TEXAS
Health and Human Services

September 17, 2026

Subject: Notice Regarding New Policy for Acceptance of Intergovernmental Transfer (IGT) Funding for the Texas Medicaid Program Effective October 1, 2026

To Whom It May Concern:

The Texas Health and Human Services Commission (HHSC) is providing this notice to local governmental entities that administer a Local Provider Participation Fund (LPPF) and that transfer revenue from locally-collected mandatory payments, also referred to as health care-related taxes, to HHSC for use as the non-federal share of certain Medicaid payments.

The Centers for Medicare and Medicaid Services (CMS) and HHSC have been engaged in ongoing negotiations concerning approval of pending preprints and the standards for intergovernmental transfers (IGTs) supported by health-care related taxes. CMS has approved four pending Texas state directed preprints, including the SFY 2027 renewals of the Comprehensive Hospital Increase Reimbursement Program (CHIRP), the Texas Incentives for Physicians and Professional Services (TIPPS) program, and Rural Access to Primary and Preventive Services (RAPPS) program and the SFY 2026 CHIRP preprint amendment. As a result of those negotiations, Texas is also revising its standards for IGTs going forward to adhere to CMS' requirements that mandatory assessments for hospital services be separately imposed on inpatient hospital services and outpatient hospital services and that only net patient revenue from those services is subject to taxation. In conversations between HHSC and CMS, **CMS indicated they believe mandatory payment assessment structures in place across Texas, including in your jurisdiction, would render the revenue associated with those health care-related taxes ineligible for federal matching funds.**

**Accordingly, pursuant to negotiations between HHSC and CMS, beginning October 1, 2026, HHSC will accept IGTs supported by mandatory payment revenue deposited into an LPPF only if the mandatory payments applicable to the period beginning October 1, 2026, are imposed exclusively and separately on net patient revenue attributable to inpatient hospital**

BURNET COUNTY JUDGE
SEP 21 2026

**services and on net patient revenue attributable to outpatient hospital services.** For assessments made after that date, HHSC will not accept IGTs supported by mandatory assessments on the net patient revenue attributable to other classes of health care items or services described by Section 1903(w)(7)(A) of the Social Security Act or 42 C.F.R. § 433.56 or other hospital revenue streams.

HHSC requests that each local government administering an LPPF promptly review and consider modifying any authorizing documents, mandatory payment assessment methodology, mandatory assessment collection processes, and related documentation to assess mandatory payments from hospitals based exclusively and separately on net patient revenue attributable to inpatient hospital services and net patient revenue attributable to outpatient hospital services, respectively.

HHSC will collect information from you to determine whether you intend to remain eligible for transmitting IGT to HHSC by making the changes described in this letter. Instructions about the information collection process will be forthcoming. HHSC encourages you to review the applicable chapter of the Texas Health and Safety Code to determine whether or not your jurisdiction wishes to make the changes described by this letter.

To the extent a local government collects revenue from a health care-related tax applicable to the period beginning October 1, 2026, that does not meet the standards described in this letter, HHSC will not accept the related IGT for use as the non-federal share of Medicaid payments. **If mandatory payments that do not meet the standards described in this letter are nevertheless assessed and collected by your jurisdiction, HHSC will be required to reduce the State's claimed Medicaid expenditures by the total amount of mandatory payments in your jurisdiction. The resulting reduction in federal matching funds will have a negative financial impact on all Texans receiving care through the Medicaid program.**

HHSC intends to continue accepting and utilizing funds from assessment periods prior to October 1, 2026, that were assessed on the total net patient revenue of a hospital, even if those funds are transferred to HHSC after October 1, 2026.

HHSC will host a public webinar to provide guidance on how HHSC plans to calculate the indirect hold harmless percentage when testing for compliance as part of the annual local funds monitoring process. An electronic invitation will be sent to

you. Questions regarding this notice or the documentation needed to support IGT submissions for periods beginning on or after October 1, 2026, should be directed to the HHSC Provider Finance Department's Local Funds Monitoring team at PFD_LFM@hhs.texas.gov.

Sincerely,



Stephanie Muth
Executive Commissioner
Texas Health and Human Services Commission

CC: Trey Wood, HHSC Chief Financial Officer
Victoria Grady, HHSC Deputy Chief Financial Officer