United States
General Accounting Office
Washington, D.C. 20548

Health, Education and Human Services Division

B-276914

July 15, 1997

The Honorable John Breaux
Ranking Minority Member
Special Committee on Aging
United States Senate

Subject: Medicaid: Disproportionate Share Hospital Payments to Institutions for Mental Diseases

Dear Senator Breaux:

Between 1993 and 1995, Medicaid disproportionate share hospital (DSH) payments to institutions for mental diseases (IMDs)[1] increased by about $1 billion. Concerned about this increase, you asked us to obtain information on DSH programs that provide funds to IMDs in selected states. On July 10, 1997, we briefed your office on the progress of our work. As a result of this briefing, we were asked to provide you with a series of charts summarizing some of the preliminary data we have obtained without a full discussion of the reasons for the changes in these payments. This correspondence responds to that request; this fall, we will provide you with a report that further develops the information you requested.

To address your concerns, we visited or contacted seven states: California, Kansas, Maryland, Michigan, New Hampshire, North Carolina, and Texas. We chose these states on the basis of our analysis of the 1993-95 DSH expenditure data. We picked Michigan and Texas because those states reported high growth in mental health DSH expenditures during the period. We selected Maryland, New Hampshire, and North Carolina because their mental health DSH expenditures represented a high proportion of their total DSH expenditures. In addition, we contacted California because that state reported

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[1]DSH payments are payments, in addition to other Medicaid reimbursements, to hospitals that serve large numbers of low-income patients. Generally speaking, an IMD is any hospital of more than 16 beds that specializes in psychiatric care. An IMD may be public or private, profit or nonprofit, but the payments in question primarily involve state-operated psychiatric facilities.

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no mental health DSH expenditures and Kansas because it had reported a large decline in mental health DSH expenditures. In each of these states, we discussed the DSH program with knowledgeable officials and obtained information on the changes in the payments occurring in recent years.

In summary, our work to date indicates that the 1993-95 growth in mental health DSH payments pre-dates full implementation of the hospital-specific caps mandated by the Omnibus Budget Reconciliation Act (OBRA) of 1993.[2] In 1996, both total and mental DSH expenditures declined significantly as the full impact of the hospital-specific caps took effect. In addition, the growth in mental health DSH expenditures that occurred before 1996 appears, at least in some cases, to be a shifting of DSH payments from one type of public hospital to another as OBRA '93 DSH requirements became effective. In Michigan, for example, about $571 million, or over 92 percent, of the almost $618 million in DSH adjustments paid to hospitals in 1994 went to the University of Michigan Hospital. In 1995, however, OBRA '93 limited payments to this hospital to about $53 million–a $518 million decrease. Meanwhile, DSH payments to state-operated psychiatric hospitals increased by about $303 million. Finally, although mental health DSH payments declined in 1996, they continued to represent a significant portion of states' total DSH expenditures. Moreover, as table 5 in the enclosure shows, in the states we contacted where hospitals received mental health DSH payments, those hospitals on average received substantially higher DSH payments than other hospitals participating in the DSH program.

The enclosure presents the following data on DSH expenditures for the seven states we contacted:

– changes in total DSH payments for fiscal years 1994 to 1996,

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[2]OBRA '93 placed limits on the amount of DSH payments states could make to individual hospitals. This limit, known as the hospital-specific cap, restricted DSH adjustments to no more than the costs of providing inpatient and outpatient services to Medicaid and uninsured patients, less payments received from Medicaid and uninsured patients. To allow states a transition period, the effective date for payments to public hospitals was generally July 1, 1994, and 1 year later for private hospitals. In addition, the law allowed states to make payments to certain "high disproportionate share" public hospitals during a 1-year transition period of up to 200 percent of their hospital-specific cap.

- percent of state DSH allotment[3] spent before and after full implementation of OBRA '93,

- changes in mental health DSH payments for fiscal years 1994 to 1996,

- mental health DSH payments compared with total DSH payments for fiscal year 1996, and

- payments to mental health and other hospitals participating in the DSH program for fiscal year 1996.

We discussed a draft of this correspondence with HCFA program-level officials, who agreed with our characterization of information on DSH payments, and we incorporated their technical suggestions where appropriate.

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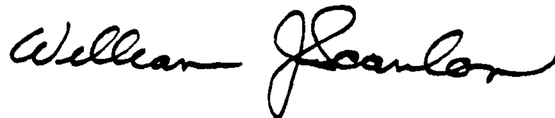
We will make copies of this correspondence available to others on request. Please call me at (202) 512-7114 or Paul Alcocer at (312) 220-7709 if you or your staff have any questions. Other contributors to this report include Leslie G. Aronovitz, Robert T. Ferschl, and Paul T. Wagner, Jr.

Sincerely yours,



William J. Scanlon
Director, Health Financing and Systems Issues

Enclosure

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[3]The state DSH allotment for a federal fiscal year is the maximum amount of DSH payments in which the federal government will financially participate during that year. To the extent a state reports expenditures that exceed the allotment, the Health Care Financing Administration (HCFA) adjusts the federal share of expenditures.

Table 1: Changes in Total DSH Payments for Selected States, FYs 1994-96

Dollars in millions

State	1994	1995	1996	Percentage change, 1994-96	Percentage change, 1995-96
California	$2,191.5	$2,191.4	$2,091.5	(4.6)	(4.6)
Kansas	165.1	88.3	55.2	(66.6)	(37.5)
Maryland	129.5	143.1	152.6	17.8	6.6
Michigan	617.7	438.0	347.4	(43.8)	(20.7)
New Hampshire	395.0	186.4	144.1	(63.5)	(22.7)
North Carolina	389.3	431.3	362.8	(6.8)	(15.9)
Texas	1,513.0	1,513.0	1,513.0	0	0

Source: HCFA Central Office and State Medicaid Agencies.

Table 2: Percentage of State DSH Allotment Spent Before and After Full Implementation of OBRA '93

Dollars in millions

State	FY 1994 allotment (before OBRA '93 limits)	Allotment spent (percent)	FY 1996 allotment (after OBRA '93 limits)	Allotment spent (percent)
California	$2,191.5	100.0	$2,191.5	95.4
Kansas	188.9	87.4	188.9	29.2
Maryland	129.5	100.0	151.0	101.0
Michigan	617.7	100.0	686.5	50.6
New Hampshire	392.0	101.0	392.0	36.8
North Carolina	389.3	100.0	459.0	79.0
Texas	1,513.0	100.0	1,513.0	100.0

Source: GAO analysis of state allotment and expenditure data.

Table 3: Changes in Mental Health DSH Payments for Selected States, FYs 1994-96

Dollars in millions

State	1994	1995	1996	Percentage change, 1994-96	Percentage change, 1995-96
California	0	0	0	Not applicable	Not applicable
Kansas	$156.3	$76.7	$49.3	(68.4)	(35.7)
Maryland	111.9	120.9	114.4	2.2	(5.4)
Michigan	2.0	304.8	241.0	11,950.0	(20.9)
New Hampshire	169.2	95.0	46.1	(72.8)	(51.5)
North Carolina	373.9	238.1	198.2	(47.0)	(16.8)
Texas	250.8	283.7	319.0	27.2	12.4

Source: HCFA Central Office and State Medicaid Agencies.

Table 4: Mental Health DSH Payments Compared With Total DSH Payments, FY 1996

Dollars in millions

State	Mental health DSH payments	Total DSH payments	Percent
California	0	$2,091.5	0
Kansas	$49.3	55.2	89.3
Maryland	114.4	152.6	75.0
Michigan	241.0	347.4	69.4
New Hampshire	46.1	144.1	32.0
North Carolina	198.2	362.8	54.6
Texas	319.0	1,513.0	21.1

Source: HCFA Central Office and State Medicaid Agencies.

Table 5: Payments to Mental Health and Other Hospitals Participating in the DSH Program, FY 1996

Dollars in millions

State	Number of mental health hospitals	Mental health DSH payments	Number of other hospitals	Other DSH payments
California	0	0	123	$2,091.5
Kansas	4	$49.3	27	5.9
Maryland	8	114.4	15	36.6
Michigan	8	241.0	81	106.4[a]
New Hampshire	1	46.1	28	98.0
North Carolina	5[b]	198.2	87	164.6
Texas	13[c]	319.0	177	1,194.0[d]

Notes:

[a]About one-half of this amount went to two public hospitals: the University of Michigan Hospital and Hurley Hospital.

[b]Includes the University of North Carolina Hospital, which received approximately $17 million of the total reported mental health payments. These payments, however, were not necessarily related to mental health services.

[c]Includes two private psychiatric hospitals, which received about $1 million of the total mental health payments.

[d]About $286 million of this total was paid to five other state-operated hospitals.

Source: HCFA Central Office and State Medicaid Agencies.

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