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MEDICAID DSH PAYMENTS

The Medicaid disproportionate share hospital (DSH) program provides payments to safety net hospitals that serve a high proportion of Medicaid beneficiaries and uninsured patients. The payments are essential for hospitals to offset their uncompensated care costs from treating low-income patients. Because DSH hospitals usually have a low percentage of commercially insured patients, they cannot cost-shift these losses to private payers.

The amount of Federal DSH funds a state can receive is limited by state-specific allotments established by the Balanced Budget Act (BBA) of 1997, which are updated annually by the Bureau of Labor Statistics' Consumer Price Index. Federal DSH allotments in fiscal year (FY) 2017 totaled $12.1 billion, including $1.7 billion for New York.

Like regular Medicaid payments, states must provide local matching funds (the percentages vary by state). States have flexibility to determine the distribution of DSH funding to individual hospitals, but the Federal government caps the amount of DSH that a hospital can receive at their losses from treating Medicaid patients and the uninsured, or the hospital "DSH cap."

How the ACA Impacted Medicaid DSH

The Affordable Care Act (ACA) reduced federal funding for Medicaid DSH under the assumption that the ACA insurance expansions would reduce hospital uncompensated care and therefore, the need for DSH funding. The ACA's Medicaid DSH reductions were originally scheduled for FYs 2014–2020, but have been legislatively delayed and restructured several times. The cuts are currently scheduled for FYs 2018–2025, beginning with a $2 billion reduction and increasing by $1 billion each year until they reach $8 billion in FY 2024. The cuts expire after FY 2025.

The ACA requires the Centers for Medicare & Medicaid Services (CMS) to develop a methodology to reduce Federal Medicaid DSH allocations by the above-specified amount each year. The largest reductions are to be imposed on the states with the lowest percentage of uninsured individuals, and those that do not target their DSH payments to hospitals with high volumes of Medicaid patients and uncompensated care. Smaller reductions are to be imposed on low-DSH states (defined as states with total DSH payments of between zero and 3% of total Medicaid spending).

Under a recent CMS proposed rule, New York's Medicaid DSH allocation would be reduced by approximately $330 million in FY 2018, with the reductions expected to increase each year until they reach nearly $1 billion annually by 2022.

New York's public and voluntary safety net hospitals simply cannot sustain cuts of this magnitude, espe-

cially considering CMS's recent cut to Medi*care* DSH funding. 27 hospitals are already on a State "watch list" because of their precarious financial position, and the Medicaid DSH cuts could force some of them to reduce services or even close their doors for good.

GNYHA Position: GNYHA strongly urges Congress to further delay the Medicaid DSH cuts. DSH funding is critical to ensuring that low-income individuals and vulnerable communities have access to care.