



Congressional Action Needed

We Can All Work Together to Identify Resources to Save the Safety-Net

PEACH asks Congress to designate hospitals that qualify as “deemed DSH” hospitals to be a new class of hospitals, to be known as “Safety-Net Hospitals.”

The federal government could use this designation to identify the hospitals that serve the most low-income patients and invest in protecting those that provide the most Medicaid care and the most care to low-income seniors. Using this designation, Congress can prevent a potentially disastrous destabilization of California’s entire health care delivery system and avoid jeopardizing the economic stability of the communities these safety-net hospitals serve.

The pain that H.R. 1 is on track to inflict on low-income patients, along with the stagnant and shrinking reimbursements for the hospitals that care for those patients, will be catastrophic.

As Congress considers health care policy options, PEACH urges you to protect the most vulnerable patients and to support the providers that care for them.

PEACH appreciates your continued partnership to ensure adequate reimbursement and consistent resources so California’s community safety-net hospitals can maintain stable operations for all patients - not just those covered by Medi-Cal and Medicare - now and in the years ahead.



PEACH
PRIVATE ESSENTIAL ACCESS COMMUNITY HOSPITALS

Essential Community Safety-Net Hospitals

Serving California’s Most Vulnerable

Community safety-net hospitals play a vital role in caring for vulnerable Californians across rural, urban, agricultural and metropolitan communities. The state’s 90 community safety-net hospitals represent more than half of California’s health care safety-net and serve a patient population in which Medi-Cal and Medicare cover more than eight out of every 10 individuals. Beyond delivering critical care, these hospitals are also major economic anchors, supporting more than 77,000 jobs statewide with competitive pay and benefits. As policymakers implement mandated changes to reductions to Medicaid coverage and financing, protecting the stability of safety-net hospitals remains a top priority for PEACH hospital leaders.

Community safety-net hospitals support over **77,000** jobs across California

90 community safety-net hospitals represent over

50% of California’s health care safety-net hospitals

Thank you for Preserving Medicaid DSH

DSH payments provide essential financial support to hospitals that serve large numbers of Medicaid and Medicare patients. These funds help offset significant uncompensated care costs and ensure continued access to high-quality care for vulnerable communities. **PEACH is deeply grateful that Congress has eliminated \$16 billion in Medicaid DSH payment cuts that were scheduled for fiscal years 2026 and 2027.** This relief is critical to maintaining stability and protecting access to care in the communities these hospitals serve. Since 2014, Congress has acted to shield safety-net hospitals from these harmful reductions, and PEACH deeply values that partnership with the California delegation. With one remaining year of cuts — \$8 billion in Medicaid DSH funding slated for 2028 — continued collaboration will be essential to eliminate this final threat to these vital resources.





Community Safety-Net Hospitals are on the Edge, and Falling.

Of the nearly 90 community safety-net hospitals in California, more than half reported operating losses in 2024, and collectively, PEACH hospitals have lost close to \$50 million over the past three years. Because of their payer mix, these hospitals have historically operated on thin margins, but the financial strain intensified during the COVID pandemic as labor, supply, and pharmaceutical costs rose at unprecedented rates.

The health care safety net has yet to fully recover. Today, nearly one-third of California's community safety-net hospitals report insufficient liquidity, and seven have filed for bankruptcy within the past five years. These already serious challenges will be further compounded by the policies enacted under H.R. 1, which risk deepening health inequities among populations that are already disproportionately affected.

H.R.1 Implementation - Coverage Loss

Changes to Medi-Cal coverage mandated by H.R. 1 will affect millions of Californians due to new eligibility and community-engagement requirements. As many as 1.8 million Californians — more than 10% of current Medi-Cal participants — could lose Medi-Cal coverage and become uninsured. As coverage declines, more individuals are likely to forgo routine and preventive care, ultimately seeking treatment in already crowded emergency rooms. This shift increases costs across the health care system while addressing patients' immediate medical needs, allowing other conditions to worsen until they become emergencies. The communities most impacted by these losses are the same communities served by PEACH hospitals. While community safety-net hospitals will continue caring for these patients, they will be required to absorb higher levels of uncompensated care, placing additional strain on already fragile safety-net systems.

H.R.1 Implementation - Funding Loss

In addition to coverage reductions, the federal government is advancing significant cuts to the primary supplemental funding program that has helped keep California's community safety-net hospitals open for the past decade and a half. Provider taxes and targeted supplemental payments have long functioned as a partnership between providers and government to help finance Medi-Cal, with community safety-net hospitals participating in this framework for 15 years. Supplemental payments supported by provider taxes are an essential component of how Medi-Cal reimburses these hospitals. However, new restrictions on provider taxes mandated under H.R. 1 are already reducing anticipated Medi-Cal supplemental payments to community safety-net hospitals, even before full implementation takes effect.

PEACH hospitals have lost close to **\$50 Million** over the past three years

Hospital Quality Assurance Fee (HQAF) - California's Hospital Provider Tax

- The foundation of California's hospital tax is to support Medi-Cal policies that result in greater access to care for the Medi-Cal population. The HQAF was built on the premise "the money follows the patient."
- The state of California submitted its application for HQAF 9 last March but the passage of H.R. 1 and its limits on provider taxes slowed down the application approval process. The state continues to work with CMS to modify last year's application to meet CMS requirements and has until March 13th to resubmit the application.
- HQAF is critical to the way Medi-Cal pays safety-net hospitals and the changes required by H.R. 1 set the base level for any future safety-net provider tax programs. HQAF 9 should be funded at the highest possible level to protect the Medi-Cal program for community safety-net hospitals and the patients they serve starting now, even before the full implementation of H.R. 1 begins.

Protect and Invest in Safety-Net Hospitals

Dramatic changes to Medi-Cal mandated by H.R. 1 are not the only policies from Washington D.C. that threaten community safety-net hospitals. Recent federal policy discussions have included proposals to reduce provider payments, including measures such as Medicare site-neutral payment policies. The current reimbursement structure for hospital-based outpatient services is essential to maintaining access to care, as it supports hospitals' ability to recruit and retain health care providers in the communities they serve. Safety-net hospitals operate under fundamentally different financial conditions than many other facilities, lacking a substantial private-payer base and without operating budgets supported by local governments. They care for individuals who can least afford health services, and PEACH believes these hospitals should be recognized for their unique role and supported at a level that reflects the critical services they provide.

Because those programs pay providers less than private insurers, these community safety-net hospitals have a much harder time recruiting physicians and nurses to help care for our patients. Changing the payment structure for outpatient departments of community safety-net hospitals while Medi-Cal payments lag and more patients lose insurance coverage will exacerbate the spread of health care deserts throughout California.

80%

of the patients PEACH hospitals serve rely on Medi-Cal and Medicare