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Medicaid Disproportionate Share Hospital (DSH) Payments

What is Medicaid DSH?

Hospitals often do not receive payment for services rendered to uninsured patients, and Medicaid provider payment rates are lower than the rates paid by Medicare and private insurance. The Medicaid statute requires that states make disproportionate share hospital (DSH) payments to hospitals treating large numbers of low-income patients. The federal government provides states with capped, formula based funding to help the disadvantaged financial situation of their DSH hospitals.

How Much Federal Money Goes to DSH?

While most federal Medicaid funding is provided on an open-ended basis, federal Medicaid DSH funding is capped. Each state receives an annual federal DSH allotment, which is the maximum amount of federal matching funds that each state can claim for Medicaid DSH payments. In FY2015, the federal DSH allotments to states totaled $11.9 billion.

What is the DSH Funding Formula?

Medicaid DSH allotments are based on each state's prior year DSH allotment. Specifically, a state's DSH allotment is the higher of (1) a state's FY2004 DSH allotment or (2) the prior year's DSH allotment increased by the percentage change in the consumer price index for all urban consumers (CPI-U) for the prior fiscal year.

What Constitutes a DSH Hospital?

The federal government provides states with the following three criteria for identifying DSH hospitals. At a minimum, states must provide DSH payments to all hospitals with 1) a Medicaid inpatient utilization rate in excess of one standard deviation above the mean rate for the state or a low-income utilization rate of 25% 2) All DSH hospitals must retain at least two obstetricians with staff privileges willing to serve Medicaid patients. 3) A hospital cannot be identified as a DSH hospital if its Medicaid utilization rate is below 1%.

Why Is DSH Being Cut?

Built on the premise that with the ACA insurance coverage provisions (including the ACA Medicaid expansion) reducing the number of uninsured individuals, there should be less need for Medicaid DSH payments, the ACA included a provision directing the Secretary of the Department of Health and Human Services (HHS) to make aggregate reductions in Medicaid DSH allotments equal to $500 million. Despite the assumption that reducing the uninsured would reduce the need for Medicaid DSH payments, the ACA was written so that, after the specific reductions for FY2014 through FY2020, DSH allotments would have returned to the amounts states would have received without the enactment of ACA. In other words, in FY2021, states' DSH allotments would have rebounded to their pre-ACA reduced level with the annual inflation adjustments for FY2014 to FY2021.

Have the Reductions Already Been in Effect?

Since the ACA, a number of laws have amended the ACA Medicaid DSH reductions by eliminating the reductions for FY2014 through FY2017, changing the reduction amounts, and extending the reductions through FY2025. The next reduction in DSH is scheduled to go into effect on October 1st, 2018 unless Congress acts to delay the cuts again.

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STATE	DSH PAYMENT	DSH REDUCTION	PERCENTAGE CUT
AL	$337.60	$58.85	17.43%
AK	$22.37	$1.25	5.57%
AZ	$111.20	$11.22	10.10%
AR	$47.37	$1.97	4.18%
CA	$1,203.70	$153.40	12.75%
CO	$101.60	$18.50	18.27%
CT	$219.60	$49.20	22.40%
DC	$67.30	$16.89	25%
DE	$9.94	$0.50	5.57%
FL	$219.60	$34.09	15.52%
GA	$295.10	$36.30	12.30%
HI	$10.70	$0.80	7.56%
ID	$18.05	$0.40	
IL	$236.10	$44.60	18.92%
IN	$234.70	$27.70	11.80%
IA	$43.24	$2.80	6.64%
KS	$45.20	$8.90	19.70%
KY	$159.20	$30.06	18.88%
LA	$752.80	$81.97	10.89%
ME	$115.20	$12.19	10.58%
MD	$83.70	$14.87	17.70%
MA	$334.90	$105.31	31.45%
MI	$290.98	$66.73	22.93%
MN	$82.01	$3.56	4.34%
MS	$167.45	$17.43	10.40%
MO	$520.19	$92.58	17.80%
MT	$12.46	$0.90	7.27%
NE	$31.07	$1.40	4.63%
NV	$50.78	$3.90	7.69%
NH	$175.79	$21.70	12.35%
NJ	$706.86	$153.74	21.75%
NM	$22.37	$0.48	2.10%
NY	$1,763.73	$329.44	18.68%
NC	$323.90	$56.30	17.38%
ND	$10.50	$0.33	3.16%
OH	$446.08	$101.93	22.85%
OK	$39.70	$2.50	6.41%
OR	$49.70	$2.70	5.50%
PA	$616.20	$121.04	19.64%
RI	$71.37	$16.71	23.42%
SC	$359.60	$70.04	19.48%
SD	$12.13	$0.28	2.37%
TN	$0	$0	$0
TX	$1,050.00	$148.06	14.10%
UT	$21.54	$1.95	9.04%
VT	$24.70	$7.02	28.42%
VA	$96,196	$11.05	11.48%
WA	$203.13	$41.73	20.50%

pSeptember X, 2017

The Honorable Mitch McConnell
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Charles Schumer
Minority Leader
United States Senate
Washington, DC 20510

The Honorable Paul Ryan
Speaker of the House
United States House of Representatives
Washington, DC 20515

The Honorable Nancy Pelosi
Minority Leader
United States House of Representatives
Washington, DC 20515

The Honorable Orrin Hatch
Chairman
Committee on Finance
United State Senate
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate
Washington, DC 20510

The Honorable Greg Walden
Chairman
Committee on Energy & Commerce
United States House of Representatives
Washington, DC 20515

The Honorable Frank Pallone
Ranking Member
Committee on Energy & Commerce
United States House of Representatives
Washington, DC 20515

Dear Majority Leader McConnell, Minority Leader Schumer, Speaker Ryan, Leader Pelosi, Chairman Hatch, Ranking Member Wyden, Chairman Walden, and Ranking Member Pallone:

We, the XX bipartisan Mayors of XX cities join XX hospital leaders from across America, write to urge you to stop cuts to Medicaid disproportionate share hospital (DSH) payments from going into effect at the start of the 2018 Federal Fiscal Year beginning on October 1st, 2017.

Through bipartisan efforts, Congress has repeatedly recognized the importance of Medicaid DSH payments, and passed legislation to delay cuts to the program. If these cuts are implemented they will have devastating effects on the fiscal health of our local safety-net hospitals, some of which already operate in the red.

Medicaid DSH payments have operated as the financial bedrock to our local hospital systems and generated significant economic benefits for our communities. These payments have allowed our hospitals to offset losses from treating uninsured and underinsured patients. According to America's Hospitals and Health Systems, hospital systems nationally provide more than $40 billion in uncompensated and under compensated care each year, and Medicaid DSH helps cover a large portion of that cost.

The passage of the PPACA lowered the number of uninsured individuals across the country, but our hospital systems are still performing the safety-net provider role and the cuts proposed would be debilitating to our local system sustainability. These cuts know no political or geographically identity, as they're equally harmful to both red and blue, expansion and non-expansion states. As these cuts grow through FY2025 our hospitals will be forced to cut back on services, lay off staff, or close entirely, which will affect the vitality of our local economics and the health of our cities residents.

We look forward to working with you on addressing this issue and many other issues that affect the vitality of our local hospital systems in the months to come.

Sincerely,

Bill de Blasio, Mayor of New York, NY
Joseph Baldacci, Mayor of Bangor, ME
John Giles, Mayor of Mesa, AZ
Marcus Muhammad, Mayor of Benton Harbor, MI
Allison Silberberg, Mayor of Alexandria, VA
Lovely Warren, Mayor of Rochester, NY
Sly James, Mayor of Kansas City, MO
John McNally, Mayor of Youngstown, OH

HOSPITALS