

Issue Brief

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State Disproportionate Share Hospital Allotment Reductions

The Centers for Medicare & Medicaid Services has issued a proposed rule that modifies the amounts of funding available to states under the Medicaid program to address the situation of hospitals that serve a disproportionate share of low-income patients. These reductions are in anticipation of the Affordable Care Act's lower uninsured rates and lower levels of hospital uncompensated care.

Section 2551 of the ACA requires aggregate reductions to state Medicaid disproportionate share hospital allotments annually from fiscal year 2014 through FY 2020. Subsequent legislation delayed the start of these reductions until FY 2018. These reductions will now run through FY 2025. This proposed rule delineates CMS' DSH Health Reform Methodology to implement the annual Medicaid allotment reductions identified in the statute.

The rule will appear in the July 28th *Federal Register*.

By statute, the rule must reduce state DSH allotments by \$43,000,000,000 for FY 2018 through FY 2025.

- \$2,000,000,000 for FY 2018
- \$3,000,000,000 for FY 2019
- \$4,000,000,000 for FY 2020
- \$5,000,000,000 for FY 2021
- \$6,000,000,000 for FY 2022

- \$7,000,000,000 for FY 2023
- \$8,000,000,000 for FY 2024
- \$8,000,000,000 for FY 2025

The proposed DHRM would generate a state-specific DSH allotment reduction amount for the specified fiscal years for all states and the District of Columbia with the exception of Tennessee whose DSH allotment is defined in section 1923(f)(6)(A)(vi) of the Act to be \$53.1 million, notwithstanding DSH allotment reductions in section 1923(f)(7), for each FY from 2015 through 2025.

The total of all DSH allotment reduction amounts would equal the aggregate annual reduction amounts identified in statute for each fiscal year. To determine the effective annual DSH allotment for each state, the state specific annual DSH allotment reduction amount would be applied to the unreduced DSH allotment amount for its respective state.

CMS has outlined several steps in calculating each states reduction. Below is a very brief description of each step.

LOW DSH ADJUSTMENT FACTOR

Section 1923(f)(7)(B)(ii) of the Act requires the DHRM to impose a smaller percentage reduction on "low DSH states" that meet the criterion described in section 1923(f)(5)(B) of the Act. CMS has identified the states of: Alaska;

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Arkansas Delaware; Hawaii; Idaho; Iowa; Minnesota; Montana; Nebraska; New Mexico; North Dakota; Oklahoma; Oregon; South Dakota; Utah; Wisconsin; and, Wyoming as being low DSH states.

FACTOR 2 – UNINSURED PERCENTAGE FACTOR

The second factor considered is the UPF which requires that the DHRM impose the largest percentage DSH allotment reductions on states that have the lowest percentages of uninsured individuals.

FACTOR 3 – HIGH VOLUME OF MEDICAID INPATIENTS FACTOR

The third factor is the High Volume of Medicaid Inpatients Factor that requires that the DHRM impose the largest percentage DSH allotment reductions on states that do not target DSH payments to hospitals with high volumes of Medicaid inpatients. The proposed HMF is a state-specific percentage that would be calculated separately for each state group (low DSH and non-low DSH).

FACTOR 4 – HIGH LEVEL OF UNCOMPENSATED CARE FACTOR

The fourth factor is the HUF which requires that the DHRM impose the largest percentage DSH allotment reductions on states that do not target DSH payments to hospitals with high levels of uncompensated care.

FACTOR 5 – SECTION 1115 BUDGET NEUTRALITY FACTOR

The statute requires that CMS take into account the extent to which a state's DSH allotment was included in the budget neutrality calculation for a coverage expansion that was approved under section 1115 demonstration authority as of July 31, 2009.

COMMENT

This item is significant in that it will reduce state Medicaid payments by some \$43 billion between 2018 and 2025.

In the Congressional debates to repeal and replace the ACA, there appears to be no mention of this item. If Congress were to repeal the ACA, would this item also be removed?

The rule provides an extensive illustrative table regarding reductions by state. Please refer to the rule to review the complex results and findings.

*Analysis provided for MHA
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