PYA Healthcare Regulatory Roundup #102 – Washington Updates: FY2026 – First Day, Fresh Questions

Presented October 1, 2025 by PYA's Martie Ross and Kathy Reep | Part of the Healthcare Regulatory Roundup Webinar Series

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WEBINAR SUMMARY

In this episode of PYA's Healthcare Regulatory Roundup, Martie Ross and Kathy Reep discussed the impact of the federal government shutdown on healthcare, including the suspension of Medicare payments for 10 days and the potential reduction of Medicaid disproportionate share (DSH) funding by $32 billion over four years. The Rural Health Transformation Program (RHTP), with a $50 billion allocation over five years, was detailed, emphasizing state-specific funding criteria and the need for transformative initiatives. The program prohibits new construction and caps electronic medical record (EMR) system replacement at 5%. The discussion also covered the potential effects of a $100,000 fee on H-1B visas, particularly for rural health providers, and the introduction of Trump RX.gov for discounted drugs.

Key topics include:

- **Government shutdown**
- **Sequestration**
- **Medicare claims**
- **Medicaid funding**
- **Rural Health Transformation Program**
- **Telehealth waivers**
- **Medicare telehealth services**
- **Tele-behavioral health**
- **Audio-only telehealth**
- **Nonprofit hospital status**
- **Rural reclassification**
- **H-1B visa fees**
- **Pharmaceutical tariffs**
- **Most-favored-nation (MFN) pricing**
- **TrumpRx**
- **Community health centers**
- **Hospital at Home**
- **CMS staff furloughs**
- **Enhanced premium tax credits**
- **Alternative payment models**

WEBINAR HIGHLIGHTS AND FREQUENTLY ASKED QUESTIONS

What changed for healthcare on October 1, 2025, the first day of FY2026?

- October 1 opened with a federal government shutdown, immediate operational impacts at HHS/CMS (including furloughs), and the expiration of several temporary policies that had been extended only through the prior continuing resolution.
- The webinar detailed practical effects on Medicare claims timing, telehealth coverage, Hospital at Home, and the outlook for Medicaid DSH funding and sequestration.

How long will Medicare claims be held during the shutdown?

- CMS indicated it would hold claims for 10 business days; payments are expected on day 14, with the payment level contingent on when/if Congress resolves the shutdown.
- Submitting now risks denials you will need to reopen/appeal later.

What is the status of Medicaid DSH cuts right now?

- Under the One Big Beautiful Bill Act (OBBBA or Triple-B), $32B in Medicaid DSH reductions over four years are on the books.
- During the government shutdown, whether states issue DSH payments this quarter hinges on state decisions and available funds; historically, payments were restored retroactively once a shutdown ended.

Did Hospital at Home change?

- Yes. CMS instructed hospitals with Medicare-approved Hospital at Home waivers that inpatients at home must be discharged or returned to the hospital as of Oct 1.
- There is no historical precedent from 2018 for this program, so providers should act conservatively.

What just changed for Medicare telehealth as of Oct 1, 2025?

- Medical telehealth is now limited to beneficiaries physically present at an eligible facility in a rural area (no routine home-based medical telehealth).
- Temporary authority for PT/OT/SLP billing telehealth expired.
- Rural Health Clinics (RHCs) and Federally Qualified Health Centers (FQHCs) may still bill G2025, but only when the patient is physically at a facility in a rural area at the time of service.
- Tele-behavioral health to the home remains covered permanently, but for new tele-behavioral patients, a face-to-face visit within six months is required (with some timing nuances for RHCs/FQHCs).

Are audio-only services still allowed?

- Only for tele-behavioral health when the patient is at home and the practitioner could support audio/video, but the patient chooses audio-only.
- There is no audio-only path for medical telehealth to the home now that coverage reverted

What is the near-term outlook on ending the shutdown and sequestration?

- Senate action requires 60 votes.
- Policy bargaining points include enhanced ACA premium tax credits and reversing certain Medicaid provisions.

- Absent Congressional action, Medicare sequestration could rise to 4% at the start of 2026 (from 2%). Timing hinges on end-of-session maneuvers.

What is the Rural Health Transformation Program (RHTP) and how much money is at stake?

- RHTP is a $50B CMS program (FY2026–FY2030), distributing funds to states (not directly to providers) to support transformative rural health initiatives.
- Funds are split into $25B baseline and $25B workload-based tranches.

How are states scored—and what drives the workload funding?

- Rural facility and population (objective data; ~50% of score).
- State policy factors (e.g., licensure compacts, scope of practice, SNAP nutrition rules, Medicaid telehealth/RPM; ~15%).
- Initiative-based factors (quality and rigor of the state's proposed initiatives; ~35%).

What is the timeline and what should states assume in their budgets?

- Applications are open through November 5, 2025.
- CMS instructed states to assume $200M/year for five years in planning, subject to adjustment based on scoring.
- At least 90% of funds must be used each period; 10% maximum may be used for administration.
- Funds must be spent by Oct 31 of the following fiscal year.

What kinds of initiatives does CMS want to fund?

- Ten lanes, including:
    1. Population health/clinical infrastructure
    2. Prevention and lifestyle
    3. Rural provider partnerships (right-sizing, REH conversion, centralized back office)
    4. EMS and transport/treat-in-place
    5. Workforce stabilization
    6. Medicaid APMs (more risk)
    7. Dual-eligible integration (PACE/D-SNP)
    8. Remote care services adoption
    9. Data infrastructure (EHR/AI/decision support)
    10. Consumer tech
- Each initiative must include at least four quantifiable metrics, concrete workplans, and a sustainability path.

Are there spending restrictions providers and states should know?

- No new construction (alterations only if tightly linked to an initiative).
- EMR replacement is capped at 5%.
- Administrative spend capped at 10%.

- No funding clinician wages where non-compete agreements are imposed.
- CMS will monitor and can claw back funds for non-compliance.

Can a state get credit for future policy changes?

- Partially. States may earn partial credit by committing to adopt specific policies (e.g., licensure compacts, nutrition CME) by set deadlines, but CMS can recoup funds if the state fails to deliver on those commitments by 2027/2028 (depending on the factor).

Why is Congress scrutinizing large nonprofit health systems?

- Recent hearings aimed at transparency and detailed reporting focused on large nonprofits (not rural/community hospitals).
- Expect pushes for expanded community benefit reporting and attention on "administratively rural" classifications that unlock rural-only advantages for urban hospitals.

What is happening with rural reclassification?

- Rural reclassification among PPS hospitals jumped from 3 (2017) to ~425, representing ~one-third of community hospital beds.
- Policymakers are examining how wage index, 340B eligibility thresholds, and GME interact with these designations.

What is the proposed $100,000 H-1B fee and why does it matter to providers?

- A new fee on each H-1B petition has been floated; given that ~25% of U.S. physicians are internationally trained—and rural dependence is even higher—the fee could worsen staffing shortages.
- States may need to budget RHTP workforce funds to offset these costs and encouraged targeted Congressional outreach.

What is the latest on pharmaceutical tariffs and most-favored-nation (MFN) pricing?

- Key moving parts discussed: an EU deal capping tariffs on name-brand drugs at 15% (generics excluded), a July 30 White House letter pressing MFN pricing for federal programs, a Sept 25 statement about 100% tariffs on companies without U.S. "buildings," and a subsequent Pfizer announcement agreeing to MFN for Medicaid in exchange for tariff relief—alongside the launch of Trump RX gov (a DTC discount portal) slated for 2026.

What immediate action items should providers and states consider?

- Decide your telehealth posture (ABN & patient billing vs. hold claims vs. submit/appeal).
- Track Medicare claim holds/denials and be ready for reprocessing if Congress acts retroactively.
- Monitor Medicaid DSH disbursement decisions at the state level this quarter.
- For states: finalize RHTP applications by Nov 5; bake in metrics, sustainability, and budget to cover H-1B fees within workforce strategies.
- Watch for the OPPS final rule (normally late Oct/early Nov) and sequestration updates.

ACTION ITEMS

- Urge Congress to make an exception for healthcare providers regarding the H-1B visa fee increase.
- Prepare a reduction in force plan for federal agencies in response to the government shutdown.

- Monitor congressional action on resolving the government shutdown and its impact on healthcare programs.
- Review the Outpatient Prospective Payment System (OPPS) final rule when published in early November.
- Submit a state application for the Rural Health Transformation Program by the November 5 deadline.
- Ensure compliance with the Rural Health Transformation Program requirements, including reporting obligations and milestones.
- Consider including funding to cover H-1B visa fees in the state's Rural Health Transformation Program workforce initiatives.

WEBINAR OUTLINE

Introduction and Overview of Government Shutdown and Its Impact on Healthcare

- PYA Moderator introduces the webinar, mentioning the topics of the impact of the government shutdown on healthcare.
- Martie Ross humorously blames Kathy Reep for the timing of the webinar due to the government shutdown.
- Kathy Reep explains the reasons for the shutdown, including the lack of finalized appropriations bills and the failure of the Senate to pass a continuing resolution.
- The presenters discuss the impact of the shutdown on healthcare, including potential slowdowns in audits and reviews, and the furloughing of about 50% of the CMS workforce.

Medicare and Medicaid Funding During the Shutdown

- Kathy Reep details the expected impact on Medicare and Medicaid funding, noting that Medicare funding is mandatory and not impacted by the shutdown.
- CMS will hold claims for 10 business days, with payments expected to be made on day 14, but at current levels if the shutdown ends within 14 days.
- Medicaid funding is expected to be sufficient to get states through the end of the first quarter, but reductions in Medicaid disproportionate share funding are anticipated.
- Hospital at home programs are affected, with CMS instructing hospitals to discharge or return inpatients to hospitals.

Telehealth Services and Coverage During the Shutdown

- Martie Ross discusses the impact of the shutdown on telehealth services, noting that the waivers for telehealth services have expired.
- Permanent Medicare coverage for telebehavioral health services is now limited to beneficiaries physically present at a rural facility.
- The waivers allowing physical therapists, occupational therapists, and speech language pathologists to bill for telehealth services have expired.
- RHCs and FQHCs can still bill for medical telehealth services under HCPCS code G2025, but only if the services are furnished to an individual physically present at a facility.

Rural Health Transformation Program Application Process

- Kathy Reep explains the Rural Health Transformation Program application process, which is in full swing through November 5.

- The program aims to distribute $50 billion over five years, with $10 billion available each year from FY 2026 to FY 2030.
- States will submit approved rural health transformation plans to receive funding, with $5 billion available for distribution each budgetary period.
- The funding will be divided into two tranches: baseline funding and workload funding, with states scoring on various factors to determine their funding amounts.

Factors Affecting Rural Health Transformation Funding

- The rural facility and population score, state policy factors, and initiative-based factors will determine a state's funding amount.
- States must use at least 90% of the funds received within a budgetary period, with the remaining 10% allowed for administration.
- The program aims to be transformative, not just to fill gaps created by cuts to Medicaid.
- States must ensure compliance with the program's requirements, with CMS monitoring and auditing state performance.

Nonprofit Status and Hearings on Nonprofit Healthcare Systems

- Kathy Reep discusses the hearings in Congress related to nonprofit status, focusing on large nonprofit healthcare systems.
- The presenters explain the hearings aim to increase transparency and detailed reporting requirements for nonprofit systems.
- The presenters raise the issue of rural reclassification, with concerns about hospitals reclassifying as rural to enjoy certain benefits.
- The proposal for a $100,000 fee on new H-1B visa petitions is discussed, with concerns about its impact on the healthcare workforce.

Pharmaceutical Tariffs and Pricing Agreements

- Martie Ross provides an update on pharmaceutical tariffs, noting the deal with the European Union to cap tariffs on name-brand pharmaceuticals at 15%.
- She highlights President Trump's letter to drug manufacturers demanding most favored nation pricing for federal health programs is discussed.
- Martie mentions the announcement of 100% tariffs on pharmaceutical companies without U.S. buildings.
- The presenters note Pfizer's agreement to most favored nation pricing for Medicaid in exchange for tariff relief, along with the launch of Trump RX gov, a website to help individuals find discounted drugs.

Conclusion and Final Thoughts

- Martie Ross and Kathy Reep conclude the webinar by summarizing the key points and emphasizing the importance of remaining aware of the current changes.
- The presenters note the current changes and government shutdown will impact other upcoming topics, regulations, and the OPPS final rule.
- The presenters and PYA Moderator conclude the webinar by thanking the audience and with information on how to access the slides, recording, and additional resources.