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SCHIP Financing Issues for the 108th Congress

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Peter Kraut
Contractor
Domestic Social Policy Division

Evelyne P. Baumrucker
Analyst in Social Legislation
Domestic Social Policy Division

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Summary

The State Children's Health Insurance Program (SCHIP) offers federal matching funds for states and territories to provide health insurance to uninsured, low-income children in families whose annual incomes are too high to qualify for Medicaid. Unlike Medicaid, which operates as an individual entitlement, SCHIP operates as a capped grant program. Allotment of funds among states is determined by a formula set in law. Once a state depletes a given year's original allotment, other than funds from prior years made available through redistribution, no additional federal funds will be made available to that state for that year. States have the flexibility to design their programs to operate within these funding constraints.

The allotment and redistribution methods under current law have been incompatible with state spending patterns to date. Spending in the first several years of the program was well below appropriations — cumulative expenditure data through the end of FY2002 shows that states spent approximately 46.9% of all federal funds available since the start of the program. Relative to state spending, the appropriation levels were high early on as it took time for states to set up their programs and build enrollment. Once programs are established, states differ in the extent to which they utilize their allotment.

FY2002 is the first fiscal year in which total spending exceeded that year's appropriations. This trend is likely to continue as additional states spend all of their available funds and are eligible for redistributions. Further, FY2002 is the first of 3 years in which the total federal appropriation is 26% less than it was for each of FYs 1998-2001. At the end of FY2002 $1.3 billion of the FY1998 and FY1999 reallocations expired from the program and CBO predicts an additional $1.4 billion to expire at the close of FY2003. While more states will be eligible for redistributions, there will be fewer funds available for redistribution to such states. In fact, the Centers for Medicare and Medicaid Services (CMS) projects shortfalls for some states over the second half of the program, (FY2003-FY2006).

SCHIP financing issues are being addressed by the 108th Congress because states with unspent funds from the FY1998 and FY1999 reallocations are interested in recouping those expired amounts and want to make sure that other unspent amounts from subsequent years remain available to their programs.

On June 26, 2003, the Senate passed legislation S. 312, which would extend the availability of expired funds and establish a new method for redistributing unspent FY2000 and FY2001 allotments among all states. For specified years, S. 312 would allow "qualifying states" to use up to 20% of their available SCHIP funds for certain Medicaid medical assistance payments. The House passed bill, H.R. 531, is identical to S. 312 except that it does not include the latter provision. This legislation seeks to strike a balance between policies to reward fast spending states with the underlying program tenet that SCHIP is a capped grant program under which states must design their programs carefully to stay within the budgetary limitations of their allotments. This report will be updated as legislative activity occurs.

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Background

The State Children's Health Insurance Program (SCHIP), created under the Balanced Budget Act of 1997, is the largest publicly funded effort to provide health insurance to children since Medicaid was enacted in 1965. The program offers capped allotments of federal matching funds for states and territories to provide health insurance to uninsured, low-income children in families whose annual incomes are too high to qualify for Medicaid.

Unlike Medicaid which operates as an individual entitlement, SCHIP operates as a capped grant program to the states.[1] States have the flexibility to design their SCHIP programs to operate within the program's funding constraints. States may choose from three options when designing their SCHIP programs. They may expand Medicaid, create a new "separate state" insurance program, or devise a combination of both approaches.[2] Within broad federal guidelines, each state can define the group

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[1] Medicaid, authorized under Title XIX of the Social Security Act, is a joint federal state entitlement program that pays for Medicaid assistance primarily for low-income persons who are aged, blind, disabled, members of families with dependent children as well as certain other pregnant women and children. States are required to provide Medicaid benefits to all individuals who meet the state-specific eligibility criteria and apply. As an open-ended entitlement there are no limits on the federal payments for Medicaid; however, the state must contribute its share of the matching funds in order to continue receiving federal payments.

[2] Services for targeted low-income children who are enrolled in Medicaid are paid from SCHIP allotments at the enhanced matching rate. If SCHIP funds are no longer available, services for these children are paid for under Medicaid at the regular matching rate. These children retain their entitlement to Medicaid benefits (even if SCHIP itself terminates) unless the state changes its eligibility requirements so that they no longer meet the state-specific income, resource and categorical eligibility criteria. States operating separate state programs under SCHIP may cap their enrollment or otherwise restrict participation to limit spending and stay within their capped allotment.

of targeted low-income children who may enroll in SCHIP.[3] In addition, states can apply to waive program requirements to cover other groups.

SCHIP Program Financing

The original enactment appropriated federal matching grants totaling $39.7 billion for SCHIP for FY1998 through FY2007. The Department of Health and Human Services (DHHS) and the Centers for Medicare and Medicaid Services (CMS), as the administering agencies for SCHIP, have no discretion over SCHIP spending levels and initial annual allocations of funds across states. Allotment of funds among the states is determined by a formula set in law. This grant allotment formula is based on a combination of factors that include the number of low-income children and low-income, uninsured children in the state, and a cost factor that represents average health service industry wages in the state compared to the national average.[4]

These allotments represent federal matching grants available to each state. Like Medicaid, SCHIP is a federal-state matching program. For each dollar of state spending, the federal government will make a matching payment. The SCHIP matching formula is based on the Medicaid matching formula, but results in higher federal matching rates that ranged from 65% to 83.26% in FY2002. FY2002 federal matching rates in Medicaid ranged from 50% to 76.09% of the federal poverty level (FPL).

Funds not drawn down from a state's federal allotment by the end of each fiscal year continue to be available for 2 additional fiscal years, providing each state a total of 3 years to draw down its allotment of federal matching funds for a given fiscal year. For example, FY2003 allotments are available through FY2005. A state must draw down its entire allotment from a given fiscal year before it may access the next year's funding. Under SCHIP law as enacted in 1997, allotments not spent by the end of the applicable 3-year period will be redistributed — by a method to be determined by the Secretary of Health and Human Services (HHS) — to states that have fully spent their original allotments for that year. Redistributed funds not spent by the end of the fiscal year in which they are reallocated will officially expire.[5]

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[3] Title XXI of the Social Security Act allows states to use the following factors in determining eligibility: geography, age, income and resources, residency, disability status (so long as any standard relating to that status does not restrict eligibility), access to other health insurance, and duration of SCHIP enrollment. Title XXI funds cannot be used for children who would have been eligible for the state's Medicaid plan under the eligibility standards that were in effect prior to June 1, 1997 or for children covered by a group health plan or other insurance. Under limited circumstances, states have the option to purchase a health benefits plan that is provided by a community-based health delivery system, or to purchase family coverage under a group health plan as long as it is cost-effective to do so.

[4] For a more detailed description of the SCHIP funding process see CRS Report RL30642, *The State Children's Health Insurance Program: Eligibility, Enrollment, and Program Funding,* by Evelyne Baumrucker.

[5] SCHIP law requires that unspent funds remaining at the end the year in which they are

(continued...)

During the 106th Congress, some Members argued that unspent SCHIP funds should be redirected toward other needs. Based on actual and projected spending through February 2000, CMS estimated that $1.9 billion would remain unspent from states' FY1998 allotments. At that time it was too early to tell how much of the FY1999 allotments would also go unspent. Pressures to remain within discretionary spending caps established in the Balanced Budget Act of 1997 (BBA 97) led to proposals during 2000 to use unspent SCHIP funds for other purposes. Late in the second session of the 106th Congress (2000), however, it became clear that Congress would not redirect unspent SCHIP funds to other discretionary spending programs. Instead, legislation was enacted that created a special rule for the redistribution of unused FY1998 and FY1999 SCHIP allotments.[6]

The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA-2000), incorporated by reference into P.L. 106-554, created a special rule for the redistribution and availability of unused FY1998 and FY1999 SCHIP allotments. The rule decreased the amount available for redistribution to states that had spent all of their allotments by allowing states that had not spent all of their allotments to retain some of their unspent funds.

States that *did* use all their SCHIP FY1998 and FY1999 allotments by the applicable 3-year deadline received an amount equal to their actual spending over that 3-year period in excess of their original exhausted allotment. From remaining unspent funds, states that did *not* use all their SCHIP allotments by the applicable 3-year deadline received an amount equal to their proportional contribution to the total pool of unspent funds. Redistributed and retained funds from FY1998 and FY1999 were made available through the end of FY2002.[7]

At the close of FY2002, unspent FY2000 original allotments were subject to redistribution and unspent BIPA-2000 reallocations (i.e., unspent FY1998 and FY1999 allotments) expired. In reaction to these events, during the 107th Congress, the Senate passed legislation (*The Beneficiary Access to Care and Medicare Equity Act of 2002,* S. 3018) to change the method by which unspent federal funds would be redistributed among states. This legislation would have established a method for

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[5] (...continued)
redistributed are no longer available for expenditure by states in the SCHIP program. In generating its baseline estimates, CBO treats unspent redistributions as funds that have reverted to the Treasury. For example, if Congress were to act to continue the availability of expired FY1998 and FY1999 reallocated funds, regardless of whether they legislate on, or after Sept. 30, 2002 (the expiration date of such funds), restoring unspent reallocated funds to the SCHIP program would be treated as a "cost" for the purpose of generating the CBO baseline.

[6] For more information on SCHIP funding issues in the 106th Congress, see CRS Report RS20628, *The State Children's Health Insurance Program (SCHIP): Funding Changes in the 106th Congress,* by Evelyne P. Baumrucker.

[7] For more detail on changes to SCHIP made by BIPA-2000 see CRS Report RL30718, *Medicaid, SCHIP, and Other Health Provisions in H.R. 5661: Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000,* by Jean Hearne, Lisa Herz, and Evelyne Baumrucker.

redistributing unspent allotments for FY2000 forward for both those states spending all of their allotments and those that have not. In addition, for FY2004 forward, S. 3018 would have established a caseload stabilization pool to provide certain qualifying states — those whose total cumulative spending through the end of the previous fiscal year exceeded their cumulative original allotments for the same time period — with additional SCHIP funding. Any remaining unspent reallocated dollars beginning with the FY1998 reallocation would have become a part of this pool. In addition, the bill specified that unspent funds in the pool would have remained in the pool (i.e., they would never expire) and would be available for future redistribution to qualifying states. Although bills were introduced in the House regarding SCHIP financing, no further action occurred.

On March 27, 2003, CMS published an interim policy for a partial redistribution of unused FY2000 allotments (available for redistribution after September 30, 2002). The interim redistribution was limited to approximately one-half of the unexpended FY2000 allotments ($1.03 billion) and was targeted to states, commonwealths, and territories that fully spent such allotments by the end of FY2002. CMS intends to issue a final redistribution methodology (as determined by the Secretary) in the *Federal Register* by June 30, 2003, unless Congress passes legislation for the redistribution of unspent FY2000 allotments.[8] Absent a statutory change, the Secretary of HHS is required to redistribute unspent funds *only* to states that exhausted their FY2000 allotments by the required deadline.

In the most recent legislative development regarding SCHIP financing, the Senate passed S. 312, a bill to amend Title XXI of the Social Security Act to extend the availability of allotments for fiscal years 1998 through 2001 under the State Children's Health Insurance Program (SCHIP) on June 26, 2003. The bill would extend the availability of FY1998 and FY1999 reallocated funds through the end of FY2004 and would establish a new method for redistributing unspent allotments for FY2000 and for FY2001 for both those states spending all of their allotments and those that have not. In addition, for each of FY1998 through FY2001, the bill would allow "qualifying states" to use up to 20% of their original SCHIP allotment or their reallocated funds (for that fiscal year) for certain Medicaid medical assistance payments.

On June 26, 2003, the House passed H.R. 531, a bill to amend Title XXI of the Social Security Act to extend the availability of allotments for fiscal years 1998 through 2001 under the SCHIP. This bill is identical to S. 312 except that it does not include the provision that would allow "qualifying states" to use up to 20% of their original SCHIP allotment or their reallocated funds (for that fiscal year) for certain Medicaid medical assistance payments.

SCHIP Section 1115 Waivers. In the meantime, several states have sought approval for special waivers of SCHIP rules to create additional opportunities to fully spend their SCHIP allotments. Under Section 1115 of the Social Security Act, the

[8] Centers for Medicare and Medicaid Services (CMS) Letter to State Medicaid Directors and State Health Officials (SMDL #03-003), Mar. 27, 2003. (See **Appendix 2** for interim redistribution payment amounts for unexpended FY2000 SCHIP allotments.)

Secretary of HHS has broad statutory authority to conduct research and demonstration projects under six programs, including Medicaid and SCHIP. On August 4, 2001 the Bush Administration announced the Health Insurance Flexibility and Accountability (HIFA)1115 Waiver Initiative. This initiative encourages states to develop statewide projects that coordinate Medicaid and SCHIP with private health insurance coverage and target uninsured individuals with income below 200% of the federal poverty level, just as SCHIP does. Later, President Bush indicated that unspent SCHIP funds could be used to finance the HIFA initiative.[9] SCHIP funds are a major source of funding for the approved HIFA waiver projects.

As of May 22, 2003, CMS approved 14 SCHIP 1115 waivers (four others are in review).[10] Seven of the 14 approved waivers are SCHIP HIFA demonstrations. Several of the approvals allow states to use SCHIP funds to cover new groups of individuals such as: pregnant women; parents of SCHIP and Medicaid-eligible children; and childless adults. In three states, Wisconsin, Minnesota, and Rhode Island, the Administration approved a "buy out" of these states' existing Medicaid Section 1115 waivers. That is, in these states certain adult populations that were initially covered under the state's existing Medicaid Section 1115 demonstrations are now covered by SCHIP Section 1115 waiver programs. The approval of these projects as SCHIP demonstrations shifted the funding source from Title XIX funds matched at the regular federal medical assistance percentage (FMAP), to Title XXI allotments matched at the enhanced FMAP. Furthermore, in the case of Arizona and Rhode Island, HHS approved use of SCHIP reallocated funds for coverage of certain adult groups under its SCHIP Section 1115 waiver. All of these waiver approvals have implications for SCHIP financing as they expand the categories of eligibles and circumstances under which capped SCHIP funds may be used.

In a July 2002 report to Congress titled, *Medicaid and SCHIP: Recent HHS Approvals of Demonstration Waiver Projects Raise Concerns,* the General Accounting Office (GAO) expressed concerns that HHS' use of Section 1115 waiver authority to use SCHIP funds to cover childless adults is not consistent with the program's statutory objectives. On August 6, 2002 Senators Baucus and Grassley of the Senate Finance Committee responded to the GAO report by sending a letter to the Secretary of HHS. The Members were concerned that the states' use of SCHIP funds to cover childless adults would result in less money being available for redistribution to states with programs for children.

The Current Debate

SCHIP financing is being revisited by the 108th Congress for a number of reasons. First, 37 states have failed to use all available FY2000 allotments within the 3 years states had to spend that year's funds. These states want continued access to

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[9] Department of Health and Human Services, Centers For Medicare and Medicaid Services. *Report on the Health Insurance Flexibility and Accountability (HIFA) Initiative: State Accessibility to Funding for Coverage Expansions,* Oct. 4, 2001.

[10] As of May 22, 2003, 11 states had implemented their SCHIP and HIFA Section 1115 waivers. These states include: Arizona; Colorado; Illinois; Maryland; Minnesota; New Jersey; New Mexico; New York; Oregon; Rhode Island; and Wisconsin.

funds that the law requires to be redistributed to states that were able to spend all of their available funds in the given time frame.

Second, 14 states depleted their FY2000 original allotments in the given time frame. Seven of those 14 states spent more than their FY2000 original allotments (state spending for FY2000 may exceed allotments as a result of redistribution of unused FY1998 and FY1999 funds from prior years). These states would like access to unused state allotments, subject to redistribution as required by statute. Unless the Congress passes legislation to redistribute unspent FY2000 allotments by June 30, 2003, the Secretary intends to issue a final redistribution methodology that will benefit this group of states.[11]

Third, the *Beneficiary Improvement and Protection Act of 2000* (BIPA-2000) provided access to approximately $4.9 million in unspent redistributed amounts to both groups of states mentioned above. BIPA-2000 decreased the redistribution amount available to states that had exhausted their original allotments for specific years by allowing states that had not spent their full allotments to retain a portion of their unused funds. Even with the continued availability of funds provided by BIPA-2000, in the aggregate, both groups of states did not manage to spend all the available reallocated funds within the required time periods. State-reported expenditure data through the end of FY2002 show that a majority of states used their redistributed funds, with 19 states failing to do so. Without addressing any additional redistribution of funds, only these 19 states would benefit from the continued availability of the FY1998 and FY1999 reallocated funds. However, most states (above and beyond the 19 states that were unable to deplete their funds) are interested in recouping the $1.3 billion in expired unused FY1998 and FY1999 funding as well as $1.4 billion in unspent funds from the FY2000 redistributions that are projected to expire at the close of FY2003.[12]

Finally, over time, additional states are likely to spend all of their available funds and thus will be eligible for redistributions. FY2002 is the first of 3 years in which the total federal appropriation is 26% less than it was for each of FY1998-FY2001. All states have a vested interest in legislative changes that would increase annual SCHIP appropriations because while more states will be eligible for redistributions, there will be fewer funds available for redistribution to such states. In fact, CMS projects that 15 states will deplete all available SCHIP funds (original and redistributed) over the second half of the program (FY2003-FY2007). States are currently experiencing a period of fiscal distress due to the downturn in the economy since 2000, and they want to be able to sustain the income eligibility limits for their SCHIP programs as the number of uninsured individuals increases. The 108th Congress is likely to see redistribution legislation that attempts to strike a balance between policies to reward fast spending states with the underlying program tenet that SCHIP is a capped grant program under which states must design their programs to stay within budgetary limitations.

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[11] [http://www.cms.gov/states/letters/smd032703.pdf]

[12] Congressional Budget Office (CBO) Mar. 2003 Baseline, *Medicaid and the State Children's Health Insurance Program.* Mar. 11, 2003.

SCHIP Expenditure Trends

SCHIP Program Expenditures and Enrollment Start Slowly

SCHIP state spending during the first 4 years of the program (FY1998- FY2001) was well below federal appropriations, but has increased over time.[13] For FY1998, SCHIP program federal expenditures totaled $122 million; for FY1999, $922 million; for FY2000, $1.93 billion, and for FY2001 federal expenditures increased to $2.62 billion. This spending trend coincides with enrollment growth. Early enrollment estimates indicated that nearly 1 million children (982,000) were enrolled in SCHIP under 43 operational state programs as of December 1998.[14] SCHIP enrollment grew to nearly 2 million children (1,979,450) under 53 operational programs (in the states, the District of Columbia, and the Outlying Areas) during FY1999.[15] The latest official numbers show that total SCHIP enrollment reached 5.3 million children in FY2002. Of this total, 1.3 million participated in SCHIP Medicaid expansions, and 4.0 million children were covered in separate state programs.[16]

FY2002 federal SCHIP expenditures equaled $3.78 billion. This is the first fiscal year in which state spending of available SCHIP funds exceeded the SCHIP program appropriations for that year. In its March 2003 baseline, CBO projected that total federal SCHIP spending will grow to $5.0 billion by FY2007.

State Spending Against FY1998 - FY2000 Original Allotments

Nationwide, fiscal year account activity across states shows states spent only 52% of the FY1998 original allotments, 34% of the FY1999 original allotments, and 48% of the FY2000 original allotments by their respective deadlines. While most states (including the District of Columbia) failed to spend their original allotments as required within applicable time periods, these states want continued access to funds that the law requires be redistributed to states that were able to spend all of their available funds in the given time frame. (See **Appendix 1** for the state share of original FY1998, FY1999, and FY2000 allotments expended by applicable deadlines.)

As previously described, states and territories are provided annual federal allotments based on a distribution formula set in law. These annual allotments are

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[13] For each of FY1998 through FY2001, total federal funding available to states and territories was approximately $4.3 billion. For each of FY2002, FY2003, and FY2004, federal funding available to states and territories equals $3.2 billion.

[14] U.S. Health Care Financing Administration, *A Preliminary Estimate of the Children's Health Insurance Program Aggregate Enrollment Numbers Through Dec. 31, 1998* (background only), Apr. 20, 1999.

[15] U.S. Health Care Financing Administration, *The State Children's Health Insurance Program, Annual Enrollment Report, Oct. 1, 1998- Sept. 30, 1999* (no date).

[16] Centers for Medicare and Medicaid Services, *Fiscal Year 2002 Number of Children Ever Enrolled in SCHIP — Preliminary Data Summary,* Jan. 30, 2003.

basically separate, sequential funding accounts. For each state and territory, the account for a given fiscal year is made available at the beginning of that year, and remains available for up to 3 years. SCHIP payments are taken out of the earliest active account. Once that fiscal year allotment is fully expended states can begin to access the next year's allotment, and so forth. Funds remaining in an annual allotment account that was once active for a state, but are no longer available due to the passing of the deadline for availability of such funds, are only available again through the redistribution process.

As shown in **Appendix 1**, some states (e.g., Arizona and California) never accessed their FY1999 annual allotments, but did claim against their FY2000 accounts. This was possible because claims against the FY1999 allotments were not made during the 3-year period of availability for such funds. After the deadline for the availability of the FY1999 original allotments (end of FY2001), these states began claiming against the next available account (i.e., FY2000 annual allotments). The same logic applies for states that claimed partial amounts out of a given year's allotment (e.g., Colorado and Connecticut). Such states left a portion of their FY1999 funds unspent at the 3-year deadline (end of FY2001). States are not permitted to access the succeeding year's allotment (in this case, FY2000 funds) until the prior year's allotment (in this case, FY1999 funds) is fully expended, or the deadline for availability of the prior year's funds has passed. In both of the examples above, these states could not begin accessing their FY2000 allotments until FY2002, the final year of availability for FY2000 allotments.

Table 1 illustrates that only a few states spent their original allotments by the relevant deadlines. Before BIPA changes, 12 states would have qualified for redistributions in 1998 and 13 states in 1999. In FY2000, state-reported expenditures through the 4th quarter of FY2002 show that 14 states spent all of their FY2000 allotments by the end of FY2002, as required.[17] These states qualify for the FY2003 redistribution.

Looking at only those 18 states which spent all of their allotments in at least one year during FY1998 through FY2000; eight states qualified for redistributions for each of fiscal years 1998, 1999, and 2000; three states qualified for FY1998 and FY1999 redistributions only; and two states qualified for FY1999 and FY2000 redistributions only. Of the remaining states one additional state received redistributed funds from the FY1998 account only; and state-reported expenditures through the fourth quarter of FY2002 show that four new states will qualify for the FY2000 redistributions only (see **Table 1**).

There are many factors that affect state spending (e.g., state-specific eligibility criteria, outreach and enrollment initiatives, the delivery system used to provide beneficiaries with coverage, or the composition of the benefit package available to beneficiaries). These differences help to explain the variation in spending among states.

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[17] For each of FYs 1998, 1999, and 2000 all five territories also spent all of their allotments by the given deadlines. They qualified for the redistribution of unspent funds from these accounts.

Table 1. Redistribution States for Each of FY1998 through FY2000

State	FY1998	FY1999	FY2000
Alaska	x	x	x
Indiana	x	x	
Kansas			x
Kentucky	x	x	x
Maine	x	x	x
Maryland	x	x	x
Massachusetts	x	x	x
Minnesota			x
Mississippi			x
Missouri	x	x	
New Jersey		x	x
New York	x	x	x
North Carolina	x	x	
Pennsylvania	x		
Rhode Island	x	x	x
South Carolina	x	x	x
West Virginia			x
Wisconsin		x	x
Five Territories	x	x	x
Total States Only	**12**	**13**	**14**

Source: *Federal Register*, vol. 66, no. 120, June 21, 2001, p. 33263 and *Federal Register*, vol. 67, no. 81, Apr. 26, 2002, p. 20799, and Centers for Medicare and Medicaid Services, 4th quarter FY2002 state-reported expenditure data.

Note: Shaded cells with an "x" represent states that spent their original allotments by the relevant deadlines and thus qualified for a redistribution of unused funds from prior years. All five territories (Puerto Rico, Guam, Virgin Islands, American Samoa, and Northern Mariana Islands) also received redistributed funds in each of FYs 1998 through 2000.

Congress Reacts to Early Program Expenditure Trends Through Enactment of the BIPA-2000 Reallocation

The Beneficiary Improvement and Protection Act of 2000 (BIPA-2000) provided access to unspent reallocated amounts for both groups of states mentioned above (i.e., states that spent more than their original allotments in the given time period and states that were not able to use all available allotments within applicable time periods). BIPA-2000 decreased the amount available for redistribution to states that had exhausted their original allotments for specific years by allowing states that had not spent their full allotments to retain a portion of their unused funds.

The method for providing access to BIPA-2000 reallocated funds is different from that used for original allotments. CMS permitted states to access reallocated funds from FY1998 during FY2001 and FY2002, and reallocated funds from FY1999 during FY2002 (at which point remaining unused funds reverted to the Treasury). These reallocated funds became additional active accounts whose availability overlapped with other original allotments. Thus, during FY2001 and FY2002 only, states could draw federal matching funds from more than one active account (for example, FY2001 original allotments and FY1998 reallocated funds).

Table 2 shows SCHIP expenditures against open allotments through September 2002. During this reporting period, 5 fiscal year accounts — FY1998 through FY2002 — were available to states.[18] These accounts include: (1) FY1998 reallocated funds; (2) FY1999 reallocated funds; (3) FY2000 original allotments; (4) FY2001 original allotments; and (5) FY2002 original allotments. During FY2001 and FY2002 only, two of the above-listed accounts could be active simultaneously (one original allotment and one account containing reallocated funds).

The first five columns of **Table 2** show the percentage of each of the available active accounts that states spent by the end of FY2002 (shaded cells containing " — " indicate a depleted account; blank cells indicate that the fiscal year account was not accessed). FY2002 expenditure data show that 47 states (including the District of Columbia) depleted their FY1998 reallocated funds. Only 5% ($102.2 million) of the FY1998 reallocated funds remained at the close of FY2002. By contrast, for the FY1999 reallocations, 32 states (including the District of Columbia) depleted their available funds leaving an unspent balance of 41% ($1.2 billion) of available funds by the deadline. In total, states spent 74% of the $4.9 billion available through the BIPA-2000 reallocations, leaving an unspent balance of $1.3 billion by the close of FY2002 (see **Appendix 2**).

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[18] Federal fiscal years run from Oct. 1 through Sept. 30 and are labeled according to the calendar year in which they end. So for example, FY2002 began on Oct. 1, 2001 and ended on Sept. 30, 2002. Under SCHIP, FY1998 funds were available through the end of FY2000 (Sept. 30, 2000). FY1999 funds were available through the end of FY2001 (Sept. 30, 2001). Unspent funds for these 2 fiscal years were redistributed as authorized under BIPA (described above). FY2000 funds were available through FY2002, and FY2001 funds are available through FY2003.

Like state spending against original allotments, the BIPA-2000 reallocations continued the availability of unused prior year funding at levels higher than many states were able to spend (in the allowable time periods). In fact, during this 5-year reporting period only five of the 14 states that spent all of their FY1998 and/or FY1999 allotments had cumulative expenditures that exceeded their cumulative original allotments and thus, were required to rely on BIPA-2000 redistributed funds as allowed in statute to finance their program expenditures.[19] However, with the addition of the BIPA-2000 redistributed funds to their available original allotments, these five states also have unspent funds remaining at the end of FY2002 (**Table 2** last column). Expenditure data through the end of FY2002 show that without a legislative change to require an additional re-allotment of the BIPA-2000 reallocated funds, only 19 states would benefit from a proposal to continue the availability of unspent funds (See **Table 2**).

Most states (above and beyond the 19 states that were unable to deplete their funds) are also interested in recouping BIPA-2000 funds as well as approximately $1.4 billion that are expected to expire at the end of FY2003. These states would prefer to see redistribution legislation that would channel unused prior year program funding to states whose expenditure and enrollment data show that such states could make use of prior year program funds. While the continued availability of unused prior year funds and an additional redistribution process may better direct existing SCHIP resources to states that choose to expand their SCHIP programs to maximize coverage to new (or existing) groups of uninsured individuals, a recycling of unused SCHIP program funds in this way may be perceived as creating an incentive for states to capture additional federal dollars by spending more than is available through their original allotments. However, states relying on redistributed funds to finance their SCHIP programs may not be able to sustain their programs in future years when less funds are available for redistribution to qualifying states.

State Spending Against All Available Funds, FY1998-FY2002

In addition to state spending against the BIPA-2000 reallocated funds, the last 4 columns of **Table 2** map state spending against *all* available funds during this 5-year reporting period, FY1998 through FY2002. The second to last column of **Table 2** shows the percentage of *all* available funds each state spent by the end of FY2002. **Figure 1** displays these percentages graphically and ranks states according to their spending of all available allotments (original and reallocated). States that appear on the right hand side of this figure were more likely to qualify for redistributions in each of FYs 1998-2000. While redistributed funds are available, assuming current expenditure trends, these "high spending" states may begin to rely on redistributed funds to finance their programs in future years.

By the end of FY2002, expenditure data indicates that 29 states (including the District of Columbia) spent less than half of their available funds. Of those 29 states, eight spent less than 25% of their available cumulative funds and 21 states (including the District of Columbia) spent between 25% and 50% of their available funds.

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[19] These states include: (1) Alaska; (2) Maryland; (3) New Jersey; (4) New York; and (5) Rhode Island.

Table 2. SCHIP Program Allotments and Expenditures by State, FY1998-FY2002

(in thousands)

State	Percent of each active available account spent (through 9/30/02)					Total available (adjusted)[a] allotment amounts for FY1998-FY2002	Total expenditures applied against allotments (through 9/30/02)	Percent of available (adjusted)[a] allotments spent (through 9/30/02)	Allotment balance at end of FY2002[b]
	1998 reallocated	1999 reallocated	2000	2001	2002				
Alabama	—	—	37.4%			$ 320,043	$ 153,953	48.1%	$ 166,090
Alaska [#, †, *]	—	54.4%	—	—		$ 91,051	$ 66,482	73.0%	$ 24,569
Arizona	—	—	57.8%			$ 479,610	$ 213,005	44.4%	$ 266,605
Arkansas	13.6%					$ 195,714	$ 6,213	3.2%	$ 189,501
California	—	—	3.0%			$ 2,998,522	$ 1,022,659	34.1%	$ 1,975,864
Colorado	—	—	37.7%			$ 184,182	$ 76,067	41.3%	$ 108,115
Connecticut	—	—	11.3%			$ 154,601	$ 54,410	35.2%	$ 100,191
Delaware	—	35.0%				$ 37,435	$ 7,190	19.2%	$ 30,245
District of Columbia	—	—	9.9%			$ 46,358	$ 17,008	36.7%	$ 29,349
Florida	—	—	89.0%			$ 1,059,194	$ 648,261	61.2%	$ 410,933
Georgia	—	—	51.1%			$ 543,921	$ 239,137	44.0%	$ 304,784
Hawaii	—	38.5%				$ 40,828	$ 7,363	18.0%	$ 33,465
Idaho	—	—	69.2%			$ 83,117	$ 40,113	48.3%	$ 43,005
Illinois	—	60.3%				$ 573,738	$ 128,896	22.5%	$ 444,842
Indiana [#, †]	—		79.5%			$ 461,019	$ 235,787	51.1%	$ 225,232
Iowa	—	—	73.9%			$ 143,700	$ 79,904	55.6%	$ 63,797
Kansas [*]	—	—	—	2.3%		$ 132,745	$ 82,104	61.9%	$ 50,641
Kentucky [#, †, *]	—	35.7%	—			$ 374,247	$ 217,915	58.2%	$ 156,333
Louisiana	—	—	21.6%			$ 351,625	$ 140,437	39.9%	$ 211,188
Maine [#, †, *]	—	29.5%	—			$ 85,592	$ 48,956	57.2%	$ 36,636
Maryland [#, †, *]	—	68.5%	—			$ 446,975	$ 318,362	71.2%	$ 128,613
Massachusetts [#, †, *]	—	22.3%	—			$ 358,621	$ 189,717	52.9%	$ 168,904
Michigan	—	—	6.1%			$ 441,650	$ 128,810	29.2%	$ 312,840

State	Percent of each active available account spent (through 9/30/02)					Total available (adjusted)[a] allotment amounts for FY1998-FY2002	Total expenditures applied against allotments (through 9/30/02)	Percent of available (adjusted)[a] allotments spent (through 9/30/02)	Allotment balance at end of FY2002[b]
	1998 reallocated	1999 reallocated	2000	2001	2002				
Minnesota [*]	—	—	—	9.1%		$ 129,139	$ 65,423	50.7%	$ 63,716
Mississippi [*]	—	—	—	2.9%		$ 240,217	$ 147,912	61.6%	$ 92,305
Missouri [#] [†]	—	—	2.2%			$ 343,483	$ 175,404	51.1%	$ 168,080
Montana	—	—	84.6%			$ 58,964	$ 30,839	52.3%	$ 28,125
Nebraska	—	—	49.6%			$ 72,741	$ 31,138	42.8%	$ 41,603
Nevada	—	—	29.9%			$ 128,342	$ 47,977	37.4%	$ 80,365
New Hampshire	—	23.3%				$ 44,369	$ 9,413	21.2%	$ 34,956
New Jersey [†] [*]	—	—	—	78.2%		$ 542,408	$ 451,398	83.2%	$ 91,009
New Mexico	57.8%					$ 209,107	$ 26,128	12.5%	$ 182,979
New York [#] [†] [*]	—	23.9%	—			$ 2,517,549	$ 1,405,833	55.8%	$ 1,111,716
North Carolina [#] [†]	—		87.2%			$ 545,750	$ 257,313	47.1%	$ 288,437
North Dakota	—	—	33.6%			$ 23,829	$ 8,164	34.3%	$ 15,664
Ohio	—	—	90.7%			$ 589,150	$ 326,767	55.5%	$ 262,383
Oklahoma	—	88.1%				$ 302,822	$ 107,317	35.4%	$ 195,505
Oregon	—	—	2.3%			$ 181,828	$ 51,227	28.2%	$ 130,601
Pennsylvania [#]	—	—	74.9%			$ 588,656	$ 317,709	54.0%	$ 270,947
Rhode Island [#] [†] [*]	—	—	—	—	39.7%	$ 70,031	$ 65,522	93.6%	$ 4,510
South Carolina [#] [†] [*]	15.3%		—			$ 437,593	$ 206,138	47.1%	$ 231,455
South Dakota	—	—	78.4%			$ 34,379	$ 18,542	53.9%	$ 15,836
Tennessee	—	9.6%				$ 307,585	$ 60,139	19.6%	$ 247,446
Texas	—	—	50.8%			$ 1,882,714	$ 881,015	46.8%	$ 1,001,700
Utah	—	—	89.2%			$ 125,376	$ 69,232	55.2%	$ 56,143
Vermont	—	—	41.1%			$ 17,536	$ 6,848	39.0%	$ 10,688
Virginia	—	—	15.3%			$ 284,710	$ 92,210	32.4%	$ 192,500
Washington	45.6%					$ 205,491	$ 14,180	6.9%	$ 191,310
West Virginia [*]	—	—	—	8.2%		$ 95,929	$ 59,860	62.4%	$ 36,069

State	Percent of each active available account spent (through 9/30/02)					Total available (adjusted)[a] allotment amounts for FY1998-FY2002	Total expenditures applied against allotments (through 9/30/02)	Percent of available (adjusted)[a] allotments spent (through 9/30/02)	Allotment balance at end of FY2002[b]
	1998 reallocated	1999 reallocated	2000	2001	2002				
Wisconsin † *	—	—	—			$ 248,170	$ 159,327	64.2%	$ 88,843
Wyoming	—	56.3%				$ 28,126	$ 7,160	25.5%	$ 20,966
MOE[c]	NOT APPLICABLE					$ 7,894	NOT APPLICABLE		$ 7,894
Puerto Rico # † *	—	—	—	—	1.9%	$ 208,136	$ 178,424	1.9%	$ 29,711
Guam # † *	—	—	—	20.8%		$ 7,953	$ 5,550	69.8%	$ 2,403
Virgin Islands # † *	—		—	83.0%		$ 5,908	$ 4,079	69.1%	$ 1,828
American Samoa # † *	—	—	—	—	—	$ 2,727	$ 4,128	151.4%	$ (1,401)
N. Mariana Isl. # † *	—	—	—	—	—	$ 2,499	$ 5,203	208.2%	$ (2,704)
Total (all states and territories)	95.0%	58.9%	48.2%	3.4%	0.0%	$ 20,095,600	$ 9,420,272	46.9%	$ 10,675,328

Source: Centers for Medicare and Medicaid Services, 4th quarter FY2002 state-reported expenditure data as of Nov. 30, 2002. (From unpublished reports: FY02RPT.xls, CHIP1202.xls and ST121602.xls).

Note: Shaded cells with " — " represent depleted accounts at the close of FY2002 as reported to CMS by Nov. 30, 2002. Blank cells represent available accounts that have not been accessed by the states at the close of FY2002 as reported to CMS by Nov. 30, 2002.

[a] "Adjusted" refers to increases or decreases to the amounts provided by states' original FY1998 and FY1999 allotments due to the redistribution of unspent FY1998 and FY1999 funds. For states that received redistributions of other states' unspent funds, this amount is greater than what was provided by original allotments. For states that contributed unspent funds to the pool for redistribution for other states, this amount is less than what was provided by original allotments (the amount is derived by subtracting out the unspent funds and adding back the amount the state was able to retain due to BIPA-2000).

[b] This is NOT the amount that will be available to states in FY2003. To derive that amount, the following adjustments need to be made to the number in this column: 1) subtract the amount of unspent FY1998 and FY1999 reallocated funds that expired Sept. 30, 2002 under current law; 2) add in redistributions of unspent FY2000 funds (amounts will depend on whether Congress acts to create a redistribution method, as it did in BIPA-2000; if Congress does not act, the amount will depend on the method CMS chooses for redistribution); and 3) add in new allotments for FY2003.

[c] MOE refers to one of the maintenance of effort provisions in SCHIP statute. When SCHIP was created, three states — Florida, New York and Pennsylvania — had existing comprehensive state-based health benefit programs for children that were deemed to meet SCHIP requirements. These states are required to maintain their prior level of spending under SCHIP. Specifically, beginning in FY1999, the allotment for a given fiscal year will be reduced by the difference between the state's spending in the prior fiscal year versus FY1996 (before SCHIP began). The $7.9 million shown for MOE in this table reflects spending patterns in Pennsylvania for FY1999, in which Pennsylvania's share of SCHIP costs was $7.9 million less than FY1996 spending, so its allotment for FY2000 has been reduced by $7.9 million. This amount will be included in the redistribution process for

FY2000. (Pennsylvania's share of FY1998 SCHIP costs was $2.2 million less than FY1996 spending, and its SCHIP allotment for FY1999 was reduced by $2.2 million. This amount is not shown in the MOE cell because it has already been redistributed to other states in the FY1999 redistribution process.)

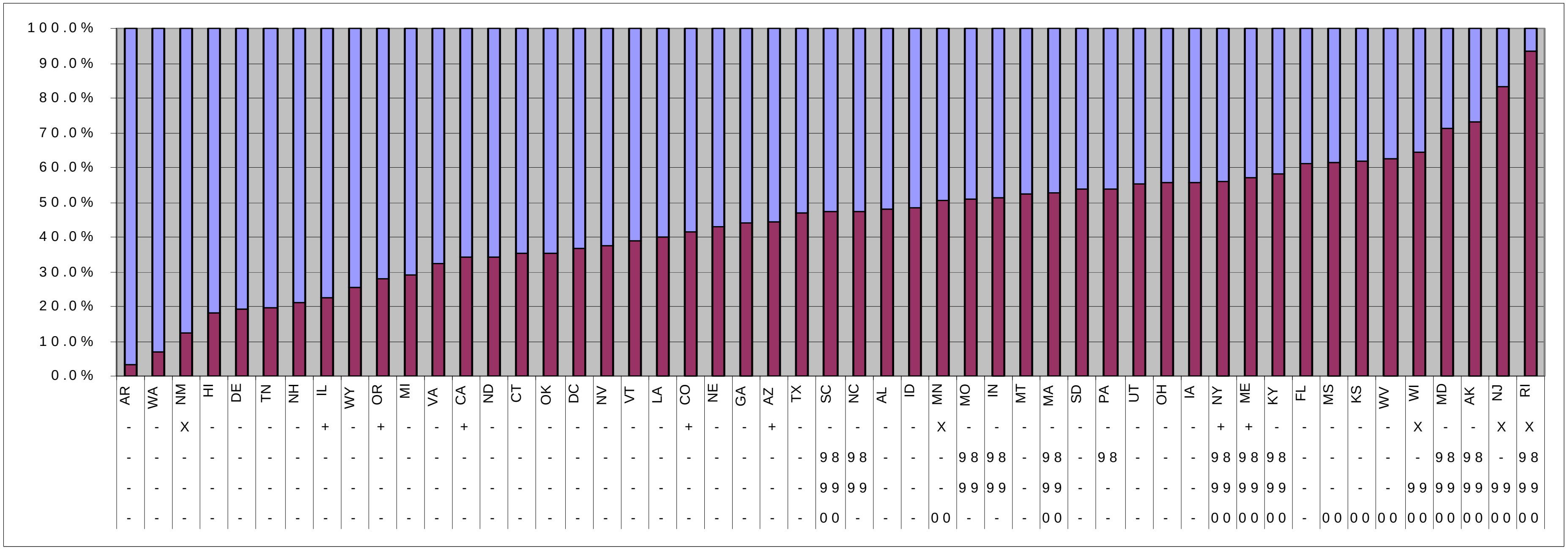
# indicates the 12 states that fully expended their original FY1998 allotments by the end of FY2000 as required, and therefore received additional "redistributed" FY1998 funds. All five territories (Puerto Rico, Guam, Virgin Islands, American Samoa, and Northern Mariana Islands) also received redistributed FY1998 funds. The remaining 39 states (including the District of Columbia) did not spend their full FY1998 allotments by the end of FY2000. Such states received a "retained allotment" amount in the FY1998 redistribution process.

† indicates the 13 states that fully expended their original FY1999 allotments by the end of FY2001 as required, and therefore received additional "redistributed" FY1999 funds (see text for explanation). All five territories (Puerto Rico, Guam, Virgin Islands, American Samoa, and Northern Mariana Islands) also received redistributed FY1999 funds. The remaining 38 states (including the District of Columbia) did not spend their full FY1999 allotments by the end of FY2001. Such states received a "retained allotment" amount in the FY1999 redistribution process.

* State-reported expenditure data predicts 14 states to have fully expended their original FY2000 allotments by the end of FY2002 as required, and therefore they will receive additional "redistributed" FY2000 funds (see text for explanation). Expenditure data also indicates that all five territories (Puerto Rico, Guam, Virgin Islands, American Samoa, and Northern Mariana Islands) will receive redistributed FY2000 funds. The remaining 37 states (including the District of Columbia) did not spend their full FY2000 allotments by the end of FY2002. Such states received a "retained allotment" amount in the FY2000 redistribution process. The identification of the FY2000 redistribution and retention states are based CRS analysis of state-reported expenditure data submitted to CMS as of Nov. 30, 2002.

* See *footnote a* of **Table 1** for an explanation of "adjusted."

Figure 1. FY1998-2002 Spending as a Percentage of FY1998-2002 Available (Adjusted)* Funds



Source: CRS analysis of FY2002 state-reported expenditure data through Sept. 30, 2003, as reported to CMS on Form 21-C by Nov. 30, 2002.
Note: Under each state abbreviation, an 'X' identifies states with an SCHIP Section 1115 waiver that covers one or more categories of adults and was implemented as of Sept. 30, 2002. For such states, some portion of the spending shown on this chart is associated with service spending for adults. A '+' identifies states with an approved SCHIP Section 1115 waiver (as of Apr. 11, 2003) that covers one or more categories of adults, but was *not* implemented as of September 30, 2002 [http://www.cms.gov/schip/1115waiv.pdf]. For such states, *none* of the spending shown on this chart is associated with service spending for adults since the programs were not implemented as of the end of FY2002. States with "98," "99," and "00" indicated whether the state qualified for a redistribution for each of FY1998, FY1999, and FY2000 respectively.

Of the 22 states that spent more than 50% of available funds for FY1998 through FY2002, 20 states spent between 50% and 75%, and two states (New Jersey and Rhode Island) spent more than three-quarters of all available funds by the end of FY2002. Further, only seven states accessed their FY2001 allotments. By the end of FY2002, Rhode Island was the only state to deplete its FY2001 allotment and access its FY2002 allotment. Nationally, as seen in the last row of **Table 2**, expenditure data show that states spent approximately 46.9% of all available federal funds by the end of FY2002, leaving an unspent balance of approximately $10.7 billion from the FY1998 through FY2002 allotments. Of that total, approximately $2.2 billion of the unspent FY2000 funds are available for redistribution in FY2003.

Spending Trends Over the Life of the Program May Shape the Future of SCHIP Financing

Over time, more and more states are likely to spend all of their available funds and thus will be eligible for redistributions. FY2002 is the first of three years in which the total federal appropriation is 26% less than it was for each of FY1998-FY2001. Often referred to as the "SCHIP dip," this decrease in appropriations was written into SCHIP's authorizing legislation due to budgetary constraints at that time. While additional states will be eligible for redistributions, fewer funds will be available for redistribution to such states. These states may not be able to sustain the high levels of spending they achieved when more program funds were available. CMS projects shortfalls for 15 states over the second half of the program (FY2003-2007). In most cases, these states are expected to spend all of their allotments and to rely on redistributed funds, but not have sufficient redistributed funds to operate at their October 2001 levels.

To illustrate this point, on the national level, **Table 3** provides a variety of point-in-time and cumulative statistics on annual allotments and expenditure patterns over the life of the SCHIP program, FY1998 — FY2007. **Table 3** captures the complexity of SCHIP financing inherent in the statutory and regulatory requirements governing this program (i.e., the 3-year availability of original allotments, the continued availability of unused prior year funds for redistribution among qualifying states, BIPA-2000's special rule for the continued availability of unused FY1998 and FY1999 allotments, as well as the order and time frame by which states may access each available account). The role of **Table 3** is to visualize the interplay of each of these financing requirements over the life of the program using actual expenditure data for FY1998 through FY2002 and CBO March 2003 Baseline estimates for FY2003 through FY2007.

FY1998-FY2001: New Allotments Exceed Spending. As seen in **Table 3**, in FY1998, states spent only 2.9% (sixth row) of the FY1998 allotment. In fact, only 19 states spent any SCHIP funds during FY1998, and only two of them — New York and South Carolina — spent more than 10% of their state-specific allotments (data not shown) in that year. This meant that $4.113 billion (fifth row) of the FY1998 allotment was carried forward for use in FY1999. An additional $4.247 billion in FY1999 original allotments was also available to states (first row).

During FY1999, all states except five[20] spent at least some SCHIP funds. State spending in that year totaled 11.0% (sixth row) of available funds. (Available funds consisted of unspent FY1998 allotments and the new FY1999 allotment). Because states may not use a given year's allotment until it has depleted the previous fiscal year's allotment (or the previous year's allotment is no longer available), states drew nearly all of FY1999 expenditures from the FY1998 allotments.[21] At the end of FY1999, $7.438 billion (fifth row) in unspent SCHIP funds carried forward for use in FY2000.

By the end of FY2000, all states were claiming SCHIP funds. State spending for the year totaled 16.5% (sixth row) of available funds. (Available funds consisted of unspent FY1998 and FY1999 allotments and the new FY2000 allotment). The fifth row shows that $9.759 billion in unspent funds carried forward for state access in FY2001. Just over 2 billion dollars ($2.034 billion, row 5b) of the unspent funds that carried forward for state use in FY2001 were FY1998 reallocated funds.

In FY2001, spending for the year came to 19.1% (sixth row) of available funds, and $11.336 billion (fifth row) of unspent funds carried forward for state use in FY2002. Almost 3 billion dollars ($2.819 billion, row 5b) of unspent funds that carried forward for state use in FY2002 were FY1999 reallocated funds. The remainder of the unspent funds ($8.517 billion, row 5a) included: (1) unspent FY2000 and FY2001 allotments; as well as (2) unspent FY1998 reallocated funds that states were permitted to use for an extra year under BIPA-2000.

FY2002 through FY2007: State Expenditures Exceed Annual Appropriations. FY2002 is the first year that total spending exceeds that year's appropriation (reflected by the negative value in the third row of **Table 3**).[22] Thus, it is in FY2002 that states' SCHIP balances begin to decline as new annual allotments cannot keep pace with states' increased program spending. This trend is predicted to continue through the remainder of the program as more and more states deplete their original allotments. Assessing current program trends, these states must turn to other available funds (i.e., redistributed funds) to finance their programs.

Two other factors contribute to the decline of nationwide SCHIP balances and the related acceleration in "spending as a share of available funds" between FY2002 (26.1%) and FY2004 (49.7%), (sixth row). First, FY2002 is the first of 3 years in which total federal appropriations are 26% less than annual levels for fiscal years 1998-2001 (first row). Because the "SCHIP dip" results in less new money available to states, it also contributes to a more rapid decline in the nationwide balance of unused funds.

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[20] Hawaii, Oklahoma, Tennessee, Washington, and Wyoming.

[21] New York and South Carolina were the only states to finish their FY1998 allotments during FY1999. These states began accessing their FY1999 allotments in that year.

[22] State-reported expenditure data through the fourth quarter of FY2002 show federal SCHIP expenditures reached $3.78 billion. This exceeds the FY2002 appropriations by $661 million.

Table 3. Allotments and Actual and Projected Available Funds and Spending, FY1998-2007(in millions)

	Actual expenditures*					Projected expenditures**				
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
(1) Allotment	$4,235	$4,247	$4,249	$4,249	$3,115	$3,175	$3,175	$4,082	$4,082	$5,040
(2) Spending	$122	$922	$1,929	$2,672	$3,776	$4,500	$4,900	$4,700 $	4,700	$5,000
(3) Allotment in excess of spending	$4,113	$3,325	$2,320	$1,578	($661)	($1,325)	($1,725)	($618)	($618)	$40
(4) Total funds available this year	$4,235	$8,360	$11,688	$14,008	$14,452	$12,591	$9,867	$9,049	$8,431	$8,771
(5) Available unspent funds	$4,113	$7,438	$9,759	$11,336	$10,675	$8,091	$4,967	$4,349	$3,731	$3,771
(5a) Original allotments not yet subject to reallocation	*$4,113*	*$7,438*	*$7,725*	*$8,517*	*$7,210*	*$5,991*	*$4,767*	*$4,249*	*$3,631*	*$3,671*
(5b) Original allotments subject to reallocation	—	—	*$2,034*	*$2,819*	*$2,206*	*$700*	*$200*	*$100*	*$100*	*$100*
(5c) Expiring funds	—	—	—	—	*$1,259*	*$1,400*	—	—	—	—
(6) Spending as share of available funds	2.9%	11.0%	16.5%	19.1%	26.1%	35.7%	49.7%	51.9%	55.7%	57.0%
(7) Cumulative funds available since start of program	$4,235	$8,482	$12,731	$16,980	$20,096	$22,012	$23,787	$27,869	$31,952	$36,992
(8) Cumulative spent since start of program	$122	$1,044	$2,972	$5,644	$9,420	$13,920	$18,820	$23,520	$28,220	$33,220
(9) Cumulative spent as share of cumulative funds	2.9%	12.3%	23.3%	33.2%	46.9%	63.2%	79.1%	84.4%	88.3%	89.8%

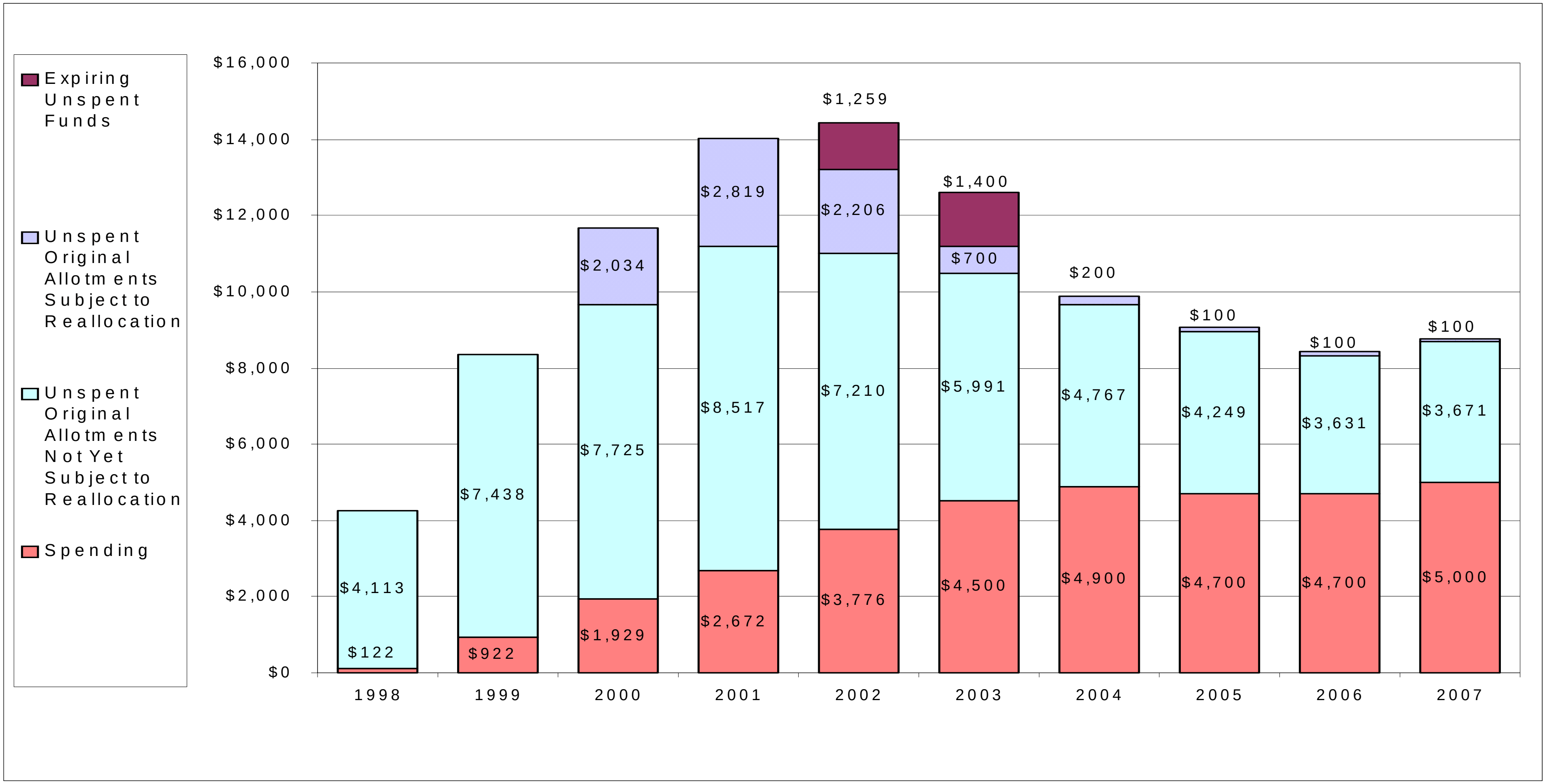
Notes: The first row shows the national allotment made available to states and territories each year. Allotments include: (1) amounts available to states and territories as specified in BBA 97 at the time of enactment; and (2) adjustments to the total appropriations available for states and territories enacted by P.L. 105-277, and P.L. 106-113. The second row shows each year's spending (*actual spending through 2002 and **CBO *March 2003 Baseline* estimates for 2003 and beyond). The third row shows the amount by which each year's allotment exceeds that year's spending or if spending exceeds the allotment, as it does in FY2002 forward, vice versa.

Rows four, five, and six show how spending each year relates to the funds available to states that year. The fourth row shows total funding available that year, comprised of: (1) initial annual allotments, (2) any remaining funds carried over from previous years; and (3) starting in FY2001, redistributed funds. The fifth row shows available funds unspent at the end of the year. Row 5a, 5b, and 5c (in italics) show how available unspent funds break out between: (a) available unspent original allotments that are not yet subject to reallocation, (b) available original allotments that are subject to reallocation (i.e., unused prior year funds available for reallocation among qualifying states in the following year), and (c) expiring funds (i.e., FY1998 and FY1999 reallocated funds that were not spent by the end of FY2002, and FY2000 reallocated funds that CBO estimates will not be spent by the end of FY2003). The sum of rows 5a, 5b, and 5c equals the total available unspent funds in row five. The sixth row shows each year's spending as a percentage of funds available that year.

The last three rows show the relationship between cumulative spending and cumulative available funds over the life of the program. Expiring funds are subtracted out of "Cumulative funds available since the start of program" (seventh row) for FY2003 forward.

Figure 2 shows the data presented in this table graphically.

Figure 2. Actual and Projected Available Funds and Spending, FY1998-2007



Notes: This figure portrays available funds and spending each year as shown in **Table 3**. From bottom to top, each bar is comprised of: (1) spending (**Table 3**, second row); (2) unspent original allotments that continue to be available to all states the following year (**Table 3**, row 5a); (3) unspent funds that will be reallocated the following year (**Table 3**, row 5b); and (4) expiring funds for FY2002 and FY2003 only (**Table 3**, row 5c). In any given year each bar represents total funds available for that year (**Table 3**, row 4).

Second, FY2002 state-reported expenditure data shows almost $1.3 billion from the BIPA-2000 reallocation expired at the end of FY2002 (row 5c). At the end of FY2003, CBO estimates that $1.4 billion in unspent FY2000 funds will expire (row 5c). According to CBO, no funds are expected to expire in FY2004 or beyond (row 5c). Thus approximately $9.416 billion in unspent funds carry forward from FY2002 to FY2003. (These include $10.675 billion (fifth row) minus $1.259 billion in expiring funds — row 5c.) Part of the funds that carry forward from FY2002 to FY2003 will be comprised of FY2000 redistributed funds (row 5b) as well as unused FY2001 and FY2002 allotments (row 5a). **Figure 2** shows the data presented in **Table 3** graphically.

For FY2003 and beyond, spending nationally is projected to exceed annual allotments each year, so the unused balance carried forward over time will decrease (fifth row). A significant decrease in the unspent balance is projected to occur at the end of FY2003 due to CBO's predicted expiration of approximately $1.4 billion in FY2000 redistributed funds (row 5c). Unspent balances carrying forward from FY2003 to FY2004 will be approximately $6.691 billion ($8.091 billion (fifth row) minus the $1.4 billion CBO estimates to expire — row 5c).

Using CBO estimates without any legislative or policy change, by the end of FY2007, the total unused balance will decline to approximately $3.771 billion (fifth row).[23] Each year, the portion of unspent funds available for redistribution to qualifying states will become smaller (row 5b). However, funds available for redistribution are not expected to disappear completely, since it is likely that some states will never spend all of their allotments by the applicable 3-year deadline.

Variation in SCHIP Spending Among States

The extent to which a state will be affected by the shrinking pool of funds available for redistribution depends on the amount by which the state's spending exceeds its available funds. States show an extremely wide variation in the extent to which they utilized their allotments, with some states spending significantly less than their original allotments and some spending more. State spending is directly linked to program enrollment. States have the flexibility to design their SCHIP programs "narrowly" or "broadly" in terms of the pool of eligible individuals. There are many other factors that also affect state spending (e.g., the delivery system used to provide beneficiaries with coverage, or the composition of the benefit package available to beneficiaries).

[23] It is important to note that the estimates in the CBO baseline — like any projections — are limited in their precision, especially in out-years. While the baseline projections take into consideration factors such as inflation, state plan amendments, and spending under Section 1115 waivers, differences between CBO's assumptions and actual program changes over time will result in a difference between CBO projections and actual spending. For example, if actual spending is higher than CBO projections, the balance of unspent funds at the end of FY2007 will be smaller than $3.8 billion. On the other hand, if actual spending is lower than CBO projections, the balance of unspent funds remaining at the end of FY2007 will be greater than $3.8 billion.

For instance, New Jersey, which consistently spent a larger share of its allotments than most states, chose an ambitious expansion by extending coverage to children in families with incomes up to 350% FPL. Minnesota and Arkansas, conversely, consistently spent very small shares of their allotments, although for different reasons. Arkansas chose a minimal expansion from its pre-SCHIP Medicaid thresholds. Expenditure data through the end of FY2002 show that Arkansas used the smallest share of its available SCHIP funding to date (3.2%).[24]

Minnesota, by contrast, had high Medicaid eligibility thresholds prior to SCHIP (275% FPL for all children ages 0-18) and used its SCHIP funds to expand Medicaid to children under age 2 in families with income up to 280% FPL. In FYs 1999, 2000, and 2001, Minnesota enrolled 21, 24, and 49 children, respectively. As of the end of FY2001, Minnesota used an even smaller share of its available SCHIP funding (0.6%) than Arkansas over the same time period. Minnesota's spending increased considerably since the implementation of its Section 1115 SCHIP waiver to cover parents of SCHIP and Medicaid-eligible children. With its operational Section 1115 waiver, at the close of FY2002, state-reported expenditure data show that Minnesota claimed 50.7% of its available funding. (See **Figure 1** for a ranking of cumulative state spending for FY1998-2002 as percentage of FY1998-FY2002 available funds. This figure also identifies states with approved SCHIP Section 1115 waiver programs that cover one or more categories of adults.)

However, even if states have similar program designs, enormous enrollment variability can exist due to the complex interaction between economic trends (e.g., the recent economic downturn will likely increase the number of individuals eligible for SCHIP); federal and state policies (e.g., statewide projects that expand coverage to new groups of uninsured individuals); program administrative procedures (e.g., those that simplify and expedite the eligibility determination and enrollment process); and beneficiary perceptions unique to each state. Each of these factors affect enrollment and influence state spending.

Shortfalls Projected for Some States

Two recent analyses — one by the Centers for Medicare and Medicaid Services (CMS) [25] and the other by the Center on Budget and Policy Priorities (CBPP)[26] use models to forecast which states will face significant federal allotment constraints in out-years. Both models account for state-specific SCHIP funding and expenditures. CBPP uses the same model created by CMS' Office of the Actuary (OACT) with modifications. Both analyses define "available funds" to include annual original

[24] CRS Report RL30642, *The State Children's Health Insurance Program: Eligibility, Enrollment, and Program Funding*, by Evelyne Baumrucker includes a table showing eligibility thresholds under state SCHIP programs as well as states' Medicaid income eligibility thresholds prior to SCHIP.

[25] Centers for Medicare and Medicaid Services, *Report on the Health Insurance Flexibility and Accountability (HIFA) Initiative: State Accessibility to Funding for Coverage Expansions*, Oct. 4, 2001.

[26] Center on Budget and Policy Priorities. *OMB Estimates Indicate That 900,000 Children Will Lose Health Insurance Due to Reductions in Federal SCHIP Funding*, Aug. 2, 2002.

allotments and additional unspent funds such states are projected to receive through SCHIP redistributions.[27]

CMS and CBPP agree that the same 15 states will exceed all of their available SCHIP funds by FY2006 (**Table 4**), some sooner than others. In addition to the 15 states, CBPP adds Arizona and Louisiana to their list of states who are predicted to exceed their available funding (in FY2005 and FY2006 respectively).[28] The last column of the table indicates states with SCHIP Section 1115 waivers. States with approved waivers are allowed to use SCHIP funds to cover groups not traditionally eligible for SCHIP.

Also captured in **Table 4** is the type of SCHIP program operating in the state. As discussed previously, states with separate state programs have the flexibility to design their programs to operate within current funding constraints. While this may mean that states must cap enrollment or otherwise control spending to stay within their capped federal allotments, targeted low-income children enrolled in Medicaid are entitled to Medicaid benefits as long as they continue to meet state-specific eligibility criteria. These children will have continued access to health insurance coverage unless the state eliminates the new optional Medicaid eligibility category of optional targeted low-income children, or otherwise changes its income, or resource criteria for targeted low-income children covered through an existing Medicaid eligibility category.

Table 4. States Expected to Use All of Their Available SCHIP Funds by FY2006 (CMS and CBPP Projections)

State	First year in which expected to use all available funds	Type of SCHIP program			Has 1115 waiver expanding eligibility to new groups
		Medicaid expansion only	Separate state program only	Combination program	
Alaska	FY2004	X			
Idaho	FY2006	X			
Indiana	FY2006			X	
Iowa	FY2005			X	
Kansas	FY2005		X		
Kentucky	FY2005			X	
Maryland	FY2004	X			

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[27] Each analysis incorporates its own assumption regarding the method for redistribution of unspent funds. CMS calculates projected redistributions of unspent allotments based on an assumption that qualifying states will receive redistributed funds in proportion to original allotments. It is unclear whether CBPP calculates projected redistributions using the BIPA-2000 formula or by another method.

[28] CMS's analysis was released prior to the Dec. 2001 approval of Arizona's HIFA waiver and therefore does not include projected spending associated with the waiver. CMS's analysis projects that by FY2006 Louisiana's expenditures will comprise 81% of its available funds.

State	First year in which expected to use all available funds	Type of SCHIP program			Has 1115 waiver expanding eligibility to new groups
		Medicaid expansion only	Separate state program only	Combination program	
Minnesota	FY2005	X			X
Mississippi	FY2005			X	
Missouri	FY2006	X			
New Jersey	FY2005			X	X
New York	FY2004		X		X
Rhode Island	FY2003	X			X
Texas	FY2006		X		
West Virginia	FY2005		X		

Source: Centers for Medicare and Medicaid Services. *Report on the Health Insurance Flexibility and Accountability (HIFA) Initiative: State Accessibility to Funding for Coverage Expansions*, Oct. 4, 2001; and Center on Budget and Policy Priorities. *OMB Estimates Indicate That 900,000 Children Will Lose Health Insurance Due to Reductions in Federal SCHIP Funding*, Aug. 2, 2002.

Legislative Activity in the 108th Congress

Several bills have been introduced in the 108th Congress to modify the rules for redistribution and extended availability of SCHIP allotments. The Senate passed a bill, S. 312, to amend Title XXI of the Social Security Act to extend the availability of allotments for fiscal years 1998 through 2001 under SCHIP, on June 26, 2003. S. 312 addresses many of the above-mentioned concerns by extending the availability of FY1998 and FY1999 reallocated funds through the end of FY2004 and establishing a new method for redistributing unspent allotments for FY2000 and for FY2001 for both those states spending all of their allotments and those that had not. This new method is a modified version of the special redistribution rules for unspent FY1998 and FY1999 allotments.

For each of FY2000 and FY2001, no more than 50% of the total amount of unspent funds would be available for redistribution to states, commonwealths, and territories that exhausted their SCHIP allotments for each of those years by the applicable 3-year deadline.[29] Subject to this ceiling, each such state would receive an amount equal to: 50% of the total amount of unspent funds for each of those years less amounts redistributed to the territories, all multiplied by the ratio of such state's excess spending, to total excess spending for all such states. Each territory would receive an amount equal to 1.05% of the total amount available for redistribution for each of those years multiplied by that territory's proportion of the original allotment available for all territories. The bill would make redistributed funds from the FY2000 reallocation available through the end of FY2004. Redistributed funds from the reallocations for FY2001 would be available through the end of fiscal year 2005.

[29] The purpose of the limits applied to the redistributions for FY2000 and FY2001 is to ensure that all states have access to at least some of the funds available for redistribution. This redistribution design would help states to sustain spending through the 3-year dip in appropriations.

For each of FY2000 and FY2001, the amount available for retention among those states that *did not* fully expend their SCHIP allotments by the applicable 3-year deadline would be equal to 50% of such state's unspent funds for each of those years. The bill would make retained funds for such jurisdictions from the FY2000 reallocation available through the end of FY2004. Retained funds from the reallocation for FY2001 would be available through the end of FY2005.

Similar to current law for FY1998 and FY1999, to calculate the amounts available for reallocation for FY2000 and FY2001, the Secretary would use expenditures reported by states not later than November 30 of the applicable calendar year.

In addition to the redistribution formula, the bill would allow "qualifying states" to use up to 20% of their original SCHIP allotment or their reallocated funds (for that fiscal year) in each of FY1998, FY1999, FY2000 and FY2001, for medical assistance payments under the state's regular Medicaid program associated with the coverage of children through age18 with family incomes greater than 150% FPL. Subject to availability of their SCHIP allotment or reallocated funds for the year, qualifying states would be eligible to receive an amount equal to the additional amount that would have been paid to such state for coverage of such children if such claims were matched at the state's Enhanced FMAP as opposed to the state's regular FMAP. Use of these funds for expenditures incurred under an approved Section 1115 waiver in the qualifying state would not impact the budget neutrality agreement for such states.[30] For example, when determining if a waiver meets the budget neutrality test, these savings may not be counted as an offset to ensure that the predicted "with waiver"costs do not exceed the "without waiver"costs as required by the budget neutrality agreement.

For a given fiscal year, "qualifying states" would include those which: (1) as of April 15, 1997, or under a Section 1115 waiver implemented on January 1, 1994, had a Medicaid income eligibility standard for at least one category of children (excluding infants) of at least 185% FPL; and (2) as of January 1, 2001 had a SCHIP eligibility standard of at least 200% FPL, or greater than 200% FPL if under a Section 1115 waiver targeted at uninsured children; (3) did not impose waiting lists or enrollment caps for children whose family income is at least 200% FPL; (4) provide statewide SCHIP coverage to all children who meet such state's income and other eligibility requirements; and (5) have implemented at least three of the following procedures for establishing children's eligibility for their Medicaid and SCHIP programs: (a) use the same uniform, simplified application form; (b) do not apply asset tests; (c) adopt 12-month continuous enrollment; (d) use the same forms, verification policies, and frequency for initial eligibility determinations and eligibility redeterminations; and/or (e) have procedures in place for initial eligibility determinations that can be made by disproportionate share hospital (DSH) facilities as well as federally qualified health centers.

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[30] In 1994 the Clinton Administration published a notice in the *Federal Register* which describes the budget neutrality requirement for Section 1115 waivers. In this context, budget neutrality means that estimated spending under the waiver cannot exceed the estimated cost of the state's existing Medicaid program.

On June 26, 2003, the House passed H.R. 531, a bill to amend Title XXI of the Social Security Act to extend the availability of allotments for fiscal years 1998 through 2001 under the SCHIP. This bill is identical to S. 312 except that it does not include the provision that would allow "qualifying states" to use up to 20% of their original SCHIP allotment or their reallocated funds (for that fiscal year) for certain Medicaid medical assistance payments. To date, no further action has occurred.

Conclusion

The availability of SCHIP allotments under current funding rules influences program design and planning. Unlike Medicaid, which operates as an individual entitlement, SCHIP operates as a capped grant program. Allotment of funds among states is determined by a formula set in law. Once a state depletes a given year's original allotment, other than funds from prior year(s) made available through redistribution, no additional federal funds will be made available to that state for that year. States have the flexibility under SCHIP statute to design their programs to operate within these funding constraints.

The allotment and redistribution methods under current law have not matched up with state spending patterns to date. Spending in the first several years of the program was well below appropriations — expenditure data through the end of FY2002 show that states spent approximately 46.9% of all available federal funds, leaving an unspent balance of approximately $10.7 billion from the FY1998 through FY2002 allotments. Relative to state spending, the appropriation levels were high early on as it took time for states to set up their programs and build enrollment. Once programs are established, states have shown a wide variability in the extent to which they utilize their allotments, with some states spending significantly less than their original allotments and some states spending more.

FY2002 is the first fiscal year in which total spending exceeded that year's appropriations. This trend is likely to continue as additional states spend all of their available funds and are eligible for redistributions. Further, FY2002 is the first of 3 years in which the total federal appropriation is 26% less than it was for each of FYs 1998-2001 and $1.3 billion of the BIPA-2000 reallocations as well as additional sums (approximately $1.4 billion) from the FY2000 redistributions are expected to expire from the program. While more states will be eligible for redistributions, there will be fewer funds available for redistribution to such states. In fact, CMS projects shortfalls for some states over the second half of the program (FY2003-FY2006).

SCHIP financing issues are being addressed by the 108th Congress because states with unspent funds from the FY1998 and FY1999 reallocations are interested in recouping those amounts and want to make sure that other unspent amounts from subsequent years remain available to their programs. Both the Senate and the House have passed bills that attempt to strike a balance between policies to reward fast spending states with the underlying program tenet that SCHIP is a capped grant program under which states must design their programs carefully to stay within the budgetary limitations of their allotments.

Appendix 1. Share of Original FY1998, FY1999, and FY2000 Allotments Expended by Deadlines

(in 000s)

State	FY1998			FY1999			FY2000		
	Original allotment	Expended	%	Original allotment	Expended	%	Original allotment	Expended	%
Alabama	$85,975	$57,311	66.7%	$85,569	$23,136	27.0%	$77,012	$28,819	37.0%
Alaska	$6,889	$6,889	100.0%	$6,857	$6,857	100.0%	$7,730	$7,730	100.0%
Arizona	$116,798	$38,242	32.7%	$116,246	$0	0.0%	$130,213	$75,293	58.0%
Arkansas	$47,908	$2,203	4.6%	$47,682	$0	0.0%	$53,754	$0	0.0%
California	$854,645	$257,012	30.1%	$850,609	$0	0.0%	$765,548	$23,061	3.0%
Colorado	$41,791	$23,943	57.3%	$41,593	$9,416	22.6%	$46,890	$17,691	38.0%
Connecticut	$34,959	$25,063	71.7%	$34,794	$6,788	19.5%	$39,225	$4,427	11.0%
Delaware	$8,053	$2,290	28.4%	$8,015	$0	0.0%	$9,036	$0	0.0%
District of Columbia	$12,076	$6,262	51.9%	$12,019	$1,522	12.7%	$10,817	$1,069	10.0%
Florida	$270,215	$183,046	67.7%	$268,939	$138,923	51.7%	$242,045	$215,487	89.0%
Georgia	$124,660	$56,178	45.1%	$124,071	$32,850	26.5%	$132,381	$67,637	51.0%
Hawaii	$8,945	$420	4.7%	$8,903	$0	0.0%	$10,037	$0	0.0%
Idaho	$15,880	$12,776	80.5%	$15,805	$10,982	69.5%	$17,818	$ 12,328	69.0%
Illinois	$122,529	$53,472	43.6%	$121,950	$0	0.0%	$137,481	$0	0.0%
Indiana	$70,512	$70,512	100.0%	$70,179	$70,170	100.0%	$63,161	$50,187	79.0%
Iowa	$32,460	$26,332	81.1%	$32,307	$20,889	64.7%	$32,383	$23,938	74.0%
Kansas	$30,657	$21,562	70.3%	$30,512	$18,735	61.4%	$30,321	$30,321	100.0%[c]
Kentucky	$49,933	$49,933	100.0%	$49,697	$49,697	100.0%	$56,026	$56,026	100.0%
Louisiana	$101,737	$35,655	35.0%	$101,256	$0	0.0%	$91,131	$19,653	22.0%
Maine	$12,487	$12,487	100.0%	$12,428	$12,428	100.0%	$13,978	$13,978	100.0%
Maryland	$61,627	$61,627	100.0%	$61,336	$61,336	100.0%	$56,870	$56,870	100.0%
Massachusetts	$42,836	$42,836	100.0%	$42,634	$42,634	100.0%	$48,064	$48,064	100.0%

State	FY1998			FY1999			FY2000		
	Original allotment	Expended	%	Original allotment	Expended	%	Original allotment	Expended	%
Michigan	$91,586	$51,727	56.5%	$91,153	$11,772	12.9%	$102,762	$6,299	6.0%
Minnesota	$28,396	$15	0.1%	$28,262	$0	0.0%	$31,861	$31,861	100.0%[c]
Mississippi	$56,017	$29,178	52.1%	$55,753	$31,665	56.8%	$58,036	$58,036	100.0%[c]
Missouri	$51,673	$51,673	100.0%	$51,429	$51,429	100.0%	$57,979	$1,278	2.0%
Montana	$11,740	$4,887	41.6%	$11,685	$9,430	80.7%	$13,173	$11,150	85.0%
Nebraska	$14,863	$9,881	66.5%	$14,793	$6,231	42.1%	$16,576	$8,219	50.0%
Nevada	$30,407	$13,064	43.0%	$30,263	$3,281	10.8%	$30,526	$9120	30.0%
New Hampshire	$11,458	$2,539	22.2%	$11,404	$0	0.0%	$10,264	$0	0.0%
New Jersey	$88,418	$70,008	79.2%	$88,000	$88,000	100.0%[b]	$96,859	$96,859	100.0%
New Mexico	$62,973	$4,210	6.7%	$62,675	$0	0.0%	$56,408	$0	0.0%
New York	$255,626	$255,626	100.0%	$254,419	$254,419	100.0%	$286,822	$286,822	100.0%
North Carolina	$79,508	$79,508	100.0%	$79,133	$79,133	100.0%	$89,211	$77,769	87.0%
North Dakota	$5,041	$1,859	36.9%	$5,017	$425	8.5%	$5,656	$1,900	34.0%
Ohio	$115,734	$97,580	84.3%	$115,188	$88,430	76.8%	$129,858	$117,815	91.0%
Oklahoma	$85,699	$51,257	59.8%	$85,294	$3,660	4.3%	$76,765	$0	0.0%
Oregon	$39,122	$20,148	51.5%	$38,937	$2,539	6.5%	$43,896	$1,026	2.0%
Pennsylvania	$117,457	$117,457	100.0%	$114,685	$96,243	83.9%	$121,063	$90,688	75.0%
Rhode Island	$10,684	$10,684	100.0%	$10,634	$10,634	100.0%	$9,571	$9,571	100.0%
South Carolina	$63,558	$63,558	100.0%	$63,258	$63,258	100.0%	$71,314	$71,314	100.0%
South Dakota	$8,541	$4,655	54.5%	$8,501	$2,720	32.0%	$7,951	$6,234	78.0%
Tennessee	$66,153	$41,705	63.0%	$65,841	$0	0.0%	$74,226	$0	0.0%
Texas	$561,332	$81,262	14.5%	$558,681	$0	0.0%	$502,812	$255,484	51.0%
Utah	$24,241	$20,836	86.0%	$24,127	$20,359	84.4%	$27,199	$24,259	89.0%
Vermont	$3,535	$1,955	55.3%	$3,519	$1,319	$37.5%	$3,967	$1,631	41.0%
Virginia	$68,315	$23,550	34.5%	$67,992	$16	0.0%	$73,580	$11,234	15.0%
Washington	$46,661	$604	1.3%	$46,441	$0	0.0%	$52,355	$0	0.0%

State	FY1998 Original allotment	FY1998 Expended	FY1998 %	FY1999 Original allotment	FY1999 Expended	FY1999 %	FY2000 Original allotment	FY2000 Expended	FY2000 %
West Virginia	$23,607	$10,771	45.6%	$23,495	$13,907	59.2%	$21,146	$21,146	100.0%[c]
Wisconsin	$40,633	$23,461	57.7%	$40,441	$40,441	100.0%[b]	$45,592	$45,591	100.0%
Wyoming	$7,712	$1,041	13.5%	$7,675	$0	0.0%	$7,069	$0	0.0%
Total Five Territories	$10,738	$10,738	100.0%	$42,688	$42,688	100.0%	$44,888	$44,888	100.0%
MOE[a]	—	—	—	$2,217	$0	0.0%	$7,894	$0	0.0%
Total	**$4,235,000**	**$2,201,492**	**52.0%**	**$4,247,000**	**$1,428,373**	**33.6%**	**$4,249,200**	**$2,042,760**	**48.0%**

Source: *Federal Register*, vol. 66, no. 120, June 21, 2001. p. 33263 and *Federal Register*, vol. 67, no. 81, Apr. 26, 2002, p. 20799, and Centers for Medicare and Medicaid Services, preliminary 4th quarter FY2002 state-reported expenditure data as of Nov. 30, 2002.

Note: Shaded cells represent states that spent all of their allotment by the applicable 3-year deadline, and thus qualified for redistributions of unspent funds (from other states).

[a] MOE refers to one of the maintenance of effort provisions in SCHIP statute. When SCHIP was created, three states — Florida, New York and Pennsylvania — had existing comprehensive state-based health benefit programs for children that were deemed to meet SCHIP requirements. These states are required to maintain their prior level of spending under SCHIP. Specifically, beginning in FY1999, the allotment for a given fiscal year will be reduced by the difference between the state's spending in the prior fiscal year versus fiscal year 1996 (before SCHIP began). The $7.9 million shown for MOE in this table reflects spending patterns in Pennsylvania for FY1999, in which Pennsylvania's share of SCHIP costs was $7.9 million less than FY1996 spending, so its allotment for FY2000 has been reduced by $7.9 million. This amount will be included in the redistribution process for FY2000. (Pennsylvania's share of FY1998 SCHIP costs was $2.2 million less than FY1996 spending, and its SCHIP allotment for FY1999 was reduced by $2.2 million. This amount is not shown in the MOE cell because it has already been redistributed to other states in the FY1999 redistribution process.)

[b] New Jersey and Wisconsin show an uncommon spending pattern for FY1998 and FY1999. Both states left a portion of FY1998 funds unspent at the 3-year deadline (end of FY2000). States are not permitted to access the succeeding year's allotment (in this case, FY1999 funds) until the prior year's allotment (in this case, FY1998 funds) is fully expended, or the deadline for availability of the prior year's funds has passed. Therefore these 2 states could not begin accessing their FY1999 allotments until FY2001, the final year of availability for FY1999 allotments. Despite their not having spent all of the FY1998 allotment by the 3-year deadline, both states spent their entire FY1999 allotments in FY2001, and thus qualified for redistributions of unspent FY1999 funds (from other states) which were made available during FY2002.

[c] Kansas, Minnesota, Mississippi, and West Virginia show an uncommon spending pattern for FY1999 and FY2000. Each of these states left a portion of FY1999 funds unspent at the 3-year deadline (end of FY2001). States are not permitted to access the succeeding year's allotment (in this case, FY2000 funds) until the prior year's allotment (in this case, FY1999 funds) is fully expended, or the deadline for availability of the prior year's funds has passed. Therefore these 4 states could not begin accessing their FY2000 allotments until FY2002, the final year of availability for FY2000 allotments. Despite their not having spent all of the FY1998 allotment by the 3-year deadline, or their FY1999 allotment by the 3-year deadline these states spent their entire FY2000 allotments in FY2002, and thus will qualified for redistributions of unspent FY2000 funds (from other states) which will be made available during FY2003.

Appendix Table 2. Share of FY1998 and FY1999 BIPA-2000 Reallocations Expended by Deadline and Interim FY2000 Reallocation Payment Amounts for Unexpended FY2000 SCHIP Allotments

(in 000s)

State	FY1998 reallocations			FY1999 reallocations			FY2000 interim reallocation payment amounts
	Redistributed / retained allotment	Expended	%	Redistributed / retained allotment	Expended	%	Interim redistributed allotment
Alabama	$18,512	$18,512	100.0%	$26,175	$26,175	100.0%	
Alaska	$15,006	$15,006	100.0%	$38,614	$21,014	54.4%	$20,231
Arizona	$50,733	$50,733	100.0%	$48,736	$48,736	100.0%	
Arkansas	$29,518	$4,011	13.6%	$19,990	-	0.0%	
California	$385,970	$385,970	100.0%	$356,616	$356,616	100.0%	
Colorado	$11,527	$11,527	100.0%	$13,490	$13,490	100.0%	
Connecticut	$6,391	$6,391	100.0%	$11,741	$11,741	100.0%	
Delaware	$3,722	$3,722	100.0%	$3,360	$1,178	35.0%	
District of Columbia	$3,755	$3,755	100.0%	$4,401	$4,401	100.0%	
Florida	$56,296	$56,296	100.0%	$54,509	$54,509	100.0%	
Georgia	$44,228	$44,228	100.0%	$38,245	$38,245	100.0%	
Hawaii	$5,506	$5,506	100.0%	$3,733	$1,437	38.5%	
Idaho	$2,005	$2,005	100.0%	$2,022	$2,022	100.0%	
Illinois	$44,599	$44,599	100.0%	$51,127	$30,825	60.3%	
Indiana	$44,908	$44,908	100.0%	$105,203	-	0.0%	
Iowa	$3,958	$3,958	100.0%	$4,787	$4,787	100.0%	
Kansas	$5,874	$5,874	100.0%	$4,937	$4,937	100.0%	$21,481
Kentucky	$27,919	$27,919	100.0%	$96,297	$34,340	35.7%	$71,982
Louisiana	$42,678	$42,678	100.0%	$42,452	$42,452	100.0%	
Maine	$4,532	$4,532	100.0%	$18,728	$5,532	29.5%	$14,670
Maryland	$44,657	$44,657	100.0%	$137,136	$93,872	68.5%	$114,946
Massachusetts	$36,715	$36,715	100.0%	$87,173	$19,468	22.3%	$53,097
Michigan	$25,742	$25,742	100.0%	$33,280	$33,280	100.0%	
Minnesota	$18,329	$18,329	100.0%	$11,849	$11,849	100.0%	$16,766
Mississippi	$17,333	$17,333	100.0%	$10,099	$10,099	100.0%	$40,864
Missouri	$9,236	$9,236	100.0%	$61,787	$61,787	100.0%	
Montana	$4,426	$4,426	100.0%	$945	$945	100.0%	
Nebraska	$3,217	$3,217	100.0%	$3,589	$3,589	100.0%	
Nevada	$11,201	$11,201	100.0%	$11,312	$11,312	100.0%	

State	FY1998 reallocations			FY1999 reallocations			FY2000 interim reallocation payment amounts
	Redistributed / retained allotment	Expended	%	Redistributed / retained allotment	Expended	%	Interim redistributed allotment
New Hampshire	$5,760	$5,760	100.0%	$4,781	$1,113	23.3%	
New Jersey	$11,889	$11,889	100.0%	$107,350	$107,350	100.0%	$110,932
New Mexico	$37,951	$21,918	57.8%	$26,277	-	0.0%	
New York	$434,890	$434,890	100.0%	$729,772	$174,076	23.9%	$414,465
North Carolina	$20,902	$20,902	100.0%	$92,147	-	0.0%	
North Dakota	$2,055	$2,055	100.0%	$1,925	$1,925	100.0%	
Ohio	$11,725	$11,725	100.0%	$11,218	$11,218	100.0%	
Oklahoma	$22,244	$22,244	100.0%	$34,225	$30,157	88.1%	
Oregon	$12,254	$12,254	100.0%	$15,260	$15,260	100.0%	
Pennsylvania	$5,590	$5,590	100.0%	$7,732	$7,732	100.0%	
Rhode Island	$1,987	$1,987	100.0%	$20,381	$20,381	100.0%	$25,048
South Carolina	$52,514	$8,009	15.3%	$75,055	-	0.0%	$32,649
South Dakota	$2,510	$2,510	100.0%	$2,424	$2,424	100.0%	
Tennessee	$15,789	$15,789	100.0%	$27,604	$2,645	9.6%	
Texas	$310,044	$310,044	100.0%	$234,226	$234,226	100.0%	
Utah	$2,199	$2,199	100.0%	$1,579	$1,579	100.0%	
Vermont	$1,021	$1,021	100.0%	$922	$922	100.0%	
Virginia	$28,911	$28,911	100.0%	$28,499	$28,499	100.0%	
Washington	$29,745	$13,576	45.6%	$19,470	-	0.0%	
West Virginia	$8,290	$8,290	100.0%	$4,020	$4,020	100.0%	$18,804
Wisconsin	$11,090	$11,090	100.0%	$38,614	$38,416	100.0%	$55,796
Wyoming	$4,308	$4,308	100.0%	$3,218	$1,811	56.3%	
Total Five	$21,352	$21,352	100.0%	$29,596	$28,826	97.4%	$23,168
Total	**$2,033,508**	**$1,931,294**	**95.0%**	**$2,818,627**	**$1,661,415**	**58.9%**	**$1,034,899**

Source: Centers for Medicare and Medicaid Services, preliminary 4th quarter FY2002 state-reported expenditure data as of Nov. 30, 2002 and Centers for Medicare and Medicaid Services (CMS) Letter to State Medicaid Directors and State Health Officials (SMDL #03-003), Mar. 27, 2003.

Note: Shaded cells represent states with remaining BIPA-2000 reallocations at the close of FY2002. Cells containing "-" represent states that did not access reallocated funds during the period of availability. CMS permitted states to access reallocated funds from FY1998 during FY2001 and FY2002, and reallocated funds from FY1999 during FY2002. These reallocated funds became additional active accounts whose availability overlapped with other original allotments (at which point remaining funds reverted to the Treasury).
On Mar. 27, 2003, CMS published an interim policy for a partial redistribution of unused FY2000 allotments (available for redistribution after Sept. 30, 2002). The interim redistribution was limited to approximately one-half of the unexpended FY2000 allotments ($1.03 billion) and was targeted to states, commonwealths, and territories that fully spent such allotments by the end of FY2002. These amounts appear in the last column of this table.