United States Senate
COMMITTEE ON THE JUDICIARY
WASHINGTON, DC 20510–6275

October 22, 2025

VIA ELECTRONIC TRANSMISSION

Ms. Juliet T. Hodgkins
Acting Inspector General
Department of Health and Human Services

Dear Acting Inspector General Hodgkins:

For decades, I've asked questions and called for more transparency into Medicaid programs sending additional federal money into state Medicaid programs outside the Federal Medical Assistance Percentage (FMAP) contribute rate, such as through the provider taxes and supplemental payments.[1] Between 1991-2023, the federal share of Medicaid spending increased from 60% to 74%.[2] Additionally, Medicaid is a jointly financed federal-state healthcare program, and states mainly finance their share with state general funds, but have increasingly utilized provider taxes for this purpose.[3] Provider taxes allow states to grow their Medicaid programs without a commensurate normal FMAP increase in contribution from state general funds, while the federal government is still responsible for paying its share of the bill.[4] These state provider taxes add additional federal government spending each year.[5] The Centers for Medicare and Medicaid Services (CMS) under the Trump administration is working to address particularly egregious provider taxes with proposed rulemaking.[6] These efforts have been aided by the inclusion of a provision in the *One Big Beautiful Bill Act* requiring CMS to tighten the criteria for what counts as a "generally redistributive" tax, which would prevent states from imposing lower tax rates on low-volume Medicaid insurers or providers and higher rates on those with greater Medicaid volume, since that kind of differential appears to enable a kickback scheme.[7]

Additionally, provider taxes can serve as an indirect mechanism for states to use federal Medicaid matching funds to provide Medicaid coverage to illegal immigrants and for other populations and services not eligible for federal Medicaid funds.[8] Federal law prohibits states from using federal Medicaid funds to cover illegal immigrants, but provider taxes offer states a strategy to essentially use federal dollars to cross-subsidize their immigrant Medicaid programs.[9] For example, California has a provider tax on its Medicaid managed care

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[1] Press Release, *Grassley Urges More Attention to Fighting Medicaid Fraud*, Senate Comm. on Fin. (Aug. 18, 2024), https://www.finance.senate.gov/chairmans-news/grassley-urges-more-attention-to-fighting-medicaid-fraud; Press Release, *Grassley Statement On Newly-Released GAO Report On Medicaid Supplemental Payments*, Off. Sen. Charles E. Grassley (July 29, 2019), https://www.grassley.senate.gov/news/news-releases/grassley-statement-newly-released-gao-report-medicaid-supplemental-payments; Press Release, *Grassley on Minnesota's Decision To Return Part of $30 Million To The Federal Government*, Off. Sen. Charles E. Grassley (Apr. 23, 2012), https://www.grassley.senate.gov/news/news-releases/grassley-minnesotas-decision-return-part-30-million-federal-government; Report, *Medicaid Financing: Federal Oversight Initiative Is Consistent with Medicaid Payment Principles but Needs Greater Transparency*, Government Accountability Office (Mar. 2007), https://www.gao.gov/assets/gao-07-214.pdf, (The requestors for this report were Senator Max Baucus and Senator Charles E. Grassley).

[2] Report, Brian Blasé and Niklas Kleinworth, *Addressing Medicaid Money Laundering* (Mar. 2025), https://paragoninstitute.org/wp-content/uploads/2025/03/AddressingMedicaidMoneyLaundering_FOR_RELEASE_V4.pdf.

[3] Report, *Medicaid: CMS Needs More Information on States' Financing and Payment Arrangements to Improve Oversight*, Government Accountability Office, GAO-21-98 (Dec. 2020), https://www.gao.gov/assets/gao-21-98.pdf.

[4] Marc Joffe & Krit Chanwong, *How California's New Provider Taxes Exploit Medicaid Financing Loopholes*, Cato Institute, (Jan. 16, 2024), https://www.cato.org/blog/how-californias-new-medicaid-provider-taxes-exploit-medicaid-financing-loopholes; Brian Blasé & Niklas Kleinworth, *Addressing Medicaid Money Laundering: The Lack of Integrity with Medicaid Financing and the Need for Reform*, Paragon Health Institute (Mar. 2025), https://paragoninstitute.org/wp-content/uploads/2025/03/AddressingMedicaidMoneyLaundering_FOR_RELEASE_V4.pdf.

[5] *Id*.

[6] Fact Sheet, *Preserving Medicaid Funding for Vulnerable Populations—Closing a Health Care-Related Tax Loophole Proposed Rule*, Cntrs. for Medicare & Medicaid Srvs. (May 12, 2025), https://www.cms.gov/newsroom/fact-sheets/preserving-medicaid-funding-vulnerable-populations-closing-health-care-related-tax-loophole-proposed.

[7] Chris Medrano, Brian Blase, and Chris Long, *What Made It Into Law: Health Provisions of the One Big Beautiful Bill* (July 10, 2025), https://paragoninstitute.org/medicaid/what-made-it-into-law-health-provisions-of-the-one-big-beautiful-bill/.

[8] Paul Winfrey & Brian Blase, *California's Insurance Tax Shuffle: How Federal Money Ends Up Paying for Medicaid for Illegal Immigrants*, Economic Policy Innovation Center, (Mar. 12, 2025), https://epicforamerica.org/federal-budget/californias-insurance-tax-shuffle-how-federal-money-ends-up-paying-for-medicaid-for-illegal-immigrants/.

[9] *Id*.

organizations, which brings in billions of federal dollars for the federally-matched portion of the state's Medicaid program and frees up other state funds to pay for the illegal immigrant Medicaid program.[10] Currently, according to reports, Connecticut, Maine, Massachusetts, New Jersey, Rhode Island, Utah, and Vermont provide Medicaid coverage to income-eligible illegal immigrant children, while California, Colorado, District of Columbia, Illinois, New York, Oregon, and Washington provide coverage to all income-eligible illegal immigrants.[11] All of those states have some kind of provider tax in place and at least one of those states, New York, instituted a new provider tax in 2025.[12] This is not the first time that I have pointed out how states, notably California, have tried to pull the wool over CMS to inappropriately use federal funds to provide insurance coverage to illegal immigrants.

In August 2024, I wrote to CMS and Governor Newsom regarding a Department of Health and Human Services Office of Inspector General (HHS OIG) report that found that California had been using an outdated calculation method to determine how much federal reimbursements to claim between October 2018 and June 2019 for "noncitizens with unsatisfactory immigration status," resulting in $52.7 million in inappropriate federal payments.[13] I requested information regarding how much of that $52.7 million California had returned to the federal government.[14] The state of California failed to answer my oversight requests, but the Trump-CMS has confirmed that the state did in fact pay back the money it owed the taxpayer.[15]

The HHS OIG is responsible for assessing State provider tax programs in order to promote the economy and efficiency of the Medicaid program, and the HHS OIG has identified impermissible state provider tax programs in the past.[16] Thus, I am requesting that the HHS OIG investigate whether any states are indirectly using federal funds through provider taxes, including but not limited to California's Managed Care Organization (MCO) tax, to pay for Medicaid coverage for illegal immigrants.

Thank you for your prompt review and response. If you have any questions, please contact Tucker Akin of my Committee staff at (202) 224-5225.

Sincerely,

Charles E. Grassley
Chairman
Committee on the Judiciary

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[10] *Id*., (According to Paragon Health Institute, California received $16.7 billion in revenue from its MCO provider tax from July 2023 to June 2025 and California fully repaid the $16.7 billion to the MCOs through provider payments. This zero-sum action generated $9.5 billion dollars for California's Medicaid program from the federal government, which allowed California to free up other funds to pay for its illegal immigrant Medicaid program).

[11] Jasmine Laws, *Map Shows 14 States Offering Health Coverage to Undocumented Migrants*, Newsweek (May 28, 2025), https://www.newsweek.com/states-offering-health-coverage-undocumented-migrants-2077861.

[12] Alice Burns et al., *5 Key Facts About Medicaid and Provider Taxes*, KFF (Mar. 26, 2025), https://www.kff.org/medicaid/issue-brief/5-key-facts-about-medicaid-and-provider-taxes/; Michael Kinnucan, *The Medicaid MCO Tax Strategy*, Fiscal Policy Institute (Mar. 19, 2024), https://fiscalpolicy.org/the-medicaid-mco-tax-strategy; Kate Lisa, *Feds approve New York tax to boost Medicaid reimbursement funds*, Spectrum News 1 (Dec. 23, 2024), https://spectrumlocalnews.com/nys/central-ny/politics/2024/12/23/feds-approve-n-y--tax-to-boost-medicaid-reimbursement-funds.

[13] Letter from Sen. Charles E. Grassley to Gov. Gavin Newsom, State of California (Aug. 22, 2024), on file with Comm. staff; Letter from Sen. Charles E. Grassley to Adm' Chiquita Brooks-LaSure, Cntrs. for Medicare & Medicaid Servs. (Aug. 22, 2024), https://www.grassley.senate.gov/imo/media/doc/grassley_to_cms_-_uis_medicaid.pdf.

[14] *Id*.

[15] *Id*.; Emails on File with Committee Staff.

[16] Report, *Although Hospital Tax Programs In Seven States Complied With Hold-Harmless Requirements, The Tax Burden On Hospitals Was Significantly Mitigated*, Dept. of Health and Human Srvcs. Off. of Inspector General, A-03-16-00202 (Nov. 2018), https://oig.hhs.gov/oas/reports/region3/31600202.pdf.