



# Oregon

Theodore R. Kulongoski, Governor  
May 6, 2009

## Department of Human Services

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The Honorable Margaret Carter, Co-Chair  
The Honorable Peter Buckley, Co-Chair  
Joint Committee on Ways and Means  
900 Court Street NE  
H-178 State Capitol  
Salem, OR 97301-4048



Re: Medicaid Stimulus Grants – FMAP Rate Increase  
ARRA Funding

Dear Co-Chairpersons:

The recently passed American Recovery and Reinvestment Act (ARRA) included additional funding for Medicaid. ARRA temporarily increases the federal share of “regular” Medicaid expenditures for a 27-month period – from October 2008 through December 2010.

### *Introduction to Medicaid*

Medicaid is the primary federal health insurance program for low-income individuals and families. In Oregon, Medicaid helps fund:

- The Oregon Health Plan (OHP Plus), a federally-approved demonstration project which, instead of covering all medical services for a limited, federally-mandated population, covers a larger population with a benefit package based on a list of prioritized medical conditions and treatments.
- OHP Standard, an expansion program that covers impoverished adults who do not qualify for OHP Plus with a more limited set of benefits.
- The Family Health Insurance Assistance Program (FHIAP), which subsidizes private health insurance for Medicaid-eligible and other low-income populations.
- Non-OHP services, which covers a few particular services and populations not part of the federally-approved demonstration project.
- Addiction and mental health services for Medicaid-eligible clients.
- In-home services, community-based care, and nursing homes for Medicaid-eligible seniors and people with disabilities.
- Some case management services.

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### ***Existing Medicaid funding***

The federal government pays a percentage of all Medicaid-eligible expenditures. The percentage varies by service, program, and time period. The basic rate is called the FMAP (federal medical assistance percentage) rate. The FMAP rate is calculated each year based on each state's three-year average per capita income compared to the national average. Oregon's basic FMAP rate is currently 62.45%. By comparison, a state with average per capita income receives a 55% FMAP rate.

If the federal government is paying 62.45% of Medicaid costs, the state must pay the rest. The required state share is called the match requirement. If ARRA had not passed, the current state match requirement would be 37.55%.

In some cases, other state agencies and local governments pay the state match requirement. In general, these "leveraged" partners pay DHS the state share, DHS draws the federal funds and repays the leveraged entity the whole amount.

The basic FMAP rate applies to most Medicaid program spending. However, many special or enhanced rates apply to specific programs or expenditures. For example, the Children's Health Insurance Program (CHIP) receives an enhanced rate (currently 72.6%). Administrative costs are typically funded at 50% or 75%, depending on the expenditure. Approved Medicaid related capital costs can be funded up to 90%.

The basic FMAP rate is also used to determine the federal share of Title IV-E funding for foster parent and adoption assistance payments.

### ***ARRA funding***

ARRA increases federal FMAP funding in three ways:

- It eliminates any decrease in basic FMAP rates through December 2010.
- It temporarily increases each state's basic FMAP rate by 6.2 percentage points for 27 months - from October 2008 through December 2010. This increase also applies to Title IV-E funding, but does not apply to any enhanced, special, administrative, or capital rates.
- It gives bonus increases to states with high unemployment growth. The bonuses apply to the same programs and 27-month period as the across-the-board increase with one exception - the bonus does not apply to Title IV-E.

The table below shows Oregon's estimated FMAP rates through the next biennium.

<b>ARRA INCREASE IN OREGON FMAP RATES</b>					
	BASE RATE	ARRA INCREASE			
		6.2 Increase	Subtotal (IV-E rate)	Unemploy. Bonus	Total
2007-09					
Oct 2008 – Mar 2009	62.45%	6.2	68.65%	2.93	71.58%
Apr – Jun 2009	62.45%	6.2	68.65%	3.96	72.61%
2009-11					
Jul – Sep 2009	62.45%	6.2	68.65%	3.96	72.61%
Oct 2009 – Sep 2010	62.74%	6.2	68.76%	3.93	72.87%
Oct – Dec 2010	62.77%	6.2	68.79%	3.93	72.90%
Jan – Jun 2011	62.77%	-	62.77%	-	62.77%

In looking at the table, please note the following:

- The unemployment bonus is tiered based on the state's unemployment growth. From October 2008 through March 2009, Oregon was in the second of three tiers. In April 2009, Oregon rose to the highest tier. ARRA guarantees each state will not drop into a lower tier until July 2010. This table assumes Oregon remains in the top tier through the end of the stimulus period. Oregon would drop to a lower tier in July 2010 if its unemployment rate dropped averages below 8.5% from December 2009 through February 2010.
- The base rate on and after October 2010 and the unemployment bonus on and after July 2010 are forecasts. All other figures are fixed.

***ARRA FMAP revenue***

The amount of ARRA-generated revenue depends on the amount Oregon spends on the regular Medicaid program. Although ARRA creates some new restrictions on cutting or expanding Medicaid, there is no specific dollar limit on ARRA-eligible spending.

The table below estimates the amount of ARRA FMAP revenue under the following spending assumptions:

- 2007-09 – continuation of the current spending level through the rest of the biennium.
- 2009-11 – the amount of spending contained in DHS’s modified essential budget level (MEBL)

<b>ARRA FMAP REVENUE</b>		
	2007-09	2009-11 @ MEBL
General Fund programs		
Medicaid	225.3	534.4
Title IV-E	3.9	7.6
Solely funded by provider tax		
Medicaid	21.0	25.6
Non-DHS “leveraged” providers		
Medicaid	6.4	13.9
<b>Total</b>	<b>\$256.5</b>	<b>\$581.5</b>

*In millions of dollars*

***Restrictions and limitations***

The ARRA FMAP revenues are subject to the following restrictions:

- A state loses ARRA Medicaid revenues for any period in which eligibility standards, methodologies, or procedures are more restrictive than on July 1, 2008.
- ARRA FMAP funds may not be placed in a rainy day fund.
- ARRA benefits must be passed through to leveraged partners.
- A state cannot receive ARRA revenues to fund programs that increase income standards above the July 1, 2008 level.
- A state loses ARRA revenues for any day in which Medicaid “prompt payment” requirements are not met, unless an exception is granted by the federal Department of Health and Human Services.

DHS is developing analysis of the various ways to measure prompt payment of Medicaid claims and is considering applying for an exception because Oregon is in the process of implementing a new Medicaid claim processing system.

***Expenditure limitations and reporting***

SB 5552 has already adjusted DHS's and other agencies' 2007-09 budgets. Expenditure limits will be established for 2009-11 as part of the normal budget process. Separate accounting and regular drawing of ARRA FMAP revenues have been established.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Scherzinger", with a stylized flourish at the end.

Jim Scherzinger  
Deputy Director of Finance

CC: John Britton, Legislative Fiscal Office  
Sheila Baker, Legislative Fiscal Office  
Blake Johnson, Department of Administrative Services