CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 12, 2003

H.R. 3288

An act to amend title XXI of the Social Security Act to make technical corrections with respect to the definition of a qualifying state

As cleared by the Congress on October 31, 2003

SUMMARY

H.R. 3288 would allow four states—Hawaii, Maryland, New Mexico, and Rhode Island—to spend part of their allotments under the State Children's Health Insurance Program (SCHIP) on children who are enrolled in Medicaid.

CBO estimates that H.R. 3288 would increase direct spending by $9 million in 2004, $16 million over the 2004-2008 period, and $14 million over the 2004-2013 period. The act would increase spending in the SCHIP program by about $11 million over the 2004-2013 period by making it easier for certain states to spend their SCHIP funds. By doing so, the act also would reduce the amount of funds that are redistributed under SCHIP and make some states more likely to use Medicaid funds to offset shortfalls in SCHIP funding. As a result, CBO estimates that H.R. 3288 would increase Medicaid outlays by $3 million over the 2004-2013 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3288 is shown in the following table. The costs of this legislation fall within budget function 550 (health).

BASIS OF ESTIMATE

Public Law 108-74 contains a provision that allows certain states to spend up to 20 percent of their SCHIP allotments for fiscal years 1998 through 2001 on children who are enrolled in Medicaid and have family incomes greater than 150 percent of the federal poverty level. States can use these amounts to claim the additional matching funds that they would have received if these children were enrolled in SCHIP instead of Medicaid. Since the average federal match rate is 70 percent for SCHIP, compared to 57 percent for Medicaid, this provision allows states to reduce their share of Medicaid spending. H.R. 3288 would make four more states—Hawaii, Maryland, New Mexico, and Rhode Island—eligible for the provision.

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
DIRECT SPENDING										
SCHIP Spending Under Current Law										
Budget Authority	4,525	4,087	4,082	5,040	5,040	5,040	5,040	5,040	5,040	5,040
Estimated Outlays	5,010	5,196	5,284	5,229	5,268	5,231	5,350	5,451	5,545	5,558
Estimated Changes in SCHIP										
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	9	9	-1	-1	*	-2	*	*	*	-2
SCHIP Spending Under H.R. 3288										
Estimated Budget Authority	4,525	4,087	4,082	5,040	5,040	5,040	5,040	5,040	5,040	5,040
Estimated Outlays	5,019	5,205	5,283	5,228	5,268	5,229	5,350	5,451	5,545	5,556
Estimated Changes in Medicaid										
Estimated Budget Authority	0	0	1	1	*	1	*	*	*	1
Estimated Outlays	0	0	1	1	*	1	*	*	*	1
Total Changes to Spending Under H.R. 3288										
Estimated Budget Authority	0	0	1	1	*	1	*	*	*	1
Estimated Outlays	9	9	-1	-1	*	-1	*	*	*	-1

Notes: * = Less than $500,000.

Components may not sum totals because of rounding.

Availability of SCHIP Funds

Under the SCHIP program, states get an annual allotment that limits the amount of federal matching funds that the state can receive. As a general rule, states have three years to spend their allotments. At the end of the third year, the Secretary of Health and Human Services redistributes any unspent amounts to states that have spent their entire allotment. Those redistributed funds are available for an additional year. After that, any unspent allotments expire. The Congress has enacted special rules to give states more time to spend the allotments for 1998 through 2001.

Since SCHIP allotments are available for three years, states typically have allotments from several years available at any one time. Federal regulations require states to spend their allotments in order—they have to spend their 2002 allotment before spending any of their 2003 allotment, and so on. Redistributed funds are the only exception to this rule; the Centers for Medicare and Medicaid Services (CMS) gave states some flexibility in spending redistributions from the 1998 and 1999 allotments, and CBO assumes that CMS will do so for future redistributions.

Budgetary Effects of H.R. 3288

CBO expects that Maryland and Rhode Island would not be affected by the act because they already spend all of their SCHIP funds under current law. For Hawaii and New Mexico, CBO estimated the additional SCHIP spending based on administrative data on enrollment and per capita spending for children in Medicaid and income distribution data from the Current Population Survey. We also calculated the total additional spending possible under the act based on each state's allotments for 1998 through 2001.

CBO estimates that the additional SCHIP spending for Hawaii and New Mexico would total $9 million in both 2004 and 2005. None of the allotments for 1998 through 2001 will be available after 2005, so spending in those states in later years would be unaffected.

Because of SCHIP's unusual funding structure, the higher spending in Hawaii and New Mexico would impact spending in other states as well. As Hawaii and New Mexico spend part of their allotments for 1998 through 2001 on children enrolled in Medicaid, they would draw more heavily on allotments for subsequent years to fund their existing programs. This would lower the amount of unspent funds that would be redistributed to other states, and thus slightly reduce funding for those states relative to current law. As a result, CBO estimates that the act would reduce SCHIP spending by $6 million over the 2006-2013 period.

Under current law, CBO anticipates that the statutory limits on SCHIP funding will lead some states to experience shortfalls. CBO assumes that states will offset some of the funding shortfalls by expanding Medicaid eligibility. Doing so will allow states to receive additional matching funds, albeit at a lower match rate. Those funding shortfalls would be slightly larger under H.R. 3288 because the act would reduce the amount of unspent funds that would be redistributed to other states. As a result, states' use of Medicaid funds would be slightly higher, increasing Medicaid spending by $3 million over the 2006-2013 period.

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