CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 23, 2003

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

As ordered reported by the Senate Committee on Finance on June 12, 2003

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 use 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 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.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary 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 [a]											
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 [a]											
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

a. 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 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 is 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 submited 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 redistributions 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 allotment, 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.

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