

DEPARTMENT OF HEALTH & HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
7500 Security Boulevard, Mail Stop S2-26-12  
Baltimore, Maryland 21244-1850



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JUN 06 2013

Mr. Stephen Fitton, Director  
Medical Services Administration  
Department of Community Health  
400 South Pine  
Lansing, MI 48933

RE: Michigan State Plan Amendment (SPA) 11-011

Dear Mr. Fitton:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid State plan submitted under transmittal number (TN) 11-011. Effective for services on or after September 30, 2011, this amendment proposes methodology for the redistribution of disproportionate share hospital (DSH) payments. Specifically, this amendment is proposing a multi-step DSH payment process that encompasses the current approved DSH payment methodology, but provides for the re-distribution of DSH payments upon the receipt of more current cost report data and the results of the annual independent DSH audit and reporting process.

We conducted our review of your submittal according to the statutory requirements at sections 1902(a)(2), 1902(a)(13), 1902(a)(30), 1903(a), and 1923 of the Social Security Act and the regulations at 42 CFR 447 Subpart C. We hereby inform you that Medicaid State plan amendment 11-011 is approved effective September 30, 2011. We are enclosing the HCFA-179 and the amended plan pages.

If you have any questions, please call Todd McMillion at (312) 353-9860.

Sincerely,

A handwritten signature in black ink, which appears to read "Cindy Mann". The signature is written in a cursive, flowing style.

Cindy Mann,  
Director

Enclosure

**TRANSMITTAL AND NOTICE OF APPROVAL OF  
STATE PLAN MATERIAL  
FOR: HEALTH CARE FINANCING ADMINISTRATION**

1. TRANSMITTAL NUMBER:

11 - 11

2. STATE:

Michigan

3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)

TO: REGIONAL ADMINISTRATOR  
HEALTH FINANCING ADMINISTRATION  
DEPARTMENT OF HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE  
September 30, 2011

5. TYPE OF PLAN MATERIAL (Check One):

NEW STATE PLAN

AMENDMENT TO BE CONSIDERED AS NEW PLAN

AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION:  
42 CFR 447.201

7. FEDERAL BUDGET IMPACT:

a. FFY 12 \_\_\_\_\_ \$ -0- \_\_\_\_\_  
b. FFY 13 \_\_\_\_\_ \$ -0- \_\_\_\_\_

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:  
Attachment 4.19-A, Page 24e, 24f, 24g, 24h <sup>Am</sup>

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable):

N/A - new page

10. SUBJECT OF AMENDMENT:

Redistribution of DSH

11. GOVERNOR'S REVIEW (Check One):

- GOVERNOR'S OFFICE REPORTED NO COMMENT  
 COMMENTS OF GOVERNOR'S OFFICE ENCLOSED  
 NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

OTHER, AS SPECIFIED:  
Stephen Fitton, Director  
Medical Services Administration

12. SIGNATURE OF STATE AGENCY OFFICIAL:

*Stephen Fitton*

13. TYPED NAME:  
Stephen Fitton

14. TITLE:  
Director, Medical Services Administration

15. DATE SUBMITTED:  
September 29, 2011

16. RETURN TO:

Medical Services Administration  
Actuarial Division - Federal Liaison  
Capitol Commons Center - 7<sup>th</sup> Floor  
400 South Pine  
Lansing, Michigan 48933

Attn: Loni Hackney

**FOR REGIONAL OFFICE USE ONLY**

17. DATE RECEIVED:

18. DATE APPROVED: JUN 06 2011

**PLAN APPROVED - ONE COPY ATTACHED**

19. EFFECTIVE DATE OF APPROVED MATERIAL:

SEP 30 2011

20. SIGNATURE OF REGIONAL OFFICIAL:

*Penny Thompson*

21. TYPED NAME:

Penny Thompson

22. TITLE:

Deputy Director, Policy & Financial Mgt, CHS

23. REMARKS:

Pen + Ink Change to Box # 8

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State of MICHIGAN

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DSH payments will be applied against a hospital's DSH limit in the following order:

1. Institute for Mental Disease Pool
2. \$45 Million Pool
3. Outpatient Uncompensated Care DSH Pool
4. University with Both a College of Allopathic Medicine and a College of Osteopathic Medicine Pool (University Pool)
5. Indigent Care Agreements Pool (ICA Pool)
6. Government Provider DSH Pool (GP Pool)

***Step 2: Interim DSH Settlement Step***

DSH limits, DSH payments and Medicaid utilization rates are recalculated using new cost report data during the Interim DSH Settlement step. DSH funds will be reallocated in a manner that maintains the pool order outlined in the Initial DSH Calculation step.

The State will recalculate hospital-specific DSH limits, DSH payment allocations and Medicaid utilization rates during the year following the applicable DSH year. Inpatient and outpatient cost and payment data from cost reports with hospital FYs ending during the previous calendar year will be utilized for DSH limit, DSH payment, and Medicaid utilization rate recalculations. For example, during 2012, data from hospital cost reports with FYs ending between January 1, 2011 and December 30, 2011, will be used to complete the FY 2011 Interim DSH Settlement calculations. The State will maintain its current pool-specific payment allocation during this step.

Beginning with State FY 2011, hospitals will be able to decline DSH funds and also request a downward adjustment to their DSH limit during the Interim DSH Settlement. Upon receipt of this feedback from hospitals, each hospital's calculated DSH limit will be reduced to the requested amount.

If a hospital declines DSH funds, the State will recalculate DSH amounts with that hospital's limit at zero. To the extent that payment allocations are affected by a hospital's request to reduce its DSH limit or decline DSH payments altogether, payments from the applicable pool(s) will be allocated to other hospitals eligible for payments from the pool(s). If no hospital is eligible to accept the DSH payment during this step, the unpaid amount will be paid to eligible hospitals during the Step 3: Final DSH Audit-Related DSH Redistribution calculations.

No hospital will receive a DSH payment in excess of its Interim DSH Settlement limit.

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## 4. DSH Process

The State will implement a multiple-step DSH process as follows.

***Step 1: Initial DSH Calculation Step***

Hospital-specific DSH limits, DSH payment allocations and Medicaid utilization rates will be calculated during the State FY as part of its Initial DSH Calculation. Inpatient and outpatient cost and payment data from the hospital's cost reporting period ending during the second previous State FY will be used for the DSH limit, DSH payment and Medicaid utilization rate calculations. The data will be trended to the current FY for DSH limit calculation purposes. The State will trend base year hospital costs using the CMS Hospital Prospective Reimbursement Market Basket to approximate current year costs. Costs will be reported on a quarterly basis based on the fiscal years of the respective hospitals. The State will also trend base year costs and payments using a volume trend based on changes in the Medicaid caseload from the base year period to the current year to approximate current year volume.

Beginning with State FY 2013, hospitals will be able to decline DSH funds and also request a downward adjustment to their DSH limit during the Initial DSH calculation. Upon receipt of this feedback from hospitals, each hospital's calculated DSH limit will be reduced to the requested amount. If a hospital declines the DSH funds, the State will recalculate DSH amounts with that hospital's limit at zero. To the extent that payment allocations are affected by a hospital's request to reduce its DSH limit or decline DSH payments altogether, payments from the applicable pool(s) will be allocated to other hospitals eligible for payments from the pool(s). If no hospital is eligible to accept the DSH payment during this step, the unpaid amount will be paid to eligible hospitals during the Step 2: Interim DSH Settlement calculations. No hospital will receive a DSH payment in excess of its initial DSH limit.

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***Step 3: Final DSH Audit-Related DSH Redistribution***

If the Final DSH Audit determines that a hospital has been paid in excess of its hospital-specific DSH limit, funds will be recovered from hospitals in the following order:

1. Funds from pools allocated exclusively to State government-owned or operated, or non-State government-owned or operated public hospitals
2. All other DSH Pools

The State will recoup all payments that exceed audited hospital-specific DSH limits in the order stated above and then apply the following redistribution process. Only funds that exceed the audited hospital-specific DSH limit will be recovered and redistributed:

1. Funds recovered from pools allocated exclusively to State government-owned or -operated, or non-State government-owned or -operated public hospitals are reallocated to other like hospitals up to the lesser of the audited hospital-specific limits or other Federal limits. No hospital is to receive a DSH payment that exceeds its audited hospital-specific DSH limit. Unspent DSH funds will be added to the "All Other DSH Pools" described in Step 2 below. The formulas to redistribute these recouped funds are as follows:
  - a.  $(\text{Eligible Hospital's Remaining Audited DSH Limit Capacity}) / (\sum \text{ of all Eligible Hospitals' Audited Remaining DSH Limit Capacity}) = (\text{Hospital Pool Factor})$
  - b.  $(\text{Hospital Pool Factor}) \times (\text{Pool Amount}) = \text{Pool Payment}$
2. Funds recovered from the other DSH pools, plus any unspent DSH funds recouped from pools allocated exclusively to State government-owned or -operated, or non-State government-owned or -operated public hospitals, are reallocated to all remaining eligible hospitals proportionately based on their share of remaining audited hospital-specific DSH limit capacity adjusted to exclude the DSH payment amounts hospitals received from the ICA, University and GP DSH Pools during the Initial DSH Calculation and Interim DSH Settlement steps. No hospital will receive an allocation in excess of its remaining audited hospital-specific DSH limit capacity or other federal limits. The formulas to redistribute these recouped funds are as follows:

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- a.  $(\text{Eligible Hospital's Remaining Audited DSH Limit Capacity} + \text{ICA DSH Payment Amount} + \text{University DSH Payment Amount} + \text{GP DSH Payment Amount}) / (\sum \text{of all Eligible Hospitals' Audited Remaining DSH Limit Capacity} + \text{ICA DSH Payment Amount} + \text{University DSH Payment Amount} + \text{GP DSH Payment Amount}) = (\text{Hospital Pool Factor})$
- b.  $(\text{Hospital Pool Factor}) \times (\text{Pool Amount}) = \text{Pool Payment}$

Pool payments calculated for individual hospitals that are in excess of a hospital's audited DSH limit will be placed back into that pool. These payments will then be reallocated to the remaining hospitals in that component of the pool which have not exceeded their audited hospital-specific DSH limit capacity. The reallocation will be based on the funding formula specified above. Only hospitals with available audited DSH limit capacity will be included.

In addition, any increase in the State's Federal DSH allotment that is promulgated in the Federal Register after the State's fiscal year ends will be distributed using the formula outlined in Step 3: Final DSH Audit-Related DSH Redistribution.

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