Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

Revised November 28, 2006

SCHIP FINANCING UPDATE:
In 2007, 17 States Will Face Federal Funding Shortfalls of $921 Million in Their SCHIP Programs

By Matt Broaddus and Edwin Park

The State Children's Health Insurance Program (SCHIP), jointly financed by states and the federal government, provides comprehensive health insurance coverage to more than four million low-income children, most of whom would otherwise be uninsured.[1] In a prior analysis, we estimated that under current law, a number of states will have insufficient federal funding under SCHIP in fiscal year 2007 to sustain their existing SCHIP programs and that Congress will have to provide additional federal SCHIP funding to avert these shortfalls.[2] Both the Congressional Research Service and the Centers for Medicare and Medicaid Services also project that states will face substantial federal SCHIP financing shortfalls in 2007.

This updated analysis by the Center on Budget and Policy Priorities, based on the latest available data, indicates that 17 states will have nearly $921 million less in federal SCHIP funds than they will need in fiscal year 2007 to maintain their existing SCHIP programs (see Table 1 for a list of states and their estimated shortfalls).[3] Without additional federal funds to close these gaps, these 17 states will either have to increase state funding for SCHIP or scale back their SCHIP programs by reducing eligibility, capping enrollment, eliminating benefits, increasing beneficiary cost-sharing or cutting payments to providers. In states that cut back their programs, significant numbers of SCHIP beneficiaries will be at risk: the $921 million in shortfalls projected for 2007 is equivalent to the cost of covering 630,000 children under the SCHIP program.

In the early years of SCHIP, the combination of the SCHIP allotments made available to states each year and the substantial redistributions of unspent federal funds (from states unable to spend all of their funds to states needing more funds) enabled all states to have sufficient federal funding to sustain and grow their programs. Since then, however, most states' SCHIP programs have matured and reached more children, resulting in higher levels of state usage of federal SCHIP funds,

[1] The most recent data available for the number of children enrolled in SCHIP at any given point in time indicate that more than 4 million children were enrolled in December 2004. The Department of Health and Human Services reports that the number of children enrolled at any point over the course of a year stood at 6.1 million in fiscal year 2005.

[2] See Matt Broaddus, "Administration's Fiscal Year 2007 Budget is Still Likely to Leave SCHIP Coverage for Low-income Children in Jeopardy," Center on Budget and Policy Priorities, Revised March 22, 2006.

[3] On September 21, 2006, we released a previous update that found that these 17 states would face a total shortfall of nearly $890 million in fiscal year 2007. See footnote 4 for further discussion of why our estimates have been revised.

an increased need for such funds, and many fewer unspent federal dollars available for redistribution.

In addition, the overall federal funding level for SCHIP fell 26 percent in fiscal years 2002, 2003, and 2004 (from $4.25 billion per year in 2000 and 2001 to $3.12 billion each year from 2002 through 2004), forcing states to draw down their funds from prior years more rapidly. Finally, after fiscal years 2004 and 2005, some $1.4 billion in unspent SCHIP funds from prior years were allowed to expire and revert to the U.S. Treasury rather than being extended and redistributed to states that could use these funds to avert, or reduce the magnitude of, the approaching funding shortfalls.

States report projected SCHIP expenditures to the federal government each quarter. The most recent such estimates are from August 2006.[4] We have incorporated these new estimates, as well as the actual fiscal year 2007 state allotments that CMS announced in August, into our state-specific SCHIP financing model and have generated revised shortfall estimates for 2007. This model was originally developed by the Office of the Actuary at the Centers for Medicare and Medicaid Services and is similar to the model used by the Congressional Research Service (CRS).

Our estimates of unmet funding needs in SCHIP are very similar to CRS' estimates. CRS projects that the same 17 states will face a total shortfall of $927.8 million in 2007.[5] Similarly, the Centers for Medicare and Medicaid Services have previously estimated that states will face federal funding shortfalls of $904 million in 2007.[6]

Legislation has been introduced in both the Senate (S. 3913) and the House (H.R. 6098) to address these looming fiscal year 2007 shortfalls in full by providing additional federal SCHIP funding and targeting these funds to states projected to face shortfalls,[7] similar in large part to what Congress did in the Deficit Reduction Act to avert shortfalls in 2006.[8] Under such legislation, no

---

[4] States report projected SCHIP expenditures to the Centers for Medicare and Medicaid Services for the current federal fiscal year and the succeeding federal fiscal year in each of the following months: February, May, August, and November. These revised shortfall estimates are based on states' projections reported in August 2006 and the actual state SCHIP allotments for fiscal year 2007 announced in August.

An earlier version of this report, released on September 21, 2006, estimated a total shortfall of $890 million among the same 17 states but used preliminary fiscal year 2007 expenditure estimates for the District of Columbia and the state of Washington. This new estimate incorporates final fiscal year 2007 expenditure estimates submitted in August 2006 by all states and territories. Our new estimates also reflect a change in assumptions for state participation in a SCHIP provision that permits states to use federal SCHIP funds for children enrolled in state Medicaid programs that expanded coverage to children prior to establishment of the SCHIP program in 1997.

[5] Chris Peterson, "State Children's Health Insurance Program (SCHIP): A Brief Overview", Congressional Research Service, Updated October 12, 2006. CRS' shortfall estimate includes $1 million in shortfalls projected for the territories.

[6] Mark McClellan, Administrator, Centers for Medicare and Medicaid Services, Testimony before the Senate Finance Subcommittee on Health Care, July 25, 2006.

[7] S. 3913 was introduced by Senator Jay Rockefeller (D-WV) and is co-sponsored, among others, by Senator Olympia Snowe (R-ME) and Senator Susan Collins (R-ME). H.R. 6098 was introduced by Representatives John Barrow (D-GA) and Leonard Boswell (D-IA)).

[8] The Deficit Reduction Act of 2005 appropriated an additional $283 million in SCHIP funds and targeted these funds to states projected to face shortfalls in fiscal year 2006. Due to higher-than-expected actual spending compared to the level of spending projected when the $283 million was appropriated, four states still faced estimated shortfalls of $98 million in 2006.

state would be projected to experience a shortfall during this fiscal year.[9] (Two other bills — H.R. 6077 and S. 3972 — have also been introduced to address the fiscal year 2007 shortfalls but would leave a portion of the shortfall unfilled.[10]) Legislation to fully address the shortfall could be enacted in the upcoming lame-duck Congressional session scheduled for December, possibly in a package with other health legislation such as an adjustment to Medicare physician payments.[11] This analysis indicates that without Congressional action this year to provide additional federal SCHIP funding, up to 630,000 children could be at risk of losing their health insurance coverage.[12]

[9] Both we and CRS estimate that S. 3913/H.R. 6098 would fully address the 2007 shortfalls. For CRS' estimate, see Chris Peterson, "SCHIP Financing: Funding Projections and State Redistribution Issues," Congressional Research Service, Updated October 4, 2006.

[10] H.R. 6077 (introduced by Reps. Nathan Deal (R-GA) and Charles Norwood (R-GA)) would provide additional federal SCHIP funding to the shortfall states but would provide no more than $900 million to do so. CRS estimates that H.R. 6077 would leave a remaining shortfall of $48.1 million in 2007. See Peterson, "SCHIP Financing: Funding Projections and State Redistribution Issues," *op cit*.

S. 3972 (introduced by Senator Charles Grassley (R-IA)) would appropriate $450 million in additional federal SCHIP funding for shortfall states. It also would accelerate the scheduled redistribution of a portion of the unspent fiscal year 2005 funds that remain after March 2007 and target them to shortfall states in 2007. We estimate that S. 3972 would leave a shortfall of $165 million in fiscal year 2007. CRS similarly estimates a remaining shortfall of $151.3 million under S. 3972. See Peterson, "SCHIP Financing: Funding Projections and State Redistribution Issues," *op cit*.

[11] Other health legislation that may be considered includes an extension of Transitional Medical Assistance (TMA) and provisions related to limits on Medicare coverage of outpatient physical therapy.

[12] These estimates of at-risk children are based on SCHIP per capita expenditure estimates for children, as derived from Medicaid per capita figures for children from CBO's March 2006 Medicaid baseline. Some states have elected to use SCHIP funds to expand Medicaid coverage to more low-income children rather than to create a separate state child health insurance program. In the event of a federal SCHIP funding shortfall, these states could decide to continue covering their SCHIP children in Medicaid. Once such a state's federal SCHIP funds are exhausted, however, the federal contribution to the cost of these children's care would be reduced from the average SCHIP matching rate of 70 percent to the average Medicaid matching rate of 57 percent. States would be responsible for generating the additional state funds to compensate for the lost federal matching funds. The SCHIP enrollment reduction in 2007 due to the funding shortfalls would be less than 630,000 if these states chose to cover some of their SCHIP enrollment through Medicaid at the lower federal Medicaid matching rate. (The SCHIP programs in a few of the states facing shortfalls in 2007 also cover populations other than children including parents and pregnant women. Such shortfall states may also scale back enrollment of these populations.)

TABLE 1

17 States Projected to Face Federal SCHIP Financing Shortfalls in 2007

STATE	Federal SCHIP Funding Shortfall	Shortfall After Regular Redistribution*
Nation	**$1,034,420,000**	**$920,755,000**
Alaska	$10,401,000	$9,258,000
Georgia	$131,557,000	$117,101,000
Illinois	$273,032,000	$243,030,000
Iowa	$17,982,000	$16,006,000
Louisiana	$4,366,000	$3,886,000
Maine**	$640,000	$570,000
Maryland	$75,225,000	$66,959,000
Massachusetts	$144,889,000	$128,968,000
Minnesota	$35,335,000	$31,453,000
Mississippi	$43,707,000	$38,905,000
Missouri***	$31,043,000	$27,632,000
Nebraska	$12,790,000	$11,385,000
New Jersey	$174,709,000	$155,511,000
North Carolina	$19,719,000	$17,552,000
Rhode Island	$48,307,000	$42,999,000
South Dakota	$2,883,000	$2,566,000
Wisconsin	$7,835,000	$6,974,000

* Assumes that unspent federal SCHIP funds for federal fiscal year 2004 are redistributed to "shortfall states" in proportion to each shortfall state's share of the total shortfall nationwide, consistent with the redistribution policies of the previous two years.

** State officials have indicated to CBPP staff that Maine's SCHIP spending in fiscal year 2006 and fiscal year 2007 will be significantly higher than under the state's August 2006 estimates submitted to the Centers for Medicare and Medicaid Services. Maine's shortfall could be as high as $6.5 million in 2007.

*** State officials have indicated to CBPP staff that Missouri's SCHIP spending in fiscal year 2006 and fiscal year 2007 will be significantly lower than under the state's August 2006 estimates. As a result, Missouri may face a substantially smaller shortfall or no shortfall in 2007.

Source: Center on Budget and Policy Priorities' SCHIP financing model, based on a model created by the Office of the Actuary at the Centers for Medicare and Medicaid Services. The model incorporates SCHIP provisions of the Deficit Reduction Act; states' August 2006 estimates of federal SCHIP funding needs for federal fiscal year 2007; and the fiscal year 2007 state allotments announced by CMS in August 2006.