

A Proven Solution to Strengthen Minnesota's Hospitals and Expand Access to Care

A Medicaid Directed Payment Program (DPP) is a federally approved tool that allows states to secure additional Medicaid funding for hospitals—without requiring new state spending. More than 40 states have already implemented DPPs to strengthen their health care systems, ensuring hospitals receive fair and predictable payments for the care they provide to Medicaid patients.

By implementing a statewide DPP, Minnesota can capture more than \$1 billion in additional federal Medicaid funding, helping hospitals remain financially stable, protecting patient access to care, and reducing the hidden tax on businesses and families—all without increasing costs to patients.

Minnesota's Nonprofit Hospitals Are Nearing a Breaking Point

Minnesota's non-profit hospitals care for everyone, regardless of income or insurance. But right now, the financial foundation of our health care system could crumble under the weight of chronic Medicaid underpayments.

- Hospitals are paid just 68 cents for every dollar of care they provide.
- Medicaid rates are locked at 2019 costs, leaving hospitals to absorb five years of inflation without additional support.
- A 2023 MHA survey showed 67% of hospitals operated at a loss, forcing cuts to services, staff, and access to care.

The Result

Higher costs for Minnesota families and businesses, fewer services, and greater strain on an already stretched health care system.



The Solution

A Statewide Medicaid Directed Payment Program (DPP)

More than 40 states have already implemented a Directed Payment Program (DPP) to fix this funding shortfall—bringing back billions in federal dollars without increasing state spending.



A DPP allows the state to leverage federal Medicaid funds to increase hospital payments, stabilizing the system and protecting access to care.



DPPs are 100% federally approved and designed to work within Medicaid's managed care framework.



They do not require new state spending—hospitals contribute the state's share, which is matched by federal funds.



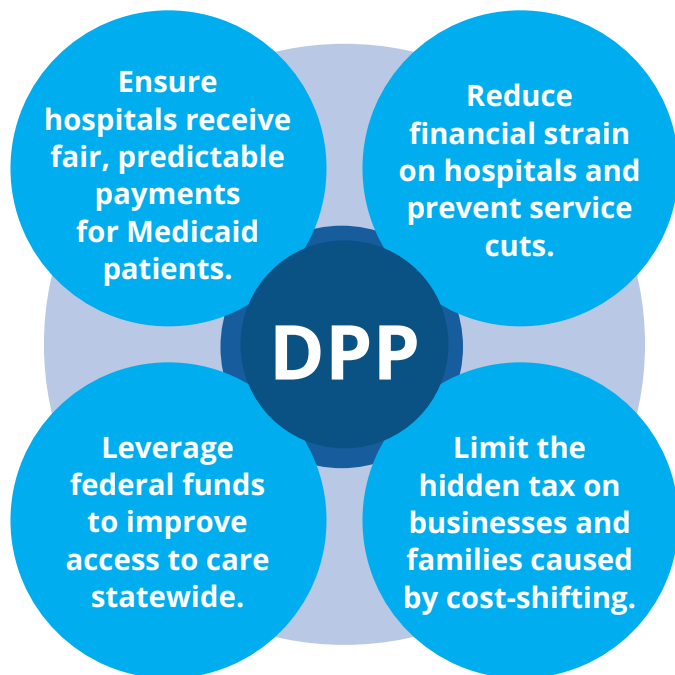
Hospitals receive higher payments for the care they provide - more closely aligned with commercial insurance rates instead of outdated Medicaid FFS rates.

This is not a theoretical fix—it's a proven solution that hospitals across the country are already using.

Why Minnesota Needs a DPP Now

Without action, hospitals will be forced to continue cutting services, delaying investments in innovation, and reducing care access for patients. This is particularly urgent for rural hospitals, safety-net providers, and essential services like trauma and maternity care.

By implementing a statewide DPP, Minnesota would:



How a DPP Works in Minnesota

A statewide DPP would allow Minnesota to capture and reinvest more than \$1 billion in additional federal Medicaid funding to support Minnesota's non-profit hospitals.

- Minnesota hospitals would contribute the state's share of funding, which the federal government then matches at a 62% rate—dramatically increasing total hospital payments.
- Hospitals would receive enhanced PMAP reimbursements, closing the gap between Medicaid rates and the true cost of care.
- The state must submit a formal DPP plan to CMS each year for approval to ensure compliance with federal regulations.



Next Steps

Bringing Federal Dollars Home

To implement a DPP for all hospitals, Minnesota must take legislative action to authorize the program and establish a sustainable funding structure for the state share.

- The Minnesota Legislature must pass enabling legislation in 2025.
- The Department of Human Services (DHS) would submit the program plan to CMS for approval.
- If approved, new payments could take effect within months.

The Bottom Line

Minnesota Can't Afford to Wait Any Longer

Hospitals are running out of time. Delaying action means more service cuts, more financial instability, and more hospitals forced to make impossible choices.

The Minnesota Legislature must act now to bring these federal dollars home and ensure our hospitals remain strong for generations to come.



March 12, 2025
House Health Finance and Policy Committee

Dear Chair Backer and Committee Members,

On behalf of Children's Minnesota, I am writing in support of HF2057 which would initiate the process for establishing a hospital Medicaid Directed Payments Program in Minnesota.

Children's Minnesota is the state's largest pediatric healthcare system, seeing more than 160,000 kids annually. As an organization we recently celebrated our centennial year and are proud to say that we have spent more than a century working to provide high quality health care to every child that needs it, regardless of their ability to pay.

Nearly 50 percent of the services we provide are to children and families that rely on Medical Assistance (MA) which reimburses at rates substantially below the cost of providing care. In the document included with this letter you will see that in 2023 we had more than \$175M in unreimbursed costs from MA. That loss has continued to increase from year to year as costs for salaries and benefits, supplies, and pharmaceuticals continue to increase faster than our reimbursement from the state. The mounting gap between the cost to provide care and what MA pays for that care threatens our ability to maintain access to those vital services for Minnesota kids and families.

Forty states have established Directed Payments Programs to offset a significant portion of these Medicaid losses to support the stability of their hospital systems. When I speak to my colleagues at pediatric institutions in these states, they are often shocked to learn that Minnesota hasn't yet established a Directed Payments Program because they cannot imagine facing the current financial challenges without the support these programs offer. These challenges impact children's hospitals uniquely because of our role as a safety net provider and the specialty care we provide. Children's Minnesota has the largest and broadest team of pediatric experts in the region offering more than 60 pediatric specialties. Our neonatal team of more than 500 doctors, surgeons and pediatric specialists is the largest in the state and one of the largest in the country. We are a leading provider of pediatric cardiology services and have the largest pediatric cancer and blood disorders program in the upper Midwest. It is nearly impossible to continue to sustainably provide these services through current Medicaid funding mechanisms.

The children of Minnesota are the future of Minnesota. That future depends on a health care system that works for everyone and, currently, that future is at risk. There is no single solution that can address all the challenges we are facing, but establishing a Directed Payments Program is a critical step to ensuring that Children's Minnesota will continue to be here for families for the next 100 years and beyond.

Sincerely,

Marc Gorelick, MD
President and Chief Executive Officer
Children's Minnesota

Serving approximately
162,000 patients a year, we've
treated just about everything.

120,522

VISITS INTERPRETED
IN 72 LANGUAGES

MINNESOTA'S ONLY
**LEVEL I PEDIATRIC
TRAUMA CENTER**
IN A HOSPITAL DEDICATED
SOLEY TO KIDS

WE CARE FOR KIDS FROM
**EVERY COUNTY
IN MINNESOTA**
AND NEARLY
60% OF COUNTIES
IN SURROUNDING STATES



MORE THAN

470

PEDIATRIC PRIMARY AND
SPECIALTY CARE RESIDENTS/
FELLOWS TRAINED

49%

SERVICES PROVIDED TO PATIENTS
WHO RELY ON MEDICAL ASSISTANCE

\$178.5M

LOST IN 2023 MEDICAID
UNDER-REIMBURSEMENT

85,200+

EMERGENCY DEPARTMENT
VISITS



March 11, 2025

Representative Jeff Backer
2nd Floor Centennial Office Building
St. Paul, MN 55155

Re: HF2057 (Nadeau) - Hospital Directed Payment Program Established.

Chair Backer and committee members,

On behalf of Allina Health, I am writing to express our strong support for HF2057 (Nadeau), which would establish a hospital directed payment program.

Allina Health is a fully integrated health system with 11 hospital campuses, 65 primary care clinics, and 14 urgent care centers across the Twin Cities, central and southern Minnesota and western Wisconsin. We are also proud to operate more than 100 specialty care sites including retail pharmacy, emergency medical services, same-day surgery centers, virtual care, and expert specialty care for cancer, heart, orthopedics, rehabilitation and more.

Over the past few years, Minnesota's health care landscape has changed. Hospitals face numerous challenges and headwinds that jeopardize our ability to maintain access to the services our communities rely on. This includes the increasing number of patients in our community covered under Medicaid and other government-sponsored insurance programs and the reimbursement for Medicaid services remaining unsustainably low. On average, hospitals in Minnesota are reimbursed just 68 cents for every dollar it costs to provide services under Medicaid – but for many services, the actual reimbursement is far less. A directed payment program would help address this reimbursement gap in a fiscally responsible, federally approved manner. Currently, over 40 states have been able to draw down critical federal funding through directed payment programs. Minnesota's hospitals cannot afford to wait any longer; we must act now to help ensure our services remain available to our patients and communities for generations to come.

Thank you for the opportunity to comment on this important and vital legislation.

Sincerely,

A handwritten signature in blue ink, appearing to read "Doug Watson", with a long horizontal flourish extending to the right.

Doug Watson
Chief Financial Officer
Allina Health



March 12, 2025

Dear Members of the House Health Finance and Policy Committee,

On behalf of the Minnesota Chamber of Commerce, representing 6,300 employers and their more than 500,000 employees across the state, I am writing to share our thoughts about HF 2057 (Nadeau).

In the last ten years, the number of Minnesotans who get health coverage through public, government insurance programs like Medicare and Medicaid has grown considerably. At the same time, the number who have private, commercial coverage has shrunk. Today, about 64% of a hospital's patients are covered by government insurance programs. For some, this figure has grown to as much as 70%.

The problem with this trend is that these government programs pay doctors and hospitals less than what it costs to deliver care. The state's Medicaid program, for example, pays about 27% below the cost of care, resulting in a roughly \$1.4 Billion annual shortfall for hospitals and health systems in 2023.

This underpayment of doctors and hospitals by public programs has become an increasing concern for those who provide and pay for coverage in the commercial market, because hospitals shift costs to private, commercial payers to compensate for government underpayments.

As pressure has continued to mount on commercial payers to make up the difference, our members have asked us to encourage policymakers to address the growing cross-subsidization of public programs by the commercial market.

Very helpfully, HF 2057 would begin to do just that.

We want to thank Rep. Nadeau and the Minnesota Hospital Association for the careful, thoughtful, deliberate, and collaborative way in which this bill has been brought forward. This proposal attempts to build out an effective and efficient funding mechanism to draw down increased federal Medicaid payments for hospitals, and we greatly appreciate the extent to which it also aims to ensure the integrity of the program and avoid harmful unintended consequences.

We would note, with some frustration, the fact that recent state budgets have drained hundreds of millions from the Health Care Access Fund and spent billions in historic state surpluses – all without addressing the need to right size public program rates.

But the reality is, the hospitals in this state are facing a crisis, and the growing cross-subsidization of public programs by the commercial market only adds to the affordability challenges faced by many with private insurance. Without action, these problems will only grow.

So, we again want to thank the hospitals for their initiative in finding a solution. HF 2057 will begin to relieve some of the financial pressure on hospitals brought about by Medicaid payments that are well below cost – allowing them to better contend with rising labor and input costs in their efforts to continue providing vital services and care to the individuals and communities they serve.

At the same time, we expect that the bill's method of increasing Medicaid rates through increased federal funds will relieve some of the cross-subsidization burden that pushes up costs for those with private insurance. With the 9th highest family premiums and the 13th highest individual premiums in the country for employer sponsored insurance, help cannot come soon enough for these Minnesotans.

We encourage the Committee's support of this bill, and we look forward to working with the author, the hospital association, and its members to ensure its ability to deliver relief.

Thank you for the opportunity to provide this input.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bentley Graves", with a stylized flourish extending to the right.

Bentley Graves

Director, Health Care & Transportation Policy