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# AVAILABILITY OF SCHIP ALLOTMENTS FOR FISCAL YEARS 1998 THROUGH 2001

JUNE 24, 2003.—Ordered to be printed

Mr. GRASSLEY, from the Committee on Finance, submitted the following

# R E P O R T

[To accompany S. 312]

[Including cost estimate of the Congressional Budget Office]

The Committee on Finance, to which was referred the 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 the State Children's Health Insurance Program (SCHIP), reports favorably thereon and recommends that the bill do pass.

## I. BACKGROUND

The Balanced Budget Act of 1997 (BBA 97; P.L. 105–33) established the State Children's Health Insurance Program (SCHIP) under a new Title XXI of the Social Security Act. In general, this program gives States the option to provide health insurance coverage to uninsured children in families with income that is above Medicaid eligibility levels, but below 200 percent of the Federal poverty level. States may provide coverage through Medicaid, create a new separate State program that meets minimum benefit requirements, or employ a combination of both approaches.

All 50 States, the District of Columbia, and the 5 territories operate SCHIP programs. As of December 2002, 21 States provided coverage through Medicaid, 20 states offered coverage through separate State programs, and 15 States used a combination approach. Approximately 4.6 million children were enrolled in SCHIP during FY2001, the most recent year for which data is available. More than 3.4 million children were served in separate State programs, while 1.2 million were enrolled in Medicaid expansions.

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Like Medicaid, SCHIP is a Federal-State matching program. While the Medicaid Federal medical assistance percentage (FMAP) ranges from 50 percent to 76.62 percent in FY2003, the enhanced SCHIP matching rate ranges from 65 percent to 83.63 percent across States.

The BBA appropriated a total of $39.7 billion for SCHIP for the period from fiscal year 1998 through fiscal year 2007. Annual allotments among the States are determined by a formula that is based on a combination of the number of low-income children and low-income uninsured children in the State, and includes a regional cost factor. Federal funds not drawn from a State's allotment by the end of each fiscal year continue to be available to that State for 2 additional fiscal years. SCHIP law requires that allotments not used at the end of 3 years be redistributed by the Secretary of Health and Human Services (HHS) to States that have fully spent their original allotments for that year. Redistributed funds which are not used by the end of the fiscal year in which they are reallocated return to the Treasury.

On September 30, 2002, unspent SCHIP funds from fiscal years 1998 and 1999 expired and reverted to the U.S. Treasury. Unspent funds from fiscal year 2000 are to be recovered from States that did not use these funds by September 30, 2002 and redistributed to States that fully spent their fiscal year 2000 allocations. Redistributed fiscal year 2000 funds that are not used by September 30, 2003 will expire and revert to the Treasury at that time.

Unspent funds are largely the result of timing conflicts between the initial implementation of SCHIP and the period of availability of the annual allotments. Funds from the early years of the SCHIP program accumulated while States worked through the start-up process and established functioning programs. Now that State SCHIP programs are fully operational and have enrolled millions of children, they are threatened with the loss of funding necessary to keep those children enrolled. The redistribution and retention of unspent funds permitted under this bill will help States maintain enrollment of children in SCHIP.

## II. DESCRIPTION OF BILL

*Section 1. Extension of availability of SCHIP allotments for fiscal years 1998 through 2001*

*(a) Extending availability of SCHIP allotments for fiscal years 1998 through 2001*

CURRENT LAW

Funds for the State Children's Health Insurance Program (SCHIP) are authorized to be appropriated for FY1998 through FY2007. From each year's appropriation, each State is allotted an amount determined by a formula set in law. Federal funds not drawn from a State's allotment by the end of each fiscal year continue to be available to that State for 2 additional fiscal years. For example, FY2003 allotments are available until the end of FY2005. SCHIP law requires that allotments not used at the end of 3 years be redistributed by the Secretary of Health and Human Services (HHS) to States that have fully spent their original allotments for that year. Redistributed funds which are not used by the end of the fiscal year in which they are reallocated return to the Treasury.

The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA 2000), created a special rule for the redistribution and availability of unused FY1998 and FY1999 SCHIP allotments. This special rule decreased the amount available for redistribution to States that had used all of their original allotments for these 2 years and allowed States that had not spent all of their allotments to retain some of their unspent funds.

States that did fully expend their SCHIP allotments for each of those years by the 3-year deadline received an amount equal to spending in excess of their original exhausted allotment. Each territory that used its original allotment for each of those years by the 3-year deadline received an amount equal to 1.05 percent of the total amount available for redistribution to all States and territories multiplied by that territory's proportion of the allotments available for all territories.

States that did not fully expend their SCHIP allotments by the 3-year deadline retained from remaining unspent funds an amount equal to their proportional contribution to the total pool of unspent funds. These States were able to use up to 10 percent of the retained FY1998 funds for outreach activities.

To calculate the amounts available for redistribution and retention in each formula described above, the Secretary used expenditures reported by States not later than December 15, 2000 for the FY1998 reallocation, and November 30, 2001 for the FY1999 reallocation. Redistributed and retained funds from FY1998 and FY1999 were available through the end of FY2002. Not all States used their redistributed 1998 and 1999 funds.

On March 27, 2003, CMS published an interim policy for a partial redistribution of unused FY2000 allotments (available for redistribution after September 30, 2002). 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.

## COMMITTEE PROVISION

The Committee's 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. 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 percent 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. Subject to this ceiling, each such State would receive an amount equal to 50 percent of the total amount of unspent funds for each of those years minus amounts redistributed to the territories, multiplied by the ratio of such State's spending by the applicable 3-year deadline in excess of such State's original exhausted allotment for each of those years, to total spending by the applicable 3-year deadline for all States that exhausted their SCHIP allotments for each of those years in excess of all such State's original exhausted allotments for each of those years. Each territory would receive an amount equal to 1.05 percent 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 Committee's 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.

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 percent of such State's unspent funds for each of those years.

The Committee's 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.

REASON FOR CHANGE

Under current law, a total of $2.7 billion in SCHIP funds either expired September 30, 2002 or are projected to expire on September 30, 2003. These unspent funds are largely the result of timing conflicts between the initial implementation of SCHIP and the period of availability of the annual allotments. Funds from the early years of the SCHIP program accumulated while States worked through the start-up process and established functioning programs. Now that State SCHIP programs are fully operational and have enrolled more than 5 million children, they are threatened with the loss of funding necessary to keep those children enrolled.

This provision would prevent $2.7 billion in unspent SCHIP funds from reverting to the Treasury and will help States to avert the projected national enrollment decline resulting from the decrease in SCHIP allotments.

EFFECTIVE DATE

This subsection, and the amendments made by this subsection, shall be effective as if this subsection had been enacted on September 30, 2002, and amendments under Title XXI of the Social Security Act for fiscal years 1998 through 2000 are available for expenditure on and after October 1, 2002, under the amendments made by this subsection as if this subsection had been enacted on September 30, 2002.

*(b) Authority for qualifying States to use certain funds for Medicaid expenditures*

CURRENT LAW

No provision.

COMMITTEE PROVISION

For FY1998, FY1999, FY2000 and FY2001, the Committee's bill would allow "qualifying States" to use up to 20 percent of their original SCHIP allotment or their reallocated funds (for that fiscal year) for certain Medicaid medical assistance payments. Qualifying States would be eligible to receive, subject to availability of their SCHIP allotment or reallocated funds for the year, an amount equal to the difference between the enhanced SCHIP matching rate and the FMAP for Medicaid expenditures (in a given fiscal year) associated with children through age 18 with family incomes greater than 150 percent of the Federal poverty level (FPL). 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. For example, they 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 who: (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 percent FPL; and (2) as of January 1, 2001 had a SCHIP eligibility standard of at least 200 percent FPL, or greater than 200 percent 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 percent 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 same forms, verification policies, and frequency for initial eligibility determinations and eligibility redeterminations; and/or (e) initial eligibility determinations can be made by disproportionate share hospital (DSH) facilities as well as federally qualified health centers.

REASON FOR CHANGE

In order for States to access their SCHIP allotments, current law requires States to expand income eligibility levels above the levels in effect under Medicaid on March 31, 1997. SCHIP funds may not be used to pay for children already eligible for Medicaid as of this date.

A small number of States have been unable to access a large portion of their SCHIP allotments because their Medicaid eligibility levels were significantly above the Federal mandatory minimum levels for Medicaid when SCHIP was enacted. This provision would allow those States to use a limited amount of their SCHIP allocation to cover the costs of certain children who were already enrolled in Medicaid when SCHIP was enacted, provided that the States meet a number of criteria related to eligibility simplification and enrollment.

EFFECTIVE DATE

Effective upon enactment of this act.

## III. REGULATORY IMPACT STATEMENT AND RELATED MATTERS

REGULATORY IMPACT

In accordance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee makes the following statement concerning the regulatory impact of the bill as amended.

IMPACT ON INDIVIDUALS AND BUSINESSES

Section 1(a) extends the availability of SCHIP allotments for fiscal years 1998 through 2001 and Section 1(b) provides authority for qualifying States to use certain funds for Medicaid expenditures. Because these provisions merely enable States to spend funds previously allocated to them, they do not impose any additional paperwork or regulatory burdens on individuals or businesses.

IMPACT ON PERSONAL PRIVACY

The Committee bill permits States to spend SCHIP funds previously allotted to them. Because the bill does not change any existing rules related to the health insurance coverage provided by States through Medicaid or SCHIP, it has no new impact on personal privacy.

## IV. BUDGET EFFECTS

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
*Washington, DC, June 23, 2003.*

Hon. CHARLES E. GRASSLEY,
*Chairman, Committee on Finance,*
*U.S. Senate,*
*Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for 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.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Eric Rollins and Jeanne De Sa.

Sincerely,

DOUGLAS HOLTZ-EAKIN,
*Director.*

Enclosure.

*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*

Summary: S. 312 would make several changes to the availability of allotments for the State Children's Health Insurance Program (SCHIP). The bill would make allotments for fiscal years 1998 through 2001 available for a longer period of time and change the way that they are allocated among states. The bill also would allow certain states to spend a portion of these allotments on children enrolled in Medicaid.

CBO estimates that S. 312 would increase direct spending by $85 million in 2003, $85 million in 2004, and $975 million over the 2003–2013 period. The bill would increase spending in the SCHIP program by almost $1.8 billion over the 2003–2013 period by giving states more time to spend their SCHIP funds. By making more SCHIP funds available, the bill also would reduce the extent to which states would see Medicaid funds to offset shortfalls in SCHIP funding. As a result, CBO estimates that enacting the bill would reduce Medicaid outlays by $790 million over the 2003–2013 period. On balance, enacting the bill would increase direct spending by just under $1 billion over the 2003–2013 period.

S. 312 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). The bill would give states more time to spend unused SCHIP funds from their allotments for the fiscal years 1998 through 2001. Certain states also would be able to use some of those funds on behalf of children in Medicaid with family incomes above 150 percent of the federal poverty level. CBO estimates that state spending for SCHIP would increase by about $690 million over the 2003–3013 period, and state spending for Medicaid would decline by about $750 million over the same period.

Estimated cost to the Federal Government: The estimated impact of S. 312 is shown in the following table. The costs of this legislation fall within budget function 550 (health). CBO's estimate assumes that S. 312 would be enacted before August 1, 2003.

| | By fiscal year, in millions of dollars— | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| DIRECT SPENDING | | | | | | | | | | | |
| SCHIP spending under current law: | | | | | | | | | | | |
| Budget authority | 3,175 | 3,175 | 4,082 | 4,082 | 5,040 | 5,040 | 5,040 | 5,040 | 5,040 | 5,040 | 5,040 |
| Estimated outlays | 4,518 | 4,885 | 4,721 | 4,689 | 5,024 | 5,203 | 5,186 | 5,340 | 5,446 | 5,465 | 5,443 |
| Proposed changes: | | | | | | | | | | | |
| SCHIP: | | | | | | | | | | | |
| Estimated budget authority | 1,259 | 1,350 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Estimated outlays | 85 | 105 | 455 | 590 | 210 | 65 | 45 | 10 | 5 | 80 | 115 |
| Medicaid [1]: | | | | | | | | | | | |
| Estimated budget authority | 0 | −20 | −215 | −290 | −105 | −35 | −25 | −5 | 0 | −40 | −55 |
| Estimated outlays | 0 | −20 | −215 | −290 | −105 | −35 | −25 | −5 | 0 | −40 | −55 |
| SCHIP spending under S. 312 [1]: | | | | | | | | | | | |
| Estimated budget authority | 4,434 | 4,525 | 4,087 | 4,082 | 5,040 | 5,040 | 5,040 | 5,040 | 5,040 | 5,040 | 5,040 |
| Estimated outlays | 4,603 | 4,990 | 5,176 | 5,279 | 5,234 | 5,268 | 5,231 | 5,350 | 5,451 | 5,545 | 5,558 |

[1] The figures for SCHIP spending under S. 312 do not include the bill's effects on Medicaid spending.

Basis of estimate: The State Children's Health Insurance Program provides federal matching funds to states to provide health coverage to certain children—generally in families with incomes below 200 percent of the federal poverty level—who do not qualify for Medicaid and do not have private health coverage. States may provide this coverage by expanding their Medicaid programs, setting up a separate program, or a combination of the two. SCHIP began operation in 1998 and is authorized through 2007. CBO's baseline for later years follows statutory rules and assumes funding at the 2007 level. (Specifically, section 257 of the Balanced Budget and Emergency Deficit Control Act requires that the baseline assume the Balanced Budget and Emergency Deficit Control Act requires that the baseline assume the continuation of certain expiring programs at the level "in effect immediately before its expiration.")

*Availability of SCHIP funds under current law*

SCHIP gives each state an annual allotment that limits the amount of federal matching funds that the state can receive. States have three years to spend their allotments. At the end of the third year, the Secretary of Health and Human Services takes any unspent amounts and redistributes them to states that have spent their entire allotment. These redistributed funds are available for an additional year. After that, any unspent allotments expire.

The Congress enacted special rules for the 1998 and 1999 allotments as part of the Benefits Improvement and Protection Act of 2000 (BIPA). BIPA reduced the amount of unspent 1998 and 1999 funds that were redistributed to states that had spent their entire allotments, and allowed states that did not spend all of their funds within the three-year period to keep a portion of their allotments. BIPA also extended the availability of all funds from the 1998 and 1999 allotments through 2002.

*Availability of SCHIP funds under S. 312*

S. 312 would change the availability of SCHIP allotments for fiscal years 1998 through 2001 in a number of ways. First, the bill would extend the availability of the 1998 and 1999 allotments through 2004. The allocation of those funds across states would not be affected.

For the 2000 and 2001 allotments, the bill would allow states that do not spend their entire allotment within the three-year period to keep half of the unspent amounts. The other half would be redistributed to states that have spent their entire allotments. S. 312 would extend the availability of all funds from the 2000 allotments through 2004 and the availability of all funds from the 2001 allotments through 2005.

The bill also would allow certain states to spend up to 20 percent of their allotments for 1998 through 2001 on children who are enrolled in Medicaid and have family incomes greater than 150 percent of the federal poverty level. States could use these amounts to claim the additional matching funds that they would have received if these children were enrolled in SCHIP instead of Medicaid and thus reduce the state share of Medicaid spending. (The average federal match rate is 70 percent in SCHIP, compared to 57 percent in Medicaid.)

*How CBO models SCHIP spending*

CBO's primary focus in its baseline projections and estimates for legislation in SCHIP spending at the national level. Nevertheless, the program's complex financing structure—and its redistribution of unspent funds in particular—make it essential to account for variation in spending across states. Therefore, CBO models SCHIP spending by state using a blend of state-specific and national data. These projections are meant to reflect the program's complexity given the limits of available data rather than provide precise spending estimates for each state.

Our model incorporates the allotments for each state that are published annually in the Federal Register and data on SCHIP spending from the Centers for Medicare and Medicaid Services (CMS). Spending data for prior years includes detail by state on the amounts spent from each allotment. For future years, CBO projects each state's allotment based on its share of total SCHIP allotments for the most recent year. (Total funding for the SCHIP allotments varies from year to year.) Our estimate of spending in 2003 and 2004 is based on estimates that the states have submitted to CMS. We project spending in later years by taking the 2004 amounts and adjusting them for population growth, inflation, and increased utilization. These adjustments are based on national averages and do not vary by state.

The spending projection described above approximates what SCHIP spending would be if funding for the program were open-ended, as in Medicaid. Since SCHIP funding is limited, CBO projects spending by limiting expenditures in each state to the amounts available from the allotments and any redistribution of unspent funds.

Since SCHIP allotments are available for three years, states typically have allotments from several years available at any one time. For example, this year a state could have funds from the 2001, 2002, and 2003 allotments available. (States that qualify for a redistribution also would have funds from the 2000 allotment available.) In line with CMS regulations, CBO assumes that states will spend their allotments in order—they will spend their 2001 allotment before spending any of their 2002 allotments, and so on. Redistributed funds are the only exception to this rule; CMS gave states some flexibility in spending redistributions from the 1998 and 1999 allotments, and CBO assumes that they would do so for future redistributions.

CMS has not announced how it will allocate unspent funds among states that qualify for a redistribution. Redistributions from the 1998 and 1999 allotments (the only ones that have happened so far) were based on the special rules enacted in BIPA. We assume that unspent funds will be redistributed among qualifying states based on their original allotment for that year.

As noted above, SCHIP spending in some states will be restricted by the availability of allotments. This will be increasingly prevalent after 2007, when CBO's baseline holds SCHIP funding constant at the 2007 level. In these cases, CBO assumes that states will offset some of the funding shortfall by expanding Medicaid eligibility. Doing so will allow states to receive additional matching funds, albeit at a lower match rate. We assume that higher Medicaid spending would offset the full amount of any shortfall in SCHIP programs that were implemented as Medicaid expansions (about 20 percent of total spending) because children in those programs are entitled to Medicaid if SCHIP funding is unavailable. CBO also assumes that half of any shortfall where SCHIP was implemented as a separate program (and children are not automatically entitled to Medicaid) would be offset by higher Medicaid spending.

*Budgetary effects of S. 312*

The provisions of S. 312 would increase the amount of budget authority in SCHIP by extending the availability of some allotments that would otherwise expire under current law. CBO estimates that the increases under the bill would total $1.3 billion in 2003, $1.4 billion in 2004, and $5 million in 2005.

CBO estimates that enacting S. 312 would increase SCHIP outlays by $85 million in 2003, $105 million in 2004, and $1.8 billion over the 2003–2013 period. Most of the additional outlays in 2003 and 2004 would occur in states that under the bill would be able to spend some of their allotments on children enrolled in Medicaid.

The additional spending for most states would occur primarily in 2005, 2006, and 2007. Spending in earlier years would not be affected by the bill because states generally have sufficient allotments under current law to fund their programs in those years. However, the bill would let states fund their spending in those years by drawing more heavily on older allotments, such as those for 1998 and 1999. This would allow states to conserve their newer allotments and would lead to additional spending after 2004, when more states would experience funding shortfalls under current law.

By making allotments available for a longer period of time, S. 312 would lessen funding shortfalls in SCHIP and reduce states' use of Medicaid funding to offset them. In total, CBO estimates that the bill would reduce Medicaid spending by $20 million in 2004 and $790 million over the 2004–2013 period. Savings in 2003 and 2004 would be relatively small because much of the additional SCHIP spending in those years would be due to states claiming additional matching funds on children enrolled in Medicaid rather than a reduction in funding shortfalls.

Intergovernmental and private-sector impact: S. 312 contains no intergovernmental or private-sector mandates as defined in UMRA. The bill would give states more time to spend unused SCHIP funds from their allotments for fiscal years 1998 through 2001. Certain states also would be able to use some of those funds on behalf of children in Medicaid with family incomes above 150 percent of the federal poverty level. CBO estimates that state spending for SCHIP would increase by about $690 million over the 2003–2013 period, and state spending for Medicaid would decline by about $750 million over the same period.

Estimate prepared by: Federal costs: Eric Rollins and Jeanne De Sa; impact on state, local, and tribal governments: Leo Lex; impact on the private sector: Kate Bloniarz.

Estimate approved by: Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

## V. VOTE OF THE COMMITTEE

On June 12, 2003, a substitute for S. 312, entitled, "Availability of SCHIP Allotments for Fiscal Years 1998 through 2001," was ordered favorably reported by a voice vote with a quorum present.

No amendments were offered.

## VI. CHANGES IN EXISTING LAW

In the opinion of the Committee, it is necessary in order to expedite the business of the Senate, to dispense with the requirements of paragraph 12 of rule XXVI of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill as reported by the Committee).

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