FEDERAL MEDICAID DISPROPORTIONATE SHARE HOSPITAL (DSH) ALLOTMENT, PAYMENTS, AND PROPOSAL

Policy Proposal

The Governor's Recommended FY 18 budget proposed to reduce Disproportionate Share Hospital (DSH) payments by 10%, $3,700,000 gross/$1,712,360 state share. The reduction is due to the reduced need for these payments in light of significant investment in reducing uncompensated care via the ACA and related state investments.

- For example, the Affordable Care Act, and Vermont's policy responses to it, significantly cut the State's uninsured rate. The rate of uninsured Vermonters was 6.8% in 2012 prior to implementation of the ACA and fell to 3.7% in 2014 after implementation of the ACA. Nearly 20,000 Vermonters gained insurance coverage. (See http://hcr.vermont.gov/sites/hcr/files/pdfs/survey/2014-VHHIS-Legislative-Presentation.pdf

This proposal anticipates federal reductions mandated by the ACA and slated to go into effect next year.

DSH Purpose

There are two primary purposes of DSH Payments: (1) offset uncompensated costs borne either through the costs to serve uninsured patients or the shortfall of costs not paid by DVHA or CMS for Medicaid beneficiaries and (2) maintain access for low-income individuals.

Federal Government Sets the Broad Contours of DSH Spending

The federal government provides each state with a lump sum allotment. DSH payments are limited by the value of the allotment, the availability of State tax dollars to draw down the federal funds, and actual uncompensated costs. Vermont has not drawn down the full allotment in recent years.

State Set the Specific DSH Methodology

States have broad leeway to set the formula used to calculate DSH payments. State discretion includes:

- Which hospitals get DSH beyond federally mandated categories
- Allocation (payment formula) among hospitals

Vermont DSH formula dates to 2009 for use starting in Federal Fiscal Year (FFY) 2010. Current formula is based on a collaborative process between DVHA and stakeholders. How does it work?

- The formula computes the shortfall from costs for both Medicaid and the uninsured compared to the hospital's overall payments.
- If there are not enough DSH funds available to restore all uncompensated costs, then each hospital is lifted up to cover the same amount of costs proportionally.
- The exception is UVMMC which receives the lesser of 50% of the total DSH allocation or 76% of their shortfall costs.
- CMS approves methodology annually through the State Plan Amendment (SPA) process.

Steps to Payment

DVHA takes four basic steps to make DSH payments:

- Ensures that the hospital meets minimum federal eligibility requirements
- Determines the payment groups
- Determines total actual uncompensated costs
- Makes payments according to formula

Federal Eligibility
The minimum federal test for DSH eligibility is that (1) the hospital must have been Medicare-certified in the study year that is being used to calculate the DSH payments and the hospital (2) must meet the requirement of having at least two obstetricians with staff privileges or be waived of this provision. Additionally, the hospital (3) must meet a minimum of having Medicaid inpatient days be at least 1% of all hospital inpatient days, commonly referred to as the Medicaid Inpatient Utilization Rate (MIUR).

Determine Payment Groups
There are federally mandated payment groups and state created payment groups:

- Group 1: Hospitals with a Medicaid Inpatient Utilization Rate (MIUR) rate that is greater than one standard deviation of the statewide average MIUR. (Federally Mandated)
- Group 2: Hospitals with a Low Income Utilization Rate (LIUR) of at least 25%. (Federally Mandated)
- Group 3: Teaching hospitals. (State Created)
- Group 4: Additional hospitals that the State has deemed to be hospitals eligible to participate in DSH within its federal authority to do so. (State Created)

Vermont usually has one or two hospitals in Group 1 but never in Group 2. This means that hospitals could conceivably meet the criteria to be paid in Group 1 and either Group 3 or 4. If they do, Vermont will place the hospital into whatever group pays the hospital more.

Payments
DVHA notifies hospitals of DSH payments in May to help build budgets that are based on FFY, starting in October. Vermont made $37,448,781 in DSH payments in FFY 17. DSH payments are volatile for most hospitals, causing large year-to-year swings in DSH payments at the hospital level. See Table 1 for DSH payments over time, SFY 2012-2017. See Table 2 to illustrate how the calculation can vary from year to year for an individual hospital. The reason why payments can be so volatile year-to-year is not so much due to utilization where DVHA is primary payer as much as volatility in utilization/payment for individuals dually eligible for Medicare/Medicaid (where Medicare is primary payer), utilization of individuals reimbursed by other state Medicaid programs, and the uninsured patients. A CMS Final Rule was issued in December 2008 that obligates Medicaid agencies to consider all of this data in the total costs that a hospital could be compensated under DSH.

Transparency
DVHA works with hospitals via surveys and other outreach to ensure that the correct data is used. DVHA publishes its DSH methodology annually. The methodology is approved by CMS. The calculation is audited under federal law.

Federal Law Requires DSH Reductions
The Affordable Care Act (ACA) required that beginning in FFY 2014, the federal DSH allotments to states will be reduced in anticipation of expansion of insurance coverage to the uninsured. The reduction timeline has been delayed several times from its original schedule. Currently, DSH reductions are slated to begin in FFY 2018 and continue through FFY 2025. The methodology used to calculate the reductions is not yet clear; however, the law requires the Secretary of HHS to make the largest reductions on states that have the lowest percentages of uninsured individuals. See https://www.macpac.gov/subtopic/disproportionate-share-hospital-payments/.

Table 1: DSH Payments, SFY 12 – SFY 17

	DSH FFY 2012 Payments	DSH FFY 2013 Payments	DSH FFY 2014 Payments	DSH FFY 2015 Payments	DSH FFY 2016 Payments	DSH FFY 2017 Payments	DSH FFY 2017 Payments with 10% cut	FFY 2017 Payments Compared to FFY 2016 Payments	Pct Diff FFY 2016 to FFY 2017
Brattleboro Memorial Hospital	$ 1,176,989	$ 1,236,502	$ 881,885	$ 1,100,858	$ 895,517	$ 983,812	$ (98,381)	$ 88,295	10%
Central Vermont Medical Center	$ 1,893,868	$ 2,057,789	$ 2,123,923	$ 3,113,501	$ 3,247,134	$ 1,606,925	$ (160,693)	$ (1,640,209)	-51%
Copley Hospital	$ 677,478	$ 667,459	$ 819,721	$ 696,562	$ 502,588	$ 988,678	$ (98,868)	$ 486,090	97%
Gifford Medical Center	$ 875,394	$ 807,107	$ 806,560	$ 842,693	$ 982,684	$ 858,641	$ (85,864)	$ (124,043)	-13%
Grace Cottage Hospital	$ 153,081	$ 216,999	$ -	$ -	$ -	$ -	$ -		
Mt. Ascutney Hospital	$ 302,698	$ 283,346	$ 533,586	$ 376,571	$ 187,766	$ 541,427	$ (54,143)	$ 353,661	188%
North Country Hospital	$ 2,092,289	$ 1,848,818	$ 2,738,458	$ 2,432,098	$ 1,825,088	$ 1,463,567	$ (146,357)	$ (361,521)	-20%
Northeastern Vermont Hospital	$ 1,033,166	$ 1,293,715	$ 1,759,289	$ 1,695,772	$ 1,472,395	$ 1,742,622	$ (174,262)	$ 270,227	18%
Northwestern Medical Center	$ 2,109,676	$ 2,128,462	$ 1,543,718	$ 1,274,456	$ 1,455,325	$ 1,897,969	$ (189,797)	$ 442,644	30%
Porter Medical Center	$ 753,493	$ 827,357	$ 600,425	$ 962,327	$ 505,159	$ 443,503	$ (44,350)	$ (61,656)	-12%
Retreat Health Care	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
Rutland Regional Medical Center	$ 3,821,595	$ 4,251,425	$ 5,395,100	$ 4,701,489	$ 4,200,184	$ 5,693,662	$ (569,366)	$ 1,493,478	36%
Southwestern Vermont Hospital	$ 2,437,759	$ 2,073,221	$ 2,563,962	$ 2,884,892	$ 1,927,505	$ 727,153	$ (72,715)	$ (1,200,351)	-62%
Springfield Hospital	$ 1,396,906	$ 1,641,055	$ 1,433,114	$ 2,435,484	$ 1,523,045	$ 1,776,430	$ (177,643)	$ 253,385	17%
University of Vermont Medical Ctr	$ 18,724,391	$ 18,115,526	$ 16,249,041	$ 14,932,076	$ 18,724,391	$ 18,724,391	$ (1,872,439)	$ -	0%
Totals	**$ 37,448,781**	**$ 37,448,781**	**$ 37,448,781**	**$ 37,448,781**	**$ 37,448,781**	**$ 37,448,781**	**$ (3,744,877)**	**$ 0**	**0%**

Table 2: DSH Calculation Based on Costs

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Summary of Changes in Key Variables Used in DSH Calculation

Central Vermont Medical Center	**DSH FFY 2016 Calculation**	**DSH FFY 2017 Calculation**	**Change**	
Vermont Medicaid Routine Costs	$ 5,657,831	$ 4,884,942	$ (772,889)	
Vermont Medicaid Ancillary Costs	$ 14,228,393	$ 12,271,734	$ (1,956,660)	
Total Vermont Medicaid Costs	$ 19,886,224	$ 17,156,676	$ (2,729,548)	
Total Vermont Medicaid Payments	$ 12,420,913	$ 13,810,864	$ 1,389,951	
Vermont Medicaid Shortfall	$ 7,465,311	$ 3,345,812	$ (4,119,499)	-55.2%
Dual Eligible Routine Costs	$ 2,681,305	$ 3,828,213	$ 1,146,908	
Dual Eligible Ancillary Costs	$ 6,212,777	$ 5,942,981	$ (269,797)	
Total Dual Eligible Costs	$ 8,894,083	$ 9,771,194	$ 877,111	
Total Dual Eligible Payments	$ 5,986,833	$ 8,495,842	$ 2,509,009	
Dual Eligible Shortfall	$ 2,907,250	$ 1,275,352	$ (1,631,898)	-56.1%
Out of State Medicaid Routine Costs	$ 5,933	$ -	$ (5,933)	
Out of State Medicaid Ancillary Costs	$ 51,284	$ 86,587	$ 35,303	
Total Out of State Medicaid Costs	$ 57,217	$ 86,587	$ 29,370	
Total Out of State Medicaid Payments	$ 30,290	$ 76,142	$ 45,852	
Out of State Medicaid Shortfall	$ 26,927	$ 10,445	$ (16,482)	-61.2%
No Third Party Coverage Routine Costs	$ 450,987	$ 163,532	$ (287,455)	
No Third Party Coverage Ancillary Costs	$ 1,648,665	$ 996,437	$ (652,228)	
Total No Third Party Coverage Costs	$ 2,099,652	$ 1,159,969	$ (939,683)	
Total No Third Party Coverage Payments	$ 525,759	$ 436,760	$ (88,999)	
No Third Party Coverage Shortfall	$ 1,573,893	$ 723,209	$ (850,684)	-54.0%
Total Hospital Limit	$ 11,973,380	$ 5,354,818	$ (6,618,562)	-55.3%
Medicaid Inpatient Utilization Rate	36.7%	36.9%	0.2%	

Table 3: Overall DSH Calculation for FFY 2017

	Calculate Hospital Specific Limit	Calculate Pct of TXIX Days (excl. DSH Group #3)	Calculate DSH Allotment by Group	Compute Aggregate Limits by DSH Group	Determine Each Hospital's Limit as Pct of Group's Limit	Allocate DSH to Each Hospital	Effective Percent of Hospital Limit Paid
Total DSH Allotment:		**37,448,781**					
Less Allocation to DSH Group #3:		18,724,391					
Allocation to Other Groups:		18,724,391					
			(Total Available DSH) * (Group's Pct Statewide Title XIX Days)			(Group DSH Allotment) * (Pct of Group Limit)	
DSH Group #1: MIUR [1]							
DSH Group #2: LIUR [1]							
DSH Group #3: Teaching Hospitals			**18,724,391**	**32,425,788**			
University of VT Medical Center	32,425,788				**100.00%**	18,724,391	57.75%
DSH Group #4: State-Designed Group			**18,724,391**	**62,266,027**			
Brattleboro Memorial Hospital	3,271,564	5.7%			5.25%	983,812	30.07%
Central Vermont Medical Center	5,343,664	14.8%			8.58%	1,606,925	30.07%
Copley Hospital	3,287,748	4.1%			5.28%	988,678	30.07%
Gifford Medical Center	2,855,322	5.8%			4.59%	858,641	30.07%
Grace Cottage Hospital [2]	waived participation						
Mt Ascutney Hospital	1,800,460	2.5%			2.89%	541,427	30.07%
North Country Hospital	4,866,941	5.7%			7.82%	1,463,567	30.07%
Northeastern Vermont Hospital	5,794,911	4.7%			9.31%	1,742,622	30.07%
Northwestern Medical Center	6,311,499	7.0%			10.14%	1,897,969	30.07%
Porter Medical Center	1,474,822	5.2%			2.37%	443,503	30.07%
Retreat Health Care [3]	waived participation						
Rutland Regional Medical Center	18,933,687	27.4%			30.41%	5,693,662	30.07%
Southwestern Vermont Hospital	2,418,076	8.8%			3.88%	727,153	30.07%
Springfield Hospital	5,907,333	8.2%			9.49%	1,776,430	30.07%
		100.0%			**100.0%**	18,724,391	
			37,448,781			**37,448,781**	

[1] No hospital was deemed eligible for the federally mandated MIUR or LIUR peer groups in this DSH SPY.

[2] Grace Cottage Hospital waived participation in the program since it cannot meet the federally-mandated obstetrical requirement.

[3] Retreat Health Care waived participation since it was determined up front that their hospital limit was <$0 in this DSH SPY.