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SCHIP Financing: Funding Projections and State Redistribution Issues

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Summary

The Balanced Budget Act of 1997 (BBA 97, P.L. 105-33) created the State Children's Health Insurance Program (SCHIP), which is authorized for FY1998 through FY2007. The purpose of the program is to help states pay for health coverage of children in families whose income is just above the levels that would allow them to be eligible for the state's Medicaid program as of March 31, 1997.

At the time of enactment, Congress appropriated to SCHIP nearly \$40 billion for the 10-year period of its authorization, with each state receiving access to a portion of the annual amount. Because SCHIP is a capped-grant program, it is possible for states to exhaust all of the federal SCHIP funds available to them in a given year. However, most states have not been able to spend their allotments within the period of time specified by law. Only one state (Rhode Island) has ever exhausted all of its available federal SCHIP funds, which occurred in a single year and was made up in the following year. The Congressional Research Service (CRS) SCHIP Projection Model projects that six to 14 states will exhaust their available federal SCHIP funds in FY2006, and 12 to 20 states in FY2007.

The range in the number of states projected to exhaust their funds reflects the methodology used in the model. Rather than choosing a single amount for states' projected demand for federal SCHIP funds, various amounts were calculated. The results in this report are based on each state's lowest amount, the "low-demand scenario," and highest amount, the "high-demand scenario," for FY2005-FY2007.

The estimates also reflect the methodology used to redistribute states' unspent FY2002 original allotments, as outlined by the Secretary of Health and Human Services in January 2005. States that were projected to exhaust their federal SCHIP balances in FY2005, based on their estimated FY2005 expenditures, first received redistribution money equal to that estimated shortfall. Those five "shortfall states" were Arizona, Minnesota, Mississippi, New Jersey and Rhode Island. This schema was used for the redistribution of FY2003 and FY2004 funds as well.

Even after applying redistribution funds to shortfall states first, six to 14 states are projected to run out of federal SCHIP funds in FY2006, and 12 to 20 are projected to run out in FY2007. This is because increasing amounts of shortfalls are projected against a shrinking pool of available unspent funds from states' original allotments.

Although the SCHIP program has been successful in covering millions of uninsured children, and has therefore been politically popular, some states are poised to exhaust their federal SCHIP funds as early as next fiscal year. If Congress intends to prevent these shortfalls, legislative action will be needed. If, however, Congress decides that the intent of the original legislation was to ensure states did not treat the program as an open-ended entitlement, no action will be necessary, as the states with annual SCHIP spending well in excess of their annual allotments face the consequences of that spending through the shortfall of federal funds.

Contents

SCHIP Spending Overview	2
Annual Reallocations/Redistributions	3
CRS SCHIP Projection Model	5
Projecting Demand	6
Availability of Federal SCHIP Funds: FY2005-FY2007	8
Model Results	9
Current Law	9
Analysis and Options	13

List of Tables

Table 1. Federal SCHIP Allotments, Actual Federal SCHIP Expenditures, and Projected Demand for Federal SCHIP Funds	8
Table 2. Actual and Projected Federal SCHIP Funds, with Ranges for Low- and High-Demand Scenarios	10
Table 3. Actual and Projected Amounts of Federal SCHIP Funds Expiring at End of Fiscal Year	11
Table 4. SCHIP Shortfall States, by Fiscal Year	11
Table 5. Projected Percentage of Demand Unmet by Available Federal SCHIP Balances, Including Funds from Redistribution	12
Table 6. Among States Projected to Possibly Exhaust Federal SCHIP Funds by FY2007, Estimated Percentage of Shortfall that Could Be Paid by Medicaid	13

SCHIP Financing: Funding Projections and State Redistribution Issues

The Balanced Budget Act of 1997 (BBA 97, P.L. 105-33) created the State Children's Health Insurance Program (SCHIP), which is authorized for FY1998 through FY2007. The purpose of the program was to help states pay for health insurance coverage of children in families whose income is just above the levels that would allow them to be eligible for the state's Medicaid program as of March 31, 1997.¹

At the time of enactment, Congress appropriated to SCHIP nearly \$40 billion for the 10-year period of its authorization, with each state entitled to a portion of the annual amount. Besides this annual allotment, states may access additional funds; states that exhaust a particular year's allotment receive access to a portion of other states' unspent allotment for that year. In fact, most states have not been able to spend their allotments within the period of time specified by law and have had some of their allotments redistributed to other states.²

Because SCHIP is a capped-grant program, it is theoretically possible for states to exhaust all of the federal SCHIP funds available to them in a given year. For a state to experience such a shortfall, it would have to exhaust all of its available allotments as well as the available funds that had been redistributed from other states. To date, only one state, Rhode Island, has ever exhausted all of its available federal SCHIP funds; this shortfall occurred in a single year, FY2003, and was a relatively small amount made up from the following year's new funds.³

By the end of FY2005, five states were expected to exhaust their available federal SCHIP funds. To deal with this problem, the Secretary of Health and Human Services (HHS) used his statutory authority to redistribute unspent funds through a

¹ For a more in-depth overview of the program, see CRS Report RL30473, *State Children's Health Insurance Program (SCHIP): A Brief Overview*, by Elicia J. Herz, et al.

² In this report, "balances," "spending," and "expenditures" refer only to the federal dollars available, paid or claimed through the enhanced match; state expenditures are not provided or discussed in this report, unless specifically noted.

³ Rhode Island reported \$38,653,564 in federal SCHIP expenditures in FY2003. However, the state's beginning balance available for FY2003 was \$38,624,822, which left a shortfall of \$28,742. This shortfall was simply rolled forward to FY2004 and covered with the newly available pots of money. Rhode Island ended up having enough money in the year following its shortfall to make up that shortfall as well as to cover all of its expenditures in that year. In the future, however, shortfall states may not have newly available funds adequate to cover both past shortfalls and current-year expenditures. In these cases, the shortfall may accumulate over the years.

regulation issued in January 2005.⁴ By doing so, those FY2005 shortfalls have likely been averted.

However, for FY2006, the pool of unspent funds available for redistribution are projected to be insufficient to prevent shortfalls of federal SCHIP funds in six to 14 states, according to the Congressional Research Service (CRS) SCHIP Projection Model and based on certain assumptions discussed below. By the end of FY2007, 12 to 20 states are projected to exhaust their available federal SCHIP funds.

If Congress intends to prevent state shortfalls of federal SCHIP funds in FY2006 and FY2007, legislative action will be needed. If, however, Congress decides that the intent of the original legislation was to ensure states did not treat the program as an open-ended entitlement, no action will be necessary, as the states with annual SCHIP spending well in excess of their annual allotments face the consequences of that spending through the shortfall of federal funds.

SCHIP Spending Overview

States that set up an SCHIP program are reimbursed by the federal government for a percentage of the incurred costs of covering enrolled individuals. This percentage, which varies by state, is called the enhanced federal medical assistance percentage (FMAP). It is based on the FMAP used for the Medicaid program but is higher in SCHIP than in Medicaid. In other words, the federal government contributes more toward the coverage of individuals in SCHIP (65% to 83.96% in FY2005) than it does for those covered under Medicaid (50% to 77.08% in FY2005).⁵

States are reimbursed for their costs up to a capped amount. Nationally, the total annual federal allotments range from \$3.15 billion (FY2002-FY2004) to \$5 billion (FY2007). The amount available to each state is determined annually through a formula that takes into account factors such as the state's number of low-income uninsured children. State allotment amounts are published annually in the *Federal Register* for each upcoming fiscal year. States' allotments for FY2005 were published August 27, 2004.

Under current law, a state's allotment for a given year is available for use for three years. For example, each state's FY1998 allotment was available through FY2000 (September 30, 2000). At the end of the three years, if there is still a balance in that "pot" of money, BBA 97 requires that the Secretary of Health and Human Services redistribute that money to those states which had exhausted that pot. Those

⁴ Health Human Services, press release, "HHS Reallocates SCHIP Funds, No State Will Fall Short," press release, Jan. 19, 2005, at website [<http://www.hhs.gov/news/press/2005pres/20050119a.html>]. "State Children's Health Insurance Program (SCHIP); Redistribution of Unexpended SCHIP Funds from the Appropriation for Fiscal Year 2002," *Federal Register*, vol. 70:12, pp. 3036-3044.

⁵ For more information on the FMAP, see CRS Report RS21262, *Federal Medical Assistance Percentage (FMAP) for Medicaid*, by Christine Scott.

states that exhausted a given year's pot are called redistribution states for that year. Under BBA 97, redistributed funds are available to those states for one year, after which the money expires, reverting back to the Treasury.

Rather than leave the redistribution process up to the Secretary, Congress intervened to determine in statute precisely how much of the unspent funds from FY1998-FY2001 states would receive. Even though BBA 97 allowed for only redistribution states to receive unspent funds, the later laws enacted by Congress permitted those states that did not spend all of their original allotments to retain a portion. These states are called retention states. When both retention and redistribution states receive access to a portion of the unspent money, the process is often called reallocation instead of redistribution, the latter implying that only redistribution states receive access to the unspent funds. Congress also gave states more than one year to spend these funds.

Redistribution states receive funds from other states' unspent original allotments based in part on their "excess spending." Excess spending is defined as the difference between a redistribution state's spending during an original allotment's three-year period of availability and the amount of that allotment. For example, at the end of FY2000, when unspent FY1998 original allotment funds were redistributed, excess spending was calculated among redistribution states as the total federal SCHIP expenditures in FY1998, FY1999, and FY2000 (that is, the FY1998 original allotment's period of availability) minus the FY1998 original allotment amount. This is specified in law.

It is worth noting that states which exhausted a pot of money were not necessarily out of federal money altogether. For example, states that exhausted their FY1998 original allotments did so in FY1999 or FY2000, by which time the original allotments for those years were also available.

In the program's first few years, because SCHIP was new and states were just getting their programs started, much of the original allotments were unspent. In fact, there was still money left for retention states even after covering *all* of the excess spending of redistribution states.

Annual Reallocations/Redistributions

At the end of FY2000, each state's FY1998 original allotment pot was closed. The unspent money, totaling just over \$2 billion, went into a pool to be reallocated as specified in the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA, P.L. 106-554). The territories (Puerto Rico, Guam, American Samoa, the Virgin Islands, and the Northern Mariana Islands) had 1.05% of that pool reserved for them. The redistribution states received access to an amount equal to all of their excess spending of nearly \$700 million. The remaining \$1.3 billion (65% of the total pot of unspent funds) was reallocated back to the retention states, based on their percentage contribution to the overall pool of unspent FY1998 money.

Thus, at the beginning of FY2001, all states had balances available to them through the reallocation of unspent FY1998 funds. In addition, states would also

have available any remaining balances from their FY1999 and FY2000 allotments, as well as the newly available FY2001 allotment.

Typically, when states draw down federal SCHIP money, they must do so chronologically. For example, all available FY1998 funds (whether original allotments or reallocations) must be exhausted before funds from FY1999 or later can be drawn down. Once the reallocated FY1998 funds became available, those had to be drawn down before any more spending could occur out of the other available pots of federal SCHIP funds (in this case, FY1999, FY2000, and FY2001 original allotments). The exception is that the redistribution states may opt to have their redistribution pot drawn in a non-chronological order they specify. (It is still the case, however, that a pot must be exhausted before the next in the sequence can be tapped.)

Given the option to select a non-chronological order of spending, redistribution states have two primary competing incentives: (1) spend original allotment money first to ensure qualification as a redistribution state in the future, and (2) spend reallocated money first to minimize the amount of available money that expires. The order that states most commonly chose was to have spending from the FY1998 redistribution pot begin once the FY1999 original allotment pot was emptied. They generally opted to have the FY1999 pot drawn down first to ensure that they would qualify for the redistribution of other states' unspent funds from that year.

Redistribution states continue to choose non-chronological spending in which the first pot drawn down is the original allotment that will be up for reallocation at the end of the current fiscal year, followed by the reallocation(s) that will expire at the end of the current fiscal year, and then alternating between the next original allotment and the next reallocation pots, for which the expiration dates are further out into the future. For example, beginning in FY2004, when the FY2001 reallocation and the FY2004 original allotment were first made available to states, the most common order of spending selected by the redistribution states was as follows: (1) FY2002 original allotment, which was up for reallocation at year's end; (2) FY1999 and FY2000 reallocated money, which would expire at year's end; (3) FY2003 original allotment; (4) FY2001 redistribution; and (5) FY2004 original allotment.

The reallocation of unspent FY1999 original allotments was similar to the FY1998 reallocation. When the FY1999 allotments were closed at the end of FY2001, the redistribution states received access to an amount equal to all of their excess spending of approximately \$1.6 billion. This allowed nearly \$1.2 billion (42%) of the unspent pool of \$2.8 billion to be reallocated to the retention states.

At the end of FY2002, the unspent pool of FY2000 original allotments was reallocated differently, according to the State Children's Health Insurance Program Allotments Extension Act (P.L. 108-74). The territories again received 1.05% of the total unspent funds. Then each retention state was reallocated half of its unspent funds. The balance was reallocated to the redistribution states based on their percentage of the overall excess spending. For the FY2000 reallocation process, the redistribution states' excess spending totaled nearly \$2.2 billion; they received half of that, \$1.1 billion, in the reallocation of FY2000 funds.

The reallocation of unspent FY2001 funds was calculated as in the FY2000 reallocation, where the retention states retained access to half of their unspent funds. The redistribution states received \$856 million from the FY2001 reallocation, covering 22% of their excess spending of nearly \$3.9 billion.

Although BBA 97 permits redistribution funds to be available for only one year before expiring, the new laws pushed off the expiration of reallocated FY1998-FY2000 funds to the end of FY2004. This permitted these reallocated funds to be available to states for two to four years. When these pots of money expired at the end of FY2004, \$1.3 billion of reallocated money reverted back to the U.S. Treasury. Under current law, the FY2001 reallocation pot expires after two years, at the end of FY2005.

The reallocation of unspent FY2002 funds was published in the January 19, 2005, issue of the *Federal Register*. Because no law was enacted specifying otherwise, the reallocation process took place according to BBA 97, in which the Secretary determines the process. One limitation under BBA 97 is that the Secretary may not distribute unspent funds to retention states.

As in previous reallocations, the territories first received 1.05% of the total unspent funds. States that were projected to exhaust all of their available federal SCHIP balances in FY2005, based on their estimated FY2005 expenditures, received redistribution money equal to that estimated shortfall. Those five “shortfall states” were Arizona, Minnesota, Mississippi, New Jersey and Rhode Island. The remaining balance of unspent FY2002 funds was divided among the 28 redistribution states, including the five shortfall states, based on their percentage of overall excess spending.⁶ As a result, the five shortfall states received two sets of additional funds through the redistribution: (1) for qualifying as a shortfall state, and (2) for qualifying as a redistribution state. Also according to BBA 97, this reallocation pot will expire at the end of one year, in this case at the end of FY2005.

CRS SCHIP Projection Model

The Congressional Research Service (CRS) SCHIP Projection Model, hereafter referred to simply as “the model” or “the CRS model,” combines data available on federal SCHIP allotments, spending and reallocations in the program through the end of FY2004. In order to make projections, these data are fed through the model’s two discrete components. The first component projects individual states’ and territories’

⁶ As previously noted, excess spending is calculated as the difference between a redistribution state’s spending during an original allotment’s three-year period of availability and the amount of that allotment. It is worth noting that this schema causes a single year’s SCHIP expenditures to be included in three years of redistribution calculations. For example, a state may have had unusually high SCHIP spending in FY2002. The FY2002 spending would have been a factor in determining whether the state qualified as a redistribution state (and the amount of redistributed funds the state would receive) in the reallocations that took place at the end of FY2002, FY2003, and FY2004. Respectively, these reallocations were of the unspent FY2000, FY2001, and FY2002 original allotments.

demand for federal SCHIP funds from FY2005-FY2007. The second component calculates the federal SCHIP funds that are available and drawn against each year.

Projecting Demand

Rather than just projecting *spending*, the model projects *demand* for federal SCHIP funds. If the model were to project only federal SCHIP *spending*, the maximum that a state could spend is its available balance. However, one purpose of the model is to capture the extent to which available SCHIP funds may be inadequate for a particular state and the cumulative nature of those shortfalls over time. To capture this, states' *demand* for federal SCHIP funding must be projected — that is, the amount that states could be expected to spend if they would not run out of federal SCHIP money.

There are two ways to project state-level demand of federal SCHIP funds: (1) trend forward historical spending of federal SCHIP money (available through FY2004), by state; and (2) use states' own predictions of their demand for federal SCHIP funds (for example, in November 2004 states estimated their demand for funds in FY2005 and FY2006). Analyses of previous years' data show that neither method is clearly superior in projecting actual spending.

For projecting future demand, the previously mentioned amounts can be increased by some factor. For purposes of the model, demand is projected to grow in each state by a minimum and maximum amount. The *minimum growth rate* is the projected growth in national health expenditures for the year according to the Centers for Medicare and Medicaid Services (CMS). These projections are 6.3% for 2005 and 2006, and 6.6% for 2007.⁷ Using this trend for the model's minimum growth rate effectively assumes that enrollment in the state's SCHIP program stays the same and that demand increases only by the amount of per-capita growth in health expenditures in the country as a whole.⁸

The *maximum growth rate* is the greater of (1) the previously discussed projected per-capita growth in national health expenditures, and (2) roughly 60% of the growth rate of the prior two years' demand for federal SCHIP funds, with the resulting rate not permitted to exceed 20%. The latter calculation was based on a methodology previously used by CMS. The assumption is that states that had substantial growth in SCHIP expenditures in the most recent year would continue growth but at a lower rate. Both the 60% and 20% numbers are arbitrary but are useful to continue recent program growth at a tempered rate.

A case can be made for using any of these projection methods. Rather than choosing one, the results in this report are based on two sets of demand projections for each state — one using the lowest possible projected demand from the methods

⁷ CMS Office of the Actuary's National Health Expenditure Projection tables, to be posted online [<http://www.cms.hhs.gov/statistics/nhe/projections-2004/>].

⁸ An analysis was done of the most recent available growth in per-capita health expenditures among children in Medicaid. That growth rate was nearly the same as CMS's projected growth rates nationally.

discussed above and the other using the highest. One is the lower bound, the “low-demand scenario,” and the other is the upper bound for the model’s results, the “high-demand scenario.”

For 43 states and the District of Columbia, this methodology yields high-demand projections in FY2005 that are 12% higher than the low-demand projections. In seven states, however, the high-demand projection for expenditures on individuals enrolled in SCHIP exceeded the low-demand projection by 50% or more. These differences were due to the states’ FY2005 spending estimates being dramatically different from their FY2003 and FY2004 actual expenditures. After reviewing these states’ SCHIP programs and after contacting state officials, the state estimate was used for the basis of projecting these states’ FY2005 demand for federal SCHIP funds. To create a range between the low- and high-demand scenarios consistent with the 12% range of the other states, as mentioned above, the low-demand projection was each state’s estimate reduced by approximately 6%, and the high-demand projection was the state’s estimate increased by approximately 6%.⁹ Using these projections, demand for federal SCHIP funds nationally is expected to range from \$4.8 billion to \$5.4 billion in FY2005, from \$5.0 billion to \$6.0 billion in FY2006, and from \$5.4 billion to \$6.8 billion in FY2007, as shown in **Table 1**.

⁹ The seven states for which this methodology was used were Arizona, Florida, Illinois, Massachusetts, Nebraska, New Mexico, and Oregon. The reasons for the difference between their recent spending data and their spending estimates for FY2005 are as follows: Arizona and Illinois had a new waiver take effect in FY2003 but some of the claims for the federal dollars were not actually made until FY2004. In FY2004, Florida had an adjustment to their SCHIP claims, reducing their federal reimbursement by \$123 million. In FY2004, Massachusetts back-claimed the difference between the regular and enhanced FMAP for children who qualified for SCHIP, back to the program’s inception. New Mexico expanded SCHIP eligibility to children with family income between 185% and 235% of poverty as of Jan. 1, 2005. Oregon’s premium assistance program was not included by CMS in the state’s final estimate of SCHIP demand in FY2005. Information on Nebraska has not yet been obtained; in the interim, this state is being treated the same as the other six.

Table 1. Federal SCHIP Allotments, Actual Federal SCHIP Expenditures, and Projected Demand for Federal SCHIP Funds

Fiscal year	SCHIP allotments	Actual federal SCHIP expenditures	Projected demand for federal SCHIP money
1998	\$4.24 billion	\$0.12 billion	
1999	\$4.25 billion	\$0.92 billion	
2000	\$4.25 billion	\$1.93 billion	
2001	\$4.25 billion	\$2.67 billion	
2002	\$3.12 billion	\$3.78 billion	
2003	\$3.18 billion	\$4.28 billion	
2004	\$3.18 billion	\$4.64 billion	
2005	\$4.08 billion		<i>\$4.83 - 5.44 billion</i>
2006	<i>\$4.08 billion</i>		<i>\$5.00 - 5.96 billion</i>
2007	<i>\$5.04 billion</i>		<i>\$5.36 - 6.81 billion</i>

Source: Congressional Research Service (CRS) SCHIP projection model and CRS analysis of data from the Centers for Medicare and Medicaid Services.

Note: Projected amounts are italicized. Ranges reflect the low- and high-demand scenarios used in the CRS model.

Availability of Federal SCHIP Funds: FY2005-FY2007

Adequate information exists to estimate the balance of federal SCHIP funds available to each state at the beginning of FY2005. A state could have had balances left in its FY2001 reallocation pot as well as new funds available from the FY2002 redistribution. In addition, the state could have balances carried over from its FY2003 and FY2004 original allotments. Beginning in FY2005, the state could also begin to draw down from its FY2005 original allotment. In short, five pots of money were potentially available to states in FY2005.

Based on the projected demand for FY2005, the model draws down the available pots of money in the appropriate order, as discussed above. Once that process is completed, the model calculates the amount of unspent FY2003 original allotment funds that will be redistributed and made available in FY2006. In addition, the balances remaining in the FY2001 and FY2002 reallocation pots at the end of FY2005 are considered expired, following current law. The other balances that remain, along with the new FY2003 redistribution and the FY2006 allotment, are available in FY2006.

The process is then repeated for FY2006 and FY2007. Available federal SCHIP funds are drawn down based on projected demand; the newest reallocation is calculated; remaining funds in the appropriate pots are deemed expired; and remaining balances (negative balances being shortfalls) are calculated for use in the following year.

Model Results

Current Law. Based on current law, assumptions about how funds will be allotted and redistributed, and on projected demand, the model projects the number of states that could deplete those funds from FY2005-FY2007.

As previously mentioned, five states were projected by CMS to exhaust their balance of funds in FY2005. Combined, their “shortfall” was estimated to be \$0.24 billion, as shown in **Table 2**. The available unspent FY2002 original allotment was estimated at \$0.64 billion. Using those funds to meet states’ estimated shortfall still leaves a balance of \$0.41 billion for redistribution to the 28 redistribution states, including the five shortfall states, and the territories.

With the FY2002 redistribution made available in FY2005, along with the FY2005 original allotment and any available state-specific balances rolling over from previous years, no state is expected to exhaust all of its federal SCHIP balances in FY2005.

As shown in **Table 3**, \$51 million to \$181 million are projected to expire at the end of FY2005 (from the FY2001 and FY2002 reallocations), reverting back to the U.S. Treasury. This compares to the nearly \$1.3 billion that expired at the end of FY2004 (from the reallocations for FY1998-FY2000), more than half of which was from the state of New York. No states are projected to have redistribution funds expire at the end of FY2006 or FY2007.

Table 2 also shows that six to 14 states are projected to qualify as shortfall states in FY2006 and therefore be the first states to receive access to unspent FY2003 original allotments. However, their shortfall (\$0.21 billion to \$0.50 billion) is projected to exceed the available unspent balance (\$0.16 billion to \$0.19 billion). As a result, those states are projected to still have a shortfall of \$0.02 billion to \$0.35 billion. Moreover, the remaining 28 to 34 states projected to qualify as redistribution states will receive no money in a redistribution, since the remaining funds are projected to be fully consumed by the shortfall states.¹⁰ Similarly, the 12 to 20 states projected to qualify as shortfall states in FY2007 will not receive enough through the redistribution to make up their shortfall, and there will be no money left for the remaining redistribution states. (Because the shortfall states in FY2006 and FY2007 are projected to use all of the redistribution money, no money is projected to expire at the end of these years.)

The specific states expected to qualify as shortfall states by fiscal year are shown in **Table 4**. **Table 5** shows the projected percent of demand unmet by the available federal SCHIP funds *after* accounting for the expected redistribution to these states.

¹⁰ For FY2006, under the high-demand scenario, there are projected to be 42 redistribution states, including the 14 shortfall states. Under the low-demand scenario, 40 redistribution states are projected, including the six shortfall states.

Table 2. Actual and Projected Federal SCHIP Funds, with Ranges for Low- and High-Demand Scenarios
(current-law model)

Fiscal year	Number of states expected to deplete federal SCHIP funds (shortfall states)	Estimated amount of shortfalls	Available unspent allotments	After applied to shortfalls, remaining balance of available unspent allotments	Total number of redistribution states (including shortfall states)	Remaining shortfall	Number of shortfall states remaining after redistribution	Amount of federal money expiring
2001			\$2.03 billion	\$2.03 billion	12			
2002			\$2.82 billion	\$2.82 billion	13			
2003	1		\$2.21 billion	\$2.21 billion	14			
2004			\$1.75 billion	\$1.75 billion	19			\$1.28 billion
2005	5	\$0.24 billion	\$0.64 billion	\$0.41 billion	28	\$0	0	<i>\$0.05 - 0.18 billion</i>
2006	<i>6 - 14</i>	<i>\$0.21 - 0.5 billion</i>	<i>\$0.16 - 0.19 billion</i>	<i>\$0</i>	<i>40 - 42</i>	<i>\$0.02 - 0.35 billion</i>	<i>6 - 14</i>	<i>\$0</i>
2007	<i>12 - 20</i>	<i>\$0.53 - 1.95 billion</i>	<i>\$0.11 - 0.15 billion</i>	<i>\$0</i>	<i>39 - 42</i>	<i>\$0.36 - 1.49 billion</i>	<i>12 - 20</i>	<i>\$0</i>

Source: Congressional Research Service (CRS) SCHIP projection model and CRS analysis of data from the Centers for Medicare and Medicaid Services.

Note: Projections are italicized. Ranges reflect the low- and high-demand scenarios used in the CRS model. A shortfall state is a state that depletes, or is expected to deplete, its available federal SCHIP funds in a given year. A redistribution state is one that receives a portion of other states' unspent allotments for a given year.

Table 3. Actual and Projected Amounts of Federal SCHIP Funds Expiring at End of Fiscal Year

(in thousands of dollars)

State	2004	2005	Total
Alaska	\$8,627	<i>\$3,302 - 5,950</i>	<i>\$11,928 - 14,576</i>
Arkansas	\$11,165	<i>\$0</i>	<i>\$11,165</i>
Kentucky	\$87,628	<i>\$3,640 - 6,141</i>	<i>\$91,268 - 93,768</i>
Maine	\$5,005	<i>\$0</i>	<i>\$5,005</i>
Maryland	\$8,084	<i>\$1,309 - 5,795</i>	<i>\$9,393 - 13,879</i>
Massachusetts	\$31,268	<i>\$0 - 1,896</i>	<i>\$31,268 - 33,164</i>
New Mexico	\$30,953	<i>\$0</i>	<i>\$30,953</i>
New York	\$877,081	<i>\$17,188 - 122,782</i>	<i>\$894,269 - 999,863</i>
South Carolina	\$152,209	<i>\$0</i>	<i>\$152,209</i>
Tennessee	\$57,607	<i>\$25,889 - 38,400</i>	<i>\$83,496 - 96,006</i>
Washington	\$11,467	<i>\$0</i>	<i>\$11,467</i>
National total	\$1,281,092	<i>\$51,328 - 180,963</i>	<i>\$1,332,420 - 1,462,055</i>

Source: Congressional Research Service (CRS) SCHIP projection model and CRS analysis of data from the Centers for Medicare and Medicaid Services.

Note: Projections are italicized. No states are projected to have redistribution funds expire at the end of FY2006 or FY2007. Ranges reflect the low- and high-demand scenarios.

Table 4. SCHIP Shortfall States, by Fiscal Year

<i>Low-demand scenario</i>				<i>High-demand scenario</i>			
State	2005	2006	2007	State	2005	2006	2007
Alaska			<i>Yes</i>	Alaska			<i>Yes</i>
Arizona	Yes			Arizona	Yes	<i>Yes</i>	<i>Yes</i>
				Florida			<i>Yes</i>
Georgia			<i>Yes</i>	Georgia		<i>Yes</i>	<i>Yes</i>
				Illinois		<i>Yes</i>	<i>Yes</i>
Iowa			<i>Yes</i>	Iowa		<i>Yes</i>	<i>Yes</i>
Maine			<i>Yes</i>	Maine		<i>Yes</i>	<i>Yes</i>
Maryland			<i>Yes</i>	Maryland			<i>Yes</i>
				Michigan			<i>Yes</i>
Minnesota	Yes	<i>Yes</i>	<i>Yes</i>	Minnesota	Yes	<i>Yes</i>	<i>Yes</i>
Mississippi	Yes	<i>Yes</i>	<i>Yes</i>	Mississippi	Yes	<i>Yes</i>	<i>Yes</i>
Missouri			<i>Yes</i>	Missouri		<i>Yes</i>	<i>Yes</i>
Nebraska		<i>Yes</i>	<i>Yes</i>	Nebraska		<i>Yes</i>	<i>Yes</i>
New Jersey	Yes	<i>Yes</i>	<i>Yes</i>	New Jersey	Yes	<i>Yes</i>	<i>Yes</i>
				New Mexico			<i>Yes</i>
				North Carolina		<i>Yes</i>	<i>Yes</i>
				Ohio			<i>Yes</i>
Rhode Island	Yes	<i>Yes</i>	<i>Yes</i>	Rhode Island	Yes	<i>Yes</i>	<i>Yes</i>
				South Dakota		<i>Yes</i>	<i>Yes</i>
Wisconsin		<i>Yes</i>	<i>Yes</i>	Wisconsin		<i>Yes</i>	<i>Yes</i>
Total	5	6	12	Total	5	14	20

Source: Congressional Research Service (CRS) SCHIP projection model and CRS analysis of data from the Centers for Medicare and Medicaid Services.

Note: Projections are italicized. "Yes" is for states expected to be a shortfall state. The recent redistribution of unspent FY2002 original allotment funds will likely prevent these states from having a shortfall in FY2005.

Table 5. Projected Percentage of Demand Unmet by Available Federal SCHIP Balances, Including Funds from Redistribution

<i>Low-demand scenario</i>			<i>High-demand scenario</i>		
State	2006	2007	State	2006	2007
<i>Alaska</i>		27.8%	<i>Alaska</i>		55.0%
			<i>Arizona</i>	26.4%	47.2%
			<i>Florida</i>		29.3%
<i>Georgia</i>		20.5%	<i>Georgia</i>	21.7%	46.8%
			<i>Illinois</i>	1.1%	30.2%
<i>Iowa</i>		3.8%	<i>Iowa</i>	14.6%	46.9%
<i>Maine</i>		2.3%	<i>Maine</i>	4.8%	50.6%
<i>Maryland</i>		31.3%	<i>Maryland</i>		46.3%
			<i>Michigan</i>		36.1%
<i>Minnesota</i>	3.3%	33.0%	<i>Minnesota</i>	30.8%	55.9%
<i>Mississippi</i>	3.3%	37.2%	<i>Mississippi</i>	38.7%	65.6%
<i>Missouri</i>		19.3%	<i>Missouri</i>	13.7%	46.4%
<i>Nebraska</i>	1.6%	22.0%	<i>Nebraska</i>	26.9%	47.9%
<i>New Jersey</i>	4.4%	43.7%	<i>New Jersey</i>	36.6%	66.8%
			<i>New Mexico</i>		17.4%
			<i>North Carolina</i>	0.3%	43.6%
			<i>Ohio</i>		4.2%
<i>Rhode Island</i>	3.9%	42.7%	<i>Rhode Island</i>	32.5%	64.9%
			<i>South Dakota</i>	14.6%	45.8%
<i>Wisconsin</i>	0.5%	28.8%	<i>Wisconsin</i>	9.0%	46.1%
Total shortfall	\$0.2 billion	\$0.36 billion	Total shortfall	\$0.35 billion	\$1.48 billion

Source: Congressional Research Service (CRS) SCHIP projection model and CRS analysis of data from the Centers for Medicare and Medicaid Services.

Note: Projections are italicized.

Of the 20 states projected to exhaust their federal SCHIP funds by FY2007 under the high-demand scenario, four (Arizona, Georgia, Mississippi and North Carolina) would have no alternative for federal funds besides SCHIP. This is because their SCHIP programs are separate from Medicaid. In the other 16 states, some portion of the SCHIP federal funds could be paid by Medicaid, albeit at the regular FMAP instead of the enhanced rate, because these states have SCHIP programs that include a Medicaid expansion. Even when a state's federal SCHIP funds are exhausted, claims under Medicaid-expansion SCHIP can be reimbursed at the regular FMAP. The percentage of expenditures that come from these states' Medicaid-expansion SCHIP programs varies, from 2% (Florida) to 99% (New Mexico), based on FY2004 expenditure data, as shown in **Table 6**. The table also shows the percentage of the enhanced SCHIP FMAP that could be covered by the regular Medicaid FMAP. Finally, the table shows the product of the previous two numbers, which yields the percentage of the state shortfalls that could be paid by Medicaid. This estimate is based on the percentage of Medicaid-expansion funds claimed in their programs in FY2004, which may differ in later years. However, the table illustrates that for many of the states projected to possibly exhaust their federal SCHIP funds, other federal funds would be available to cover the projected shortfall.

Table 6. Among States Projected to Possibly Exhaust Federal SCHIP Funds by FY2007, Estimated Percentage of Shortfall that Could Be Paid by Medicaid

State	% of federal SCHIP expenditures from Medicaid expansion	% of enhanced FMAP covered by regular FMAP	% of federal SCHIP shortfall that could be paid by Medicaid
Alaska	94%	77%	72%
Arizona	0%	87%	0%
Florida	2%	83%	1%
Georgia	0%	84%	0%
Illinois	9%	77%	7%
Iowa	34%	85%	29%
Maine	60%	85%	51%
Maryland	82%	77%	63%
Michigan	13%	81%	11%
Minnesota	0%	77%	0%
Mississippi	0%	91%	0%
Missouri	97%	84%	82%
Nebraska	98%	83%	81%
New Jersey	13%	77%	10%
New Mexico	99%	89%	88%
North Carolina	0%	85%	0%
Ohio	97%	83%	81%
Rhode Island	44%	80%	35%
South Dakota	73%	86%	63%
Wisconsin	26%	82%	21%

Source: Congressional Research Service (CRS) analysis of FY2004 SCHIP expenditure data and FY2006 FMAP rates from the Centers for Medicare and Medicaid Services.

Note: The percentages in the first column of numbers are based on FY2004 expenditures. Thus, this percentage may differ from FY2006 and FY2007, when these states may exhaust their federal SCHIP balances. Florida's estimate is based on only the last three quarters of FY2004 federal SCHIP expenditures, because the first quarter data were anomalous. In the first quarter of FY2004, Florida had a negative adjustment to their SCHIP expenditures exceeding \$125 million. The second column of numbers shows the percentage of funds reimbursed through the enhanced SCHIP federal medical assistance percentage (FMAP) that would be covered by the regular Medicaid FMAP, based on the FY2006 FMAPs, which are the latest available. The last column is the product of the preceding two.

Analysis and Options

SCHIP was created in BBA 97 as a capped grant program to states. Fixed annual balances of federal funds are available to states, which they can exhaust. This contrasts with SCHIP's older and much larger companion in providing health

insurance to low-income individuals, Medicaid, which was created as an individual entitlement program that states cannot exhaust.¹¹

Although it is theoretically possible for states to be in a chronic state of shortfall of federal SCHIP funds, this has not yet happened. Shortfalls projected for FY2005 were forestalled by then Secretary of Health and Human Services Tommy Thompson using his authority to redistribute unspent FY2002 original allotment funds first to states estimated to have shortfalls. “No child will lose health insurance because states don’t have funds to administer a program that is critical to kids who would otherwise not have regular access to health care,” Mr. Thompson said in announcing the redistribution.¹²

If the policy goal is to ensure that states *never* exhaust their federal balances of SCHIP funds, the Secretary’s approach is projected to fall short in FY2006 and FY2007. Even after applying redistribution funds to shortfall states first, six to 14 states are projected to exhaust federal SCHIP funds in FY2006, and 12 to 20 are projected to exhaust their federal SCHIP funds in FY2007, on the basis of their demand for such funds. This is because increasing amounts of shortfalls are projected against a shrinking pool of available unspent funds from states’ original allotments. This shrinking pool is due to increased costs of states’ SCHIP programs for a number of reasons, including program expansions, increasing health care costs, decreasing enrollment in private health insurance, and increased outreach to those who are eligible but not enrolled in SCHIP. States also face pressure to increase SCHIP spending so as not to “lose” their funds to other states.

There are options to meet the policy goal of ensuring that states *never* exhaust their federal balances of SCHIP funds. For example, the SCHIP program could be turned into an open-ended entitlement, perhaps by folding it into the Medicaid program. This would spare the administration and Congress from having to periodically rearrange funds or funding methodologies to cover shortfalls. However, states would likely oppose folding SCHIP into Medicaid if it meant reverting to the regular FMAP. Federal policymakers may oppose this because they believe SCHIP as an individual entitlement would result in greater federal outlays than would occur under SCHIP as a capped grant program, even if prior redistributions have prevented any shortfalls that a capped grant program makes possible.

It is worth noting that, at least through FY2005, shortfalls have been prevented using the 10-year appropriations largely unaltered since BBA 97 — that is, total funds available nationally have been sufficient to meet states’ demand. Some policymakers may therefore argue that SCHIP has been effective as a capped grant program, but that the way in which funds have been distributed to states has been flawed — that original allotments, and perhaps also reallocations, do not accurately

¹¹ States have to provide funds as well, since Medicaid is a state-federal matching program.

¹² Health Human Services, press release, “HHS Reallocates SCHIP Funds, No State Will Fall Short,” press release, Jan. 19, 2005, at website [<http://www.hhs.gov/news/press/2005pres/20050119a.html>]. “State Children’s Health Insurance Program (SCHIP); Redistribution of Unexpended SCHIP Funds from the Appropriation for Fiscal Year 2002,” *Federal Register*, vol. 70:12, pp. 3036-3044.

reflect states' demand for funds. This could be addressed statutorily, by changing how funds are allotted and redistributed.

Alternatively, state-level assignment of funds could be eliminated altogether, with the program operating under a single national cap. In fact, if the projected balances remaining at the end of FY2005, along with new redistributions and original allotments, were made available to all states and applied based on their projected demand, there are projected to be enough funds to prevent any shortfall through the end of SCHIP's current authorization — even under the model's high-demand scenario.¹³ However, this may reduce state-level incentives to rein in SCHIP spending and therefore prompt greater spending.

Although the SCHIP program has been successful in covering millions of uninsured children, and has therefore been politically popular, some states are poised to exhaust their federal SCHIP funds as early as next fiscal year. If Congress decides to prevent these shortfalls, legislative action will be needed. If, however, Congress decides that the intent of the original legislation was to ensure that states did not treat the program as an open-ended entitlement, no action will be necessary through the end of the program's authorization, as the states with annual SCHIP spending well in excess of their annual allotments face the consequences of that spending through the shortfall of federal funds

¹³ Under the high-demand scenario, a total of \$9.5 billion of federal SCHIP funds would be available at the beginning of FY2006. If these balances were not tied to any particular state and were drawn down in an order to minimize expiring funds, the \$9.5 billion would be sufficient to cover the \$6.0 billion in projected demand in FY2006. The balance of \$3.5 billion would be available in FY2007 and would be increased by \$5.0 billion from the newly available FY2007 original allotment. The total balance of \$8.6 billion would be sufficient to meet the high-demand scenario projected demand of \$6.8 billion. Implementing this schema would require changes to current law, including the provision that makes the state-specified original allotments a "state entitlement."