Order Code RL33130

CRS Report for Congress
Received through the CRS Web

# Budget Reconciliation: Projections of Funding in the State Children's Health Insurance Program (SCHIP)

**October 28, 2005**

Chris L. Peterson
Specialist in Social Legislation
Domestic Social Policy Division

# Budget Reconciliation: Projections of Funding in the State Children's Health Insurance Program (SCHIP)


## Summary

In FY2005, six states faced the prospect of running out of federal funds in the State Children's Health Insurance Program (SCHIP). This was the first time since the program's creation in 1997 that multiple states faced such a shortfall. The shortfalls were avoided by the redistribution of funds from other states' original SCHIP allotments that had not been spent by the end of the three-year period of availability.

However, in FY2006, the available unspent original allotments are projected to be inadequate to cover the other states' shortfalls. Under current law, more than a dozen states are projected to exhaust their federal SCHIP funds in FY2006, even after the redistribution of unspent funds from other states. In FY2007, the number of states facing shortfalls and the size of those shortfalls grow as the pool of unspent allotments shrinks.

To address this, the reconciliation proposal approved by the Senate Finance Committee would reduce the period of availability for original allotments from three years to two. This would dramatically increase the amount of unspent original allotments available for redistribution to shortfall states. According to the intermediate-demand scenario in the Congressional Research Service (CRS) SCHIP Projection Model, the proposal is projected to eliminate the shortfalls in FY2006 and nearly do so in FY2007. Even after the reduction of funds from this shortened period of availability, states losing additional original allotment funds under the proposal would still have, on average, nearly double the amount of funds necessary to cover their projected demand for federal SCHIP funds in FY2006 and FY2007.

The results based on the CRS SCHIP Projection Model could change as new data become available or as changes are made in the legislative language. If either occurs, this report will be updated as necessary.

## Contents



## List of Tables

# Budget Reconciliation: Projections of Funding in the State Children's Health Insurance Program (SCHIP)

This report provides projections of state shortfalls[1] in the State Children's Health Insurance Program (SCHIP) through the program's current authorization (FY2007). This analysis is based on the applicable SCHIP sections of the budget reconciliation language as approved by the Senate Finance Committee and as transmitted to the Senate Budget Committee.[2] The proposal's key change to current law would be to allow states access to their original allotments for only two years, instead of the current three-year period, before the unspent amount is redistributed to other states. The Congressional Research Service (CRS) SCHIP Projection Model[3] projects that implementation of this "reconciliation proposal" would eliminate state shortfalls in FY2006 and perhaps FY2007.

## Current Law

Under current law, each state's annual allotment of federal SCHIP funds, the so-called "original allotment," is available for three years. At the end of that three-year period, any remaining unspent funds from that original allotment are to be redistributed to states that had exhausted that allotment. Laws were enacted for redistributions occurring through FY2004 ensuring that states which did not exhaust their allotment within the three-year period were still permitted to retain a portion of their unspent funds.[4] Current law for FY2005 onward, beginning with the redistribution of unspent FY2002 original allotments, requires the Secretary of Health and Human Services (HHS) to decide how to redistribute funds. In FY2005, unspent FY2002 original allotments were redistributed first to the territories (receiving 1.05% of the total unspent funds) and subsequently to states with an estimated initial shortfall (that is, the estimated shortfall excluding any unspent FY2002 funds they may receive). From the unspent FY2002 funds, enough was available to cover the

---

[1] For this report, unless otherwise specified, a "shortfall" is the amount by which a state's demand for federal SCHIP funds in a given year exceeds the balance of available federal funds.

[2] Sections 6051 and 6054 dated October 25, 2005.

[3] A detailed description of the model and the current-law results can be found in CRS Report RL32807, *SCHIP Financing: Funding Projections and State Redistribution Issues*, by Chris L. Peterson.

[4] For more information on the legislative history of SCHIP, see CRS Report RL30473, *State Children's Health Insurance Program (SCHIP): A Brief Overview*, by Elicia J. Herz et al.

estimated shortfalls; the remaining unspent funds were redistributed to the states that had exhausted their FY2002 original allotment.

In FY2006, however, the projected amount of unspent FY2003 funds available for redistribution will not be adequate to cover the initial projected shortfalls, as shown in **Table 1**. In FY2007, as more states exhaust all of their available federal SCHIP funds, the total shortfall grows while the amount of unspent funds available for redistribution drops.

## Reconciliation Proposal

**Table 1**, which is based on the model's intermediate-demand scenario, also summarizes projected federal SCHIP funding under the reconciliation proposal. All projections discussed in the remainder of this report will be based on the intermediate-demand scenario unless specified otherwise. The reconciliation proposal is projected to eliminate state shortfalls in FY2006. The proposal is projected to nearly eliminate state shortfalls in FY2007. The estimated FY2007 shortfall of $33 million represents approximately one-half of 1% of total federal SCHIP projected demand for the year. Each of the 15 states expected to face the shortfall under the proposal would still be able to cover at least 97% of their federal SCHIP demand.[5]

As previously mentioned, the key provision affecting SCHIP in the reconciliation proposal reduces the period of availability of the FY2004 and FY2005 original allotments from three years to two. In FY2006, this provision (Section 6051(a)) would mean that besides the redistribution of unspent FY2003 funds, there would also be a redistribution of unspent FY2004 funds. In addition to approximately $200 million available from the redistribution of unspent FY2003 funds, $1.6 billion would be available for redistribution from unspent FY2004 funds. Under the proposal, shortfall states receive all the funds necessary to meet their initial projected FY2006 shortfall (plus the five territories receiving 1.05% of the total unspent funds), with the remaining unspent FY2004 funds retained by the states that had unspent funds. These FY2004 reallocated funds are available for one year, whether for the shortfall states or the retention states. For the retention states, then, they have access to the FY2004 funds for a total of three years (two years for the original allotment and one year for the reallocated funds), but at an amount lower than they would have in the original allotment's third year under current law.

[5] Under the model's low-demand scenario, the reconciliation proposal covers the state shortfalls for both FY2006 and FY2007. Under the high-demand scenario, the FY2006 shortfalls are eliminated; however, an FY2007 shortfall remains in 21 states, totaling $490 million. This is due to the differences in projected demand. For example, for FY2007, total projected demand under the low-demand scenario is $5.8 billion; under the high-demand scenario, total demand is projected at $6.7 billion. Although both extremes are certainly possible, the intermediate-demand scenario is used throughout this report to provide a single estimate for each year.

The reconciliation proposal calls for unspent FY2005 funds to be redistributed to shortfall states in FY2007. Under the intermediate-demand scenario, the unspent FY2005 original allotments are projected to total nearly $970 million. Ultimately, those funds are $33 million shy of covering the initial projected shortfall of $1 billion. As a result, the states that had unspent FY2005 funds retain no portion of them in FY2007.

## State-Level Differences

**Table 2** shows the amount of funds each state is projected to receive (or give up, as represented by the negative amounts) under current law in the redistribution of unspent FY2003 original allotments in FY2006 and in the redistribution of unspent FY2004 original allotments in FY2007. It also shows the shortfalls for these years that are partly a function of the adequacy of these redistributions. **Table 2** also displays the net amount of unspent original allotments projected to be reallocated under the reconciliation proposal — unspent FY2003 allotments *and* unspent FY2004 allotments in FY2006 and unspent FY2005 allotments in FY2007 — with a projected shortfall for FY2007 only.

Under current law, for example, six states are projected to have unspent FY2004 allotments redistributed in FY2007, as shown by the negative numbers in the "2007 net reallocation" column for current law in **Table 2**. By shortening the availability period of original allotments by one year under the reconciliation proposal, 35 states have unspent FY2004 funds redistributed *in FY2006*, as shown by the negative numbers in the "2006 net reallocation" column for the reconciliation proposal of **Table 2**. These additional funds available for redistribution in FY2006 under the reconciliation proposal would eliminate the projected shortfall still remaining in 13 states after the redistribution of unspent FY2003 funds. The redistribution for this shortfall as well as $17 million for the territories would allow the remaining unspent FY2004 funds to be retained by the states with unspent funds. Thus, 18% of each state's unspent FY2004 original allotment would go toward the shortfall states and the territories; the states with unspent FY2004 original allotments would retain 82% of that amount for spending in FY2006.

For these states projected to have their FY2004 original allotments reduced in FY2006, **Table 3** provides some context for the size of those reductions. As previously mentioned, the reduction would generally be 18% of each state's unspent FY2004 original allotment as of the end of FY2005. The penultimate column of the table shows the reduction in the FY2004 original allotment as a percentage of the state's *total* available federal funds at the beginning of FY2006, even after accounting for that reduction. These total funds would consist of any redistributed FY2003 funds, the retained FY2004 funds, the state's own unspent FY2005 original allotment, and the state's newly available FY2006 original allotment. Among states projected to have unspent FY2004 original allotments at the end of FY2005, the reduction in their allotments is approximately 3.8% of all the funds available to these states. As shown in the last column of **Table 3**, even after accounting for the reduction under the reconciliation proposal, these states are projected to begin FY2006 with almost twice (197%) the funds needed to cover their projected demand for FY2006.

## Table 1. Overall Projected Federal SCHIP Funding Under Current Law and Under Reconciliation Proposal, Intermediate-Demand Scenario

(millions of dollars)

| Year | Demand for federal SCHIP funds[a] | Initial projected shortfalls[b] | Funds available for reallocation[c] | Remaining shortfall | Number of shortfall states (depleting all federal SCHIP funds) | Amount of federal SCHIP funds expiring[d] |
|---|---|---|---|---|---|---|
| **Current law** | | | | | | |
| 2006 | $5,722 | $456 | $198 | $260 | 13 | $0 |
| 2007 | $6,227 | $1,027 | $107 | $920 | 18 | $0 |
| **Reconciliation proposal** | | | | | | |
| 2006 | $5,744 | $498 | $1,801 | $0 | 0 | $64 |
| 2007 | $6,227 | $1,001 | $966 | $33 | 15 | $0 |

**Source:** Congressional Research Service (CRS) SCHIP Projection Model, based on data from the Centers for Medicare and Medicaid Services (CMS), including states' projections of demand for federal SCHIP funds provided in August 2005.

**Notes**: The proposal's most significant change from current law is to shorten the period of availability of the FY2004 and FY2005 original allotments from three years to two years. This increases the amount of funds available to shortfall states in FY2006 and FY2007.

a. For FY2006, the reconciliation proposal's projected demand is slightly higher than under current law because of the extension of the 20% allowance, discussed in the text of the memorandum. In FY2007, all unspent FY2005 funds are projected to go to the shortfall states, with none remaining for the states that qualify for the 20% allowance.
b. Under both current law and the reconciliation proposal, the initial estimated shortfalls are used to calculate how much states receive in the reallocation of unspent funds, shown in the next column. The column following that shows the remaining shortfall after accounting for the reallocated funds. For FY2006, the reconciliation proposal's initial projected shortfall is higher than under current law mostly because it does not include the amounts ultimately available to the proposal's "described" states from their own FY2004 original allotments. For FY2007, the reconciliation proposal's initial projected shortfall is *lower* than under current law mostly because Minnesota, New Jersey and Rhode Island would obtain funds for their shortfall in FY2006 that they could not spend in FY2006 (and that rolls over to FY2007) because of the limitation on expenditures on adults under the reconciliation proposal.
c. A portion of these funds (1.05%) are designated for the territories and are not available for shortfall states.
d. For FY2006 under the reconciliation proposal, the $64 million was from retained FY2004 original allotments not spent by three states and expiring at year's end in the following amounts: Tennessee, $44 million; Washington, $16 million; and Connecticut, $4 million. In FY2007 under the reconciliation proposal and for both years under current law, no amounts expire because all redistributed funds go to shortfall states that will use all of the funds.

## Table 2. Projected Reallocations and Shortfalls Under Current Law and Reconciliation Proposal, Intermediate-Demand Scenario, by State
(millions of dollars)

| | Current law | | | | Reconciliation proposal | | | |
|---|---|---|---|---|---|---|---|---|
| State | 2006 net realloca-tion | 2006 remaining shortfall | 2007 net realloca-tion | 2007 remaining shortfall | 2006 net reallocation | 2006 remaining shortfall | 2007 net reallo-cation | 2007 remaining shortfall |
| AL | | | | | -$2.9 | | | |
| AK | | | $1.6 | $13.7 | $1.8 | | $12.9 | $0.6 |
| AZ[a] | | | | | | | | |
| AR | -$30.3 | | | | -$36.6 | | -$31.9 | |
| CA | | | | | -$65.2 | | -$117.5 | |
| CO[a] | | | | | -$6.7 | | -$38.9 | |
| CT | -$6.0 | | -$8.7 | | -$11.0 | | -$36.6 | |
| DE | -$4.7 | | -$1.3 | | -$6.1 | | -$8.9 | |
| DC | | | | | -$1.2 | | -$6.5 | |
| FL | | | | | -$1.4 | | | |
| GA | $5.7 | $7.6 | $7.9 | $68.2 | $13.3 | | $72.6 | $3.4 |
| HI | | | | | -$1.0 | | -$0.9 | |
| ID | | | | | -$2.5 | | -$8.9 | |
| IL[a] | $30.6 | $40.6 | $13.5 | $117.0 | $71.2 | | $124.7 | $5.9 |
| IN | | | | | -$4.8 | | | |
| IA | $3.1 | $4.0 | $2.7 | $23.3 | $7.1 | | $24.8 | $1.2 |
| KS | | | | | -$3.7 | | | |
| KY | | | | | -$7.1 | | -$5.5 | |
| LA | $2.8 | $3.7 | $6.8 | $58.9 | $6.4 | | $62.8 | $2.9 |
| ME | | | $0.3 | $2.9 | -$1.4 | | $4.4 | $0.2 |
| MD | $2.7 | $3.6 | $8.5 | $73.8 | $13.0 | | $72.3 | $3.4 |
| MA | | | $4.2 | $36.2 | -$2.9 | | $41.3 | $1.9 |
| MI[a] | | | | | -$2.5 | | | |
| MN[a] | $17.2 | $22.8 | $4.8 | $41.6 | $40.0 | | $34.5 | |
| MS | $29.6 | $39.3 | $8.5 | $73.7 | $68.9 | | $78.6 | $3.7 |
| MO | $3.3 | $4.4 | $3.6 | $31.5 | $7.7 | | $33.6 | $1.6 |
| MT | | | | | -$1.3 | | -$3.4 | |
| NE | $5.5 | $7.3 | $1.5 | $12.9 | $12.9 | | $13.7 | $0.6 |
| NV | -$3.5 | | -$1.0 | | -$9.1 | | -$35.7 | |
| NH | -$4.6 | | -$1.8 | | -$6.1 | | -$7.5 | |
| NJ[a] | $45.8 | $60.7 | $14.4 | $124.7 | $106.5 | | $132.1 | |
| NM | -$32.8 | | | | -$38.7 | | -$29.9 | |
| NY | | | | | -$33.4 | | -$27.6 | |
| NC | $11.2 | $14.8 | $14.6 | $126.6 | $26.0 | | $134.9 | $6.3 |
| ND | | | $0.6 | $5.3 | | | $5.6 | $0.3 |
| OH | | | | | -$1.6 | | | |
| OK | | | | | -$5.3 | | -$14.3 | |
| OR[a] | -$0.1 | | | | -$7.0 | | -$30.9 | |

| | Current law | | | | Reconciliation proposal | | | |
|---|---|---|---|---|---|---|---|---|
| **State** | **2006 net realloca-tion** | **2006 remaining shortfall** | **2007 net realloca-tion** | **2007 remaining shortfall** | **2006 net reallocation** | **2006 remaining shortfall** | **2007 net reallo-cation** | **2007 remaining shortfall** |
| PA | | | | | -$9.4 | | -$6.2 | |
| RI[a] | $37.0 | $49.1 | $10.7 | $92.2 | $86.1 | | $89.0 | |
| SC | | | | | -$4.8 | | -$13.3 | |
| SD | $1.4 | $1.8 | $0.8 | $7.0 | $3.2 | | $7.4 | $0.3 |
| TN | -$58.4 | | -$58.0 | | -$68.8 | | -$78.9 | |
| TX | -$13.6 | | | | -$73.3 | | -$375.8 | |
| UT | | | | | -$3.4 | | -$7.6 | |
| VT | | | | | -$0.6 | | -$3.7 | |
| VA | | | | | -$5.2 | | -$9.4 | |
| WA | -$44.2 | | -$36.8 | | -$53.3 | | -$64.7 | |
| WV | | | | | -$2.8 | | | |
| WI[a] | | | $1.2 | $10.7 | -$1.5 | | $12.8 | $0.6 |
| WY | | | | | -$0.9 | | -$3.8 | |
| **Total** | **$0[b]** | **$259.7** | **$0[b]** | **$920.3** | **$0[b]** | **$0** | **$0[b]** | **$33.0** |

**Source**: Congressional Research Service (CRS) SCHIP Projection Model based on data from the Centers for Medicare and Medicaid Services (CMS), including states' projections provided in May 2005.

**Note:** The "net reallocation" numbers are negative for those states with unspent funds redistributed among other states; the positive numbers are the amounts received by states from others' unspent allotments. Under current law, the FY2006 net reallocation is based on the redistribution of unspent FY2003 funds; the FY2007 net reallocation is based on the redistribution of unspent FY2004 funds. Under the reconciliation proposal, the FY2006 net reallocation is based on the redistribution (and retention) of unspent FY2003 and FY2004 funds; the FY2007 net reallocation is based on the redistribution of unspent FY2005 funds.

a. This state has implemented an approved waiver that expands SCHIP coverage to adults.
b. This total also includes the amounts received by the territories.

## Table 3. Federal SCHIP Funds and Projected Demand in FY2006 Under Reconciliation Proposal, Among States With Projected Reduction of FY2004 Original Allotments, Intermediate-Demand Scenario

| | Reduction in FY2004 allotment[a] | Funds available at beginning of FY2006[b] | Reduction as percentage of funds available | Funds available at beginning of FY2006 as a percentage of projected demand[c] |
|---|---|---|---|---|
| Alabama | $2,937,000 | $145,568,000 | 2.0% | 145% |
| Alaska | $620,000 | $27,072,000 | 2.3% | 112% |
| Arkansas | $6,327,000 | $121,204,000 | 5.2% | 266% |
| California | $65,223,000 | $1,610,491,000 | 4.0% | 190% |
| Colorado | $6,734,000 | $146,501,000 | 4.6% | 295% |
| Connecticut | $5,046,000 | $94,025,000 | 5.4% | 487% |
| Delaware | $1,410,000 | $24,498,000 | 5.8% | 376% |
| DC | $1,152,000 | $24,427,000 | 4.7% | 292% |
| Florida | $1,420,000 | $505,029,000 | 0.3% | 130% |
| Hawaii | $952,000 | $29,136,000 | 3.3% | 184% |
| Idaho | $2,507,000 | $52,751,000 | 4.8% | 227% |
| Indiana | $4,834,000 | $168,387,000 | 2.9% | 156% |
| Kansas | $3,655,000 | $72,577,000 | 5.0% | 150% |
| Kentucky | $7,087,000 | $144,025,000 | 4.9% | 178% |
| Maine | $1,401,000 | $30,755,000 | 4.6% | 127% |
| Maryland | $1,455,000 | $140,336,000 | 1.0% | 105% |
| Massachusetts | $4,750,000 | $145,131,000 | 3.3% | 117% |
| Michigan | $2,512,000 | $239,925,000 | 1.0% | 134% |
| Montana | $1,309,000 | $30,792,000 | 4.3% | 207% |
| Nevada | $5,621,000 | $107,826,000 | 5.2% | 357% |
| New Hampshire | $1,445,000 | $25,033,000 | 5.8% | 300% |
| New Mexico | $5,914,000 | $111,188,000 | 5.3% | 284% |
| New York | $33,396,000 | $694,340,000 | 4.8% | 176% |
| Ohio | $1,588,000 | $257,689,000 | 0.6% | 142% |
| Oklahoma | $5,296,000 | $138,808,000 | 3.8% | 207% |
| Oregon | $6,865,000 | $125,335,000 | 5.5% | 264% |
| Pennsylvania | $9,445,000 | $307,978,000 | 3.1% | 184% |
| South Carolina | $4,817,000 | $131,741,000 | 3.7% | 202% |
| Tennessee | $10,454,000 | $206,815,000 | 5.1% | 6354% |
| Texas | $59,679,000 | $1,175,886,000 | 5.1% | 340% |
| Utah | $3,362,000 | $79,184,000 | 4.2% | 201% |
| Vermont | $568,000 | $12,303,000 | 4.6% | 323% |
| Virginia | $5,187,000 | $172,126,000 | 3.0% | 190% |
| Washington | $9,078,000 | $170,660,000 | 5.3% | 678% |
| West Virginia | $2,811,000 | $60,546,000 | 4.6% | 163% |
| Wisconsin | $1,462,000 | $114,278,000 | 1.3% | 121% |
| Wyoming | $853,000 | $16,120,000 | 5.3% | 252% |
| **Total** | **$289,172,000** | **$7,660,484,000** | **3.8%** | **197%** |

**Source:** Congressional Research Service (CRS) SCHIP Projection Model, based on data from the Centers for Medicare and Medicaid Services (CMS), including states' projections of demand for federal SCHIP funds provided in August 2005.

a. After taking into account the redistributed FY2003 funds, a shortfall of approximately $270 million still remains in FY2006, which would be paid for (along with nearly $20 million due to the territories) from states' unspent FY2004 original allotment. States are projected to have a total of $1.6 billion in unspent FY2004 original allotments. Of this total, then, 18.0% of the unspent FY2004 funds goes to the shortfall states and to the territories. This column therefore represents 18.0% of these states' unspent FY2004 original allotment, with states retaining the remainder for spending in FY2006.
b. Funds available at the beginning of FY2006 for these states are from the redistribution of unspent FY2003 funds, retained FY2004 original allotments, the balance of FY2005 original allotments, and the newly available FY2006 original allotment.
c. A value of 100% means a state has exactly the available funds necessary to cover its projected demand for FY2006.

## Table 4. Federal SCHIP Funds and Projected Demand in FY2007 Under Reconciliation Proposal, Among States With Projected Reduction of FY2005 Original Allotments, Intermediate-Demand Scenario

| | Reduction in FY2005 allotment[a] | Funds available at beginning of FY2007[b] | Reduction as percentage of funds available | Funds available at beginning of FY2007 as a percentage of projected demand[c] |
|---|---|---|---|---|
| Arkansas | $31,884,000 | $97,864,000 | 32.6% | 189% |
| California | $117,467,000 | $1,445,055,000 | 8.1% | 153% |
| Colorado | $38,935,000 | $129,496,000 | 30.1% | 244% |
| Connecticut | $36,561,000 | $77,171,000 | 47.4% | 375% |
| Delaware | $8,943,000 | $20,212,000 | 44.2% | 291% |
| DC | $6,495,000 | $21,356,000 | 30.4% | 239% |
| Hawaii | $890,000 | $27,719,000 | 3.2% | 167% |
| Idaho | $8,875,000 | $46,056,000 | 19.3% | 177% |
| Kentucky | $5,470,000 | $129,078,000 | 4.2% | 150% |
| Montana | $3,371,000 | $28,062,000 | 12.0% | 177% |
| Nevada | $35,737,000 | $93,620,000 | 38.2% | 286% |
| New Hampshire | $7,490,000 | $20,541,000 | 36.5% | 309% |
| New Mexico | $29,906,000 | $94,202,000 | 31.7% | 238% |
| New York | $27,645,000 | $608,813,000 | 4.5% | 145% |
| Oklahoma | $14,312,000 | $128,199,000 | 11.2% | 176% |
| Oregon | $30,921,000 | $104,772,000 | 29.5% | 202% |
| Pennsylvania | $6,229,000 | $299,649,000 | 2.1% | 167% |
| South Carolina | $11,055,000 | $124,120,000 | 8.9% | 179% |
| Tennessee | $78,905,000 | $179,675,000 | 43.9% | NA[d] |
| Texas | $375,767,000 | $1,016,151,000 | 37.0% | 265% |
| Utah | $7,589,000 | $71,970,000 | 10.5% | 161% |
| Vermont | $3,677,000 | $10,765,000 | 34.2% | 301% |
| Virginia | $9,441,000 | $161,566,000 | 5.8% | 164% |
| Washington | $64,705,000 | $144,589,000 | 44.8% | 1003% |
| Wyoming | $3,841,000 | $13,142,000 | 29.2% | 189% |
| **Total** | **$966,111,000** | **$5,093,843,000** | **19.0%** | **192%** |

**Source:** Congressional Research Service (CRS) SCHIP Projection Model, based on data from the Centers for Medicare and Medicaid Services (CMS), including states' projections of demand for federal SCHIP funds provided in August 2005.

a. This amount is the entirety of these states' unspent FY2005 original allotments, projected to be redistributed to shortfall states at the beginning of FY2007.
b. Funds available at the beginning of FY2007 for these states are from the balance of FY2006 original allotments and the newly available FY2007 original allotment.
c. A value of 100% means a state has exactly the available funds necessary to cover its projected demand for FY2007.
d. Tennessee has no SCHIP enrollees. It can only use SCHIP funds under the 20% allowance. Because no FY2005 funds are retained by states not facing shortfalls in FY2007, Tennessee is projected to have no SCHIP spending in FY2007.

**Table 4** is structured similar to **Table 3** except that it shows the 25 states (including the District of Columbia) projected to have their FY2005 original allotments reduced in FY2007. The reduction would be 100% of the state's unspent FY2005 original allotment as of the end of FY2006. The penultimate column of **Table 4** shows the reduction in the FY2005 original allotment as a percentage of the state's *total* available federal funds at the beginning of FY2007 *after* accounting for that reduction. These total funds would consist of the state's own unspent FY2006 original allotment and the state's newly available FY2007 original allotment. Among states projected to have unspent FY2005 original allotments at the end of FY2006, the reduction in their allotments is approximately 19.0% of all the funds available to these states. As shown in the last column of **Table 4**, even after accounting for the reduction under the reconciliation proposal, these states are projected to begin FY2007 with almost twice (192%) the funds needed to cover their projected demand for FY2007.

## Other Policy Issues and Model Assumptions

CRS Report RL32807, *SCHIP Financing: Funding Projections and State Redistribution Issues*, by Chris L. Peterson, at [http://www.congress.gov/erp/rl/pdf/RL32807.pdf], provides detailed descriptions of the model and the current-law results using the high- and low-demand scenarios. The reconciliation proposal has additional features besides those already discussed that merit further discussion, particularly with respect to how those features were handled in the CRS SCHIP Projection Model.

**Regular FMAP for certain SCHIP expenditures.** Under current law, states that set up an SCHIP program are reimbursed by the federal government for a percentage of the incurred costs of covering enrolled individuals. This percentage, which varies by state, is called the *enhanced* Federal Medical Assistance Percentage (FMAP). It is based on the FMAP used for the Medicaid program but is higher in SCHIP than in Medicaid. In other words, the federal government contributes more toward the coverage of individuals in SCHIP (65% to 83.2% in FY2006) than it does for those covered under Medicaid (50% to 77.6% in FY2006).[6]

In Section 6051(b), the reconciliation proposal specifies that unspent FY2003, FY2004 and FY2005 funds redistributed to shortfall states would pay the enhanced FMAP for "targeted low-income children"[7] but would pay the regular FMAP for all other expenses. Regarding payments on behalf of SCHIP enrollees, this means that states would be able to draw down only the regular FMAP for adults covered under SCHIP, with the exception of pregnant women.[8] However, states would continue to receive the enhanced FMAP for adults if the payment is from funds besides the

---

[6] For more information on the FMAP, see CRS Report RL32950, *Medicaid: The Federal Medical Assistance Percentage (FMAP)*, by Christine Scott.

[7] This is the term used for all children covered under SCHIP authority.

[8] In the rest of this section of the report, "adults" does not include pregnant women covered under SCHIP.

redistributed funds (that is, original allotments or the unspent funds for which a state retains an additional year of access).

According to the latest available data from the Centers for Medicare and Medicaid Services (CMS), nine states covered adults through their SCHIP programs.[9] For the model projections, it is assumed that the percentage of SCHIP enrollees who are adults remains constant in these states and that the cost of benefit coverage for adults is 80% higher than for children. Using these assumptions, estimates are generated for the amount of each state's projected demand that is attributable to adults and the extent to which states receive only the regular FMAP for them in FY2006 and FY2007.

Four of the nine states that cover adults (Arizona, Colorado, Michigan and Oregon) are projected to have sufficient funds available in FY2006 and FY2007 that they will not receive redistributed funds. They will receive the enhanced FMAP for all of their adult SCHIP expenditures.

The other five states are projected to receive redistributed funds from which payments for adults would be matched at only the regular FMAP rate. However, states have the flexibility to delay filing SCHIP claims for up to two years, according to Section 1132 of the Social Security Act. With this flexibility, states could claim federal SCHIP funds for children only, until the redistribution funds are depleted. Then, once the state's other federal SCHIP accounts are accessed, the state could file its claims for adults and thus receive the enhanced FMAP. For modeling purposes, it is assumed that states covering adults and receiving redistribution funds in FY2006 or FY2007 will delay claiming SCHIP expenditures for adults until the redistribution funds are exhausted. If, however, the expenditures for children are not enough to exhaust the redistribution funds, it is assumed that adult expenditures will only be claimed after all the expenditures for children during the fiscal year have been claimed.

The SCHIP programs in Illinois and Wisconsin cover adults and are projected to receive redistributed funds in FY2006 and/or FY2007. Because their projected expenditures for children are always projected to exceed their balance of redistributed funds, they are projected to exhaust any redistributed funds with the claims for children and receive the enhanced FMAP for *all* of their adult expenditures from the other available federal SCHIP accounts.

Minnesota, New Jersey and Rhode Island are projected to receive the regular FMAP for a portion of their adults covered under SCHIP in FY2006 and FY2007. The difference between the enhanced FMAP and regular FMAP for these adult expenditures in both years — again, the amount of forgone federal funding due to the limit on expenditures for adults — is projected at $18.9 million for Minnesota, $7.3 million for New Jersey, and $23.4 million for Rhode Island.

---

[9] The nine states are Arizona, Colorado, Illinois, Michigan, Minnesota, New Jersey, Oregon, Rhode Island, and Wisconsin, as shown in "Revised FY2004 Number of Children Ever Enrolled in SCHIP by Program Type," CMS, May 23, 2005, at [http://www.cms.hhs.gov/schip/enrollment/schip04rev.pdf].

The provision limiting the enhanced FMAP from the redistributed funds to targeted low-income children would also require SCHIP claims for outreach and administration to be reimbursed at the regular FMAP. However, it is assumed that the states affected would be able to claim their administration and outreach expenditures later in the fiscal year in order to draw down the enhanced FMAP from their original allotments.

**Twenty percent allowance under current law and the effect of its extension.** P.L. 108-74 and P.L. 108-127 created and amended Section 2105(g) of the Social Security Act, permitting qualifying states to apply federal SCHIP funds toward the coverage of certain children already enrolled in regular Medicaid (that is, not SCHIP-funded expansions of Medicaid). Specifically, these federal SCHIP funds are used to pay the difference between SCHIP's enhanced FMAP and the regular FMAP that the state is already receiving for these children. The primary purpose of this provision was to enable qualifying states to receive the enhanced FMAP for certain children who likely would have been covered under SCHIP had the state not expanded their regular Medicaid coverage before SCHIP's enactment in August 1997. Specifically, the 20% allowance can be used by qualifying states only for Medicaid enrollees (excluding those covered by an SCHIP-funded expansion of Medicaid) who are under age 19 and whose family income exceeds 150% of poverty.

Funds under this allowance may only be claimed for expenditures occurring after August 15, 2003, when P.L. 108-74 was enacted. Qualifying states are limited in the amount they can claim for this purpose to the lesser of the following two amounts: 20% of the state's available original SCHIP allotments from FY1998 to FY2001 (hence the terms "20% allowance" and "20% spending") and the state's balance (calculated quarterly) of available FY1998 to FY2001 federal SCHIP funds. If there is no balance, states may not claim 20% spending.

States' FY1998 to FY2000 balances expired at the end of FY2004. As a result, the only 20% spending authorized to take place in FY2005 was from the qualifying states' balance of FY2001 reallocated funds, which expired at the end of FY2005. Thus, under current law, no 20% spending is permitted in FY2006 or after.

Eleven states qualify to claim 20% spending, according to CMS: Connecticut, Hawaii, Maryland, Minnesota, New Hampshire, New Mexico, Rhode Island, Tennessee, Vermont, Washington and Wisconsin. As of the end of the second quarter of FY2005, all but three of these states (Connecticut, Minnesota and Wisconsin) claimed 20% spending.

Section 6054 of the reconciliation proposal would permit qualifying states to use FY2004 and FY2005 funds under the 20% allowance. It is assumed that none of the three states with no previous 20% spending would have any under an extension. Although Maryland and Rhode Island have previously claimed 20% spending, they are not projected to do so in FY2006 and FY2007 because they will face shortfalls of their federal SCHIP funds and will receive, when available, just enough money to cover those shortfalls.[10]

**Table 5** shows the projected SCHIP spending using the 20% allowance continued under the reconciliation proposal. In FY2006, Hawaii, New Hampshire, New Mexico, Tennessee, Vermont and Washington are projected to have 20% from their retained FY2004 original allotments. However, in FY2007, because all unspent FY2005 funds are projected to go to shortfall states, no funds remain for these six states' 20% spending.

While the shortfall states can thus have the effect of limiting 20% spending in other states, 20% spending can also reduce the amount of funds available to shortfall states. Because the 20% allowance reduces the amount of unspent funds available for redistribution to the shortfall states, the 20% allowance results in a total FY2007 shortfall that is $4 million more than if the policy were not continued.

## Table 5. Projected Federal SCHIP Spending Using 20% Allowance Continued Under Reconciliation Proposal, FY2006 and FY2007

| State | FY2006 | FY2007[a] |
|---|---|---|
| Hawaii | $575,000 | $0 |
| New Hampshire | $2,104,000 | $0 |
| New Mexico | $4,307,000 | $0 |
| Tennessee | $3,255,000 | $0 |
| Vermont | $449,000 | $0 |
| Washington | $11,661,000 | $0 |
| **Total** | **$22,351,000** | **$0** |

**Source:** Congressional Research Service (CRS) SCHIP projection model, based on data from the Centers for Medicare and Medicaid Services (CMS), including states' projections of demand for federal SCHIP funds, provided in May 2005.

a. In this case, unspent FY2005 funds are inadequate to cover the estimated shortfalls in FY2007. As a result, all of the unspent FY2005 funds go to the shortfall states, with none remaining with the states projected to have unspent FY2005 funds, including the six states in this table that would otherwise have been projected to have 20% spending from their unspent FY2005 funds.

**SCHIP provisions not modeled.** Section 6052 of the reconciliation proposal permits up to 10% of the FY2006 allotment to be available in FY2006 for outreach activities. The proposal also permits up to 10% of the FY2007 allotment to be available in FY2007 for outreach activities. This is in addition to any other capped amounts that can be used for outreach.[11] Because data are not available on

---

[10] It is assumed that potential 20% spending is not part of their shortfall estimates, although the legislation does not appear to prohibit this. Permitting the use of FY2003 funds for 20% spending would be expected to have no impact, since those funds go exclusively to shortfall states.

[11] This is specifically referring to Section 2105(c)(2) of the Social Security Act, which caps

(continued...)

states' outreach expenditures under SCHIP and because it is not possible to confidently project which states will increase their outreach expenditures as a result of the proposal, the model does not account for increased use of outreach funds, nor does it account for the increased demand for federal SCHIP funds that a state may experience due to outreach.

Section 6053 of the reconciliation proposal would limit the Secretary of Health and Human Services' Section 1115 waiver authority by prohibiting the approval of waiver, experimental, pilot, or demonstration projects that allow federal SCHIP funds to be used to provide child health assistance or other health benefits coverage to nonpregnant childless adults. The provision would allow the Secretary to continue to approve projects that expand the SCHIP program to caretaker relatives of Medicaid or SCHIP-eligible children (as defined under Section 1931 of Medicaid statue), and to pregnant adults. Finally, the provision would allow for the continuation of existing Medicaid or SCHIP waiver projects (and/or extensions, amendments, or renewals to such projects) affecting federal SCHIP funds that had been approved under the Section 1115 waiver authority before the date of enactment of the reconciliation legislation. Because this provision affects only future Section 1115 waivers, it is not expected to impact the projections in this report.

Section 6055 establishes a new grant program to "promote innovative outreach and enrollment under Medicaid and SCHIP." This grant program is also outside the scope of analysis for this report.

## Conclusion

SCHIP was created in the Balanced Budget Act of 1997 as a capped grant program to states. Fixed annual balances of federal funds are made available to states for a specific length of time. Although it is theoretically possible for states to be in a chronic state of shortfall of federal SCHIP funds, this has been avoided by redistributions of funds from lower-spending states to higher-spending states.

However, shortfalls are at the brink of overwhelming the shrinking pool of available funds from other states' unspent original allotments. For the first time, shortfalls in a dozen or more states appear unavoidable in FY2006 and FY2007 under current law because of the size of the shortfalls and the inadequacy of other states' unspent allotments.

To address this, at least through the program's current authorization of FY2007, the reconciliation proposal reduces the time that states have their original allotments available to them — from three years to two years. This dramatically increases the amount of funds available to the shortfall states. According to CRS's intermediate-demand projections, the changes in the reconciliation proposal would eliminate the shortfalls in FY2006 and virtually do so in FY2007. These results could change as new data become available or as changes are made in the legislative language.

---

[11] (...continued)
certain types of permitted SCHIP expenditures, including outreach.