

Article 14: Relating to Hospital Uncompensated Care

This article authorizes the disbursement of Medicaid Disproportionate Share Hospital (DSH) payments to qualifying community hospitals in federal fiscal years (FFY) 2021 and 2022. These payments will be made in State FY2022 and FY2023, respectively. Article 14 limits the aggregate amount of the payments to \$142.3 million all funds in FY2022 and \$142.5 million all funds in FY2023.

FISCAL IMPACT

Article 14 increases general revenue expenditures in FY2022 by \$32.6 million (\$70.9 million all funds) compared to the November 2020 adopted caseload estimate. Relative to the FY2021 Enacted Budget, Article 14 reduces general revenue expenditures by \$871,207 to reflect a slight increase in the aggregate payment and a favorable change in the federal match rate which reduces the general revenue share.

Disproportionate Share Hospital Payment	FY2021 Enacted	FY2022 Nov CEC	FY2022 Governor	Change to Enacted	Change to Nov CEC
General Revenue	\$66,290,193	\$32,855,159	\$65,418,986	(\$871,207)	\$32,563,827
Federal Funds	76,010,842	38,709,117	77,074,994	1,064,152	38,365,877
Total	\$142,301,035	\$71,564,276	\$142,493,980	\$192,945	\$70,929,704

Analyst Note: The \$142.5 million all funds payment included in the Governor's Budget exceeds the ceiling included in the language of Article 14, which limits the payment to \$142.3 million in FY2022. It appears that the language should authorize a \$142.5 million all funds payment in both FY2022 and FY2023.

ANALYSIS AND BACKGROUND

Federal law requires that state Medicaid programs make Disproportionate Share Hospital (DSH) payments to qualifying community hospitals which serve a large number of Medicaid and uninsured patients. The DSH program subsidizes hospitals with high uncompensated care costs, which include certain expenses that are not covered by Medicaid or other sources. DSH payments are lump-sum disbursements issued each July and are subject to the applicable Federal Medical Assistance Percentage (FMAP) at the time of issuance. Funds are distributed in proportion to each hospital's share of statewide uncompensated care. The State share is funded through revenues generated by the hospital licensing fee authorized in Article 6.

The federal Patient Protection and Affordable Care Act (ACA) included a phase-out of federal DSH payments, set to begin initially in 2014, which has been postponed by Congress several times. At the time of the November 2020 Caseload Estimating Conference (CEC), the impending cut to the July 2021 (FY2022) payment had not been delayed. Because caseload estimates are based on current law, the Conference lowered the aggregate payment to \$71.6 million in the FY2022 estimate. The DSH cuts were then postponed by the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA) in December 2020. The CRRSAA extended the timing of the cuts from FFY2021 to FFY2024. Article 14 authorizes the full payment in both FY2022 and FY2023, accordingly. The Governor's Budget includes \$142.5 million all funds in FY2022, including \$65.4 million from general revenues.

DSH Payments			
State	Federal	Limit	State Share
FY2017	FY2016	\$138.2	49.58%
FY2018	FY2017	139.7	48.98%
FY2019	FY2018	138.6	45.85%
FY2020	FY2019	142.4	47.43%
FY2021	FY2020	142.3	47.05%
FY2022	FY2021	142.3	45.91%
FY2023	FY2022	142.5	45.12%

\$ in millions

Analyst Note: The American Rescue Plan (ARP) passed on March 11, 2021, included a provision which allows states to claim an enhanced FMAP for the DSH payment. The Families First Coronavirus Response Act authorized a 6.2 percentage point increase in the FMAP for the duration of the COVID-19 public health emergency. Previous guidance exempted DSH payments from the enhanced rate. The ARP provision is not accounted for in the Governor's Budget. This change will not amend the cap, but will reduce the general revenue share of the FY2022 DSH payment by \$8.8 million and increase federal funds by an equivalent amount.