



The One Big Beautiful Bill Act & Texas' Medicaid Program

The biggest changes under the One Big Beautiful Bill Act (OBBBA) target states that expanded Medicaid. As a non-expansion state, Texas avoids the steepest impacts (e.g., work and eligibility requirements), but the law will still significantly impact the state's patients, providers, and payers.

Retroactive Coverage

For Medicaid and CHIP applications filed on or after January 1, 2027, OBBBA will shorten the retroactive coverage period for pregnant women and children under 21 years old from 3 months to 2 months. Non-pregnant adults will continue to receive 1 month of retroactive coverage.

This change will particularly impact maternity care and pediatric hospital admissions. It is also expected to increase uncompensated care costs for some hospitals as more bills fall outside the shortened period.

Eligibility

Beginning October 1, 2026, the following groups will be ineligible for Medicaid and CHIP:

- **Lawful Permanent Residents (LPR)**
- **Trafficking Survivors**
- **Asylees**
- **Humanitarian Parolees**
- **Refugees**
- **Certain Cuban and Haitian Entrants**

Provider Taxes and State-Directed Payment Programs

Medicaid funding changes to provider taxes and state-directed payment (SDP) programs will start in 2028 and be phased in over time.

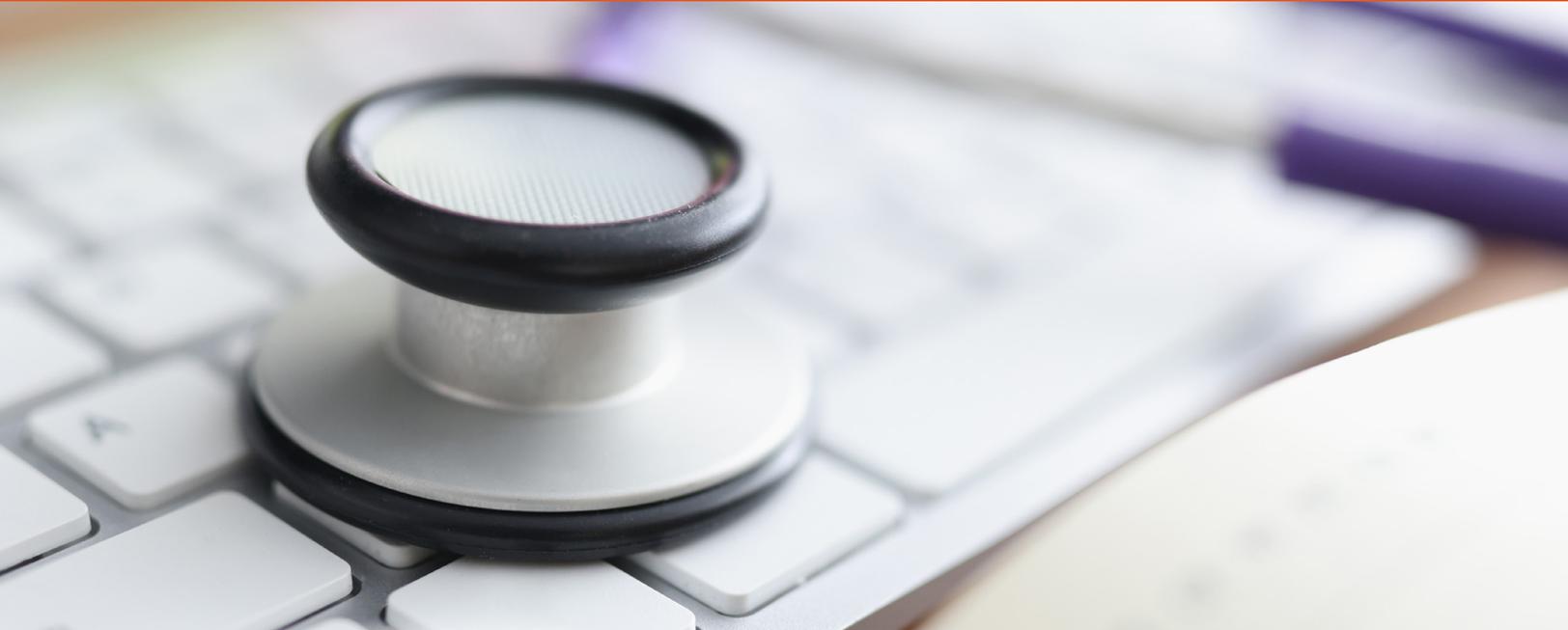
Provider Tax: Texas helps finance Medicaid using provider fees such as a statewide nursing facility quality assurance fee and Local Provider Participation Funds (LPPFs).

Under OBBBA, non-expansion states like Texas retain the existing 6% federal safe-harbor threshold for current provider taxes. However, the law sets the hold-harmless threshold for new provider taxes at 0%, preventing the creation of new provider tax classes to draw down additional federal matching funds.

SDPs: In non-expansion states, SDPs can go up to 110% of Medicare rates. Beginning in 2028, amounts above the cap must step down by 10 percentage points per year until they hit the cap.



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Federal Payments to Prohibited Entities

OBBBA effectively prohibits state Medicaid programs from providing reimbursement to healthcare providers that also perform abortions.

In Texas, abortion is already prohibited in nearly all circumstances under state law, and the state had previously eliminated Planned Parenthood funding from its Medicaid program.

Rural Health Funding

To support rural healthcare providers, OBBBA established a **\$50 billion Rural Health Transformation Program (RHTP)**. Competitive grants will be awarded annually to states by Centers for Medicare and Medicaid Services (CMS) over 5 years, \$10 billion per year from 2026 through 2030.

CMS awarded Texas more than \$281.3 million in federal funding for FY 2026. States will be eligible for more funding each year for the next four years. Texas plans to invest in emerging technologies like artificial intelligence, homegrown workforce solutions, and aligned efforts around software and capital infrastructure with its RHTP funds.