May 1, 2001

TO: Senator Joel Gougeon, Chairperson
Senate Appropriations Subcommittee on Community Health

Representative Mickey Mortimer, Chairperson
House Appropriations Subcommittee on Community Health

FROM: James K. Haveman, Jr.

SUBJECT: FY01 Boilerplate Report

In compliance with Section 1710 of Public Act 296 of 2000, the Department of Community Health is submitting the plan for the allocation of the Medicaid Disproportionate Share (DSH) payment for FY-01. The Medicaid Disproportionate Share payment was created to increase reimbursement to hospitals who have served a disproportionate share of Medicaid eligible persons. Section 1710 states that it is the sense of the legislature that the DSH payment should be equitably distributed on a statewide basis. Unfortunately, persons enrolled in Medicaid are not distributed equitably throughout the state. The department has reviewed the formula used to distribute the DSH payments and has decided to maintain the same formula that was used in FY-00. This formula creates a 20% indigent volume level of care as a minimum threshold a hospital must meet to participate in the DSH funding. This 20% indigent volume is then used as one factor in the funding calculations.

Enclosed for your review is the FY-00 Medicaid bulletin, a one page summary document of the requirements to receive DSH funding, and a listing of the FY-00 DSH payments by region. Using the same formula as was used in FY-00 should result in FY-01 payment levels similar to those made in FY-00. The actual FY-01 payments will be calculated in the next 60 days.

JKH/sc

Enclosure

cc: Senate Appropriations Subcommittee on Community Health
House Appropriations Subcommittee on Community Health
Senate Fiscal Agency
House Fiscal Agency
Department of Management and Budget
Mary Jane Russell

DISPROPORTIONATE SHARE HOSPITAL (DSH) PAYMENTS

Indigent volume data is taken from each hospital's cost report and from supplemental forms that each hospital must file with its cost report. Data from the most recent available filed cost report are used to calculate a disproportionate share adjustor. New adjustors are calculated and become effective concurrently with annual inflation updates. Separate indigent volume data is collected for and separate adjustors are applied to distinct part psychiatric units and distinct part rehabilitation units.

Indigent volume is measured as the percentage of inpatient indigent charges to a hospital's total inpatient charges. Indigent charges are the annual charges for services rendered to patients eligible for payments under the Medicaid, CSHCS and State Medical Program plus uncompensated care charges. Uncompensated care is limited by Medicare standards and is offset by any recoveries.

Uncompensated care, bad debt recovery, and/or Hill-Burton offset may be apportioned, using the ratio of total inpatient medical-surgical charges to total charges, the ratio of total distinct part rehabilitation unit charges to total charges, the ratio of total distinct part psychiatric unit charges to total charges, and the total of outpatient charges to total charges.

Each hospital must complete the Indigent Volume (IV) Report and Disproportionate Share Eligibility Form as a requirement for complete filing of its annual Medicaid cost report.

The cost report will not be accepted without the IV Report and the Disproportionate Share Eligibility Form.

In order to receive a disproportionate share adjustor other than 1.00, hospitals must also meet at least one of the 4 criteria on the Disproportionate Share Eligibility Form.

The Indigent Volume Report

The IV Report is sent to the hospital by the MSA as part of the annual cost report package to be completed by the hospital and returned to the MSA.

In addition to completion of the indigent volume report, hospitals must complete the following form in order to be eligible to receive DSH payments.

EXAMPLE FORMAT

Disproportionate Share Hospital (DSH) Eligibility Form

Hospital: _____
City: _____
Date: _____ FYE: _____

In order to receive a disproportionate share adjustor other than 1.00, hospitals must also meet at least one of the eligibility criteria (Items 1 - 4). Please indicate which of the following applies to your hospital as of the end of your current fiscal year.

1_____At least two (2) obstetricians with staff privileges at this hospital have agreed to provide obstetric services to individuals who are eligible for Medicaid services.

2_____This hospital is located in a rural area (as defined for purposes of section 1886 of the Social Security Act) and at least two (2) physicians with staff privileges at this hospital have agreed to provide obstetric services to individuals who are eligible for Medicaid services.

3_____This hospital serves as inpatients a population predominantly comprised of individuals under 18 years of age.

4_____On December 22, 1987, this hospital did not offer obstetric services to the general population, except in emergencies.

_____None of the above apply. The hospital is not eligible for a disproportionate share adjustor.

Each year, this form must submitted to the MSA along with your cost report.

In addition to the minimum requirements specified in the form above, each hospital must have a Medicaid utilization rate of at least 1%. Medicaid utilization is measured as:

$$\frac{\textit{Medicaid Inpatient Days (Whole Hospital, including Subproviders)}}{\textit{Total Hospital Days (Whole Hospital, including Subproviders)}}$$

Days are taken from filed hospital cost reports for fiscal years ending during the second previous state fiscal year. All charge, cost and payment data must be on an accrual basis for each hospital's cost reporting period ending during the second previous state fiscal year (i.e. DSH payments for state FY 1998 are calculated using data collected in state FY 1996).

Regular DSH Payments

Medicaid inpatient DSH payments are made annually in a single distribution, based on charges converted to cost, using the hospital's cost to charge ratio. The payment will normally be made during the first half of the state fiscal year.

Each hospital's indigent volume is taken from hospital cost reporting periods ending during the second previous state fiscal year.

Title XIX charges used for computing DSH payments are the sum of Title XIX charges and Title XIX Qualified Health Plan (QHP) charges from hospital IV Reports for cost periods ending during the second previous state fiscal year. Data for cost periods of more or less that one-year is proportionately adjusted to one year.

Hospital total cost ratios are taken from hospital cost reporting periods ending during the second previous state fiscal year. If a hospital has more than one cost reporting period ending within this range, data from the two periods are added together and a single ratio is computed. If the ratio is greater than 1.00, a ratio of 1.00 is used.

1. DRG Reimbursed Hospitals ($37,500,000 allocated)

   The DSH payments for DRG reimbursed hospitals are split into two pools.

a) Hospitals with at least 50% IV ($7,300,000)

The share of the DSH payment for hospitals with at least 50% IV is based on a DSH share computed as follows:

Title XIX Charges x Operating Ratio x (IV-0.5)

b) Hospitals with at least 20% IV ($30,200,000)

The share of the DSH payment paid to hospitals with at least 20% IV is based on the following DSH share amount. This is in addition to the amount from a) above.

Title XIX Charges x Operating Ratio x (IV-0.2)

2. Per Diem Reimbursed Hospitals and Units ($7,000,000 allocated)

The share of the DSH payment paid to hospitals with IV of at least 20% is based on a DSH share based on the following:

Title XIX Charges x Operating Ratio x (IV-0.2)

3. Distinct-Part Rehabilitation Units ($500,000 allocated)

The share of the DSH payment paid to hospitals with IV of at least 20% is based on a DSH share of the following:

Title XIX Charges x Operating Ratio x (IV-0.2)

4. For groups 1. through 3. Above, the determination of the share of the allocated DSH pool is made using the DSH share of the following:

$$\frac{\textit{Hospital's DSH Share}}{\sum \textit{DSH Shares for the Group}} \times \textit{Allocated DSH Pool}$$

5. The payment amount for each hospital is determined by comparing the results of 4. above to the individual hospital payment limit. Any amount not paid to a hospital because of the OBRA 1993 limits is returned to the pool and redistributed using the same formula as the initial distribution with hospitals over the ceiling removed from the calculation. This process will continue until the entire pool is distributed. DSH amounts that cannot be paid because of the ceiling are withheld from hospitals in the following order:

a) Distinct-Part Rehabilitation Unit DSH Payment

Any hospital that is above the DSH ceiling that is eligible for payment from the distinct-part rehabilitation unit DSH pool will forfeit DSH payments from the distinct-part rehabilitation unit pool in an amount necessary to get to the limit.

b) DRG Reimbursed Hospital

If a hospital is not eligible for a distinct-part rehabilitation unit DSH payment, or if forfeiting that unit's DSH payment is not sufficient to put the hospital below the DSH ceiling, the hospital will forfeit DSH payments from the DRG hospital pool in an amount necessary to get to the limit.

c) Per Diem Reimbursed Hospitals and Units

If steps a) and b) above are not sufficient to get the hospital below the DSH ceiling, the hospital will forfeit DSH payments from the per diem reimbursed hospital and unit pool in an amount necessary to get to the DSH limit.

Special DSH Payments for Public Hospitals

Determination of annual special DSH payments for public hospitals is based on 100% of Medicaid and uninsured costs. Each public hospital's maximum payment is calculated as follows:

[(Title XIX Costs + Uninsured Care Costs) (Title XIX Payments + Uninsured Care Payments)] - Regular DSH payment

The maximum payment amount may be reduced if funds are not available to finance the payment.

DSH Payments for Geographic Areas with Indigent Care Agreements

Annual DSH payments will be made to hospitals for geographic areas covered by an Indigent Care Agreement (ICA) approved by the Deputy Director for MSA. Separate pools will be established based upon local funds transferred to the state by one or more counties specifically for this purpose, a proportionate share of state dollars appropriated for the

Distribution of Regular Disproportionate Share Hospital (DSH) Pools

Federal Requirements:

In order to receive DSH funds, a hospital must meet at least one of the following federal criteria:

- At least 2 obstetricians with staff privileges at the hospital must have agreed to provide obstetric services to individuals who are eligible for Medicaid.
- The hospital is located in a rural area and at least 2 physicians with staff privileges at the hospital must have agreed to provide obstetric services to individuals who are eligible for Medicaid.
- The hospital services as inpatients a population predominantly comprised of individuals under 18 years of age
- On December 22, 1987, the hospital did not offer obstetric services to the general population except in emergencies.

In addition to the above requirements, each hospital must have a Medicaid utilization rate of at least 1 %.

In addition, a hospital's Medicaid inpatient utilization rate must exceed by one or more standard deviations the mean inpatient utilization rate of hospital's receiving Medicaid payments in Michigan or its low-income revenues exceed 25% of a hospital's total revenues. The Medicaid inpatient utilization rate is defined as the hospital's Medicaid inpatient hospital days divided by its total hospital days.

State Requirements:

$45 million in regular DSH is distributed annually in the following pools:

I. DRG Reimbursed Hospitals ($37.5 Million)
   The DSH payments for DRG reimbursed hospitals are split into 2 pools:
   a. Hospitals with at least 50% Indigent Volume (IV) ($7.3 Million)
   b. Hospitals with at least 20% IV ($30.2 Million)

II. Per Diem Reimbursed (Psychiatric and Rehab) Hospitals and Units ($7.0 Million)

III. Distinct Part Rehab Units ($½ Million)

Each hospital's Indigent Volume (IV) charges are computed as follows:

Medicaid Charges + Medicaid Managed Care Charges + Children's Special Health Care Services Charges + State Medical Plan Charges + Total Uncompensated Charges - Recoveries & Offset Charges

IV Factor = Hospital's IV Charges/Net Hospital Charges

An example of a hospital's distribution from a single pool:

Hospital's Costs = Hospital's Medicaid (Fee for Service & Health Plan) Charges x Hospital's Cost to Charge Ratio x (IV Factor - 0.X*)

$$\text{Hospital's Disrtibution} = \frac{\text{Hospital Costs}}{\sum \text{Hospital Costs}}$$

* Eligibility Percentage 20% or 50%

2000 Regular DSH Payments

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Facility Name	2000 Regular DSH Payments
NORTHERN REGION	
ALPENA GENERAL HOSPITAL	$ 12,181
MEMORIAL MEDICAL CENTER OF WEST MICHIGAN	$ 38,330
MUNSON MEDICAL CENTER	$ 680
SOUTHEAST REGION	
AURORA HOSPITAL	$ 1,131,092
CHILDREN'S HOSPITAL OF MICHIGAN	$ 13,151,423
COTTAGE HOSPITAL OF GROSSE POINTE	$ 158,692
DETROIT RECEIVING HOSPITAL	$ 6,460,315
DETROIT RIVERVIEW HOSPITAL	$ 3,652,218
GRACE HOSPITAL DIVISION	$ 2,010,221
HARPER HOSPITAL	$ 365,494
HENRY FORD WYANDOTTE HOSPITAL	$ 76,866
HOLY CROSS HOSPITAL	$ 1,010,586
HUTZEL HOSPITAL, DETROIT	$ 10,164,061
MADISON COMMUNITY HOSPITAL	$ 9,804
NORTH OAKLAND MEDICAL CENTERS	$ 39,507
OAKWOOD HOSPITAL ANNAPOLIS CENTER	$ 369,751
OAKWOOD HOSPITAL HERITAGE CENTER	$ 157,227
PONTIAC OSTEOPATHIC HOSPITAL	$ 48,357
REHABILITATION INSTITUTE	$ 265,196
RIVERSIDE OSTEOPATCHIS HOSPITAL	$ 322,425
SINAI HOSPITAL	$ 303,433
ST. JOHN HEALTH SYSTEM OAKLAND HOSPITAL	$ 134,679
ST. JOSEPH HOSPITAL - EAST	$ 45,256
THUMB & EASTERN REGION	
BAY MEDICAL CENTER	$ 27,400
CHELSEA COMMUNITY HOSPITAL	$ 12,760
EDWARD W. SPARROW HOSPITAL	$ 125,143
EMMA L. BIXBY MEDICAL CENTER	$ 64,294
HEALTHSOURCE SAGINAW	$ 95,698
HERRICK MEMORIAL HOSPITAL, INC.	$ 43,383
HURLEY MEDICAL CENTER	$ 3,210,403
LAPEER REGIONAL HOSPITAL	$ 15,535
PORT HURON HOSPITAL	$ 26,928
UNIVERSITY HEALTH SYSTEM	$ 20,734
W. A. FOOTE MEMORIAL HOSPITAL	$ 8,817
UPPER PENINSULA REGION	
MARQUETTE GENERAL HOSPITAL	$ 120,709
WEST & SOUTHWEST REGION	
BORGESS MEDICAL CENTER	$ 42,285
BRONSON METHODIST HOSPITAL	$ 183,374
CARSON CITY OSTEOPATHIC HOSPITAL	$ 57,594
GERBER MEMORIAL HOSPITAL	$ 92,293
HAYES-GREEN-BEACH MEMORIAL HOSPITAL	$ 22,282
LAKELAND MEDICAL CENTER, ST. JOSEPH	$ 74,630
LAKESHORE COMMUNITY HOSPITAL	$ 6,480
METROPOLITAN HOSPITAL	$ 318,377
SOUTH HAVEN COMMUNITY HOSPITAL	$ 28,558
SPECTRUM HEALTH - DOWNTOWN CAMPUS	$ 202,269
ST MARY'S HEALTH SERVICES	$ 196,945
THREE RIVERS HOSPITAL	$ 66,276
TRILLIUM HOSPITAL	$ 9,039
	$ 45,000,000