CHILDREN'S HEALTH COVERAGE COALITION

Texas Children's Health Coverage Coalition
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July 21, 2026

Mehmet Oz, M.D., Administrator
Centers for Medicare & Medicaid Services
7500 Security Boulevard
Baltimore, Maryland 21244-1850

Re: *Comment on CMS Proposed Rule: Medicaid Managed Care State Directed Payments and Medicaid Fee-for-Service Targeted Medicaid Practitioner Payments (CMS-2449-P; Federal Register 2026-10292)*

Dear Administrator Oz:

On behalf of Texas' Children's Health Coverage Coalition (CHCC), thank you for the opportunity to comment on CMS's proposed Medicaid State Directed Payment rules (CMS-2449-P). CHCC consists of more than 80 statewide and local organizations representing diverse interests—families, providers, faith, and community—working collaboratively to ensure all children have access to high-quality, affordable health care.

Our members are deeply concerned about the proposed rules, which estimates suggest will lead to $15.9 billion lost in our state health care system from 2025 to 2034.[1] We believe they exceed the provisions Congress enacted and will have devastating results for ***all*** Texas children and the providers who care for them.

Texas operates one of the nation's largest Medicaid managed care programs and relies heavily on SDPs to support hospitals and other providers caring for Medicaid beneficiaries. By reducing

[1] Rao, Preethi, et al. (2026, June 18). *State-Level Impacts of Key Medicaid Provisions in the One Big Beautiful Bill Act*. RAND. Accessed 21 July 2026. https://www.rand.org/content/dam/rand/pubs/research_reports/RRA4000/RRA4098-1-v2/RAND_RRA4098-1-v2.pdf

billions of dollars in Medicaid payments in a short period of time, the proposed rules will cause reduced access to care for children, particularly in rural and underserved communities, by:

- Reducing provider participation in Medicaid;
- Decreasing the financial viability of rural, children's and safety-net hospitals;
- Reducing state flexibility; and
- Redirecting limited provider resources to new administrative costs.

With fewer resources, providers and facilities who benefit from SDP payments must make difficult decisions about whether they can sustain service lines or remote locations. Closures of clinics or services will diminish access to care regardless of whether a child is enrolled in Medicaid or CHIP or has employer-sponsored or Marketplace coverage.

Texas Medicaid is one of the largest programs in the country, serving 2.9 million children and paying for 53% of births. Along with CHIP, the program covers 51% of the state's children. As such, Texas Medicaid is the backbone of the state's maternal and child health service lines[2] and critical to state and national efforts to improve the health of women and children. Yet, without the additional SDP revenue to help offset Medicaid underpayments, it will be harder to maintain services like obstetrics, neonatology, and children's and perinatal behavioral care services. If a community loses such services, the consequences will not be isolated to Medicaid enrollees.

Additionally, Medicaid is vital to the health and wellbeing of children with disabilities, who benefit not only from medical care covered by the program but also coverage for community-based and long-term supports that help them live at home and experience fuller lives. Reductions in SDP payments for children's hospitals will curtail access to Medicaid-participating pediatric subspecialists and specialized clinics, which help these children reach their fullest potential.

In a state where some Medicaid enrollees already have to travel hundreds of miles for medical procedures, limiting Medicaid-funded payments for certain services will reduce the state's ability to encourage provider participation in Medicaid. Medicaid payments are among the lowest for all payers. Texas healthcare systems use SDPs to address chronic Medicaid underpayments. Additionally, they help provide more predictable cost reimbursements in the program by supporting access to care, delivery, and quality improvements for Medicaid beneficiaries. SDPs also help sustain our healthcare workforce by increasing the financial stability of community mental health centers, rural hospitals, and other providers.

[2] Texas Health and Human Services Commission. (2025, February 18.) "Presentation to the House Appropriations Committee – Medicaid Overview." Accessed 13 February 2026. https://www.hhs.texas.gov/sites/default/files/documents/hac-medicaid-overview-presentation-2025.pdf

Moreover, healthcare system leaders require flexibility to operate and adapt based on the health care needs of 31 million Texans residing across our 268,596 square miles. The proposed rules will impede this ability to adjust to meet the unique patient needs within each community.

Disparate concentrations of populations, wide income differences across communities, unique health care needs within geographically diverse regions, and a high rate of uninsured residents challenge our state's healthcare systems. These rules, if adopted, will add to the strain.

CMS can mitigate some of the worst consequences of these policy changes. We urge the agency to rescind proposals that exceed the statutory framework established by Congress.

1. **CMS Proposed Rule Applies Broader Funding Cuts Than Congress Directed**

Notably, the proposed rule would dramatically decrease the federal investment in the healthcare system by an estimated $510 billion nationally over 10 years.[3] This is a remarkable escalation from the changes to SDPs Congress authorized in P.L. 119-21, which were estimated to result in approximately $149.4 billion less in federal funding over 10 years. Specifically, CMS is proposing to cut 3.4 times more in federal funding for the healthcare system nationally than Congress intended. Resource reductions of this magnitude could lead to service losses and hospital closures, which would impact everyone in our community, not just those individuals who are served by the Medicaid program. In Texas, the service lines in most jeopardy would be labor and delivery, neonatal, and behavioral health services. Outpatient dental, allergy & immunology, and obstetrics services delivered at hospitals are also at risk.

These proposals exceed Congressional intent and constitute regulatory overreach. P.L. 119-21 specifies four types of service that are subject to the new payment limits. However, in the proposed rule CMS has chosen to apply the SDP caps to all service types. The proposed rule also eliminates the "uniform dollar or percentage" SDP type. This payment methodology is not restricted at all in P.L. 119-21. This change would force Texas to completely restructure any uniform dollar or percentage SDPs on a very tight deadline. These proposals would remove billions in funding from an already strapped healthcare system in Texas. As noted above, Texas leads the nation in both child and adult uninsurance rates. We also face one of the country's highest maternal mortality rates, and our rural residents have suffered more rural hospital closures than any other state.

2. **Phase-down of Grandfathered SDPs**

While Congress established Medicaid state directed payment limits, the proposed rule would impose the most aggressive 10 percent annual phase-down of grandfathered SDP programs possible. The proposed phase-down approach does not provide States like Texas with

[3] Centers for Medicare & Medicaid Services. (2026, May 22.) CMS-2449-P. Accessed 13 July 2026. https://www.federalregister.gov/d/2026-10292/p-426

grandfathered SDPs with the needed flexibility to adjust and transition. These policy choices appear likely to produce substantially greater funding reductions than Congress anticipated. Also, under the proposed rules, CMS requests stakeholders to design a cost-based methodology to serve as the SDP benchmark for IPPS-exempt hospitals, including freestanding children's hospitals. If not carefully designed, children's hospitals in Texas could experience disproportionate cuts to their payments, because half of their patients are covered by Medicaid.

We urge CMS to offer states alternative phase-down approaches that could provide more flexibility and a workable glidepath to reducing SDP programs to Medicare levels.

These rules, as drafted, are a fundamental threat to the stability of Texas' entire healthcare infrastructure. To protect the healthcare system in Texas, and the millions of low-income Texans who rely on Medicaid, any final rule must ensure that SDP regulations remain strictly within statutory authority without dismantling essential funding streams.

We urge CMS to realign the proposed policies with the statutory framework and limit their application to areas explicitly identified by Congress.

Thank you for the opportunity to comment.

Sincerely,

Members of the Texas Children's Health Coverage Coalition, including:
Children's Hospital Association of Texas
El Paso Health
Every Texan
Methodist Healthcare Ministries
National Association of Social Workers-Texas
Network of Behavioral Health Providers
PediPlace
Prevention Institute
Teaching Hospitals of Texas
Texans Care for Children
Texas Academy of Family Physicians
Texas Consortium for the Non-Medical Drivers of Health
Texas Dental Association
Texas Hospital Association
Texas Impact
Texas Parent to Parent
Texas Pediatric Society
Texas Women's Healthcare Coalition