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Impact on States of Revised Redistribution of Unspent FY2002 SCHIP Allotments

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Summary

In January 2005, the Secretary of Health and Human Services (HHS) proposed a procedure for redistributing states' unspent FY2002 original allotments from the State Children's Health Insurance Program (SCHIP). The intent was first to target the funds to states projected to exhaust all available federal SCHIP balances in FY2005, based on the states' spending estimates provided in November 2004. After covering the projected shortfalls, the remaining unspent FY2002 allotments were to be redistributed among all states that had exhausted their FY2002 original allotments. However, once the schema was announced, Rhode Island officials determined that they had submitted an inaccurate expenditure estimate and, unless the methodology was altered, the state would face a shortfall in FY2005 of more than \$20 million. On September 29, 2005, the final notice was released announcing the revised amounts these states would receive in the redistribution of unspent FY2002 original allotments. The only change in the methodology was to use states' SCHIP spending estimates from August 2005 rather than from November 2004. This report summarizes the impact of this change across states. Under the final notice, four states receive more money and 24 states receive less than they would have under the proposed notice. The other 22 states were not affected because they did not spend all of their FY2002 original allotments and therefore did not qualify for redistributed funds in the first place. This report will not be updated.

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 for otherwise uninsured children in families whose income is 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 nearly \$40 billion to SCHIP for the 10-year period of its authorization, with each state entitled to a portion of the annual

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.

amount — its “original allotment” — for three years. BBA 97 required that any original allotments unspent at the end of the applicable three years be redistributed to those states that had spent that year’s original allotment.² The amount these “redistribution states” would receive was to be determined by the Secretary of Health and Human Services (HHS). Rather than leave the process up to the Secretary, however, Congress intervened by specifying in statute precisely how the unspent funds from FY1998-FY2001 would be reallocated. Even though BBA 97 allowed for only redistribution states to receive unspent funds, later laws³ permitted the states that did *not* spend all of their original allotments to retain a portion of these funds, but only for specified years.

Because no law was enacted specifying otherwise, the reallocation process for unspent FY2002 funds took place according to BBA 97, whereby the Secretary determines the process. Under BBA 97, only redistribution states (that is, those that exhaust the applicable original allotment) can receive unspent funds; states that did *not* spend all of their original allotment are *not* permitted to retain any portion of those funds. The proposed reallocation of unspent FY2002 funds was published in the January 19, 2005 issue of the *Federal Register*.⁴

As in previous reallocations, the proposed notice called for the territories to first receive 1.05% of the total unspent funds. Then, states that were projected to exhaust all of their available federal SCHIP balances in FY2005, based on their estimates provided to the Centers for Medicare and Medicaid Services (CMS) in November 2004, received redistribution money equal to that estimated shortfall. These five “shortfall states” were Arizona, Minnesota, Mississippi, New Jersey and Rhode Island. The remaining balance of unspent FY2002 funds was to be divided among the 28 redistribution states, including the five shortfall states, based on their percentage of overall excess spending.⁵ As a result, the five shortfall states were to receive two sets of additional funds through the redistribution: (1) for qualifying as a shortfall state, and (2) for qualifying as a redistribution state. However, most of the redistribution states were to receive money only through the second stage. These amounts and the resulting total redistribution from the proposed notice are shown in the first three columns of numbers in **Table 1**.

In response to the proposed notice, the Rhode Island Office of Health and Human Services sent a letter to CMS saying that “the State wishes to inform CMS that the methodology used and described in the Notice does not make the State whole as CMS has

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

³ The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA, P.L. 106-554) and the State Children’s Health Insurance Program Allotments Extension Act (P.L. 108-74).

⁴ “State Children’s Health Insurance Program (SCHIP); Redistribution of Unexpended SCHIP Funds from the Appropriation for Fiscal Year 2002,” 70 *Federal Register* 3036, Jan. 19, 2005.

⁵ “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.

stipulated to Members of Congress.”⁶ Rhode Island officials had misunderstood the amounts to be reported to CMS in the various financial reports, resulting in an underestimate of its FY2005 shortfall.

The final notice — dated September 29, 2005 — based the revised redistribution on states’ SCHIP spending estimates provided in August 2005.⁷ The fourth column of numbers in **Table 1** shows the revised estimated shortfall of federal SCHIP funds in FY2005 (excluding any FY2002 funds) according to the final notice.⁸ In addition to the five states that previously qualified as shortfall states, Nebraska also was projected to face a shortfall in FY2005, of \$1.7 million. Among the original five shortfall states, three saw increases in their projected shortfalls, compared to shortfall amounts that appeared in the proposed notice based on the November 2004 state estimates:

- Rhode Island’s projected shortfall increased to \$41.9 million, from \$17.9 million;
- Arizona’s increased to \$67.9 million, from \$47.4 million; and
- Minnesota’s increased to \$18.9 million, from \$17.7 million.

The other two states had lower projected shortfalls, compared to the amounts in the proposed notice:

- New Jersey’s projected shortfall dropped to \$106.0 million, from \$131.8 million; and
- Mississippi’s dropped to \$17.3 million, from \$22.2 million.

Overall, the total projected shortfall in the final notice was \$253.7 million, up from the \$237.0 million shortfall in the proposed notice. The impact of this increase is that less money was left over for the second stage of the redistribution, for all of the redistribution states. Under the proposed notice, \$398.9 million was available for this second stage; under the final notice, \$382.2 million was available, a drop of 4.2%. Thus, the amount of funds for the second stage of the redistribution was 4.2% lower for every redistribution state in the final notice (the fifth column of numbers in **Table 1**) than in the proposed notice (the second column of numbers).

The net impact of the final notice, compared to the proposed notice, is that (1) states with a projected shortfall received more or less redistributed FY2002 funds, depending largely on how their projected shortfall changed based on the later estimate; and (2) redistribution states with no projected shortfall received 4.2% less redistributed FY2002 funds. The differences for these states in dollar and percentage terms appear in the last two columns of **Table 1**.

⁶ Letter to Mark McClellan, Administrator of the Centers for Medicare and Medicaid Services, from Jane A. Hayward, Managing Director of the State of Rhode Island and Providence Plantations’ Office of Health and Human Services, February 9, 2005.

⁷ “State Children’s Health Insurance Program (SCHIP); Redistribution of Unexpended SCHIP Funds from the Appropriation for Fiscal Year 2002,” 70 *Federal Register* 56901, Sept. 29, 2005.

⁸ Because this shortfall amount is used to determine how much redistributed FY2002 funds states will receive, it does not include any FY2002 funds.

Table 1. Impact on States of Revised Redistribution of Unspent FY2002 SCHIP Allotments

State	Proposed Notice			Final Notice			Difference in Total FY2002 Redistribution	
	FY2005 Shortfall	Amount to Redistribution States	Total FY2002 Redistribution	FY2005 Shortfall	Amount to Redistribution States	Total FY2002 Redistribution	Dollars	Percentage
Alabama		\$8,998,424	\$8,998,424		\$8,621,243	\$8,621,244	-\$377,180	-4.2%
Alaska		\$3,433,198	\$3,433,198		\$3,289,291	\$3,289,291	-\$143,907	-4.2%
Arizona	\$47,360,814	\$28,998,558	\$76,359,372	\$67,858,814	\$27,783,047	\$95,641,861	\$19,282,489	+25.3%
Florida		\$38,256,995	\$38,256,995		\$36,653,406	\$36,653,406	-\$1,603,589	-4.2%
Georgia		\$23,641,771	\$23,641,771		\$22,650,797	\$22,650,797	-\$990,974	-4.2%
Illinois		\$16,630,068	\$16,630,068		\$15,932,998	\$15,932,998	-\$697,070	-4.2%
Iowa		\$4,570,803	\$4,570,803		\$4,379,212	\$4,379,212	-\$191,591	-4.2%
Kansas		\$5,405,542	\$5,405,542		\$5,178,962	\$5,178,962	-\$226,580	-4.2%
Kentucky		\$10,410,417	\$10,410,417		\$9,974,051	\$9,974,051	-\$436,366	-4.2%
Louisiana		\$10,770,265	\$10,770,265		\$10,318,816	\$10,318,816	-\$451,449	-4.2%
Maine		\$3,234,019	\$3,234,019		\$3,098,461	\$3,098,461	-\$135,558	-4.2%
Maryland		\$19,688,343	\$19,688,343		\$18,863,081	\$18,863,081	-\$825,262	-4.2%
Massachusetts		\$12,272,320	\$12,272,320		\$11,757,910	\$11,757,911	-\$514,409	-4.2%
Michigan		\$9,740,527	\$9,740,527		\$9,332,240	\$9,332,241	-\$408,286	-4.2%
Minnesota	\$17,667,134	\$10,257,993	\$27,925,127	\$18,930,134	\$9,828,016	\$28,758,150	\$833,023	+3.0%
Mississippi	\$22,247,451	\$13,291,820	\$35,539,271	\$17,338,451	\$12,734,677	\$30,073,128	-\$5,466,143	-15.4%
Missouri		\$10,045,287	\$10,045,287		\$9,624,226	\$9,624,226	-\$421,061	-4.2%
Montana		\$1,645,399	\$1,645,399		\$1,576,430	\$1,576,430	-\$68,969	-4.2%
Nebraska		\$3,457,262	\$3,457,262	\$1,704,690	\$3,312,347	\$5,017,037	\$1,559,775	+45.1%
New Jersey	\$131,781,144	\$39,899,431	\$171,680,575	\$105,994,144	\$38,226,996	\$144,221,140	-\$27,459,435	-16.0%
New York		\$47,019,845	\$47,019,845		\$45,048,950	\$45,048,950	-\$1,970,895	-4.2%
North Carolina		\$18,042,047	\$18,042,047		\$17,285,792	\$17,285,792	-\$756,255	-4.2%
Ohio		\$19,517,761	\$19,517,761		\$18,699,650	\$18,699,650	-\$818,111	-4.2%
Pennsylvania		\$14,902,431	\$14,902,431		\$14,277,777	\$14,277,777	-\$624,654	-4.2%
Rhode Island	\$17,930,391	\$5,433,273	\$23,363,664	\$41,880,391	\$5,205,530	\$47,085,921	\$23,722,257	+101.5%
South Dakota		\$1,357,169	\$1,357,169		\$1,300,282	\$1,300,282	-\$56,887	-4.2%
West Virginia		\$4,065,869	\$4,065,869		\$3,895,443	\$3,895,443	-\$170,426	-4.2%
Wisconsin		\$13,896,468	\$13,896,468		\$13,313,980	\$13,313,980	-\$582,488	-4.2%
Total	\$236,986,934	\$398,883,304	\$635,870,238	\$253,706,624	\$382,163,614	\$635,870,238	\$0	0.0%

Source: Congressional Research Service (CRS) analysis of tables in the Proposed Notice (“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, Jan. 19, 2005) and the Final Notice (“State Children’s Health Insurance Program (SCHIP); Redistribution of Unexpended SCHIP Funds from the Appropriation for Fiscal Year 2002,” *Federal Register*, vol. 70:188, pp. 56901-56909, Sept. 29, 2005).

Note: Compared to the Proposed Notice redistribution, states with net increases in the Final Notice FY2002 redistribution are highlighted.