



University of California

Office of Federal Governmental Relations • Health Forum 2002

Medicaid Disproportionate Share Hospital (DSH) Payments

- ❑ Freeze the federal Medicaid DSH payment reduction formula at the current level in order to prevent reductions included in the Balanced Budget Act of 1997, resulting in a \$16.6 million annual relief for the University's three DSH medical centers.
- ❑ Support the **Medicaid Safety Net Hospital Preservation Act of 2001 (H.R. 854, S. 572)**, which permanently prevents the Medicaid DSH reductions that were established in the Balanced Budget Act of 1997.
- ❑ Add legislative language to the Senate's Medicare prescription drug legislation that freezes federal Medicaid DSH payments at the current level in order to prevent reductions included in the Balanced Budget Act of 1997.

Background

The Medicaid Disproportionate Share Hospital (DSH) program provides vital funds to hospitals providing care to California's most vulnerable populations. The DSH payment adjustment compensates for the higher costs incurred in treating a large share of low-income patients, who tend to be sicker and more costly to treat, and to mitigate the financial distress that select hospitals experience in serving the poor. In California, Medicaid DSH funds are provided as a supplemental payment through the SB 855 program to those hospitals qualifying as disproportionate share hospitals according to a formula that takes into account the level of service to the state's Medi-Cal population.

The Balanced Budget Act of 1997 (BBA 1997) reduced funding to healthcare providers, including a 20 percent reduction in Medicaid DSH funding to states. In subsequent years, Congress took action to help mitigate the severe funding reductions contained in BBA 1997. The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act (BIPA) approved by Congress in 2000 was one such measure that provided temporary relief from the severe reductions in Medicaid DSH funding mandated by BBA 1997. However, under current law, BIPA's stopgap provisions are set to expire on October 1, 2002, thus giving way to the original Medicaid DSH spending reductions contained in BBA 1997. The significant impact of these looming reductions on the state and the University's medical centers is shown below.

FFY	Impact of Medicaid "Cliff" on California	Impact of Medicaid "Cliff" on UC's 3 DSH Hospitals ¹
2003	(184,355,748)	(16,592,017)
2004	(190,716,022)	(17,164,441)
2005	(197,295,714)	(17,756,615)
2006	(204,102,427)	(18,369,218)

¹ UC hospitals account for 9% of California's DSH Allotment.

Status of Relevant Legislation

Two bipartisan companion bills have been introduced to address the state's Medicaid DSH allotment levels. The proposed bills represent a continuation of the work started by BIPA to reduce the BBA's impact on Medicaid DSH allotments. They include:

- **Medicaid Safety Net Hospital Preservation Act of 2001 (S. 572, H.R. 854)**
S. 572 introduced by Senators Lincoln Chafee (R-R.I.) and Bob Graham (D-FL) and its House companion, H.R. 854, introduced by Representatives Edward Whitfield (R-KY) and Diana DeGette (D-CO) would continue BIPA's efforts to prevent the state Medicaid DSH reductions that were established in the BBA 1997. BIPA successfully prevented allotment cuts in FY 2001 and 2002.

In addition, the Medicare Modernization and Prescription Drug Act of 2002 (H.R. 4954) recently approved by the House includes approximately \$2 billion in additional Medicaid DSH funding.

Advocacy Message

The Medicaid DSH program is one of the critical funding sources that have maintained the financial viability of University of California's three designated DSH hospitals, UC San Diego, UC Irvine, and UC Davis. Unless the Medicaid DSH funding improvements enacted under BIPA are extended permanently beyond the current federal fiscal year, the University of California's designated Medicaid DSH facilities will be severely challenged to provide access to essential healthcare services for California's indigent and uninsured populations. The University of California supports S. 572/H.R. 854 and the provisions designed to provide permanent relief from the severe cuts to the Medicaid DSH program contained in BBA 1997.

In addition, UC views the Medicaid DSH provision contained in the House approved Medicare Modernization and Prescription Drug Act of 2002 as an excellent first step towards providing needed relief from the BBA 1997 onerous Medicaid DSH payment reductions. We encourage the Senate to include and improve upon these specific provisions as they initiate debate on their own Medicare prescription drug proposal.