

**Memorandum**

To: Members, Legislative Health and Human Services Committee

Through: Michael Hely, Staff Attorney, Legislative Council Service

From: Brent Earnest, Deputy Secretary, Human Services Department

Date: September 5, 2012

RE: Disproportionate Share Hospital (DSH) Payments

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At a hearing of the Legislative Health and Human Services Committee on August 13, 2012, Representative Begaye asked about the formula for distribution of Disproportionate Share Hospital (DSH) payments. Specifically, why payments to University of New Mexico Hospital seemed stable from one year to the next while payments other hospitals, such as San Juan Regional Medical Center, varied? The purpose of this memo is to describe the DSH formula in more detail.

This memo draws significantly from the NM Administrative Code governing the DSH allocations, which leads to a technical description of the allocation process. In short, however, the DSH formula divides the total funding into four pools, the largest of which is designated for the state's teaching hospital (UNM Hospital). Within each pool, DSH allocations are determined by the number of Medicaid discharges. Thus, variations will occur in any given year as discharges fluctuate.

New Mexico receives about \$20 million every year from the federal government for allocation to hospitals that serve that serve a significantly disproportionate number of low-income patients. Eligible hospitals are referred to as DSH hospitals. States receive an annual DSH allotment to cover the costs of DSH hospitals that provide care to low-income patients that are not paid by other payers, such as Medicare, Medicaid, the Children's Health Insurance Program (CHIP) or other health insurance.<sup>1</sup> The federal funds are matched with about \$9 million of state general fund revenue for total payments of about \$29 million.

**NMAC 8.311.3.13**

*"C. Disproportionate share hospital payments:*

*(1) The DSH funds allocated to each pool are paid to qualifying hospitals based on the number of MAD discharges. These include both MAD managed care and non-managed care discharges. A discharge occurs when a patient dies in the hospital, is formally released from the hospital, or is transferred to another hospital or nursing home.*

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<sup>1</sup> See: <http://www.hhs.gov/recovery/cms/dsh.html>

*(2) Payments are made quarterly, with the annual amount for the pool divided into four parts, and each part distributed after the end of each quarter based on MAD discharges during that quarter. The quarterly payment to each hospital qualifying for DSH pools one, two, or three will be computed by dividing the number of MAD discharges for that hospital by the total number of MAD discharges from all hospitals qualifying for that DSH pool and then multiplying this pro-rata share by the quarterly allocation for the respective pool. This amount cannot exceed the OBRA 93 DSH limit, which is described in Subsection E and F of 8.311.3.13 NMAC.*

*(3) MAD will review the allocation of DSH funds prior to the start of each state fiscal year and may re-allocate funds between pools at that time in consideration of shifts in the hospital utilization of MAD and low-income/indigent care patients.*

*(4) The percentages allocated to each pool for state fiscal year 98 are as listed below. The total allocations shall be adjusted in subsequent state fiscal years based on the medicare prospective payment update factor (MPPUF) or the DSH budget as defined by the department. The base year DSH budget for state fiscal year 98 is \$22,000,000.00.*

*(a) The teaching Prospective Payment System (PPS) hospital DSH pool is 56 percent of the overall DSH budget, as defined by HSD.*

*(b) The non-teaching PPS (DRG)<sup>2</sup> hospital DSH pool is 22.5 percent of the overall DSH budget, as defined by HSD.*

*(c) The PPS-exempt hospital (TEFRA)<sup>3</sup> DSH pool is 1.5 percent of the overall DSH budget, as defined by HSD.*

*(d) The reserve DSH pool is 20 percent of the overall DSH budget, as defined by HSD. Quarterly payments may be made directly from the reserve pool to hospitals qualifying for any of the other three DSH pools at the rate of N dollars per MAD discharge, where N is equal to the fraction described in Item (ii) of Subparagraph (b) of Paragraph (3) of Subsection A of 8.311.3.13 NMAC minus 20 percent, multiplied by \$1,750.”*

For FY12, DSH funding was divided among the three hospital types. These figures include the allocation of the reserve pool, which is allocated primarily to UNM Hospital.

Teaching	\$ 22,533,146.00
DRG	\$ 6,670,998.00
TEFRA	\$ 370,768.00
Total	\$ 29,574,912.00

<sup>2</sup> Diagnosis Reporting Group – ‘DRG’ used as the descriptor for the second largest pool of DSH funding

<sup>3</sup> Tax Equity and Fiscal Responsibility Act of 1982 – the smallest pool of DSH funding; ‘TEFRA’ is used to describe the pass-through costs that are excluded in the formula, as identified in this federal act.