith effort to be approved) by May 1, 2025 were **grandfathered** in at a higher rate.
- Beginning with the rating period **on or after Jan. 1, 2028**, **all grandfathered SDPs would be reduced by 10 percentage points annually** until the specified Medicare payment rate limit is achieved.

Rural Health Transformation Program (Effective upon enactment)

- Creates a rural stabilization fund with **\$50 billion**, to be paid out as \$10 billion annually across FYs 2026 through 2030.

Temporary Payment Increase Under the Medicare Physician Fee Schedule (Effective Jan. 1, 2026)

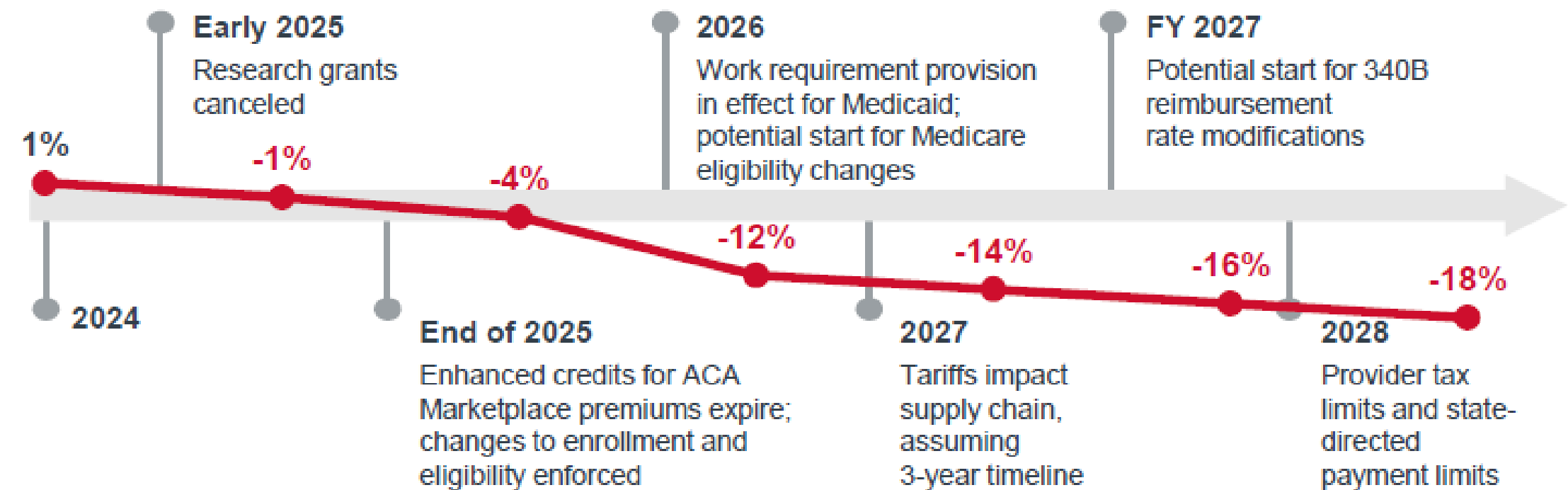
- Provides a **2.5% rate update to the Physician Fee Schedule for calendar year (CY) 2026** only. There is no adjustment for CY 2025.

Federal Medicaid Disproportionate Share Hospitals (DSH)

- House-proposed **DSH delay language was not included in the final package – cuts became effective October 1, 2025.**

OBBBA Hospital Impact

Key policy milestones and impact on system operating margin¹



1. Estimated operating margin following each policy action for a median \$1B-\$2B net operating revenue system, by operating margin.

Source: Syntellis Market Insights; Advisory Board. Policy Scenario Impact Calculator. July 7, 2025; McDermott+. Summary of Health-Related Provisions in the Final Reconciliation Package. July 3, 2025; CBO. Potential Statutory Pay-As-You-Go Effects of a Bill to Provide Reconciliation Pursuant to H. Con. Res 14, the One Big Beautiful Bill Act. May 2025; CMS. 2025 Marketplace Integrity and Affordability Final Rule. June 20, 2025.

Other Issues on the Federal Horizon, cont.

- **Expiring ACA Marketplace *enhanced premium tax credits***

- As of 2024, **3,352,000 people in Texas receive critical tax credits** that help lower their monthly premium payments to make quality, comprehensive health insurance more affordable.



- **Continued analysis of OBBBA implementation**

- Coverage, enrollment eligibility
- Cuts to major child and youth funding streams

Source: Keep Americans Covered, 2025. https://americanscovered.org/wp-content/uploads/2025/05/202504_KAC_1P_Enhanced_Tax_Credit_State_Texas.pdf

Looking Ahead – What’s on the Federal Horizon

- ***Federal government shutdown*** impacts on the health sector; current shutdown already longest in history
- **Status of health sector “extenders,”** which ended September 30, 2025; once shutdown is resolved, will they be funded *retroactively*?
- ***ACA enhanced provider tax credits***, scheduled to expire December 31, 2025
- **340 B – The Senate HELP Committee** released a report in April 2025 scrutinizing the program and calling for reform; **HELP Committee Chairman Bill Cassidy MD** plans to have a committee hearing on the subject; scheduled TBD
- **Site Neutral Payments (SNPs)** - Congress continues to explore various *site-neutral proposals* in the Medicare program; anticipate reconsideration of these issues
- **Not for Profit/Tax Exempt Status** – Considerable recent scrutiny in the media and in the Texas state legislature; *unfavorable* US House Ways and Means Oversight Subcommittee hearing in September; will legislative proposals result?
- **Reorganization of federal HHS agencies/HHS agencies’ workforce reduction**
- **Federal grants – indirect cost percentage threshold**
- **Global tariff policy and impacts on the health sector: drugs, medical devices, commodities, PPE**



Election Cycle

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Election & Interim Legislative Timeline

- ▶ Sine Die – Regular state legislative session ended on **June 2, 2025**
- ▶ Two Special Sessions to date: 89(1) & 89(2) - **July – September, 2025**
 - › Redistricting, THC Ban, abortion pill, flood relief
 - › Delayed interim hearings/reports; special legislative sessions yielded potential for health care items
- ▶ Special Elections, constitutional amendments - **November 4, 2025**
 - › **Run-off date still TBD**
- ▶ 2026 Election Cycle Candidate Filing Period – **November 8, 2025 – December 8, 2025**
- ▶ Interim Hearings - **January – November 2026**
- ▶ Primary Election Day - **March 3, 2026**
- ▶ Primary Runoff Day – **May 26, 2026**
- ▶ 2026 General Election Day - **November 3, 2026**
- ▶ 90th State Legislative Session – Begins **January 2027**

2026 Election Dynamics

➤ U.S. Senate

- Sen. John Cornyn primary challenge from Attorney General Ken Paxton and CD 38 Congressman Wesley Hunt

➤ U.S. House

- **Mid-decade redistricting**
- **5 GOP pick-up** opportunities (DFW, Austin, 2 seats in South Texas, Houston)
- CD 18 Vacancy: Sheila Jackson Lee and Sylvester Turner seat (November 4, 2025)
- Retirements: Luttrell, McCall, Doggett, Hunt

➤ Texas Senate

- Retirements: Middleton; Hancock; Creighton; Nichols; Birdwell

➤ Texas House

- Numerous competitive primaries; vacancies of members seeking higher office; retirements

➤ Statewide Offices: including races for Attorney General; State Comptroller



Thank You

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