CENTER ON BUDGET AND POLICY PRIORITIES

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ADMINISTRATION PLAN FOR EXPIRING SCHIP FUNDS WOULD WEAKEN PROGRAM

The full report can be viewed at http://www.cbpp.org/9-30-04health.htm

A new Center report, *Assessing the Administration's Claims That Extending $1.1 Billion in Expiring SCHIP Funds Is Unnecessary to Sustain Existing Children's Enrollment*, explains why Administration opposition to bipartisan legislation supported by the National Governors Association to extend the availability of $1.1 billion in funding for children's health coverage — and the Administration's proposal to use these funds instead for expanded outreach activities — could cause some children to lose coverage. (The $1.1 billion represents SCHIP funds allocated to states in 1998-2000 that remain unused; these funds expired October 1 and reverted to the Treasury.)

- **The Administration's arguments ignore how the SCHIP financing system works.** The Administration has argued that states do not need the expiring funds for health coverage because in 2005, states are projected to have much more in federal SCHIP funds available ($10.7 billion) than they are expected to spend ($5.2 billion). However, the fact that available SCHIP funding is projected to exceed SCHIP spending on a *national* basis in 2005 does not mean that shortages will not exist in *individual* states.

  Six states will have inadequate funding in fiscal year 2005 to maintain their programs. While a number of other states will have more funds available than they will use this year, the six states with funding shortages will *not* have access to the other states' unspent funds, because each state has three years to spend a given year's SCHIP allotment. Furthermore, some of the states that appear to have "excess" funds in 2005 will need those funds to maintain their programs — and avoid cutbacks — in 2006 and 2007.

  In addition, the SCHIP funding shortfall will spread to more states after 2005. By 2007, some 18 states will lack adequate federal SCHIP funding to maintain their programs; these states will face the prospect of having to cut the number of low-income children they insure, unless more SCHIP funds are made available to them. This is why adding the $1.1 billion in expiring funds to the SCHIP financing pool and targeting these funds to the states that most need them, as the bipartisan legislature would do, is important.

- **The Administration's method of addressing funding shortfalls in 2005 would worsen funding shortfalls in 2006 and 2007.** Under the SCHIP funding system, funds that a state has not spent in three years are redistributed to other states. In fiscal year 2005, an estimated $623 million in unspent funds from fiscal year 2002 will be redistributed; 30 states that have spent their full 2002 allotments will qualify for these redistributed funds.

  The Administration proposes to target a large share of this $623 million on the six states projected to face funding shortfalls in 2005. If most or all of the $623 million is used to prevent 2005 funding shortfalls in these six states, the remaining 24 states will receive much less in redistributed 2002 funds than they would receive under the current system.

Some of these 24 states already face shortfalls in federal funding for 2006 and/or 2007; the loss of some of the redistributed 2002 funds would create even larger shortfalls for these states in 2006 and 2007. In addition, several other states *not* currently expecting shortfalls for 2006 or 2007 could face shortfalls in those years under the Administration's plan, because they would not receive the full amount of redistributed 2002 funds they otherwise would get. (The bipartisan legislation would address this problem by targeting the $1.1 billion in expiring funds to the states that most need them and allowing the $623 million in unspent 2002 funds to be redistributed in the normal fashion.)

- **Providing new outreach funds should not come at the expense of ensuring that all states have sufficient funds to maintain their programs.** The Administration proposes to use the $1.1 billion in expiring funds for expanded outreach activities. Yet states are not spending all of the outreach funds they already have. Meanwhile, 18 states are projected to have insufficient funding over the next few years to continue covering the same number of children they now cover.

  To maximize the enrollment of low-income children, the best approach is to maintain the availability of the $1.1 billion in expiring funds for covering children and to provide separate, additional funding for outreach if such funding is desired.

- **The bipartisan legislation would avoid the problems in the Administration's plan,** by extending the availability of the $1.1 billion in expiring funds and targeting the bulk of these funds to the states that most need them. That would substantially reduce the risk of cuts in the 18 states currently projected to face shortfalls over the next three years.