



**DEPARTMENT OF HEALTH & HUMAN SERVICES**  
**Health Care Financing Administration**

**Center for Medicaid and State Operations**  
**7500 Security Boulevard**  
**Baltimore, MD 21244-1850**

December 10, 1997

Dear State Medicaid Director:

This letter is one of a series that provides guidance on the implementation of the Balanced Budget Act of 1997 (BBA). Specifically, this letter outlines HCFA's policy regarding the disproportionate share hospital (DSH) allotments and how they apply to institutions for mental disease (IMD) or other mental health facilities under section 4721 of the Balanced Budget Act of 1997. For the purposes of this document, all references to fiscal years are Federal fiscal years.

Section 4721(a) of the BBA replaces the current DSH allotment methodology with statutorily defined Federal DSH allotments. For Federal fiscal years 1998 through 2002, we use the Federal DSH allotments listed in the statute. For Federal fiscal years 2003 and thereafter, a State's Federal DSH allotment will be equal to the State's prior year Federal DSH allotment, if the amount is greater than 12 percent of medical assistance expenditures for the current Federal fiscal year. If the prior year's Federal DSH allotment is less than 12 percent of current year medical assistance expenditures, the prior year allotment shall be increased by the Consumer Price Index for all Urban Consumers, capped at 12 percent of current year medical assistance expenditures.

The following example explains how the Federal DSH allotments will be calculated for three States in FY 2003:

	<b>State A</b>	<b>State B</b>	<b>State C</b>
<b>1. Prior Year's Federal DSH Allotment</b>	242,000,000	60,000,000	62,000,000
<b>2. Prior Year's CPI-U</b>	6.0%	6.0%	6.0%
<b>3. Calculated 2003 Federal DSH Allotment</b>	256,520,000	63,600,000	65,720,000
<b>4. Projected Current Year Total Federal Medical Assistance Expenditures as Adjusted by HCFA.</b>	1,500,000,000	1,200,000,000	525,000,000
<b>5. Maximum Percentage</b>	12.00%	12.0%	12.0%
<b>6. 12% of Adjusted Federal Medical Assistance Expenditures (4 X 5)</b>	180,000,000	144,000,000	63,000,000
<b>7. Actual 2003 Federal DSH Allotment</b>	242,000,000	63,600,000	63,000,000

**State A's** prior year Federal DSH allotment of \$242 million represents approximately 16% of the State's total Federal medical assistance expenditures as estimated for 2003 on the HCFA 37 (\$1.5 billion). Since State A's prior year Federal DSH allotment exceeds 12 percent of total Federal medical assistance expenditure estimates for 2003, the State's Federal DSH allotment for 2003 cannot be increased by the CPI and will remain \$242 million.

**State B's** prior year Federal DSH allotment of \$60 million represents approximately 5% of the State's total Federal medical assistance expenditures as estimated on the HCFA 37 (\$1.2 billion). Since State B's prior year Federal DSH allotment does not exceed 12 percent of total Federal medical assistance expenditure estimates for 2003, the State's Federal DSH allotment for 2003 will be \$63.6 million, or \$60 million increased by the CPI.

**State C's** prior year Federal DSH allotment of \$62 million represents 11.8% of the State's total Federal medical assistance expenditures as estimated for 2003 on the HCFA 37 (\$525 million). Because \$62 million is less than 12 percent of total Federal medical assistance expenditure estimates for 2003, the State's Federal DSH allotment for 2003 can be increased by the CPI, but capped at 12 percent of total Federal medical assistance expenditures. State C's Federal DSH allotment for FY 2003 is \$63 million.

Section 4721(b) of the BBA provides for a limit on the amount of Federal financial participation available for IMD DSH payments. Federal financial participation is not available for IMD DSH payments that exceed the lesser of:

1. A State's 1995 total computable Mental Health DSH expenditures applicable to the 1995 DSH allotment as reported to the Secretary on the HCFA 64 as of January 1, 1997; or,

2. The amount equal to the product of the State's current year total computable DSH allotment (as calculated above) and the "applicable percentage."

For FYs 1998-2000, the "applicable percentage " is defined as the ratio of 1995 total computable share mental health DSH payments (applicable to the 1995 DSH allotment) to the 1995 total computable share total DSH expenditures (applicable to the 1995 DSH allotment). For FYs 2001 and beyond, the applicable percentage is defined as the lesser of the applicable percentage as computed above, or 50% for fiscal year 2001; 40% for fiscal year 2002; and, 33% for each succeeding year. HCFA will publish annually a State-specific chart in the Federal Register which will contain each State's IMD DSH limitation.

HCFA understands that other DSH issues exist and will be sending a second letter addressing these issues in the near future. Comments or questions regarding this summary may be directed to Christine Hinds at (410) 786-4578 or Larry Reed at (410) 786-3325.

Sincerely,

/s/

Sally K. Richardson

Director

Center for Medicaid and State Operations

cc: Jennifer Baxendell National Governors Association

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All HCFA Regional Administrators

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