COLORADO
Department of Health Care Policy & Financing

H.R. 1 – Hospital Provider Fees & State Directed Payments

Medicaid Commission, July 28, 2026

What H.R. 1 Changes

Provider Fee Reductions

The Working Families Tax Cut law, also known as H.R. 1, reduces the maximum fee that can be charged to hospitals by the Colorado Healthcare Affordability and Sustainability Enterprise (CHASE). The law reduces the current maximum fee rate from 6% of net patient revenue by 0.5 percentage point per year, starting in October 2027 until the new maximum fee cap of 3.5% is reached in 2032. Colorado's fee is currently set at the maximum of 6.0% and will be reduced to 5.5% during state fiscal year 2028. This reduction will impact the state's ability to leverage federal dollars to fully fund hospital payments and Medicaid coverage for various populations.[1] Approximately 440,735 Coloradans are enrolled in Medicaid in coverage programs that use the CHASE fees to cover the state portion of the costs of their services. Including the federal funds that also support their cost of services, the total cost of care for these Medicaid members is $4.1 billion in projected annual expenditures.

New Limit on Hospital Provider Fee under H.R. 1

Under current state law, if the revenue from the Hospital Provider Fee is insufficient to fully fund all the purposes required by statute, then hospital provider reimbursement must be fully funded before any coverage programs are funded. In the event of a shortfall, the Medical Services Board is required to adopt rules providing for reduced benefits or reduced eligibility in those programs. The Joint Budget Committee is required to approve the rules or provide alternative recommendations for a reduction in benefits or eligibility.

Projected Funding Deficit due to Provider Fee Phased Reduction

During the 2026 Session, Joint Budget Committee staff developed the below estimate, demonstrating that, by FY 2031-32, Colorado stands to lose between $1.5 billion and $3.9 billion in federal funds as a result of this federal change[2]. The actual amount of federal funds lost will be determined by which populations lose eligibility due to a lack of available state funding, or other decisions made by the General Assembly. Those figures may be higher as more information becomes available. HCPF will continue to update the CHASE Board and JBC on the impact of those changes throughout the budget process.

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[1] Populations: MAGI adults 0-133% FPL (313,181); MAGI parents/caretakers 60-68% and 69-133% FPL; continuous eligibility for Medicaid children; Buy-In for individuals with disabilities; CHP+ 206-250% FPL

[2] Found on page 52, https://content.leg.colorado.gov/sites/default/files/fy2026-27_hcpbrf1.pdf

New Limit on Hospital Provider Fee under H.R. 1

Federal Fiscal Year	Net Patient Revenue (NPR)	Max Fee at 6% NPR	New Limit	Max Fee at New Limit	Fee Difference	Federal Funds at 63.00% match	Federal Funds at 82.05% match
FFY 2025-26	25,450.6	1,527.0	6.0%	1,527.0	0.0		
FFY 2026-27	26,723.1	1,603.4	6.0%	1,603.4	0.0		
FFY 2027-28	28,059.3	1,683.6	5.5%	1,543.3	-140.3	-238.9	-641.4
FFY 2028-29	29,462.3	1,767.7	5.0%	1,473.1	-294.6	-501.6	-1,346.8
FFY 2029-30	30,935.4	1,856.1	4.5%	1,392.1	-464.0	-790.1	-2,121.2
FFY 2030-31	32,482.2	1,948.9	4.0%	1,299.3	-649.6	-1,106.1	-2,969.6
FFY 2031-32	32,106.3	2,046.4	3.5%	1,193.7	-852.7	-1,451.9	-3,898.1

Developed by Joint Budget Committee Staff, December 2025

*1,000 = 1 billion, 100 = 1 million

State Directed Payment Reductions

Another H.R. 1 provision caps new State Directed Payments (SDP) to Medicaid managed care organizations at 100% of the total published Medicare rate for Medicaid expansion states and 110% of the Medicare rate for non-expansion states. Currently, SDPs are allowed to be based on average commercial rates, which are significantly higher than Medicare rates. Legacy SDP programs submitted or already in place before H.R. 1 was signed, will gradually be reduced to the Medicare rate over time starting January 2028. This will reduce the ability to draw down additional federal funds through a State Directed Payment program over time.

Colorado is currently using SDP to increase hospital reimbursement, with an expected increase in federal funds through this mechanism of approximately $455 million per year in FY 2025-26 and FY 2026-27. While additional CMS guidance is needed to better understand the timeline and financial impact of this change, the Department anticipates that the vast majority of federal funds expected through SDPs will become unavailable when this change is fully implemented, which may take up to five years.

For more information contact

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