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The Possible Impact upon California of Reduced SCHIP Funding

Prepared for
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About the Authors

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About the Foundation

The California HealthCare Foundation, based in Oakland, is an independent philanthropy committed to improving California's health care delivery and financing systems. Formed in 1996, our goal is to ensure that all Californians have access to affordable, quality health care. For more information about CHCF, visit us online at www.chcf.org.

Introduction

After ten years of operation, the State Children's Health Insurance Program (SCHIP) now provides insurance to about 7 million people in the United States through a federal-state partnership.¹ Congress and the President are wrestling over how best to redesign the program, which was created by the Balanced Budget Act of 1997, and how much new funding should be made available. At the end of this month, no new federal dollars will be dedicated to SCHIP unless new budget authority is enacted. Without new dollars, SCHIP programs around the country are put in financial jeopardy, including the coverage of 1 million California children and pregnant women.²

SCHIP dollars in California support beneficiaries in several programs, including:³

- 832,000 children in Healthy Families, a non-Medicaid SCHIP expansion program.
- 242,000 children enrolled in Medi-Cal related programs.
- 8,400 pregnant women enrolled in Access for Infants and Mothers (AIM).⁴

While there appears to be a Congressional compromise on SCHIP, President Bush has threatened to veto any SCHIP approach that does not conform to his own proposal.⁵ This analysis examines the impact of various funding scenarios on California's SCHIP-funded programs for Federal Fiscal Year (FFY) 2008, which begins on October 1. The analysis presumes that:

1. No new SCHIP dollars are allotted to states in FFY2008;
2. A "continuing resolution" provides flat funding of SCHIP dollars to states in FFY2008 at the FFY2007 funding levels; and
3. Interim monthly funding is approved to carry the program for two months at the FFY2007 levels, followed by a new funding structure.

The analysis also assumes that no changes are made to California's SCHIP-funded programs that might lower costs and thereby extend the time a program could operate. For example, in response to reduced funding, the state could choose to constrain enrollment (by instituting an enrollment cap), pare down benefits, or raise premiums. However the state has so far given no indication which, if any, of these steps might be taken.

Estimated FFY2008 Federal Funds

Gauging the possible impact of the different funding scenarios requires tabulating how much federal money California can expect to receive and comparing it with the state's estimated expenditures. The FFY2008 funding level will be determined by three funding streams:

- The federal allotment;
- "Carryover funds" based on the amount of dollars California did not spend from the FFY2006 and FFY2007 allotments; and
- "Redistribution funds" based on dollars allotted under current law to California from states that did not spend their full FFY2005 allotment.

Table 1: Possible Federal SCHIP Funds Available in FFY2008

SCHIP Funding Streams	No New Federal Dollars	Flat Funding
FFY2008 Federal Allotment: ⁶	\$0	\$790,789,213
FFY2007 Carryover Funds: ⁷	\$166,000,000	\$166,000,000
FFY2008 Redistribution Funds: ⁸	\$17,649,000	\$17,649,000
Total Federal Funds Available:	\$183,649,000	\$974,438,213

As shown in Table 1, California would have \$184 million federal SCHIP dollars if there are no new federal funds as of September 30, 2007. If SCHIP is funded at current FFY2007 levels, California would have \$974 million available for FFY2008.

Scenario 1: No New Federal Dollars

It is possible, though not likely, that California will receive no new federal funding as of the end of the current FFY. Since California's SCHIP programs are estimated to spend \$1.24 billion in federal dollars for FFY2008,⁹ this would leave the state with less than two months of federal dollars, assuming no program changes, as shown in Table 2.

Table 2: SCHIP FFY2008 Federal Funding Impact, If No New SCHIP Dollars

Projected Annual Expenditures:	\$1,240,000,000
Funds Available (Per Table 1):	\$183,649,000
FFY2008 Projected Shortfall:	(\$1,056,351,000)
Months Until Funds Are Exhausted (Funds Available/Annual Expenditures):	1.8 months

Scenario 2: Flat Funding

If SCHIP is funded at FFY2007 levels, California would have a shortfall of approximately \$266 million, as shown in Table 3. The available funds would be enough to operate the state's existing SCHIP-funded programs for just over nine months, until about mid-summer 2008. This analysis projects that this cut-off would occur after the end of the state fiscal year on June 30, 2008.

Table 3: SCHIP FY2008 Federal Funding Impact, If Flat Funded

Projected Annual Expenditures:	\$1,240,000,000
Funds Available (Per Table 1):	\$974,438,213
FY2008 Projected Shortfall:	(\$265,561,787)
Months Until Funds Are Exhausted (Funds Available/Annual Expenditures):	9.4 months

Scenario 3: Interim Monthly Approach

It is also possible that Congress and the President agree to some level of interim funding while a broader compromise is developed. One scenario is that two months of the FFY07 federal allotment could be made available. Under this approach, California would be able to maintain

full enrollment based on the availability of California carryover funds and redistribution dollars, assuming new federal dollars will be made available. However, funding for future program operations would remain uncertain.

Scenario 4: Republican Proposal for a Short-Term Extension

Another scenario is a short term extension of SCHIP for 12 to 18 months while Congress and the President work toward a long-term compromise. Representative Joe Barton (R-Texas) has proposed extending SCHIP for 18 months in HR 3854. This bill expands the FFY2007 spending of \$5 billion by an additional \$1.5 billion for FFY2008 and \$1.1 billion for the first six months of FFY2009 to cover state shortfalls.

The \$1.5 billion in the bill is equal to the shortfall estimate from the Congressional Budget Office (CBO) of the funds needed for FFY2008 to maintain current programs.¹⁰ However, the estimate is based on conservative spending figures and may not leave much margin for error since the calculations assume no changes in eligibility rules or benefit packages after 2008.

It is not clear how much money California could receive under the Barton bill. Instead of using a set formula, the measure gives discretion to the Secretary of Health and Human Services to determine what, if any, shortfall each state has and allot the available dollars accordingly. No rules are provided as to how a shortfall is calculated.

Summary

With no new funding at all, California's SCHIP-funded programs could be forced to shut down by mid-November 2007. Under a flat-funding strategy, the shut-down could be postponed until the summer of 2008. Should Congress and the President agree to an interim monthly approach, the delay in full federal funding may force the state to limit Healthy Families enrollment as early as this fall, barring any changes in eligibility or other policy goals.

Methodology

This analysis builds on a May 2007 report published by the California HealthCare Foundation (CHCF), which found that California will need between \$1.16 and \$1.32 billion in federal support for SCHIP in FFY2008. In the calculations presented here, the midpoint estimate of \$1.24 billion is used.

In terms of estimated expenditures, several projections have been made with similar findings;¹¹ however this memo relies on findings in the May 2007 CHCF report.¹² The Managed Risk Medical Insurance Board (MRMIB) also has a budget projection that differs from the CHCF report by -1.2 percent.¹³ Note that any difference between SCHIP operations and the spending estimate would affect the length of time SCHIP programs could operate. For example, a faster rate of growth in enrollment than the spending estimate will reduce how long federal dollars will last.

Endnotes

¹ Peter Harbage et al, *The Future of California's SCHIP Program: Analyzing the Proposed Federal Legislation*, California HealthCare Foundation, July 2007.

² Ibid.

³ California's Managed Risk Medical Insurance Board, Health Families Enrollment Report, August 20007. MRMIB May Budget Revise, 2007. Department of Health Services, May Budget Revise, May 2007.

⁴ Medi-Cal also uses Title XXI for prenatal care, though the number of woman benefiting from the program is undetermined.

⁵ Kaiser Daily Health Policy Report, "President Bush Vows To Veto SCHIP Expansion Legislation, Says Bill Puts Children's Health Coverage 'at Risk,'" September 21, 2007.

⁶ Assumes FFY2007 Title XXI allotment of \$791 million will be available in FY2008.

⁷ 2007 May Revision Federal Fund Chart, published by MRMIB.

⁸ Center for Budget and Policy Priorities SCHIP Financing Model, relying on the May 2007 spending projections and based on the reallocation formula in current law.

⁹ Peter Harbage et al, *Funding California's SCHIP Coverage: What Will It Cost?* California HealthCare Foundation, Working Paper, May 2007.

¹⁰ Congressional Budget Office, *Fact Sheet for CBO's March 2007 Baseline: State Children's Health Insurance Program*, February 23, 2007. Available online at: http://www.cbo.gov/ftpdocs/78xx/doc7861/m_m_schip.pdf.

¹¹ The Congressional Research Service, available at: http://www.opencrs.com/rpts/RS22712_20070828.pdf. The California Budget Project, available at www.cbp.org.

¹² Peter Harbage et al, *Funding California's SCHIP Coverage: What Will It Cost?*, California HealthCare Foundation, May 2007.

¹³ 2007 May Revision Federal Fund Chart, published by MRMIB.