Legislative Fiscal Office

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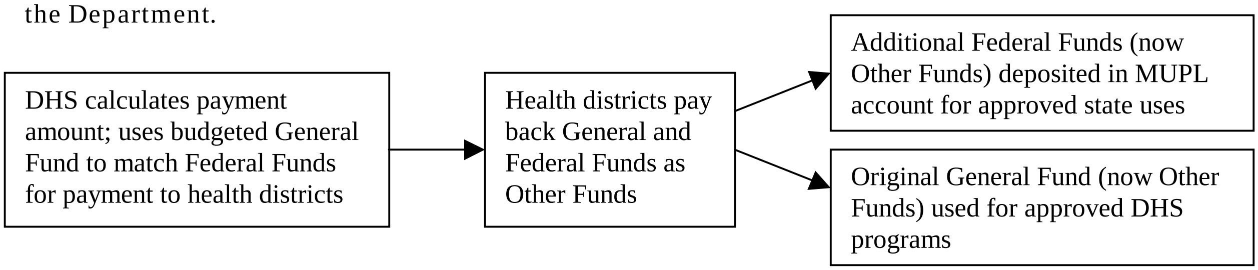
Budget Information Brief / 2001-4

Medicaid Upper Payment Limit

What is the Medicaid Upper Payment Limit program?

The federal Medicaid Upper Payment Limit (MUPL) program allows states to pay publicly affiliated nursing facilities a rate equal to the maximum Medicare rate for all Medicaid nursing facility clients in the state when the Medicare rate exceeds the rate the state would otherwise pay for Medicaid clients. This lets Oregon claim additional federal revenue at no added General Fund cost. The Department of Human Services (DHS) implements the plan by making payments of General Fund and Federal Medicaid Funds to nine public health districts that operate nursing facilities. The health districts immediately give all or most of the payment to the state through an intergovernmental transfer. After the health districts transfer the payment back to DHS, DHS deposits the Federal Funds portion of the original payment into a special MUPL account as Other Funds. These funds can be used to finance legislatively approved programs. DHS expends the General Fund portion of the original payment as Other Funds for various programs in the Department.



What determines the size of the payments DHS makes to the nine health districts?

The size of the payments is based upon the difference between the maximum Medicare rate for clients in nursing facilities (the Medicare Upper Limit rate) and Oregon's Medicaid rate for nursing facilities. This difference is multiplied by the total number of Medicaid nursing facility clients in Oregon (about 6,000) to calculate the total funds payment. The General Fund and Federal Funds portions of the payments are based upon the Medicaid match rate for Oregon. This match rate varies from state to state and from year to year based upon a state's relative economic condition. In Oregon the Medicaid match rate is approximately 60%, so total payments are about 40% General Fund and 60% Federal Funds.

How much state revenue has the MUPL mechanism generated so far?

Oregon began using the MUPL program in June 1999. That initial payment generated $29.1 million of Federal Funds. The table shows the amount of MUPL revenue generated to date.

Time Period	Net Revenue
1997-1999	$29.1 million
1999-2001	$84.1 million
Total	$113.2 million

The 1999 Legislative Assembly directed that MUPL revenue be deposited into the General Fund. The 2001 Legislative Assembly passed Senate Bill 963, which pulled all MUPL revenue out of the General Fund and redirected the funds into a MUPL account, separate and distinct from the General Fund. Thus, the MUPL revenue is not subject to the 2% income tax "kicker" calculation.

How much state revenue is MUPL expected to generate during the 2001-03 biennium?

Prior to the 2001 Legislative Session, 2001-03 MUPL revenue was estimated at $67.1 million. During the session, DHS investigated alternative methods to maximize MUPL revenue. The chosen method acknowledges regulatory changes that allow a higher Medicare upper limit to be used. The 2001-03 revenue estimate has thus increased by $160.2 million, to a total $227.3 million. The nine public health districts will retain $6.9 million, leaving net revenue of $220.4 million. This would bring Oregon's total MUPL revenue through the end of the 2001-03 biennium to $333.6 million. Interest from the MUPL account accrues to the General Fund and is not included in this estimate.

How is MUPL revenue used in the 2001-03 budget?

With a beginning MUPL balance of $113.2 million, the MUPL mechanism must generate at least $94.2 million during the 2001-03 biennium to meet three budgetary obligations:

- $6.9 million to the nine public health districts
- $101.3 million to support the Oregon Health and Science University
- $99.2 million to support the State School Fund

Also, House Bill 2515 earmarked 11.2% (about $15 million) of any remaining MUPL revenue for distribution to the Oregon Rural Health Association to promote improved health care services and increased health care access in rural Oregon. The MUPL account 2001-03 ending balance is projected to be about $118.1 million.

How much MUPL revenue is expected in the years beyond the 2001-03 biennium?

Federal government officials became concerned at how much the MUPL mechanism (implemented by at least 25 states) was costing. As a result, the federal Department of Health and Human Services changed its regulations to nearly phase-out the practice. Some states (including Oregon) will have a five-year phase-out period. Others will have a shorter or longer phase-out period depending upon when they started using the MUPL mechanism. Oregon's first or base year is the 2000-01 state fiscal year. In the second year, Oregon will receive 100% of its base year MUPL revenue; in year three, 75% of the base year; year four, 50%; and in year five, 25%. After year five, Oregon can no longer aggregate its nursing facility clients in calculating the payment to other governmental entities—but it can make MUPL payments based on the number of Medicaid nursing facility beds in the public health districts that operate nursing facilities (about 200 clients). Analysts currently estimate that Oregon will receive about $75.6 million during the 2003-05 biennium and $3.8 million during the 2005-07 biennium.

Does Oregon's use of MUPL revenue pose any budgetary concerns?

Oregon lawmakers have relied on MUPL revenue to supplement General Fund for use in the state's 2001-03 biennial budget. As this revenue source decreases, replacement revenue will need to be found or programs reduced. Some of the factors used in calculating the MUPL payment such as the Medicaid match rate or Oregon's health care wages are subject to economic changes. In addition to the planned phase-out now in federal regulations, the federal government could again change laws or regulations to decrease Medicare rates or shorten the MUPL revenue phase-out period. It could also challenge Oregon's MUPL calculation and attempt to disallow a sizeable portion of the MUPL payment—thus reducing MUPL revenue unexpectedly.

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