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State/Territory Name: Michigan

State Plan Amendment (SPA) #: MI 24-0011

This file contains the following documents in the order listed:

- 1) Approval Letter
- 2) CMS 179 Form
- 3) Approved SPA Pages

DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S3-14-28
Baltimore, Maryland 21244-1850



Financial Management Group

October 17, 2024

Meghan Groen
Senior Deputy Director
State of Michigan, Department of Community Health
400 South Pine Street
Lansing, Michigan 48933

RE: TN 24-0011

Dear Director Groen:

The Centers for Medicare & Medicaid Services (CMS) has reviewed the proposed Michigan state plan amendment (SPA) to Attachment 4.19-A MI 24-0011, which was submitted to CMS on August 5, 2024. This plan amendment update provides authority to remove the regular and special pools contained in the DSH program except for the Institute for Mental Disease (IMD) special DSH pool.

We reviewed your SPA submission for compliance with statutory requirements, including in sections 1902(a)(2), 1902(a)(13), 1902(a)(30), 1903 as it relates to the identification of an adequate source for the non-federal share of expenditures under the plan, as required by 1902(a)(2), and 1923 of the Social Security Act and the applicable implementing Federal regulations.

Based upon the information provided by the state, we have approved the amendment with an effective date of July 1, 2024. We are enclosing the approved CMS-179 and a copy of the new state plan pages.

If you have any additional questions or need further assistance, please contact Tom Caughey at 517-487-8598 or via email at tom.caughey@cms.hhs.gov.

Sincerely,

A handwritten signature in cursive script that reads "Rory Howe".

Rory Howe
Director
Financial Management Group

Enclosures

**TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL
FOR: CENTERS FOR MEDICARE & MEDICAID SERVICES**

1. TRANSMITTAL NUMBER

24 — 0011

2. STATE

MI3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL
SECURITY ACTTO: CENTER DIRECTOR
CENTERS FOR MEDICAID & CHIP SERVICES
DEPARTMENT OF HEALTH AND HUMAN SERVICES4. PROPOSED EFFECTIVE DATE
July 1, 20245. FEDERAL STATUTE/REGULATION CITATION
42 CFR 447.2016. FEDERAL BUDGET IMPACT (Amounts in WHOLE dollars)
a. FFY 2024 (\$246,872,900)
b. FFY 2025 \$0

7. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT

Attachment 4.19-A Page 21
Attachment 4.19-A Page 23
Attachment 4.19-A Page 24a.1
Attachment 4.19-A Page 24b
Attachment 4.19-A Page 24c
Attachment 4.19-A Page 24e-f8. PAGE NUMBER OF THE SUPERSEDED PLAN
SECTION OR ATTACHMENT (If Applicable)Attachment 4.19-A Page 21 (TN 00-05)
Attachment 4.19-A Page 23 (TN 22-0003)
Attachment 4.19-A Page 24a.1 (TN 09-16)
Attachment 4.19-A Page 24b (TN 22-0003)
Attachment 4.19-A Page 24c (TN 18-0010)
Attachment 4.19-A Page 24e-f (TN 22-0003)

9. SUBJECT OF AMENDMENT

This SPA provides authority to remove the regular and special pools contained in the DSH program except for the Institute for Mental Disease (IMD) special DSH pool. The significant expansion of the Hospital Rate Adjustment (HRA) supplemental payment program limits hospital capacity for DSH payments.

10. GOVERNOR'S REVIEW (Check One)

☐

GOVERNOR'S OFFICE REPORTED NO COMMENT

☒

OTHER, AS SPECIFIED:

☐

COMMENTS OF GOVERNOR'S OFFICE ENCLOSED

☐

NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

11. SIGNATURE OF STATE AGENCY OFFICIAL



12. TYPED NAME

Meghan Groen

13. TITLE

Senior Deputy Director

14. DATE SUBMITTED

August 5, 2024

15. RETURN TO

Behavioral and Physical Health and Aging Services
Administration
Office of Strategic Partnerships & Medicaid Administrative
Services – Federal Liaison
Capitol Commons Center – 7th Floor
400 South Pine
Lansing, Michigan 48933

Attn: Erin Black

FOR CMS USE ONLY16. DATE RECEIVED
August 5, 202417. DATE APPROVED
October 17, 2024**PLAN APPROVED - ONE COPY ATTACHED**18. EFFECTIVE DATE OF APPROVED MATERIAL
July 1, 2024

19. SIGNATURE OF APPROVING OFFICIAL

20. TYPED NAME OF APPROVING OFFICIAL
Rory Howe21. TITLE OF APPROVING OFFICIAL
Director, FMG

22. REMARKS

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

State of MICHIGAN

Methods of Payment of Reasonable Costs - Inpatient Hospital Services

In order to qualify for DSH payments, hospitals must have at least one percent Medicaid inpatient days to total inpatient days.

Hospitals that fail to supply indigent volume data will not be eligible to receive disproportionate share payments.

For new hospitals, disproportionate share payments will be withheld until the hospital's indigent volume can be calculated and applied in the normal update process.

For new distinct part psychiatric units of general hospitals, the indigent volume data from the general hospital will be used to determine DSH payments applicable to the distinct part psychiatric units until the unit's indigent volume can be calculated and applied in the normal update process.

To be eligible to receive DSH payments, hospitals must also meet at least one of the following criteria. Except for hospitals and distinct part psychiatric units eligible under the fourth criteria listed below, hospitals will be contacted annually by letter and asked to report their status on these criteria.

The hospital must:

- have at least two (2) obstetricians with staff privileges at the hospital who have agreed to provide obstetric services to individuals who are eligible for Medicaid services; or
- be located in a rural area (as defined for purposes of section 1886 of the Social Security Act) and have at least two (2) physicians with staff privileges at the hospital who have agreed to provide obstetric services to individuals who are eligible for Medicaid services; or
- serve as inpatients a population predominantly comprised of individuals under 18 years of age; or
- as of December 22, 1987, not have offered non-emergency obstetric services to the general population.

1. Inpatient Hospitals

EFFECTIVE STATE PLAN RATE YEAR 2024, THE DISPROPORTIONATE SHARE HOSPITAL POOLS AND METHODOLOGY DESCRIBED IN THE INPATIENT HOSPITALS SECTION ARE DISCONTINUED. State fiscal year 1997 disproportionate share hospital payments for services in all hospitals, except for state-owned mental hospitals, are fixed at \$45 million. The pool allocations were determined as follows:

$$\frac{\sum \text{DSH Shares for Group}}{\text{Total DSH Shares}} \times \$45 \text{ Million}$$

The determination of the share of the allocated DSH pool will be made using the DSH share. The payment will be made by:

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Methods and Standards for Establishing Payment Rates Inpatient Hospital Care

c. Distinct Part Rehab Units

Distinct part rehab units are allocated approximately \$500,000 for DSH payments. The share of the DSH payment paid to hospitals with IV of at least 20 percent is based on a DSH share of the following:

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

2. Special Pools

In addition to the regular DSH pools of \$45,000,000, the single state agency (SSA) is establishing the following special pools:

Note: Subsection "a." has been deleted. The next subsection is "b." **EFFECTIVE STATE PLAN RATE YEAR 2024, THE REGULAR DISPROPORTIONATE SHARE HOSPITAL POOLS AND METHODOLOGY DESCRIBED IN THE INPATIENT HOSPITALS SECTION ARE DISCONTINUED.**

b. **EFFECTIVE STATE PLAN RATE YEAR 2024, THE SPECIAL DISPROPORTIONATE SHARE HOSPITAL POOL AND METHODOLOGY DESCRIBED IN THIS SECTION IS DISCONTINUED.**

The single state agency (SSA) is creating a special DSH payment pool of \$2,772,003 million in fiscal year 2005, \$2,764,340 for fiscal years 2006 – 2012, and \$3,500,000 for each subsequent fiscal year.

The purpose of this pool is to:

- Assure continued access to medical care for indigents, and
- Increase the efficiency and effectiveness of medical practitioners providing services to Medicaid beneficiaries under managed care.

The SSA will approve one (1) agreement statewide each state fiscal year. To be eligible for the pool, a hospital must meet the following criteria:

- Meet the minimum federal requirements for DSH eligibility listed in Section III.H.
- Have in place an approved agreement between itself and a university with both a college of allopathic medicine and a college of osteopathic medicine that specifies all services and activities to be conducted.

This agreement shall not require the hospital to donate money or services to the other party in the agreement.

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e. Institute for Mental Disease

A special DSH pool ~~of \$144,665,900~~ will be established to take into account the situation of State psychiatric hospitals that serve indigent persons with serious mental illness requiring inpatient treatment. ~~For fiscal year 2010 and subsequent fiscal years, T~~he pool size will equal the calculated Institutions for Mental Diseases (IMD) DSH limit (including the state share), reduced by all other DSH payments that IMDs are scheduled to receive that fiscal year. To qualify for this pool, a hospital must comply with all of the following conditions:

- 1) Meet minimum federal requirements for Medicaid DSH Payments including
 - a. requirements for participation as a hospital under 42 CFR 482.1(a)(5)
 - b. a valid provider agreement under 42 CFR 431.107
 - c. at least a one percent Medicaid inpatient utilization rate based on active participation in the Medicaid program as required under section 1923(d) of the Social Security Act
 - d. when calculating DSH limits at 1923(g) excluding uncompensated costs incurred in providing inpatient and outpatient hospital services to Medicaid and uninsured patients who are considered prisoners consistent with Section 1905(a) of the Social Security Act and the regulations at 42 CFR 435.1008 and 435.1009 which prohibit (FFP) for services provided to inmates of public institutions.
- 2) Function as one of the following stand-alone psychiatric hospitals operated by the state:
 1. Walter P. Reuther Psychiatric Hospital
 2. Caro Regional Mental Health Center – Psychiatric Hospital
 3. Kalamazoo Psychiatric Hospital
 4. Hawthorn Center – Psychiatric Hospital
 5. Center for Forensic Psychiatry

Payments from the pool will be distributed sequentially to the hospitals listed in condition two above based on the order they are listed. They will be distributed up to each qualified hospital's DSH ceiling as specified below. Payments will be distributed to the first hospital meeting the minimum Federal requirements for Medicaid DSH funding up to its DSH ceiling. Once this occurs, payments will be distributed to the second hospital meeting the minimum Federal requirements for Medicaid DSH funding up to its DSH ceiling. Payments will continue to be distributed to the third, fourth and fifth hospitals using the same methodology until all hospitals have reached their DSH ceilings or until the pool is exhausted of funds.

Notwithstanding the above, no payment will be made to the Center for Forensic Psychiatry until the State demonstrates to the Secretary that all the Federal conditions for Medicaid DSH payment listed above have been met.

Payments to individual hospitals are limited to hospital specific DSH limits defined in section 1923(g) of the Social Security Act.

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***Methods and Standards for Establishing Payment Rates
Inpatient Hospital Care***

f. Government Provider DSH Pool

EFFECTIVE STATE PLAN RATE YEAR 2024, THE SPECIAL DISPROPORTIONATE SHARE HOSPITAL POOL AND METHODOLOGY DESCRIBED IN THIS SECTION IS DISCONTINUED. A special pool for non-state government-owned or operated hospitals will be established and renewed annually. The purpose of the pool is to assure funding for costs incurred by public facilities providing inpatient hospital services which serve a disproportionate number of low-income patients with special needs. The size of the pool will be the lesser of \$88,168,000 for fiscal year 2006, \$62,064,198 for fiscal year 2007, \$49,172,890 for fiscal year 2008, \$73,117,228 for fiscal year 2009 and 2010, \$82,086,703 for fiscal year 2011 through fiscal year 2018, \$94,649,000 for fiscal year 2019 and each subsequent fiscal year, or the calculated Medicaid and uninsured inpatient hospital and outpatient hospital uncompensated care amounts eligible for Federal financial participation. Allocations for individual hospitals will be determined based upon non-reimbursed costs certified as public expenditures in accordance with 42 CFR 433.51.

To be eligible for the Government Provider DSH Pool, the following must apply:

1. Hospitals must meet minimum federal requirements for Medicaid DSH payments; and
2. Hospitals must be non-state government-owned or operated.

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***Methods and Standards for Establishing Payment Rates
Inpatient Hospital Care***

Aggregate DSH expenditures will be made in accordance with Section 1923(g)(1)(A) of the Social Security Act. Prior to computing the amount of payment each individual hospital is eligible to receive from this pool, all other DSH and Medicaid payments that the hospital is scheduled to receive will be counted against the hospital's DSH limit.

g. Outpatient Uncompensated Care DSH Pool

EFFECTIVE STATE PLAN RATE YEAR 2024, THE SPECIAL DISPROPORTIONATE SHARE HOSPITAL POOL AND METHODOLOGY DESCRIBED IN THIS SECTION IS DISCONTINUED. A special pool will be created annually for the purpose of reimbursing hospitals for a portion of their uncompensated care. The pool amount will be \$185,000,000 in fiscal year 2018 and each subsequent fiscal year. Payments from the pool will be made annually.

In order to qualify for a payment from the Outpatient Uncompensated Care DSH Pool, hospitals must meet the minimum requirements for Medicaid DSH payments as specified in Section H. Funds will be distributed from the Outpatient Uncompensated Care DSH Pool to qualifying Privately-Owned or Operated and Non-State Government-Owned or Operated DSH eligible hospitals in Michigan.

The Outpatient Uncompensated Care DSH Pool will be split into Small and Rural and Large-Urban components as follows:

Component	FY 2018 and Subsequent Fiscal Years
Small and Rural components	\$60,000,000
Large-Urban components	\$125,000,000
TOTALS	\$185,000,000

For purposes of distributions from this pool, any qualifying DSH hospital located in Michigan with less than 100 acute care beds or any qualifying DSH hospital located in a Michigan rural or Micropolitan County will be eligible to receive a proportional share of the Small and Rural components of the pool.

Also for purposes of distributions from this pool, any qualifying DSH hospital with 100 or more acute care beds and located in an urban Michigan county will be eligible to receive a proportional share of the Large-Urban components of the pool.

The distribution of funding from the Outpatient Uncompensated Care DSH Pool will be based on each hospital's proportion of outpatient uncompensated care relative to other hospitals in the pool. The formula below will be used to calculate the distribution of payments from the Outpatient Uncompensated Care DSH Pool.

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4. DSH Process

EFFECTIVE STATE PLAN RATE YEAR 2024, DSH PAYMENTS WILL BE LIMITED TO THE INSTITUTE FOR MENTAL DISEASE (IMD) POOL. ALL OTHER REGULAR AND SPECIAL DSH POOLS WILL BE DISCONTINUED EFFECTIVE STATE PLAN RATE YEAR 2024.

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 prorated 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, **non-IMD** 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: Final DSH Settlement calculations. No hospital will receive a DSH payment in excess of its initial DSH limit.

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EFFECTIVE STATE PLAN RATE YEAR 2024, DSH PAYMENTS WILL BE LIMITED TO THE INSTITUTE FOR MENTAL DISEASE POOL. ALL OTHER REGULAR AND SPECIAL DSH POOLS WILL BE DISCONTINUED EFFECTIVE STATE PLAN RATE YEAR 2024.

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. Government Provider DSH Pool (GP Pool)

Step 2: Final DSH Settlement Step

EFFECTIVE STATE PLAN RATE YEAR 2024, DSH PAYMENTS WILL BE LIMITED TO THE INSTITUTE FOR MENTAL DISEASE POOL. ALL OTHER REGULAR AND SPECIAL DSH POOLS WILL BE DISCONTINUED EFFECTIVE STATE PLAN RATE YEAR 2024.

DSH limits, DSH payments and Medicaid utilization rates are recalculated during the final DSH settlement step. DSH funds will be reallocated in the following manner:

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. Government Provider DSH pool (GP Pool)
6. Unspent funds not applicable to Step 1

The State will recalculate hospital-specific DSH limits, DSH payment allocations and Medicaid utilization rates upon completion of the DSH audit for the applicable DSH year. Inpatient and outpatient cost and payment data utilized from Step 1 will be refreshed to account for any cost report changes that occurred between steps during the cost report acceptance process. DSH limits and Medicaid utilization rates will be calculated using the final DSH audit.

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

- A. Upon completion of the calculations for the first five pools outlined in the order above, any remaining unspent federal DSH allotment will be distributed through a new pool. The remaining allotment will be distributed 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 University and GP DSH pools. No hospital will receive an allocation in excess of its remaining audited hospital-specific DSH limit capacity or other federal limits. The formulas to distribute these funds are as follows:

1.
$$\frac{(\text{Eligible hospital's remaining audited DSH limit capacity} + \text{University DSH payment amount} + \text{GP DSH payment amount})}{(\sum \text{of all eligible hospitals' audited remaining DSH limit capacity} + \text{University DSH payment amount} + \text{GP DSH payment amount})} = (\text{Hospital Pool Factor})$$
2.
$$(\text{Hospital Pool Factor}) \times (\text{Pool Amount}) = \text{Pool Payment}$$

TN NO.: 24-0011

Approval Date: October 17, 2024

Effective Date: 7/1/2024

Supersedes

TN No.: 22-0003