When Will the U.S. Territories Exhaust Federal Medicaid Funding?

Medicaid operates in the five U.S. territories: American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), Guam, Puerto Rico, and the U.S. Virgin Islands (USVI). Unlike state Medicaid programs, financing for territorial Medicaid programs is capped, meaning territories can only access federal funds up to an annual ceiling, sometimes referred to as the Section 1108 allotment or cap (§ 1108(g) of the Social Security Act (the Act)).[1] Additionally, although the federal medical assistance percentage (FMAP) or matching rate for states is based on per capita income and varies across states—ranging from 50 to 76 percent—the FMAP for the territories is set by statute at 55 percent (§ 1905(b) of the Act).[2]

Historically, the amount of Section 1108 allotment funding has been insufficient to fund Medicaid in the territories. In recent years, Congress has provided time-limited increases to supplement funds available under their Section 1108 allotments. Most recently, the Bipartisan Budget Act of 2018 (BBA 2018, P.L. 115-123), the Consolidated Appropriations Act of 2017 (P.L. 115-31), and the Patient Protection and Affordable Care Act (ACA, P.L. 111-148, as amended) provided funds as follows:

- The ACA provided funding for all territories in two blocks: the bulk of funding was provided through Section 2005 and made available through September 30, 2019. A smaller amount was provided through Section 1323, available until December 30, 2019 following the exhaustion or expiration of funds under Section 2005.
- The Consolidated Appropriations Act of 2017 provided Puerto Rico with additional funds above its Section 2005 allotment.
- The BBA 2018 provided Puerto Rico and USVI with further funding for, to be drawn down until September 30, 2019.[3]

All sources of supplemental funds will expire in 2019 and Congress is now considering whether the territories will need additional funding to supplement Section 1108 allotments in 2020 and beyond. If no additional funds are available, the territories must consider how to proceed. Options include funding Medicaid entirely with unmatched local funds if available, cutting services or eligibility, or a combination thereof.

Currently, American Samoa, Guam, Puerto Rico, and USVI will have sufficient funding to cover program expenses through fiscal year (FY) 2019, with some leaving a significant amount of funds unspent at the time of expiration. It is important to note that the level of unspent funds is not necessarily an indicator that all health needs have been met. Rather, several territories have experienced difficulty generating the non-federal share needed to draw down these funds in full.

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The remaining territory, CNMI, has a $0 balance on all available federal funding sources in FY 2019. All federal Medicaid funds available to the territory have been released by the Centers for Medicare & Medicaid Services (CMS), but CNMI has not necessarily drawn down all of the released funds.[4] Neither CMS nor CNMI has indicated how much of the funds have been drawn down or how long the funds can be expected to last before the territorial government must choose between financing Medicaid entirely with local funds or suspending eligibility or services.

In FY 2020, all five territories will experience federal funding shortfalls. The specific date of exhaustion will depend on actual spending in FY 2020 and whether CMS allows the territories to draw down their ACA Section 1323 funds before tapping their annual Section 1108 allotments. Currently, CMS policy dictates that territories must draw down their annual Section 1108 allotments first. Because ACA Section 1323 funds expire prior to the expected exhaustion of Section 1108 allotments in FY 2020, federal Medicaid funding would last up to a full fiscal quarter longer if territories were permitted to draw down their ACA Section 1323 funds before their Section 1108 allotments. At the time of publication, CMS had not yet determined whether it would allow territories to do so (CMS 2019b) (Table 1).

It is also important to note that territory Medicaid programs could be affected earlier than the date of exhaustion. For example, uncertainty about the availability of funds could affect providers' willingness to participate given that Medicaid may not be able to guarantee payment after a certain date. Territories will need to plan and implement program changes such as benefit or coverage reductions, and would need to provide notice to beneficiaries and providers about changes to coverage or services ahead of any funding shortfall.

TABLE 1. Date of Expected Federal Medicaid Funding Shortfall by Territory

Territory	Date range for shortfall if Section 1108 allotment must be drawn down first	Date range for shortfall if ACA Section 1323 funds can be drawn down first
American Samoa	April–June 2020	July–September 2020
Guam	January–March 2020	April–June 2020
CNMI	March 2019[1]	March 2019[1]
Puerto Rico	December 2019	March 2020
USVI	January–March 2020	April–June 2020

Notes: ACA is Patient Protection and Affordable Care Act (P.L. 111-148, as amended).CNMI is Commonwealth of the Northern Mariana Islands. USVI is the U.S. Virgin Islands. Date range indicates the timeframe in which the territories will exhaust available federal funds. Sufficient funds may not be available for the entirety of the timeframe, as territories may exhaust available funds earlier or later in the period depending on actual spending and other specific circumstances.

[1] As of March 2019, the CNMI had exhausted funds provided under ACA Sections 2005 and1323, and the FY 2019 Section 1108 allotment. In April 2019, CMS released unspent ACA funding from prior years to the territory; it is unclear how much of those funds have been drawn down or how long they may last.

Source: MACPAC 2019 analysis of CMS 2019a, c; CMS-37 projections of spending for FYs 2019–2020 submitted in February 2019.

This issue brief provides background on the sources of federal funds for each territory and data on their remaining federal Medicaid funds and estimates when territories are expected to run out of funds, the amount of shortfall they will face, and the amount of expiring funds that will go unspent.

Medicaid Financing and Spending in the Territories

The federal government and territorial governments jointly finance Medicaid. Like states, each territory must contribute its non-federal share of Medicaid spending in order to access federal funds. Unlike states, whose FMAPs are set using a formula based on per capita income, territory spending is matched at a statutorily designated FMAP of 55 percent. Unless additional funds are made available, territories may draw down federal dollars only up to the amount of the annual Section 1108 cap.

Exceptions to the 55 percent territory matching rate include:

- **Program administration.** As is the case for states, the matching rate for almost all program administration is set at 50 percent (§ 1903(a)(7) of the Act). Certain activities, including establishment and operation of a Medicaid Fraud Control Unit and Medicaid Management Information System are matched at higher rates (90 percent for implementation and 75 percent for operation).
- **Certain covered adults**. Although territories cannot claim the FMAP available to states expanding to the new adult group, Puerto Rico, USVI, and Guam can claim the enhanced FMAP of 93 percent in calendar year (CY) 2019 and 90 percent in CY 2020 for adults without dependent children that states were eligible to receive for expansions prior to the ACA ((§ 1905(z)(2)).[5]
- **BBA 2018 funds.** Funds provided to Puerto Rico and the USVI by BBA 2018, available in FYs 2018 and 2019, are matched at 100 percent regardless of expenditure type.[6]

Sources of federal funds

Territories have several different sources of federal Medicaid funds, which include the annual allotments provided in Section 1108 of the Act, as well as additional, time-limited funds provided by Congress.

Section 1108 allotment. The base source of federal funds for territory Medicaid programs is the Section 1108 allotment. By spending territorial or local dollars on Medicaid services, territories may draw down federal funds up to the statutory maximum through the end of the fiscal year for which they are allotted. These annual caps were originally set in 1968 and are updated annually based on the consumer price index for all urban consumers (CPI-U). It is important to note that, over this time period, growth in national spending on Medicaid has outpaced the CPI-U.

The capped allotment structure provides territories with significantly lower levels of federal financing than would be the case if they were treated like states. Once they reach their annual cap, territories must cover any additional Medicaid expenses entirely with unmatched territorial or local funds. Historically, this has resulted in FMAPs that are effectively lower than 55 percent.[7] For example, at times, the effective federal contribution for Puerto Rico has been 20 percent or lower (Muñoz et al. 2018; Acevedo-Vilá 2005).

Additional federal funds. Congress has in recent years provided additional funds on a time-limited basis to supplement funds available under the cap. The supplemental funds enable the territories to draw down additional federal Medicaid dollars to fund their programs. For example, in FY 2018, federal spending for each of the territories exceeded the Section 1108 allotment funding due to the supplemental federal

funding made available to states through the ACA, and in the case of Puerto Rico and USVI, BBA 2018 (Table 2).

TABLE 2. Medicaid Funding and Spending in the Territories, FY 2018 (millions)

Territory	§ 1108 allotment	Spending		
		Federal	Territory	Total
American Samoa	$11.9	$20.1	$15.3	$35.4
Guam	17.6	56.3	29.5	85.8
CNMI	6.56	25.0	20.0	45.0
Puerto Rico	359.5	2,290.5	203.0	2,493.5
USVI	17.87	70.0	7.0	77.0

Notes: CNMI is the Commonwealth of the Northern Mariana Islands. FY is fiscal year. USVI is the U.S. Virgin Islands. Section 1108 allotment ceilings reflect the annual ceilings for federal funds that territories receive under Section 1108(g) of the Social Security Act, while the actual federal spending reflects use of the additional allotments provided by the ACA and BBA 2018 as well as a small amount of spending not subject to the cap on federal financial participation. For FY 2011–2017 spending and allotments, see MACPAC 2019.

Source: CMS 2018b. MACPAC 2019 analysis of CMS-64 financial management report net expenditure data as of May 1, 2019.

More recently, the ACA provided an additional $7.3 billion, and directed the Secretary of the U.S. Department of Health and Human Services to allocate the funds among the territories. It provided these funds through two provisions. Section 2005 provided $6.3 billion available to be drawn down between July 2011 and September 2019. ACA Section 1323 provided the remaining $1 billion, which are available between July 2011 and December 2019.

In subsequent legislation, Congress made additional funds available to certain territories. The Consolidated Appropriations Act of 2017 provided additional funds to Puerto Rico in response to its then imminent exhaustion of ACA funds. BBA 2018 provided funds to Puerto Rico and USVI in response to Hurricane Maria. These funds are available only through September 2019 (Table 3).

TABLE 3. Sources of Federal Medicaid Funding for Territories and Periods Funding is Available

Territory	FY 2019 § 1108 allotment	ACA			P.L. 115-31	BBA 2018
		§ 2005	§ 1323	Total ACA funds		
	Grows with CPI-U annually	July 2011–September 2019	January 2014–December 2019	July 2011–September or December 2019	May 2017–September 30 2019	FYs 2018 and 2019
American Samoa	$12.15 million	$181.31 million	$16.51 million	$197.82 million	None	None
Guam	$17.97 million	$268.34 million	$24.44 million	$292.78 million	None	None
CNMI	$6.70 million	$100.14 million	$9.11 million	$109.25 million	None	None
Puerto Rico	$366.70 million	$5.48 billion	$925.00 million	$6.40 billion	$295.9 million	$4.8 billion
USVI	$18.33 million	$273.82 million	$24.93 million	$298.75 million	None	$142.5 million

Notes: ACA is the Patient Protection and Affordable Care Act (ACA, P.L. 111-142, as amended). BBA 2018 is the Bipartisan Budget Act of 2018 (P.L. 115-123). P.L. 115-31 is the Consolidated Appropriations Act of 2017. CPI-U is the consumer price index for all urban consumers. FY is fiscal year. CNMI is Commonwealth of the Northern Mariana Islands. USVI is the U.S. Virgin Islands.

Source: CMS 2019c; MACPAC analysis of the ACA. BBA 2018, and P.L. 115-31.

Order of funds. Since ACA funding became available in 2011, CMS policy has required territories to exhaust funds under their Section 1108 allotments prior to using ACA funds.[8] This arrangement has worked well for the territories, given that the annual allotments were available for a single fiscal year, while supplemental funds were available over several fiscal years. However, in FY 2020, supplemental funds under ACA Section 1323 are available only in the first quarter, that is, through December 2019. If territories are required to draw down their FY 2020 Section 1108 allotments before accessing their ACA Section 1323 funds, they would use little or none of their ACA funds before the expiration date. Permitting them to access these funding sources in the reverse order would prolong the date of exhaustion by as much as one fiscal quarter. At the time of publication, CMS had not determined whether or not it would allow a change to the order in which funds are drawn down (CMS 2019b).

Projections by Territory

Since FY 2011, Section 1108 allotments have been insufficient to cover the federal share of territory Medicaid spending, but supplemental funds provided by Congress have filled this gap. It is important to note that the territories are spending supplemental funds at different rates, reflecting differences in the structure of their programs and availability of funds to provide the non-federal share. For example, American Samoa had used 26 percent of its ACA funds as of April 2019, while CNMI exhausted its funds completely in March 2019. Puerto Rico also came close to exhausting its ACA funds in FY 2017 and again in FY 2018 before Congress intervened to provide additional funding. Some territories will leave a significant amount of funds unspent by the September and December 2019 expiration dates.

After the supplemental ACA spending authorities expire in 2019 and the only federal funds available to territories are the Section 1108 funds, we project all territories will experience a shortfall. The timing of exhaustion will vary by territory.

Data sources and limitations

This analysis is based on data from a variety of sources. We assume that all data are accurate, though the data and analysis have important limitations, described in further detail below. Additionally, we note that actual spending may differ from projected spending. Other factors, such as the timing of federal disbursements and territory-specific circumstances could affect MACPAC's estimates.

Allotment balances. CMS provided data on remaining allotment balances directly and is current as of April 22, 2019. In general, the territories receive ACA funds in quarterly allotments, allowing them to draw down such funds during the quarter. As long as ACA funds remain, these allotments are not hard limits on the amount that can be spent; CMS can issue additional amounts in the next fiscal quarter to cover any excess spending. If territories do not draw down the full quarterly allotment, the balance may be available to them later, although CMS must first certify the final amount before releasing these funds. The data shown here reflects allotments disbursed to territories up to and including the third quarter (Q3) of FY 2019. It does not reflect actual spending during the quarter; that is, these figures will not change until CMS issues additional allotments for the fourth quarter (Q4) beginning July 1, 2019.

This process has particular implications for CNMI which exhausted its ACA allotments in March 2019. In April 2019, CMS released an additional $8.2 million to the territory, comprised of the remaining balances from prior fiscal quarters in which CNMI did not fully draw down its issued allotments.[9] So although all available funds, including the recently released $8.2 from previous quarters, have been disbursed to the territory, the territory may not have completely drawn down these funds. It is unclear how much funding remains, or whether the amount will be sufficient to allow the territory to continue paying providers and ensure that enrollees receive services through the end of the fiscal year.

For all territories except Puerto Rico, data and projections exclude allotments provided to the territories for the Enhanced Allotment Plan (EAP), also referred to as Section 1935(e) funding. This allotment, separate from the annual Section 1108 allotment, is provided to the territories annually, and can only be used to help pay for prescription drugs for individuals dually eligible for Medicare and Medicaid (§ 1935(e) of the Act). Exclusion of the EAP allotment does not affect the predicted dates that territories exhaust funds, but may mean that shortfall dollar amounts are slightly overestimated and that amounts left unspent at the time of expiration are slightly underestimated.

Projected spending. Projected spending for FYs 2019 and 2020 is based on figures submitted to CMS by the territories on Form CMS-37 in February 2019. For Puerto Rico, projections are based on more detailed enrollment and spending projections provided directly to MACPAC by the Puerto Rico Health Insurance Administration (ASES) in January 2019. Actual spending may differ from projections. We assume that projected spending will be evenly distributed across the fiscal year, which may not be the case. In particular, the timing of spending that occurs around September 30, 2019, and December 31, 2019, the two expiration dates, (could affect predicted dates of funding exhaustion.

American Samoa

In each fiscal year from 2011 to 2018, American Samoa exceeded its Section 1108 cap and used ACA funds to cover remaining Medicaid spending; it has continued to do so in FY 2019. Based on projected spending, American Samoa will have sufficient federal Medicaid funding through FY 2019, but will experience a shortfall in funds in FY 2020.

FY 2020 shortfall. Going into FY 2020, American Samoa will have two funding sources: its annual Section 1108 allotment of $12.4 million, and its ACA Section 1323 allotment of $16.5 million. Although together these funding sources exceed projected federal spending, due to the expiration of ACA funds in December, American Samoa will still experience a federal funding shortfall. The size of the shortfall, and when it will occur, will depend on the order in which CMS permits it to access different funding sources in Q1 (Table 4).

- If American Samoa draws down the Section 1108 allotment first, it will have sufficient federal funding until sometime in Q3 FY 2020 (April–June), and will experience a federal funding shortfall of approximately $6.2 million for the remainder of the fiscal year. The full ACA Section 1323 allotment would expire unspent.
- If American Samoa draws down ACA Section 1323 funding first, it could use these funds to cover Q1 federal spending, switching to its annual Section 1108 allotment in Q2. Federal funding from these two sources will be sufficient until sometime in Q4 FY 2020 (July–September). The gap in federal funds will fall to $1.6 million. Only $11.9 million in ACA Section 1323 funds would expire unspent.

Unspent funds. American Samoa has accessed a much smaller share of its ACA funds than other territories; it will not use the full amount available under either Section 2005 or Section 1323 prior to expiration. Approximately $125 million in ACA Section 2005 funds and up to $16.5 million in ACA Section 1323 funds will go unspent, comprising 70 percent of the territory's initial ACA allotment.

American Samoa's limited use of ACA funds is likely related more to the territory's ability to raise its non-federal share than to population need. The non-federal share of Medicaid in American Samoa is generated through certified public expenditures incurred by the territory's one 150-bed public hospital, where the vast majority of Medicaid-funded health services are provided.[10] The hospital's limited capacity to provide services limits expenditures and thus the amount of non-federal share that can be raised. This constraint has been a key barrier to American Samoa's ability to draw down federal dollars (CMS 2018).[11]

TABLE 4. American Samoa Federal Medicaid Spending and Financing Projections, Q4 FYs 2019–2020 (millions)

Period	Projected spending		Federal funding sources							Shortfall (B-A)
	Total	Federal (A)	§ 1108 allotment		ACA § 2005		ACA § 1323		Total used (B)	
			Available	Projected use	Available	Projected use	Available	Projected use		
FY 2019 Q4	**$10.6**	**$5.8**	**–**	**–**	**$130.6**	**$5.8**	**$16.5**	**–**	**$5.8**	**–**
FY 2020 (§ 1108 funds used first)	**34.0**	**18.6**	**$12.4**	**$12.4**	**–**	**–**	**16.5**	**–**	**12.4**	**$6.2**
Q1	8.5	4.7	12.4	4.7	–	–	16.5	–	4.7	–
Qs 2–4	25.46	14.0	7.7	7.7	–	–	–	–	7.7	6.2
FY 2020 (ACA § 1323 funds used first)	**34.0**	**18.6**	**12.4**	**12.4**	**–**	**–**	**16.5**	**$4.7**	**17.0**	**1.6**
Q1	8.5	4.7	12.4	–	–	–	16.5	4.7	4.7	–
Qs 2–4	25.5	14.0	12.4	12.4	–	–	–	–	12.4	1.6

Notes: ACA is the Patient Protection and Affordable Care Act (P.L. 111-148, as amended). FY is fiscal year. Q refers to quarter of the fiscal year. Section 1108 allotment reflects the annual ceiling on federal funds that American Samoa receives under Section 1108(g) of the Social Security Act. Current CMS policy dictates that funds be used in the following order: annual Section 1108 allotment, ACA Section 2005, ACA Section 1323. American Samoa shows a $0 Section 1108 allotment for FY 2019 because it exhausted this allotment earlier in the fiscal year. ACA Section 2005 funds can only be used until September 30, 2019. ACA Section 1323 funds can only be used until December 31, 2019 (i.e., in Q1 2020). Assumes spending is equally distributed across quarters. Spending is projected; actual exhaustion dates will differ depending on amount and distribution of actual spending.

– Dash indicates zero.

Source: CMS 2019a, c, d; MACPAC 2019 analysis of CMS-37 projections of spending for FYs 2019–2020 submitted in February 2019.

Guam

In each fiscal year from 2011 to 2018, Guam exceeded its Section 1108 cap and accessed ACA funds to cover remaining Medicaid spending. It has continued to do so in FY 2019. Based on projected spending, Guam will have sufficient federal Medicaid funding through FY 2019, but will experience a gap in federal funds in FY 2020.

FY 2020 shortfall. Going into FY 2020, Guam will have two funding sources: its annual Section 1108 allotment of approximately $18.4 million, and its ACA Section 1323 allotment of $24.4 million. Projected federal spending indicates that Guam will experience a federal funding shortfall, the size and timing of which will depend on the order in which it draws down different funding sources (Table 5).

- If Guam draws down the Section 1108 allotment first, it will have sufficient federal funding until sometime in Q2 FY 2020 (January–March), and will experience a federal funding shortfall of approximately $36.1 million for the remainder of the fiscal year. The full ACA Section 1323 allotment would expire unspent.

- If Guam draws down Section 1323 funding first, it will be able to use these funds to cover Q1 federal spending, switching to its annual Section 1108 allotment in Q2. Federal funding from these two sources will be sufficient until sometime in Q3 FY 2020 (April–June). The gap in federal funds will fall to $22.5 million. Only $10.8 million in ACA Section 1323 funds would expire unspent.

TABLE 5. Guam Federal Medicaid Spending and Financing Projections, Q4 FYs 2019–2020 (millions)

Period	Projected spending		Federal funding sources							
			§ 1108 allotment		ACA § 2005		ACA § 1323		Total used (B)	Shortfall (B–A)
	Total	Federal (A)	Available	Projected use	Available	Projected use	Available	Projected use		
FY 2019 Q4	**$21.7**	**$13.6**	**$0**	**$0**	**$41.5**	**$13.6**	**$24.4**	**–**	**$13.6**	**$0**
FY 2020 (§ 1108 funds used first)	**86.8**	**54.5**	**18.4**	**18.4**	**–**	**–**	**24.4**	**–**	**18.4**	**36.1**
Q1	21.7	13.6	18.4	13.6	–	–	24.4	–	13.6	–
Qs 2–4	65.1	40.9	4.8	4.8	–	–	–	–	4.8	36.1
FY 2020 (ACA § 1323 funds used first)	**86.8**	**54.5**	**18.4**	**18.4**	**–**	**–**	**24.4**	**$13.6**	**32.0**	**22.5**
Q1	21.7	13.6	18.4	–	–	–	24.4	13.6	13.6	–
Qs 2–4	65.1	40.9	18.4	18.4	–	–	–	–	18.4	22.5

Notes: ACA is the Patient Protection and Affordable Care Act (P.L. 111-148, as amended). FY is fiscal year. Q is quarter of the fiscal year. Section 1108 allotment reflects the annual ceiling on federal funds that Guam receives under Section 1108(g) of the Social Security Act. Current CMS policy dictates that funds be used in the following order: annual Section 1108 allotment, ACA Section 2005, ACA Section 1323 (CMS 2019d). Guam shows a $0 Section 1108 allotment in FY 2019 because it exhausted this allotment earlier in the fiscal year. ACA Section 2005 funds can only be used until September 30, 2019. ACA Section 1323 funds can only be used until December 31, 2019 (i.e., in Q1 2020). Assumes spending is equally distributed across quarters. Spending is projected; actual exhaustion dates will differ depending on amount and distribution of actual spending.

– Dash indicates zero.

Source: CMS 2019a, c; MACPAC 2019 analysis of CMS-37 projections of spending for FYs 2019–2020 submitted in February 2019.

Unspent funds. Guam will not use all available federal Medicaid funds before they expire; an estimated $27.9 million in ACA Section 2005 funds and up to $24.4 million in ACA Section 1323 funds will expire unspent. This comprises 18 percent of the territory's initial ACA allotment. Like American Samoa, Guam has reportedly experienced difficulty raising the non-federal share of Medicaid costs needed to draw down federal funds prior to their expiration (CMS 2018a). Guam's share of Medicaid program costs is funded through general revenue.

CNMI

It is difficult to estimate when CNMI will fully exhaust federal funding. The territory has a $0 balance for each of its federal funding sources for FY 2019, which indicates that all available funds have been issued, including the $8.2 million in unspent funds from prior years that CMS released in April 2019. Release of

these funds does not mean that the territory has completely drawn them down; it is unclear how much funding actually remains.

Moreover, it is difficult to estimate how long any remaining funding would last. Spending projections for the remainder of FY 2019 are available, showing $9.6 million in federal spending for the full fiscal year, or $2.4 million per quarter. However, during the period between when funds were initially exhausted (March 2019) and when unspent funds from prior years were released (mid-April 2019), the territory reportedly suspended or made partial payments to providers (CMS 2019d). It is unclear whether the territory issued payments to these providers retroactively, and if so, how much of the released funding was used for this purpose.

In FY 2020, CNMI will have only its annual Section 1108 allotment of approximately $6.9 million. Based on projected federal spending, this will result in a federal funding shortfall of $2.6 million, occurring in FY 2020 Q3 (Table 6).

TABLE 6. CNMI Federal Medicaid Spending and Financing Projections, Q4 FYs 2019–2020 (millions)

Period	Projected spending		Federal funding sources							
			§ 1108 allotment		ACA § 2005		ACA § 1323		Total used (B)	Shortfall (B–A)
	Total	Federal (A)	Available	Projected use	Available	Projected use	Available	Projected use		
FY 2019 Q4	$4.4	$2.4	–	–	–	–	–	–	–	Unclear
FY 2020	17.1	9.4	$6.9	$6.9	–	–	–	–	$6.9	$2.6

Notes: ACA is the Patient Protection and Affordable Care Act (P.L. 111-148, as amended). CNMI is Commonwealth of the Northern Mariana Islands. FY is fiscal year. Q is quarter of the fiscal year. Section 1108 allotment reflects the annual ceiling on federal funds that CNMI receives under Section 1108(g) of the Act. Current CMS policy dictates that funds be used in the following order: annual Section 1108 allotment, ACA Section 2005, ACA Section 1323 (CMS 2019d). CNMI has $0 values for all allotments in FY 2019 because it exhausted them earlier in the fiscal year. Although CMS released $8.2 million in unspent ACA funds from prior years to CNMI in April 2019, it is unclear how much of that has been drawn down, how much remains, or whether a shortfall would occur. Assumes spending is equally distributed across quarters. Spending is projected; actual exhaustion dates will differ depending on amount and distribution of actual spending.

– Dash indicates zero.

Source: CMS 2019a, c; MACPAC 2019 analysis of CMS-37 projections of spending for FYs 2019–2020 submitted in February 2019.

Puerto Rico

Puerto Rico has relied on a variety of federal funding sources to supplement funds available under the Section 1108 cap since they became available in FY 2011.[12] Since January 2019, it has used BBA 2018 funds almost exclusively due to the 100 percent matching rate. As of Q3, it had used none of its FY 2019 Section 1108 allotment of $366.7 million. Based on projected spending, Puerto Rico will have sufficient federal Medicaid funding through FY 2019.

FY 2020 shortfall. Puerto Rico will experience a gap in federal funds in FY 2020. Going into FY 2020, Puerto Rico will have two funding sources: its annual Section 1108 allotment of $375.1 million, and its remaining ACA Section 1323 balance of $586.4 million. Puerto Rico also has an EAP allotment of

approximately $59 million, which can only be use for spending to assist dually eligible individuals with prescription drug cost sharing. The size and timing of Puerto Rico's FY 2020 federal funding shortfall will depend on the order in which it draws down different funding sources:

- If Puerto Rico draws down the Section 1108 allotment first, it will have sufficient federal funding until December 31, 2019 but will experience a federal funding shortfall of approximately $1.39 billion for the remainder of the fiscal year. Approximately $515.2 million in ACA Section 1323 funds would expire unspent.
- If Puerto Rico draws down ACA Section 1323 funding first, it will be able to use these funds to cover Q1 federal spending, switching to its annual Section 1108 allotment in Q2. Federal funding from these two sources would be sufficient until sometime in March 2020. The gap in federal funds would fall to approximately $1billion. Only $140.1 million in ACA Section 1323 funds would expire unspent (Table 7).

Unspent funds. Puerto Rico is projected to leave only a small portion of its BBA 2018 allotment unspent. It will also leave a significant amount of funds from other sources unspent. In total, approximately $572.7–946.7 million could expire unspent, including:

- $65.9 million in BBA 2018 funds expiring on September 30, 2019;
- $366.7 million available under the FY 2019 Section 1108 cap, expiring on September 30, 2019; and
- $140.1–$515.2 million in ACA Section 1323 funds expiring on December 30, 2019.

TABLE 7. Puerto Rico Federal Medicaid Spending and Financing Projections, Q4 FYs 2019–2020 (millions)

Period	Projected spending		Federal funding sources									
			§ 1108 of the Act		§ 1935(e) of the Act		ACA § 1323		BBA 2018			
	Total	Federal (A)	Available	Projected use	Available	Projected use	Available	Projected use	Available	Projected use	Total used (B)	Shortfall (B-A)
FY 2019 Q4	**$667.3**	**$667.3**	**$366.7**	**–**	**$56.5**	**–**	**$586.4**	**–**	**$733.2**	**$667.3**	**$667.3**	**–**
FY 2020 (§ 1108 funds used first)	**2,789.1**	**1,896.2**	**375.1**	**$375.1**	**59.0**	**$59.0**	**586.4**	**$71.2**	**–**	**–**	**505.3**	**$1,390.9**
Q1	697.3	474.1	375.1	375.1	59.0	27.7	586.4	71.2	–	–	474.1	–
Qs 2–4	2,091.8	1,422.2	–	–	31.2	31.2	–	–	–	–	31.2	1,390.9
FY 2020 (ACA § 1323 funds used first)	**2,789.1**	**1,896.2**	**375.1**	**375.1**	**59.0**	**59.0**	**586.4**	**446.3**	**–**	**–**	**880.4**	**1,015.8**
Q1	697.3	474.1	375.1	–	59.0	27.7	586.4	446.3	–	–	474.1	–
Qs 2–4	2,091.8	1,422.2	375.1	375.1	31.2	31.2	–	–	–	–	406.3	1,015.8

Notes: ACA is the Patient Protection and Affordable Care Act (P.L. 111-148, as amended). BBA 2018 is the Bipartisan Budget Act of 2018. FY is fiscal year. Q is quarter of the fiscal year. Section 1108 allotment reflects the annual ceiling on federal funds that Puerto Rico receives under Section 1108(g) of the Social Security Act (the Act). Section 1935(e) reflects the annual allotment territories receive for expenditures for providing prescription drug cost-sharing assistance for beneficiaries dually eligible for Medicaid and Medicare, also referred to as the Enhanced Allotment Plan (EAP). It can only be used for this purpose. Other territories also receive EAP allotments, but MACPAC does not have sufficient data to isolate EAP allotment amounts or spending (except in the case of Puerto Rico). Current CMS policy dictates that funds be used in the following order: BBA 2018 funds, annual Section 1108 allotment, ACA Section 2005, ACA Section 1323. ACA Section 2005 funds are not included in this table for Puerto Rico because Puerto Rico exhausted these funds in FY 2018. Assumes spending is equally distributed across quarters. Spending is projected; actual exhaustion dates will differ depending on amount and distribution of actual spending.

– Dash indicates zero.

Source: MACPAC 2019 analysis of ASES 2019a, b, CMS 2019 a, c.

USVI

USVI has relied on additional federal funding sources to supplement funds available under the Section 1108 cap since they became available in FY 2011. Like Puerto Rico, it has used its BBA 2018 funds almost exclusively since they became available due to the 100 percent matching rate. As of Q3, USVI had used none of its FY 2019 Section 1108 allotment of $18.3 million. Based on projected spending, USVI will exhaust BBA 2018 funding but it will have sufficient federal funds from other sources to cover remaining spending through the end of the fiscal year.[13]

FY 2020 shortfall. USVI will experience a gap in federal funds in FY 2020. Going into FY 2020, it will have two funding sources: its annual Section 1108 allotment of $18.8 million, and its remaining ACA Section 1323 balance of $24.9 million. The size and timing of the federal funding shortfall will depend on the order in which the territory draws down different funding sources:

- If USVI draws down the Section 1108 allotment first, it would have sufficient federal funding until sometime in Q2 FY 2020 (January–March), and would experience a funding shortfall of approximately $39.1 million. The full ACA Section 1323 allotment would expire unspent.
- If USVI draws down the ACA Section 1323 funds first, it would have sufficient federal funding until sometime in Q3 FY 2020 (April–June), and would experience a funding shortfall of approximately $24.6 million. Only $10.5 million in ACA Section 1323 funds would expire unspent (Table 8)

Unspent funds. Because the BBA 2018 funds have been available to USVI at a 100 percent matching rate, the territory is projected to exhaust the full allotment. It will leave a significant amount of funds from other sources unspent. In total, approximately $226.5–241.0 million could expire unspent, including:

- $18.2 million available under the FY 2019 Section 1108 cap, expiring on September 30, 2019;
- $197.8 million in ACA Section 2005 funds expiring on September 30, 2019; and
- $10.5–24.9 million in ACA Section 1323 funds expiring on December 30, 2019 (Table 8).

TABLE 8. USVI Federal Medicaid Spending and Financing Projections, Q4 FYs 2019– 2020 (millions)

Period	Projected spending		Federal funding sources									
			§ 1108 allotment		ACA § 2005		ACA § 1323		BBA 2018		Total used (B)	Shortfall (B-A)
	Total	Federal (A)	Available	Projected use	Available	Projected use	Available	Projected use	Available	Projected use		
FY 2019 Q4	**$37.5**	**$29.9**	**$18.3**	**$0.1**	**$ 197.8**	**–**	**$24.9**	**–**	**$29.8**	**$29.8**	**$29.9**	**–**
FY 2020 (§ 1108 funds used first)	**88.0**	**57.9**	**18.8**	**18.8**	**–**	**–**	**24.9**	**–**	**–**	**–**	**18.8**	**$39.1**
Q1	22.0	14.5	18.8	14.5	–	–	24.9	–	–	–	14.5	–
Qs 2–4	66.0	43.4	4.3	4.3	–	–	–	–	–	–	4.3	39.1
FY 2020 (ACA § 1323 funds used first)	**88.0**	**57.9**	**18.8**	**18.8**	**–**	**–**	**24.9**	**$14.5**	**–**	**–**	**33.2**	**24.6**
Q1	22.0	14.5	18.8	–	–	–	24.9	14.5	–	–	14.5	–
Qs 2–4	66.0	43.4	18.8	18.8	–	–	–	–	–	–	18.8	24.6

Notes. ACA is the Patient Protection and Affordable Care Act (P.L. 111-148, as amended). BBA 2018 is the Bipartisan Budget Act of 2018. FY is fiscal year. Q is quarter of the fiscal year. Section 1108 allotment reflects the annual ceiling on federal funds that USVI receives under Section 1108(g) of the Act. Current CMS policy dictates that funds be used in the following order: BBA 2018 funds, annual Section 1108 allotment, ACA Section 2005, ACA Section 1323. Assumes spending is equally distributed across quarters. Spending is projected; actual exhaustion dates will differ depending on amount and distribution of actual spending.

– Dash indicates zero.

Source: MACPAC analysis of CMS 2019a, c; CMS-37 projections of spending for FYs 2019–2020 submitted in February 2019.

Endnotes

[1] The terms cap, allotment, or ceiling funds are often used interchangeably to refer to the funds available under Section 1108.

[2] State FMAPs are determined using a formula that provides higher federal match to states with lower per capita incomes. Medicaid FMAPs currently range from 50 to 76.4 percent.

[3] Congress has provided additional funds to the territories in previous instances as well. For example, the American Recovery and Reinvestment Act (ARRA, P.L. 111-5) raised each territory's annual Medicaid ceiling by 30 percent for the period between October 1, 2009 and June 30, 2011 (§ 5001(d) of ARRA).

[4] A $0 balance indicates that all available funding has been released, but does not necessarily indicate that all of the funding has been drawn down. CMS releases ACA funding to territories in quarterly allotments, allowing them to draw down from these allotments at the applicable matching rate during the quarter. As long as additional ACA funds remain, these allotments are not hard limits on the amount that can be spent; CMS can issue additional ACA funds to cover any excess spending in the next fiscal quarter. If territories do not draw down the full quarterly allotment, the balance may be available to them at a later time, although CMS must go through a process to certify the final amount and release these funds to the territories. CNMI exhausted its federal funds in March 2019; however, the following month CMS was able to certify and release $8.2 million in unspent funds from previous quarters. These funds are available to be drawn down, but after they are expended, no further funds can be released (because of CNMI's $0 balance across funding sources).

[5] American Samoa and CNMI may also be eligible for this FMAP but have not submitted the appropriate state plan amendments or taken other necessary steps to gain CMS approval. They had not claimed any expenditures in this category as of the third quarter of FY 2018.

[6] Any other funds used by Puerto Rico and USVI during this time, including their ACA funds or Section 1108 allotments, are matched at the applicable matching rate.

[7] Effective federal contribution refers to the percent of Medicaid spending covered with federal funds over the course of the fiscal year.

[8] CMS has allowed Puerto Rico and USVI to use BBA funds first due to the 100 percent matching rate.

[9] This process for disbursing funds is not unique to CNMI although it does not normally matter because states have an unlimited amount of funds they can draw down (subject to the availability of their non-federal share), and the other territories have sufficient ACA funds remaining.

[10] A certified public expenditure is a statutorily recognized Medicaid financing approach by which a governmental entity, including a governmental provider (e.g., county hospital, local education agency), incurs an expenditure eligible for federal financial participation under the state's approved Medicaid state plan (§ 1903(w)(6) of the Social Security Act; 42 CFR 433.51). The governmental entity certifies that the funds expended are public funds used to support the full cost of providing the Medicaid-covered service or the Medicaid program administrative activity.

[11] The adequacy of federal funding as it relates to American Samoa's level of need is beyond the scope of this brief.

[12] For FYs 2011–2016, Puerto Rico exhausted its annual funds under the Section 1108 cap and used ACA Section 2005 funds to cover remaining costs. During FY 2017, Puerto Rico used a combination of funds provided by the Section 1108

allotment, ACA Section 2005, ACA Section 1323, and the Consolidated Appropriations Act of 2017 (ASES 2017). In FY 2018, prior to the enactment of the BBA, Puerto Rico used funds available under the Section 1108 cap and a small amount of ACA Section 2005 funds. Because funds provided under the BBA are matched at a 100 percent matching rate, Puerto Rico began using these funds as the sole federal funding source for the program when they became available in January 2018. It plans to continue doing so through their expiration date at the end of FY 2019.

[13] Based on projected spending, USVI will access approximately $125,000 in federal funds from its FY 2019 Section 1108 allotment to fill the gap after BBA funds are exhausted.

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