South Dakota
Association of Healthcare Organizations

3708 W. Brooks Place • Sioux Falls, SD 57106 • (605) 361-2281

September 19, 2025

Matt Althoff
Secretary
South Dakota Department of Social Services
700 Governor's Drive
Pierre, SD 57501

RE: South Dakota Medicaid Hospital Methodology change

Dear Secretary Althoff,

The South Dakota Association of Healthcare Organizations (SDAHO) serves as a voice for South Dakota's hospitals and healthcare organizations encompassing the full continuum of care. SDAHO members include hospitals, healthcare systems, nursing facilities, home health agencies, assisted living centers, and hospice organizations. SDAHO's mission includes advancing healthy communities across the healthcare continuum.

I am writing as a neutral party regarding the Department's proposed changes to the hospital methodology paid for by Medicaid. The proposed methodology is budget neutral to the State of South Dakota, which means that it will affect each hospital differently, ultimately picking winners and losers in the process. We have heard from those that are receiving increases, as well as those receiving cuts. With that said, we intend to address the methodology, the process in creating it, and some suggestions for improvements.

We understand the State's desire to update the current methodology, which includes large outliers, especially with some of our rural Critical Access Hospitals, and move to more of a standard methodology. Those outliers, however, have been established for a long time and are a part of the current budgets of our hospitals in South Dakota. In some instances, those outlier payments are relied upon to make up for underfunding by Medicaid in other areas, such as swing bed and nursing home reimbursements. We believe that under the current proposal, it is very likely that there will be some of our most rural, critical access hospitals facing the choice of stopping certain services and being at high risk of hospital closure.

We would propose the State consider a 100% harmless hold for a period of 3-5 years to allow those hospitals receiving significant cuts the time to adjust to the new methodology. The only way for them to make up for the large cuts is to renegotiate their contracts with commercial payers or change their service lines offered. They cannot just make those changes on a whim, and without being able to make those adjustments it would be up to the citizens in the rural communities to fundraise and keep their hospitals afloat.

The proposed methodology change includes a cost settlement process each year, and members have voiced concerns around this. First, there is ambiguity in the plan for how the State will settle costs based

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on several different hospital fiscal years. Also, the actual method for computing the cost settlements has not been shared with members who have asked for that information. Those members also have concerns about the amount of cash on hand they will need to accrue to pay off some of the line-item charges. There can be large fluctuations year over year among these facilities, so it may be difficult to have a large amount of cash on hand to float a year. Finally, the creation and submission of cost reports has costs and professional fees associated with it, especially for our rural facilities that hire outside firms to complete these processes for them. Some of those rural facilities are seeing little to no increase from the proposed methodology, causing concerns they will also be losers in the process when their additional costs are considered.

The process of the proposed methodology also seems incomplete, as it does not address all the hospital areas. Rural Health Clinics and swing beds are a large portion of hospital operations and while we understand the rural health clinic rates are being looked at, there has been no mention of a concrete plan to also update the swing bed rates. We would suggest that the State come up with a plan to make sure these additional rates are adjusted in a timely manner, allowing our rural facilities opportunities to continue to operate these services.

Finally, we would suggest a more collaborative approach to similar changes in the future. Our providers understand the desire to move forward with a modernized payment methodology but were not included in the discussions for creating this new methodology. Additionally, there were several communication breakdowns in the rollout of the process. We know Medicaid and the providers all want what is best for the citizens of South Dakota and would be happy to provide input as stakeholders on any similar changes in the future.

I appreciate the ability to respond to the proposed changes to the hospital methodology in South Dakota and am available to discuss any of my comments further.

Sincerely,

Tim Rave

Tim Rave
President and CEO
South Dakota Association of Healthcare Organizations