

ATI Advisory
State Resource
Center



Leveraging Section 1115 Demonstrations: Designated State Health Programs (DSHPs)

SUPPORTING STATES TO ADVANCE MEDICAID TRANSFORMATION

- **ATI supports states in developing, negotiating, and implementing Section 1115 Demonstrations to advance Medicaid transformation and innovation.**
- This resource provides an overview of **Designated State Health Program (DSHP)** federal match opportunity and describes how states might leverage it to support their policy goals.

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WHY IT MATTERS



Key Takeaways for State Policymakers

Opportunity:

- ✓ The Centers for Medicare and Medicaid services (CMS) allows states to receive **federal Medicaid matching funds on DSHP** to support new Section 1115 Demonstration initiatives.
- ✓ CMS **guidance on DSHP has shifted** significantly over time, with new conditions introduced through recent renewals of existing DSHP initiatives in several states.
- ✓ CMS has **not recently approved new DSHP requests**, but its recent **shift in guidance suggests a willingness** to do so; states pursuing new DSHP authority should have realistic expectations about the scope and timing of CMS approval.

State Action:

- ❑ **Assess** the existing state-funded health programs in your state to determine the scope of DSHP-eligible expenditures.
- ❑ **Explore** the Medicaid policy goals and initiatives your state wishes to pursue through a Section 1115 Demonstration.
- ❑ **Execute** on a Section 1115 Demonstration.
- ❑ **Leverage** support to navigate the complexities of DSHP and Section 1115 Demonstrations—**ATI is experienced in supporting states** in all phases, from policy ideation and CMS negotiation to implementation.

Overview of DSHP Authority

WHAT IS A SECTION 1115 DEMONSTRATION?

Through **Section 1115 Demonstrations**, CMS grants authority to states to waive certain federal requirements (e.g., who is eligible for services) and/or authorize federal matching funds for new Medicaid initiatives that support the objectives of the Medicaid program (e.g., new Medicaid benefits not eligible for federal match under the State Plan).

Section 1115 Demonstrations must be:

1

→ **Approved by CMS.** CMS may grant none, some, or all of the authorities requested by states in a Section 1115 Demonstration application.

2

→ **Budget-neutral**, meaning federal spending cannot exceed what it would have been in the absence of the Section 1115 Demonstration.

3

→ **Independently evaluated** to demonstrate that the Section 1115 Demonstration policies improve healthcare outcomes and decrease healthcare costs.

WHAT ARE DESIGNATED STATE HEALTH PROGRAMS (DSHP)?

→ CMS allows states to draw down federal Medicaid matching funds for certain types of state-funded programs to support new Section 1115 Demonstration initiatives.

What are the requirements for DSHPs?	<ul style="list-style-type: none">• State-funded health programs that do not qualify for federal funding, including Medicaid match.• These state-funded programs must have existed prior to the Section 1115 Demonstration.• Examples include services for the elderly and mental health and substance use disorder programs.
How are DSHPs leveraged for federal funds via Section 1115 Demonstrations?	<ul style="list-style-type: none">• CMS allows states to receive federal matching funds for certain DSHP expenditures under the Section 1115 Demonstration.• Those “freed up” state dollars can then be used to support specific initiatives within the Section 1115 Demonstration; this authority is intended to be time-limited.• CMS sets parameters governing allowable DSHP expenditures and claiming protocols/processes.
Why does CMS approve DSHP funding?	<ul style="list-style-type: none">• The goal is to ensure the continuation of beneficial state programs during the period of increased expenditures on delivery system reform initiatives pursued via the Section 1115 Demonstration.

CMS Guidance

CMS GUIDANCE HAS SHIFTED SIGNIFICANTLY OVER TIME

2005

CMS approved DSHP funding via a Section 1115 Demonstration.

Federal **guidance has shifted over time** in response to concerns regarding oversight, expected use, and increased federal expenditures.

2015

The Government Accountability Office (GAO) raised concerns with DSHP financing, noting a lack of consistent criteria for determining whether DSHPs were linked to eligible populations or promoted the goals of Medicaid.

2017

CMS announced that it would no longer accept new or renewing proposals for DSHP funding, noting that they had been used as a financing mechanism in Section 1115 Demonstrations, rather than a tool to drive reform.

2020

CMS reversed this policy and introduced new conditions of DSHP funding, similar to those placed on health-related social need (HRSN) initiatives.

SUMMARY OF CURRENT CMS CONDITIONS FOR DSHP FUNDING APPROVAL

Topic	CMS Conditions for Approval
New DSHP Conditions	<ul style="list-style-type: none">• Federal dollars claimed for DSHPs cannot exceed 1.5 percent of the state’s total Medicaid spending.• Section 1115 Demonstration initiatives cannot be exclusively financed with DSHP funds; other sources must fund at least 15 percent of the non-federal share.• Section 1115 Demonstration initiatives financed using DSHP funds must be new; they cannot supplant or supplement existing services or programs.• States must meet provider payment rate standards for primary care, behavioral health, and obstetrics to strengthen access to care.
Federal Matching	<ul style="list-style-type: none">• DSHP expenditures are claimed at a Federal Medical Assistance Percentage (FMAP) of 50 percent.• Once these dollars are redeployed to support other demonstration initiatives, states will receive their usual FMAP (<i>varies by state</i>).
DSHP Expenditures	<ul style="list-style-type: none">• Not all expenditures within allowable state programs are eligible for federal match.• At a high level, prohibited expenditures are generally those that (1) are part of operating or infrastructure costs, (2) not likely to promote Medicaid objectives, or (3) conflict or cause duplication of other federal funding.
Protocols and Processes	<ul style="list-style-type: none">• CMS approves of a state-specific DSHP claiming protocol via the Special Terms and Conditions (STCs); states cannot claim federal match until this is approved; all DSHP claims must be made prospectively with no retrospective adjustments.• States must submit a certification or attestation of expenditures and actual expenditure financial data to ensure compliance.• States must establish a sustainability plan with a funding strategy to maintain the initiatives beyond the demonstration period.• DSHP funds will have an impact on and must be considered for budget neutrality.

CMS RECENTLY APPROVED RENEWALS OF EXISTING DSHP AUTHORITIES

→ States have **used DSHP funding to advance a variety of state goals** through Section 1115 Demonstrations—with a particular focus on HRSN services and infrastructure.

State	How State Will Leverage DSHP Funding
Arizona	HRSN housing supports and care integration/coordination improvements.
Oregon	Services to support Youth with Special Healthcare Needs (YSHCN) and HRSN services and infrastructure including housing, nutrition, and continuous eligibility.
California	Infrastructure building for pre-release services (for individuals transitioning out of incarceration), Enhanced Care Management (ECM) services , and Community Supports .

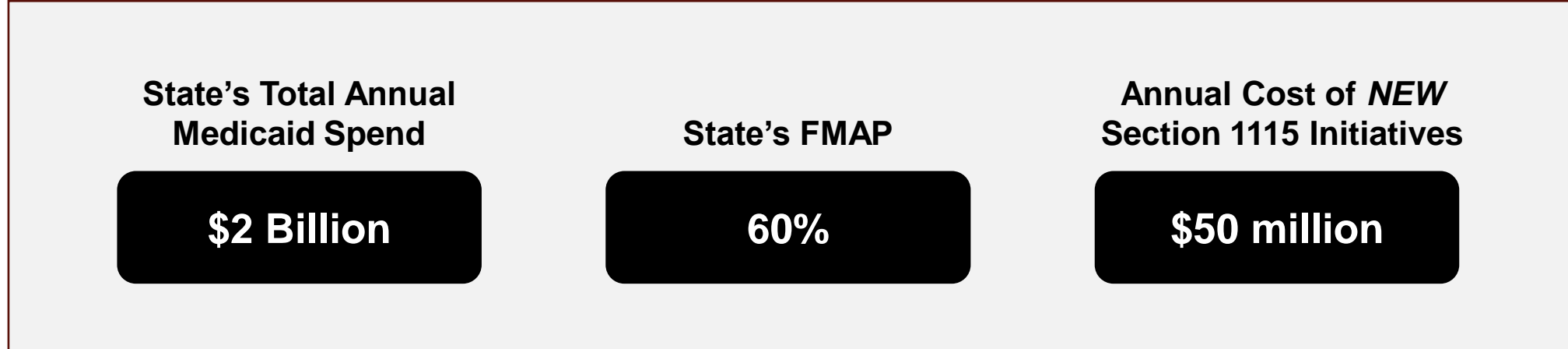


These approvals are continuations or renewals of existing authorities. As of December 2023, **CMS has not approved new DSHP authorities** in other states with new requests (e.g., Washington).

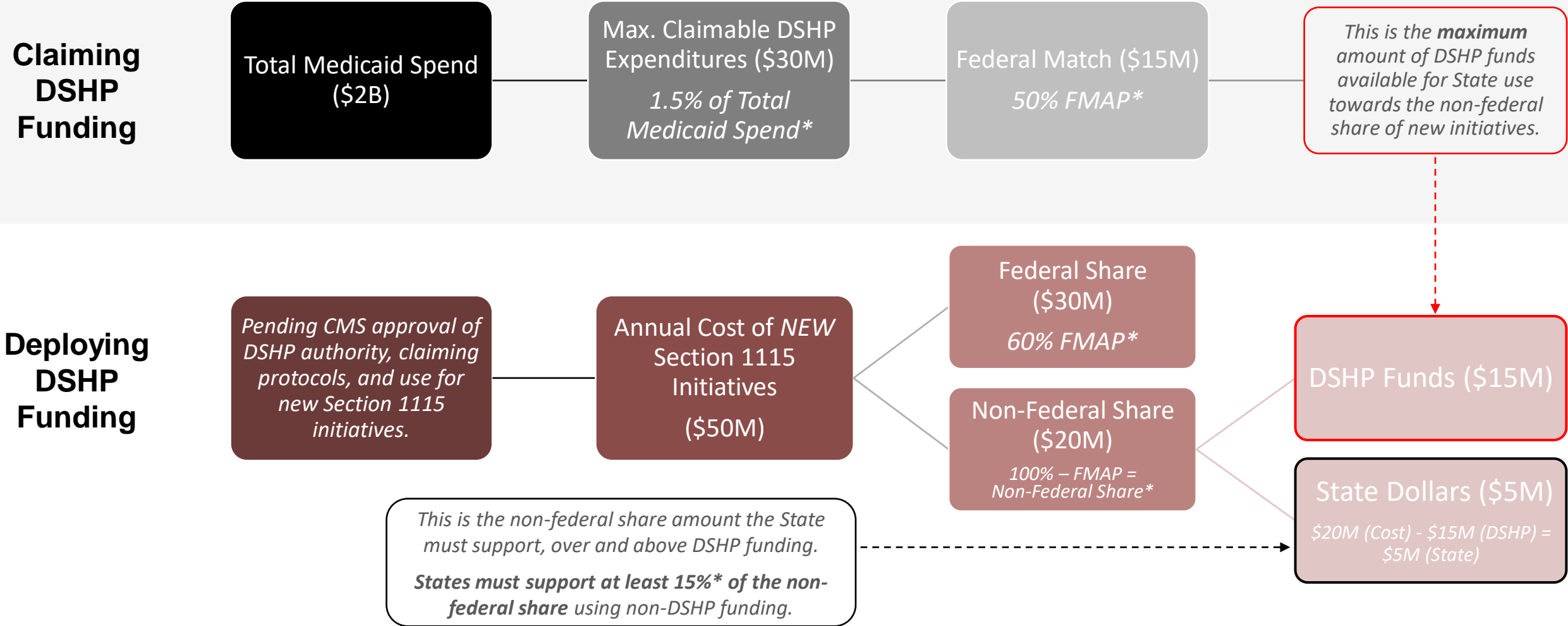
DSHP in Action

EXAMPLE SCENARIO: HOW A STATE CLAIMS AND USES DSHP FUNDING (ANNUAL FIGURES)

- A state is submitting a Section 1115 Demonstration to implement new initiatives and **wants to leverage DSHP** to help fund the non-federal share.
- The **maximum amount of DSHP funds** available to the state are determined using state-specific variables as described in the example below:



EXAMPLE SCENARIO: HOW A STATE CLAIMS AND USES DSHP FUNDING (ANNUAL FIGURES)



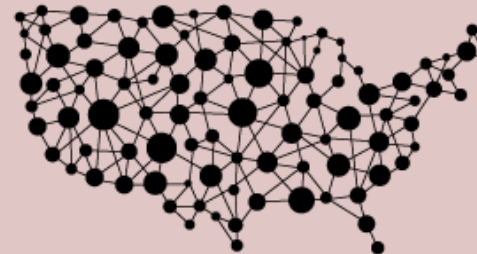
* Figures are set by CMS guidance.

Navigating the landscape of federal authorities and funding opportunities is complex. There are many approaches to Medicaid innovation and financing through Section 1115 Demonstrations.

ATI has experience working directly with Medicaid agencies to strategize and implement approaches for maximizing these opportunities.

Reach out to ATI to learn more.

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