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Post Office Box 2910  
Austin, Texas 78768-2910  
(512) 463-0240

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SELECT COMMITTEE ON FEDERAL  
ECONOMIC STABILIZATION FUNDING

MEMORANDUM

TO: Texas House of Representatives

FROM: Chairman Jim Dunnam

DATE: April 22, 2009

SUBJECT: Stimulus Advisory on FMAP (Federal Medical Assistance Percentage)

The Select Committee received clarification this morning from the Texas Health and Human Services Commission on the base unemployment rate that will be used to calculate whether Texas qualifies for an additional increase in its FMAP match rate under the Recovery Act.

As the Select Committee has previously reported, states are eligible to receive up to three "tiers" of additional federal relief in the form of higher FMAP match rates for Medicaid expenditures based on each individual state's increase in its unemployment rate above its "base rate." Beginning April 1, 2009, the base unemployment rate for Texas, as determined by the U.S. Bureau of Labor Statistics, is 4.9 percent.

To receive the first "tier" of additional funding, a state's unemployment rate must exceed its base rate by 1.5 percent or more for three consecutive months. Texas has already qualified for and is receiving the Tier One match rate retroactive to October 1, 2008. In order to qualify for the higher Tier Two match rate, the unemployment rate in Texas must be 2.5 percent or greater than the base rate of 4.4 percent for an unemployment rate of 6.9 percent. To qualify for the third and highest tier, the state's unemployment rate would have to reach 7.9 percent for three consecutive months.

In March, the Texas unemployment rate was 6.7 percent, up from 6.5 percent in February and 6.4 percent in January. The state budget adopted by the House of Representatives last Saturday assumes that Texas will not qualify for a higher match rate above Tier One.

However, if unemployment rates continue to climb, it is possible Texas will qualify for Tier Two funding. According to Albert Hawkins, Executive Commissioner of the Texas Health and Human Services Commission, Tier Two funding would free up an additional \$600 million in general revenue.

Attached is a summary of the FMAP provisions prepared by the Health and Human Services Commission.

**Summary of American Recovery and Reinvestment Act (ARRA)  
FMAP Unemployment Adjustment Provision**

- The ARRA Medicaid FMAP temporary increase is applied to 9 quarters during the recession adjustment period. The recession adjustment period began Oct. 1, 2008 and ends December 31, 2010. There are three components of the ARRA Medicaid FMAP temporary increase:
  - Hold Harmless: Eliminates any scheduled FY 2009 FMAP decreases. It also eliminates decreases in FY 2010 and the first quarter of FY 2011 from the higher of the state's current-law level or its hold-harmless level.
  - Across-the-Board Increase: Each state is eligible for a 6.2 percentage-point FMAP increase beginning October 1, 2008, through December 31, 2010, after application of the hold-harmless provision.
  - Unemployment Adjustment for High Unemployment States: States with quarterly unemployment rate increases of at least 1.5 percentage points over their lowest three-month average unemployment rate since January 2006 receive bonus increases as "high unemployment states." Once determined to be a high-unemployment state, the state remains a high-unemployment state until at least July 1, 2010, when reductions could occur.
- The FMAP Unemployment Adjustment is a quarterly qualification based on the average monthly unemployment rate for the most recent 3-consecutive-month period for which data are available compared to the base unemployment rate.
- Special Rule: There is a special rule for the first two calendar quarters of the recession adjustment period where the most recent previous 3 consecutive month period is the 3 consecutive month period beginning October 2008 and for the last 2 calendar quarters of the recession adjustment period, the most recent 3 consecutive month period is the period beginning with December 2009, or if it results in a higher applicable percent for purposes of the unemployment increase, the 3 month period beginning with January 2010.
- The Base Unemployment Rate is the state's lowest average monthly unemployment rate for any 3-consecutive-month period preceding the most recent period and beginning on or after January 1, 2006. The base unemployment rate for Texas is 4.4 and occurred June to August 2007. (The Bureau of Labor Statistics released revised unemployment statistics on March 11, 2009 that resulted in the new base unemployment rate; the base unemployment rate which applied to the first two quarters was 4.2).
- The level of bonus adjustment is tiered as follows:
  - Tier One: 5.5% if the state unemployment increase percentage is at least 1.5 but less than 2.5 percentage points (effectively increases Texas FMAP by 2.0 percentage points); Texas average monthly unemployment rate would need to be at least 5.7% for Q1 and Q2; 5.9% thereafter.
  - Tier Two: 8.5% if the state unemployment increase percentage is at least 2.5 but less than 3.5 percentage points (effectively increases Texas FMAP by 3.09 percentage points); Texas average monthly unemployment rate would need to be at least 6.9%.
  - Tier Three: 11.5% if the state unemployment increase percentage is at least 3.5 (effectively increases Texas FMAP by 4.18 percentage points); Texas average monthly unemployment rate would need to be at least 7.9%.