



OVERVIEW OF MEDICAID DSH FUNDING IN ALASKA

The federal government provides support to hospitals that treat a high number of uninsured individuals through the Disproportionate Share Hospital (DSH) funding mechanism. This support is provided through two major programs: Medicaid and Medicare. Medicare DSH is administered by the federal government. Medicaid DSH is administered by state governments, with built-in flexibility for states. Following is a brief overview of the way DSH funding is distributed in Alaska through Medicaid, and how changes prompted by passage of the Affordable Care Act are likely to affect Alaskan hospitals.

Medicaid Disproportionate Share Hospital Program

The Medicaid DSH program in Alaska is equally funded by the federal and state government (50% federal funds, and 50% state funds). The Medicaid DSH program is governed by specific state regulations¹. Operationally, state regulations effectively limit the use of Medicaid DSH to providing emergency psychiatric response and treatment. Four hospitals in Alaska are currently funded by the Medicaid DSH program.

Federal funds flow to states for the purpose of making DSH payments to hospitals through annual federal allotments. These allotments are the maximum federal funds that states can use toward DSH payments. State allotments are increased each year by the Consumer Price Index. There are two groupings of states: low-DSH states (17 states) and non-low DSH states (33 states and the District of Columbia). States are considered low-DSH states if their DSH spending represents less than 3 percent of overall state Medicaid spending.² Alaska is a low-DSH state. Federal allotments have been approximately \$20 million each year over the past five years.

Over the last decade, the sole focus of Medicaid DSH payments in Alaska has been emergency psychiatric response and treatment. By federal law, States are allowed to provide these funds to eligible hospitals to offset broader uncompensated care costs. However, there have not been state funds available to match the federal allotment. In 2006, Governor Frank Murkowski requested \$13 million in his budget to match unclaimed federal DSH funds to offset uncompensated care costs. Several Alaska hospitals, including Central Peninsula, South Peninsula, Sitka Community, Mat-Su Regional Medical Center, and Wrangell Medical Center supported this effort. The request was not passed by the Legislature and since then no additional state funds have been made available for additional hospitals.

The total federal share of the DSH allotment to the State of Alaska in 2013 was \$21,402,636. Thirty-three percent of the federal allotment must be spent on eligible Institutes for Mental Diseases (IMD). The Alaska Psychiatric Institute (API) is the only hospital that meets IMD DSH criteria, and they received 33% of the 2013 federal allotment, matched by state general funds.

DSH funds were also utilized to pay for a portion of legitimate uncompensated care at the State's two contracted Designated Evaluation and Treatment (DET) units at Bartlett Regional Hospital and Fairbanks Memorial Hospital, as well as psychiatric emergency services at Providence Alaska Medical Center. The State of AK Division of Behavioral Health administers the payments to Providence, Bartlett and Fairbanks. The payment to API is calculated and requested through the Office of Rate Review. DSH payments to these four hospitals totaled \$21.7 million, including the Federal and State share of the payments. For FY13, these payments represent 50.7% of the total DSH payments that could be made, if the full federal allotment had been matched by the State of Alaska.

For FY14, the total federal share of the DSH allotment to the state of Alaska is \$21.7 million including \$7.17 million that must be spent on eligible IMD.³

2013 Unutilized Medicaid DSH in Alaska

- Total 2013 federal allotment for Medicaid DSH: \$21,402,636
- Total 2013 federal spending for Medicaid DSH: \$10,853,238
- Amount of 2013 federal allotment unused: \$10,549,398
- If matched by state funds, amount of unused 2013 Medicaid DSH: \$21,098,796

Following is a chart that shows the Medicaid DSH payments by the State of Alaska in 2013 to eligible hospitals:

2013 Alaska Medicaid DSH Payments⁴

<i>Name of Facility</i>	<i>Federal Share DSH</i>	<i>State Share DSH</i>	<i>Total Payment Amount</i>	<i>DSH Program</i>
Alaska Psychiatric Hospital	\$7,062,870	\$7,062,870	\$14,125,740	IMD
Bartlett Regional Hospital	\$1,378,931	\$1,378,931	\$2,757,861	DET
Fairbanks Memorial Hospital	\$1,145,928	\$1,145,928	\$2,291,855	DET
Providence Alaska Medical Center	\$1,265,510	\$1,265,510	\$2,531,019	SPEP
TOTAL PAYMENTS	\$10,853,238	\$10,853,238	\$21,706,475	

Changes to DSH under the Affordable Care Act

The Affordable Care Act (ACA) contained provisions for reducing DSH allotments to states starting in 2014, under the assumption that the amount of uncompensated care that hospitals provide will significantly decrease due to more people having access to health insurance coverage, and the expansion of Medicaid programs. However, the ACA reductions were delayed and modified by the “Pathway for SGR Reform Act of 2013” ([Pub. L. 113-67](#)), which was enacted on December 26, 2013. This policy delayed Medicaid DSH cuts until FY16, eliminating the FY14 cuts and moving the FY15 cuts one year later, to FY16; and added another year of Medicaid DSH cuts in 2023.

As a low-DSH state, Alaska will probably see a cut of around 1.4% to 1.7% with larger reductions expected beginning in FY 2017.

The hospital most at risk because of diminishing federal DSH funding is the Alaska Psychiatric Institute (API). The IMD payment limit is formula driven and represents approximately 33% of the Federal allotment. This must be matched by state funds. As the Federal allotment decreases, payments to API will also decrease under the existing payment methodology.

In 2012, regulations were proposed by DHSS to further restrict DSH payments by capping the amounts available for psychiatric services. ASHNHA opposed those regulations, and they were not adopted.

¹ 7 AAC 150.180. *Methodology and criteria for additional payments as a disproportionate share hospital.*

² American Hospital Association Regulatory Advisory, Final Rule Implementing Medicaid State DSH Allotment Reductions, October 17, 2013.

³ Medicaid Program; Preliminary Disproportionate Share Hospital Allotments (DSH) for Fiscal Year (FY), Notice by the Centers for Medicare & Medicaid Services on 02/28/2014.

⁴ The DSH payments for FY14 by facility are as follows: API - \$14,337,626, Bartlett - \$2,451,462, Fairbanks - \$3,794,752, PAMC - \$2,531,019.