March 2026

Policy summary

Changes to Medicaid financing in Ohio

This summary provides a quick overview of the changes to Medicaid financing resulting from HR 1. For more detailed information on these changes, see the **full HPIO brief**.

Ohio's Medicaid program provides health insurance to nearly 3 million Ohioans, covering more than a quarter of the state's population. Medicaid coverage has been shown to improve access to care, health outcomes and financial security.

Medicaid programs are jointly funded by states and the federal government, **with the federal government matching state Medicaid dollars** using the federal medical assistance percentage (FMAP). In state fiscal year (SFY) 2025, the federal government paid 68.5% of Ohio's total costs ($29.6 billion) and the state paid the remainder ($13.6 billion).

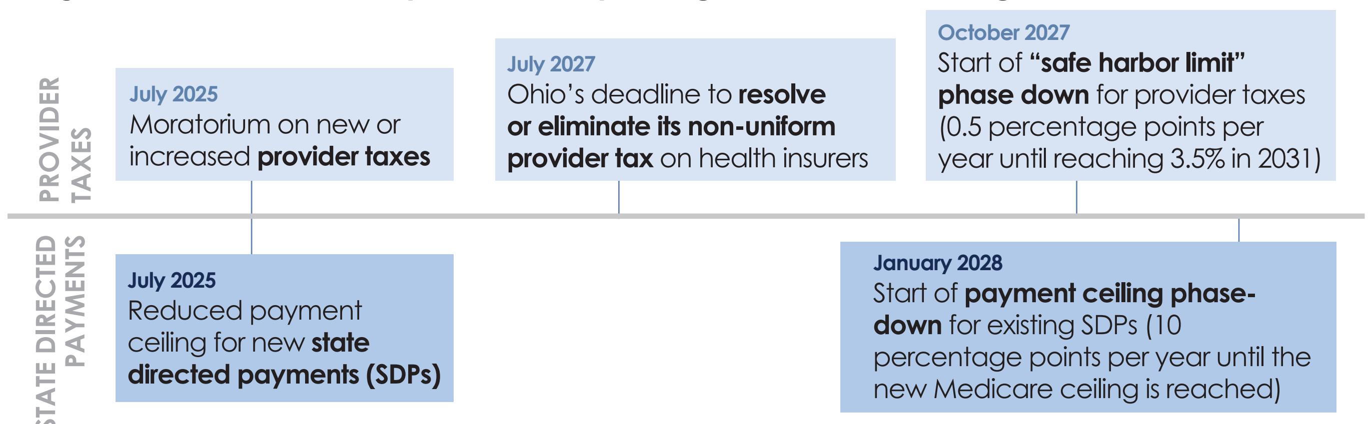
HR 1, the 2025 federal reconciliation bill sometimes referred to as the "One Big Beautiful Bill Act," includes provisions that will have significant impacts on Medicaid financing in Ohio (figure 1). These provisions affect provider taxes, as well as one of the ways that states increase payments to providers who treat Medicaid patients (state directed payments.

While the exact impacts of these changes to financing are not yet fully known, they will reduce Medicaid funding in Ohio by billions of dollars. Ohio policymakers will need to make important decisions to address funding losses, which can include mitigating some of these cuts.

3 Key findings for policymakers

1. **HR 1 restricts the ability of states to raise revenue for their Medicaid programs through provider taxes**. These provisions will significantly impact two of Ohio's provider taxes, which currently generate billions of dollars in state revenue, along with additional matching federal funds.
2. **HR 1 caps the amount that states can enhance provider reimbursement through state directed payments**, which may impact the financial stability of providers and care access for Medicaid enrollees.
3. **States will need to account for the loss of Medicaid funding from provisions in HR 1** Ohio can mitigate some of the cuts by modifying its health insurer provider tax. States may pursue reducing Medicaid expenditures, however, doing so is likely to have negative health and economic consequences for Ohioans.

Figure 1. **Timeline of HR 1 provisions impacting Medicaid financing**



Total Medicaid funding impacts in HR 1

The total funding losses expected to Ohio's Medicaid program, including from the provisions that are the focus of this brief, were originally estimated to be **$33 billion** over the next decade, according to **KFF's analysis** of Congressional Budget Office estimates. The actual impact may differ based on a variety of factors.

In addition to provisions impacting Medicaid financing, HR 1 contains other major changes to Medicaid that will also affect program funding. For example:

- Implementing work requirements and more frequent eligibility redeterminations will require developing and paying for new administrative systems.
- New eligibility restrictions may reduce program enrollment, which would in turn reduce program expenditures.

For more information on other important HR 1 provisions impacting aspects like program eligibility, see HPIO's **Healthcare access and affordability series**.

MEDICAID PROVIDER TAXES

One of the most common sources of state Medicaid funding is taxes on health care providers, such as hospitals, nursing facilities and health insurers. When used for the state's share of Medicaid expenditures, revenue from provider taxes draws down federal matching dollars, enabling states to pursue program initiatives such as providing health coverage to more people. Providers are generally supportive of these taxes because they ensure funding for Medicaid programs. These taxes are subject to certain federal requirements, including applying to all providers within a class (e.g., all hospitals, or all health insurers) and using uniform rates (e.g., taxing all hospitals in the state evenly), as well as limits on the tax amount as a percentage of a provider's net patient revenue.

HR 1 Changes

HR 1 alters the federal requirements for provider taxes, including:

- **Prohibiting new or increased provider taxes** beyond those enacted and imposed by July 4, 2025.
- **Restricting the use of federal waivers** for non-uniform taxes that have different rates depending on how many Medicaid patients a provider treats or covers.
- **Gradually lowering the "safe harbor limit"** for taxes, which essentially serves as the maximum tax rate. This will reduce state revenues from provider taxes.

Ohio Impacts

Ohio's provider taxes generate billions of dollars for the state's Medicaid program. Two of Ohio's current provider taxes are directly affected by HR 1, potentially creating significant fiscal pressure for the state's Medicaid budget in coming years.

- Ohio's **health insuring corporation (HIC) franchise fee** assesses a higher rate on Medicaid managed care organizations than other health insurers. The state must modify this tax before July 1, 2027, or it will be eliminated. The elimination of this tax would result in state revenue losses of $640 million starting in SFY 2028, according to the Ohio Department of Medicaid (ODM), along with $1.5 billion in matching federal dollars (figure 2).
- Ohio's **hospital franchise fee** was recently increased, making the tax rate high enough that it must be phased down as the safe harbor limit (i.e., maximum tax rate) is lowered beginning in October 2027. ODM estimates that the phase down of this tax will reduce state funds by $220 million to $280 million annually (a total of $1.2 billion through 2032), along with $513 million to $653 million in matching federal dollars each year (figure 3).

Figure 2. **Potential Medicaid funding loss if non-uniform HIC franchise fee is not resolved, beginning in SFY 2028**

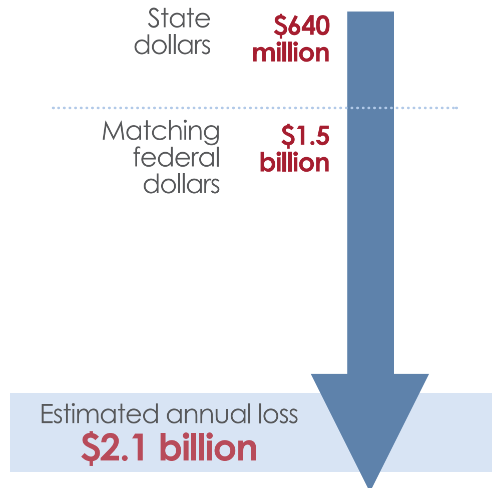


Figure 3. **Anticipated Medicaid funding loss from hospital franchise fee due to safe harbor limit phase down, beginning in FFY 2028**

Note: Federal matching estimates calculated using a 70% overall blended FMAP. Funding loss estimates may differ based on Medicaid enrollment changes and other policy developments.
Source: HPIO analysis of Ohio Department of Medicaid projections

STATE DIRECTED PAYMENTS

State directed payments (SDPs) allow state Medicaid programs to enhance provider reimbursement and support care quality initiatives. These payments can help address low Medicaid payment rates, thereby improving access to care for program enrollees. The revenues generated by provider taxes and other state sources, along with matching federal dollars, can be used to fund these additional payments. Ohio uses SDPs to provide supplemental Medicaid payments to certain providers and pursue value-based care models, where care is reimbursed based on achieving specific outcomes.

Examples of SDPs in Ohio

- The **Hospital Additional Payments SDP** uses provider tax revenue to provide $3.9 billion in supplemental payments to hospitals around the state for inpatient and outpatient care provided to Medicaid patients.
- The **Care Innovation and Community Improvement Program** is a quality improvement program designed to advance care access for low-income communities in key clinical areas.

HR 1 places restrictions on SDPs, capping payments at Medicare reimbursement levels rather than commercial insurance levels. Existing SDPs can remain at higher rates for now but will be phased down in coming years. Many of Ohio's SDPs currently reimburse services at rates higher than the Medicare level, meaning they will need to be lowered in the future. The complete financial implications of these changes for Ohio are not yet clear, but ODM estimates that these provisions will cost Ohio providers approximately $200 million per year. This loss could impact access to care for Medicaid enrollees if providers reduce the number of Medicaid patients they see in response to reduced payment rates.

POTENTIAL STATE RESPONSES TO MEDICAID FUNDING LOSSES IN HR 1

The provisions in HR 1 that restrict provider taxes and state directed payments will have significant implications for Ohio's Medicaid budget. Given that Ohio is expected to lose an estimated $33 billion in federal funding for Medicaid in the next decade, the state will need to make important budgetary decisions for the Medicaid program.

States have options they can pursue to make up for this deficit. Ohio can mitigate some of these funding cuts by modifying the HIC franchise fee to meet new uniformity requirements. Some states, such as New Jersey, already have uniform insurer provider taxes that can continue to raise revenue for the Medicaid program going forward. States can also consider raising additional revenue or reallocating funding from other sources.

Some states may cut Medicaid expenditures in response to HR 1. However, these decisions would have negative impacts on the health and well-being of Medicaid enrollees and Ohio more broadly:

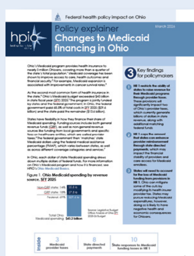
- Cutting eligibility groups would lead to many Ohioans losing their insurance, which can result in poor health outcomes, increase strain on the state's healthcare infrastructure and even result in higher health care costs across Ohio.
- Reducing provider payments could decrease provider participation in Medicaid, exacerbating existing disparities in healthcare access, especially in rural areas with limited provider availability.
- Eliminating optional covered services may force low-income enrollees to pay more for services out of pocket or forgo important treatments.

For more details on the impact of HR 1 on provider taxes, see the following resources:

- **How Medicaid Provider Taxes Work: An Explainer** (National Association of Medicaid Directors)
- **CMS Issues New Guidance on H.R. 1's Restrictions on State Use of Provider Taxes to Finance Medicaid** (Georgetown University Center for Children and Families)

For more details on the impact of HR 1 on SDPs, see the following resources:

- **How Medicaid State-Directed Payments Support Critical Health Care Providers** (Commonwealth Fund)
- **New CMS Guidance on H.R. 1's Restrictions of State Directed Payments** (Georgetown University Center for Children and Families)



For more information on Medicaid financing changes in HR 1, see the full HPIO brief:

For more information on other HR 1 provisions, see HPIO's briefs on:

- **SNAP at a glance: Key changes from HR 1**
- **Rural Health Transformation program funding in Ohio**
- **Medicaid Work Requirements in Ohio**
- **Access to care for immigrants in Ohio**

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