DSH Allotments: How Could Funding for Safety-Net Hospitals Change in 2018 and Beyond?

The Patient Protection and Affordable Care Act (ACA, P.L. 111-148, as amended) reduced federal funding for Medicaid disproportionate share hospital (DSH) payments under the assumption that hospital uncompensated care costs would decline as insurance coverage increased. Although the reductions were delayed several times, federal DSH payments are slated to be reduced by $2 billion in fiscal year (FY) 2018, which begins October 1, 2017. Additional reductions will occur each year through FY 2025. The amount of federal DSH funds available to each state, referred to as allotments, will vary based on historical state DSH allotments and the methodology that the Centers for Medicare & Medicaid Services (CMS) uses to distribute DSH allotment reductions among states.

This issue brief summarizes MACPAC's projections of FY 2018 state DSH allotments under current law, previously described in MACPAC's March 2017 *Report to Congress on Medicaid and CHIP*, and provides new projections of changes in DSH allotments under the American Health Care Act (AHCA, H.R. 1628) and the Better Care Reconciliation Act (BCRA) discussion draft, as released on July 13, 2017. We also describe the distribution of additional safety-net funding included in both the AHCA and BCRA, which would be available to both hospital and non-hospital providers in states that did not expand Medicaid to low-income adults with incomes at or below 138 percent of the federal poverty level (FPL). Complete state-by-state projections of DSH allotments and safety-net payments under current law and the proposed legislation are available on MACPAC's website.

Under current law, we project that reductions currently scheduled for implementation in FY 2018 will have varying effects on individual state DSH allotments, with state DSH allotment reductions ranging from 1.2 percent to 33.5 percent. In 20 states, the projected DSH allotment reductions for FY 2018 are larger than the state's decline in hospital uncompensated care between 2013 and 2014 (MACPAC 2017).

Under both the AHCA and BCRA, FY 2018 DSH allotment reductions would continue for states that expanded Medicaid, but the DSH allotments and safety-net payments available to non-expansion states would increase by $2 billion in FY 2018. The safety-net payments added by the AHCA and BCRA are not related to states' prior DSH funding and are projected to be larger than DSH allotments in six states.

Beginning in FY 2020, DSH funding provided by the AHCA and BCRA differ. In FY 2020, the AHCA would eliminate DSH allotment reductions for all states, while the BCRA continues DSH allotment reductions for Medicaid expansion states. The BCRA would also provide a temporary increase in DSH allotments for non-expansion states with historically low DSH allotments per uninsured individual (sometimes referred to as a DSH equity adjustment). We estimate that this adjustment will provide 14 states with a total of $3.5 billion in additional federal DSH funding in FY 2020.[1]

Background

State Medicaid programs are statutorily required to make DSH payments to hospitals that serve a high proportion of Medicaid beneficiaries and other low-income patients.[2] These payments help offset hospital costs for uncompensated care to Medicaid patients and patients who are uninsured. The total amount of DSH payments that a state can make are limited by its federal DSH allotment, which varies by state. In FY 2017, a total of $12 billion in federal funds was allotted for DSH payments. Similar to other types of Medicaid payments, federal DSH funds must be matched by state funds; in total, $21 billion in state and federal DSH funds were allotted in FY 2017.

The ACA included reductions to federal Medicaid DSH allotments beginning in 2014. However, Congress subsequently enacted several pieces of legislation that postponed the ACA's Medicaid DSH reduction schedule until FY 2018.The current schedule and amount of cuts are as follows:

- $2.0 billion in FY 2018;
- $3.0 billion in FY 2019;
- $4.0 billion in FY 2020;
- $5.0 billion in FY 2021;
- $6.0 billion in FY 2022;
- $7.0 billion in FY 2023;
- $8.0 billion in FY 2024; and
- $8.0 billion in FY 2025.

Statute requires CMS to develop a methodology for distributing DSH allotment reductions between states. In general, the statute requires CMS to apply larger reductions to states that have the lowest percentage of uninsured individuals and states that do not target DSH payments to hospitals that serve a high volume of Medicaid patients or have high levels of uncompensated care. CMS also must apply lower reductions to states with historically low DSH allotments and take into account the extent to which states have used DSH funds to expand coverage through a Section 1115 demonstration. While CMS developed a methodology to implement FY 2014 DSH allotment reductions before they were delayed, the agency has not indicated whether it will use this same methodology to distribute DSH allotment reductions for FY 2018 or develop a new one.

FY 2018 Projections

Current law

As noted in our previous reports, using the methodology that CMS initially developed to implement the FY 2014 DSH allotment reductions, we estimate that the $2 billion in federal DSH allotment reductions currently scheduled for implementation in FY 2018 will have widely varying effects on individual state DSH allotments, with state DSH allotment reductions ranging from 1.2 percent to 33.5 percent (Table 1).

Proposed legislation

Beginning in FY 2018, both the AHCA and BCRA would eliminate DSH allotment reductions for states that did not expand Medicaid. However, DSH allotment reductions for states that expanded Medicaid would continue and would be distributed among states using the same methodology as current law.

In addition, both the AHCA and BCRA would provide an additional $10 billion in federal funds over five years to increase payments to safety-net providers in states that have not expanded Medicaid. Similar to the rules for DSH payments, these safety-net payments cannot exceed providers' uncompensated care costs for Medicaid and uninsured patients. However, unlike DSH payments, states could use these funds to make safety-net payments to any Medicaid provider, including non-hospital providers. Funding would be distributed proportionally among non-expansion states based on the number of people in the state with incomes below 138 percent FPL.[3]

In total, the DSH allotments and safety-net payments available to non-expansion states in FY 2018 under the AHCA and BCRA would be about 50 percent higher than states' unreduced DSH allotments, and the additional safety-net payments added by the AHCA are projected to be larger than states' unreduced DSH allotments in six states: Florida, Idaho, Oklahoma, Tennessee, Utah, and Wyoming (Table 1). The DSH allotment reductions for expansion states would be unchanged from current law, totaling $1.4 billion and varying by state from 1.2 percent to 33.5 percent of states' unreduced DSH allotments.

The AHCA and BCRA also propose multiple other changes to the ACA and Medicaid policy more generally, which would likely affect the levels of uncompensated care for safety-net providers and their ability to provide care for Medicaid and low-income patients. However, it is difficult to evaluate the cumulative effects of these changes at this time.

TABLE 1. Projected Federal DSH Allotments and Safety-Net Payments under Current Law and Proposed Legislation, FY 2018

		Current law		Proposed legislation (AHCA and BCRA)			
	Unreduced DSH allotment	DSH allotment	Percent change	DSH allotment	Safety-net payments	Total	Percent change
State	A	B	C = (B-A)/A	D	E	F = D+E	G = (F-A)/A
Total	**$12,141.9**	**$10,141.9**	**-16.6%**	**$10,718.6**	**$2,000.0**	**$12,718.6**	**4.7%**
Alabama	341.1	275.9	-19.1	341.1	90.3	**431.4**	26.5
Alaska	22.6	20.5	-9.4	20.5	–	**20.5**	-9.4
Arizona	112.3	97.6	-13.1	97.6	–	**97.6**	-13.1
Arkansas	47.8	47.2	-1.2	47.2	–	**47.2**	-1.2
California	1,215.9	1,044.5	-14.1	1044.5	–	**1044.5**	-14.1
Colorado	102.6	84.8	-17.3	84.8	–	**84.8**	-17.3
Connecticut	221.8	147.4	-33.5	147.4	–	**147.4**	-33.5
Delaware	10.0	9.2	-8.0	9.2	–	**9.2**	-8.0
District of Columbia	67.9	57.4	-15.5	57.4	–	**57.4**	-15.5
Florida	221.8	193.1	-12.9	221.8	339.7	**561.6**	153.2

TABLE 1. (continued)

State	Unreduced DSH allotment	Current law		Proposed legislation (AHCA and BCRA)			
		DSH allotment	Percent change	DSH allotment	Safety-net payments	Total	Percent change
	A	B	C = (B-A)/A	D	E	F = D+E	G = (F-A)/A
Georgia	$298.1	$269.2	-9.7%	$298.1	$176.9	**$475.0**	59.4%
Hawaii	10.8	9.8	-9.8	9.8	–	**9.8**	-9.8
Idaho	18.2	17.8	-2.6	18.2	26.4	**44.7**	144.9
Illinois	238.5	202.6	-15.0	202.6	–	**202.6**	-15.0
Indiana	237.1	218.3	-7.9	218.3	–	**218.3**	-7.9
Iowa	43.7	41.0	-6.2	41.0	–	**41.0**	-6.2
Kansas	45.8	37.3	-18.5	45.8	40.0	**85.7**	87.4
Kentucky	160.8	134.3	-16.5	134.3	–	**134.3**	-16.5
Louisiana	732.0	651.1	-11.0	651.1	–	**651.1**	-11.0
Maine	116.5	107.7	-7.5	116.5	19.2	**135.6**	16.5
Maryland	84.6	65.4	-22.7	65.4	–	**65.4**	-22.7
Massachusetts	338.3	260.8	-22.9	260.8	–	**260.8**	-22.9
Michigan	293.9	232.9	-20.8	232.9	–	**232.9**	-20.8
Minnesota	82.8	79.1	-4.5	79.1	–	**79.1**	-4.5
Mississippi	169.1	139.8	-17.4	169.1	65.7	**234.9**	38.9
Missouri	525.4	427.6	-18.6	525.4	91.9	**617.3**	17.5
Montana	12.6	11.3	-10.4	11.3	–	**11.3**	-10.4
Nebraska	31.4	30.4	-3.1	31.4	24.6	**56.0**	78.5
Nevada	51.3	49.1	-4.3	49.1	–	**49.1**	-4.3
New Hampshire	177.6	160.7	-9.5	160.7	–	**160.7**	-9.5
New Jersey	714.0	553.5	-22.5	553.5	–	**553.5**	-22.5
New Mexico	22.6	21.8	-3.7	21.8	–	**21.8**	-3.7
New York	1,781.5	1,531.1	-14.1	1531.1	–	**1531.1**	-14.1
North Carolina	327.2	266.1	-18.7	327.2	172.6	**499.8**	52.7
North Dakota	10.6	10.3	-2.6	10.3	–	**10.3**	-2.6
Ohio	450.6	348.4	-22.7	348.4	–	**348.4**	-22.7
Oklahoma	40.2	37.2	-7.5	40.2	66.5	**106.7**	165.6
Oregon	50.2	46.0	-8.4	46.0	–	**46.0**	-8.4
Pennsylvania	622.5	446.5	-28.3	446.5	–	**446.5**	-28.3
Rhode Island	72.1	62.0	-14.1	62.0	–	**62.0**	-14.1
South Carolina	363.2	315.2	-13.2	363.2	83.1	**446.4**	22.9
South Dakota	12.2	12.0	-1.7	12.2	12.2	**24.4**	99.4
Tennessee	53.1	37.1	-30.1	53.1	114.9	**168.0**	216.4
Texas	1,060.6	908.4	-14.4	1060.6	462.9	**1523.5**	43.6
Utah	21.8	19.5	-10.4	21.8	36.8	**58.5**	169.0
Vermont	25.0	18.8	-24.8	18.8	–	**18.8**	-24.8
Virginia	97.2	74.0	-23.8	97.2	96.4	**193.6**	99.2
Washington	205.2	146.0	-28.8	146.0	–	**146.0**	-28.8
West Virginia	74.9	61.4	-17.9	61.4	–	**61.4**	-17.9

TABLE 1. (continued)

State	Unreduced DSH allotment	Current law		Proposed legislation (AHCA and BCRA)			
		DSH allotment	Percent change	DSH allotment	Safety-net payments	Total	Percent change
	A	B	C = (B-A)/A	D	E	F = D+E	G = (F-A)/A
Wisconsin	$104.8	$102.8	-2.0%	$104.8	$73.0	**$177.8**	69.6%
Wyoming	0.3	0.2	-8.7	0.3	6.9	**7.1**	2733.8

Notes: DSH is disproportionate share hospital. FY is fiscal year. AHCA is the American Health Care Act (H.R. 1628), as passed by the U.S. House of Representatives. BCRA is the Better Care Reconciliation Act discussion draft, as released on July 13, 2017. Projections assume that states do not change their Medicaid expansion status in future years. Unreduced DSH allotments for FY 2018 are projected from FY 2016 allotments and assume that DSH allotment reductions scheduled for FY 2018 do not take effect. Projected DSH allotment reductions under current law are calculated based on the DSH Health Reform Methodology that the Centers for Medicare & Medicaid Services initially developed to apply reductions to FY 2014 DSH allotments. Safety-net payments are additional, non-DSH payments to hospital and non-hospital providers in non-expansion states. Safety-net payments under the AHCA and BCRA are distributed proportionally based on the number of people in the state with incomes below 138 percent of the federal poverty level.

Source: MACPAC, 2017, analysis of the U.S. Census Bureau 2015 American Community Survey, and Dobson DaVanzo & Associates and KNG Health, 2017, analysis for MACPAC of FY 2016 DSH allotments, Congressional Budget Office projections of the Consumer Price Index for All Urban Consumers, 2012 Medicaid DSH audits, Medicare cost reports, and the U.S. Census Bureau 2015 American Community Survey.

Future Year Projections

Current law

Under current law, the amount of DSH allotment reductions will increase each year through FY 2025. The distribution of DSH allotment reductions among states will be recalculated each year based on the most recent data on states' uninsured rates and other factors in CMS's methodology. However, for the purposes of projections, we assume that the distribution of future year DSH allotment reductions will be similar to the distribution of FY 2018 DSH allotment reductions.

Proposed legislation

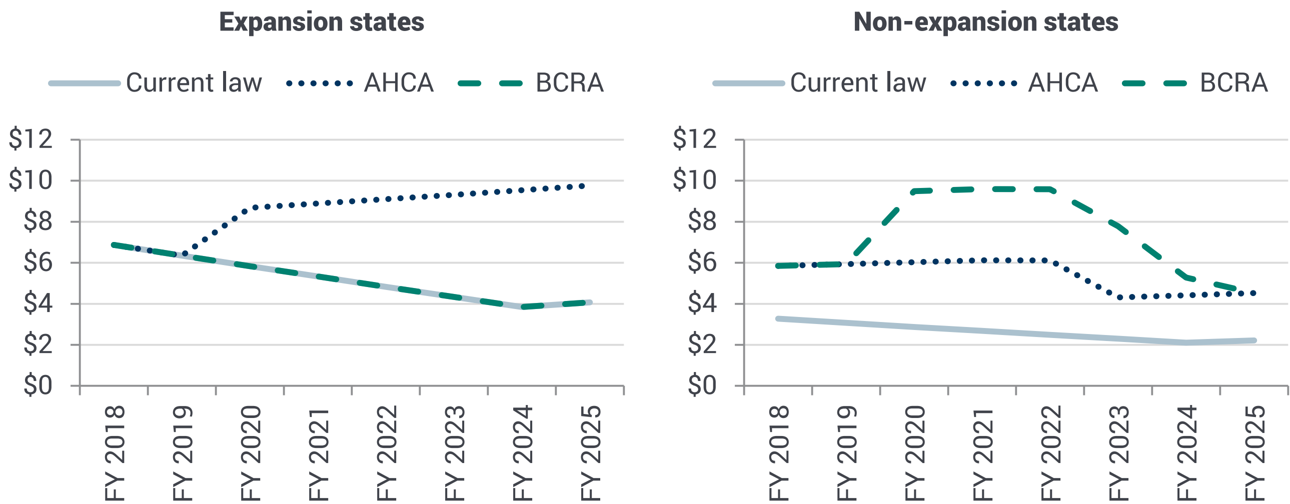
In FY 2019, DSH allotments and safety-net payments provided under both the AHCA and BCRA would be the same, but in FY 2020, DSH funding provided by the AHCA and BCRA would differ (Figure 1). The AHCA would eliminate DSH allotment reductions for all states in FY 2020, which would increase funding for states that expanded Medicaid. In contrast, the BCRA would continue DSH allotment reductions for states that expanded Medicaid and would provide increased funding in FY 2020–FY 2024 through an adjustment for certain non-expansion states with below average DSH allotments per uninsured individual.[4]

The BCRA provides additional funds to states with historically low DSH allotments per uninsured individual by comparing states' FY 2016 DSH allotments to the most recent uninsured data available from Census Bureau in FY 2020. Because FY 2020 uninsured data are not available, we estimated which states would be eligible for this adjustment based on data from the Census Bureau's 2015 American Community Survey. Overall, we estimate that 14 states would be eligible for a total of $3.5 billion in additional DSH adjustment

funding in FY 2020 under the BCRA (Florida, Georgia, Idaho, Kansas, Nebraska, North Carolina, Oklahoma, South Dakota, Tennessee, Texas, Utah, Virginia, Wisconsin, and Wyoming).

Both the AHCA and BCRA would continue safety-net payments until FY 2022. These payments are fully federally funded for the first four years. In the final year (FY 2022), states would need to contribute matching funds but the federal matching rate would be 95 percent.

FIGURE 1. Projected Federal DSH Allotments and Safety-Net Payments, under Current Law and Proposed Legislation for Expansion and Non-Expansion States, FYs 2018–2025 (billions)



Notes: DSH is disproportionate share hospital. FY is fiscal year. AHCA is the American Health Care Act (H.R. 1628), as passed by the U.S. House of Representatives. BCRA is the Better Care Reconciliation Act discussion draft, as released on July 13, 2017. Projections assume that states do not change their Medicaid expansion status in future years. Expansion states are states that have expanded Medicaid to low-income adults with incomes at or below 138 percent of the federal poverty level. Safety-net payments are additional, non-DSH payments to hospital and non-hospital providers in non-expansion states. Projected DSH allotment reductions under current law are calculated based on the DSH Health Reform Methodology that the Centers for Medicare & Medicaid Services (CMS) initially developed to apply reductions to FY 2014 DSH allotments. Additional state-by-state projections are available on MACPAC's website.

Source: MACPAC, 2017, analysis of the Congressional Budget Office (CBO), 2017, *The Budget and Economic Outlook: 2017 to 2027*, the U.S. Census Bureau 2015 American Community Survey, and Dobson DaVanzo & Associates and KNG Health, 2017, analysis for MACPAC of FY 2016 DSH allotments, CBO projections of the Consumer Price Index for All Urban Consumers, 2012 Medicaid DSH audits, Medicare cost reports, and the U.S. Census Bureau 2015 American Community Survey.

Endnotes

[1] An earlier version of the BCRA, released on June 22, 2017, would have provided a temporary increase in DSH allotments for non-expansion states with historically low DSH allotments relative to their Medicaid enrollment rather than the number of uninsured individuals in their state. We estimate that calculating this adjustment as proposed in the June 22 version of the BCRA would have provided 13 states with a total of $1.1 billion in additional federal DSH funding in FY 2020.

[2] Medicare also makes DSH payments to hospitals, but its policies differ on which hospitals qualify and how much funding they receive. In this issue brief, references to DSH payments refer to Medicaid DSH payments only.

[3] If a non-expansion state expands Medicaid in subsequent years, it would no longer be eligible for safety-net payments. Conversely, if an expansion state no longer provides coverage for the Medicaid expansion population in subsequent years, it would become eligible for safety-net payments. In this issue brief, we assume that states do not change their Medicaid expansion status in future years.

[4] If a non-expansion state expands Medicaid in subsequent years, it would no longer be eligible for the temporary adjustment in DSH allotment provided under the BCRA for states with below average DSH allotments per uninsured individual. Conversely, if an expansion state elects to no longer provide coverage for the Medicaid expansion population on or before December 31, 2020, then it would be eligible for this adjustment. In this issue brief, we assume that states do not change their Medicaid expansion status in future years.

Reference

Medicaid and CHIP Payment and Access Commission (MACPAC). 2017. Analyzing disproportionate share hospital allotments to states. In *Report to Congress on Medicaid and CHIP*. March 2017. Washington, DC: MACPAC. https://www.macpac.gov/publication/analyzing-disproportionate-share-hospital-allotments-to-states/.