

Texas HHSC Medicaid Supplemental and Directed Payment Programs

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White Paper Overview

Introduction

Texas Health and Human Services Commission (HHSC) administers a complex set of Medicaid Supplemental Payment Programs and Directed Payment Programs designed to support access, quality, and financial stability within the Medicaid delivery system. These programs operate alongside base Medicaid reimbursement and are especially critical for safety-net providers.

Policy Rationale

Base Medicaid reimbursement frequently does not fully reflect the cost of care for high-need, low-income, rural, or complex patient populations. Supplemental and Directed Payment Programs allow Texas to strategically deploy federal and non-federal funds to sustain provider capacity, encourage quality improvement, and advance statewide health system goals.

Supplemental Payment Programs

Supplemental Payment Programs provide payments outside of managed care base rates and are generally administered directly by HHSC. These programs typically rely on intergovernmental transfers or other non-federal funding sources to draw federal matching dollars. Key programs include Disproportionate Share Hospital (DSH), Uncompensated Care (UC), Graduate Medical Education (GME), Hospital Augmented Reimbursement Program (HARP), and ATLIS.

Directed Payment Programs

Directed Payment Programs operate through Medicaid managed care organizations under HHSC direction. HHSC requires MCOs to make additional payments to specific provider types using approved methodologies tied to access, quality, and value-based performance. These programs require CMS approval and are authorized under federal managed care regulations.

Governance and Oversight

Both supplemental and directed payment programs involve significant financial oversight, annual approvals, reporting requirements, and audit considerations. For hospital districts and public providers, these programs are central to financial planning, uncompensated care strategy, and legislative engagement.

Comparison of Supplemental vs. Directed Payment Programs

	Supplemental Payment Programs	Directed Payment Programs
Payment Pathway	Paid directly by HHSC outside base rates	Paid through Managed Care Organizations
Federal Authority	State Plan and 1115 Waiver	42 CFR §438.6 (Managed Care Directed Payments)
Funding Mechanism	Often lump-sum; relies on IGT/LPPF	Capitation rate adjustments and directed terms
Primary Purpose	Offset uncompensated care and structural costs	Incentivize access, quality, and performance
Examples	DSH, UC, GME, HARP, ATLIS	CHIRP, RAPPs, TIPPS, DPP-BHS, QIPP
Typical Recipients	Hospitals and teaching institutions	Hospitals, physicians, rural and behavioral health providers

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