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Texas' Challenge as Congress Reauthorizes CHIP: Federal Block Grant Funding Must Grow to Avoid Future Texas CHIP Cuts and Allow for Coverage of Eligible but not Enrolled Children

Steep Caseload Declines, Unspent Federal Funds have other States Eyeing Texas' Share

Congress is scheduled to debate reauthorization of the State Children's Health Insurance Program (SCHIP, known in Texas as CHIP) block grant in 2007. Despite strong public support for CHIPⁱ and new Congressional leadership, winning additional funding for the block grant is not expected to be easy, given the strong commitment to fiscal restraint from both sides of the aisle. However, experts estimate that without the appropriation of an additional \$9.3 billion over 5 years above the original 1997 allocations, states will not have adequate federal SCHIP funds to even maintain their current caseloads, benefits, and eligibility standards. **The Centers for Medicare and Medicaid Services (CMS) estimates that without these additional block grant funds, SCHIP enrollment nationwide will have to be cut by one-third, or by 1.5 million children by 2012.** ⁱⁱ

Beyond simply maintaining current SCHIP enrollment, every state--including Texas--would like to have a big enough block grant to allow them to cover all the uninsured children who qualify for SCHIP, but who are not enrolled. Texas faces a special challenge in the federal debate, because Texas' CHIP enrollment (as of December 2006) remains more than 36% below September 2003 enrollment, so we have a much bigger number (and percentage) of eligible but not enrolled children than most states. ⁱⁱⁱ Hundreds of thousands of uninsured Texas children will lose out if Congress only provides funds to support current enrollment. **Texas' funds will not be enough to (1) allow our program's caseloads to recover, and/or (2) accommodate Texas' other planned new uses of SCHIP funds** including perinatal coverage which began January 2007, or the Galveston area "three-share" premium assistance waiver which is planned. Texas will need to fight off attempts to use our temporary enrollment declines to justify a reduced SCHIP block grant allocation for our state.

Texas' Unspent CHIP Funds Lost to Other States

How SCHIP Funds Are Allocated. Under federal law, a state must spend its annual SCHIP block grant allocation within 3 years (i.e. must be spent by the end of the second full year following the year of the original allocation). At the end of year 3, unspent amounts are "lapsed" and redistributed to states that have spent all their allocations and need additional SCHIP federal matching funds to cover their actual costs.^{iv} **The SCHIP block grant formula in 1997 was the first major federal block grant ever to make a generous allocation to Texas based on our high need, rather than penalizing us for our historically low spending efforts.**

Texas' Late Start Causes Early Lapses. Still, Texas lapsed significant funds in the early SCHIP years because of our late program start (federal block grant allocations began in FFY 1998, but Texas did not implement until May 2000) despite record enrollment growth upon implementation. Before the Texas Legislature's 2003 CHIP cuts, Texas Health and Human Services Commission (HHSC) was projecting a CHIP federal funding shortfall by late 2006. To

illustrate, had spending even held flat (i.e., with no growth or inflation) at Texas' FY 2002 high, Texas would still have been in a federal funding shortfall at least by 2008.

Texas Unspent CHIP Funds Lost to Other States

FFY 1998 Federal SCHIP Funds Lost - \$170 million
FFY 1999 Federal SCHIP Funds Lost - \$324.5 million
FFY 2000 Federal SCHIP Funds Lost - \$123.7 million
FFY 2001 Federal SCHIP Funds Lost - \$85.3 million
FFY 2002 Federal SCHIP Funds Lost - \$104.6 million
FFY 2003 Federal SCHIP Funds Lost - \$23.8 million
FFY 2004 Federal SCHIP Funds Lost - \$61.5 million*

Total lapsed to date (2000-2006): \$893.4 million

Scheduled to lapse on March 31, 2007: \$20 million, for a total of 913.4 million

For perspective, this total is more than 3 times the federal SCHIP funds Texas used to run the program for an entire year in 2005 (total Texas federal SCHIP spending in FY 2005 was \$288 million).

*Source: Center on Budget and Policy Priorities, analysis of CMS data. *Lapse of 2004 allocation based on Congressional Research Service reports as of 12/13/2006.*

2003 Cuts Cause Further Losses. The Texas Legislature enacted numerous program changes to CHIP in 2003 designed to reduce enrollment and spending, resulting in caseloads that today are less than two-thirds of the September 2003 benchmark. As a result, the previously expected federal fund shortfall did not occur, and instead Texas continued to lapse significant federal SCHIP funds for redistribution to other states. The table above shows the federal SCHIP block grant funds which Texas has lost to redistribution to other states to date.^v

Despite Past Lapses, Texas Will Need Increased Block Grant Funds to Allow Growth, Recovery of CHIP. Now, HHSC is assuming that traditional CHIP enrollment of children will slowly grow. The state implemented a new CHIP perinatal program in January 2007, and has also asked for permission to use CHIP funds for a premium assistance waiver and Galveston's regional "three-share" waiver (the latter would use CHIP funds along with employer and worker contributions to cover parents). HHSC's Budget Request for 2008-09 would allow traditional CHIP enrollment to grow to 339,037 in 2009, plus projected perinatal enrollment to exceed 100,000 in 2009. The latest informal HHSC projection for a federal CHIP shortfall in Texas is 2010, but this is based on continued low caseloads in the traditional program (i.e., it does not assume a recovery to 2003 enrollment levels). Without additional federal funding Texas will not be able to allow CHIP coverage of children to grow to cover the eligible kids who are not enrolled, or to sustain the new perinatal coverage over time.

Texas' SCHIP Reauthorization Challenge

Other states want Texas' lapsed funds. The less new SCHIP money Congress authorizes for 2008-2012, the greater the pressure will be to reduce Texas' allocation to reflect our dramatically reduced caseloads—instead of recognizing our continued high need for coverage of low-income uninsured children. In other words, giving a smaller piece of a too-small pie to Texas would mean a bigger slice for other states that are already facing SCHIP federal funding shortfalls.

Texas Children Should Not be Penalized for Temporary CHIP Setbacks. Texas was not alone in adopting policies that reduced CHIP coverage. Between April 2003 and July 2004, nearly half of the states (23 states) adopted policies designed to reduce CHIP and children's Medicaid enrollment by making it harder for eligible children and families to get and keep coverage.^{vi} While Texas' resulting caseload declines were the largest (see below), Texas legislators authorized policies

and funding in 2005 designed to restore CHIP caseload growth. Those measures failed because of an ill-fated transition to a new CHIP enrollment contractor and poorly timed policy changes.

Now, CHIP officials have taken steps to correct the enrollment errors of the CHIP contractor. A large and diverse coalition of Texas advocates, health care providers, business leaders, and local elected officials continue to advocate with one voice for improved eligibility systems that remove red tape barriers that keep eligible children from enrolling and staying enrolled. Texas leaders can get CHIP back on track only if the federal funds are available. Texans care, and the nation as a whole should care, because no one benefits if SCHIP reauthorization undermines Texas' progress to reduce the number of children who lack access to the health care they need.

Texas CHIP Decline Most Extreme in U.S. Nationally, SCHIP enrollment dropped somewhat in 2004 from its June 2003 peak, with Texas' decline accounting for over 50 percent of the national enrollment decline in the second half of 2003. By June 2005,^{vii} national SCHIP rolls had regained the previous year's lost ground to slightly exceed the 2003 benchmark, despite declines in nine states (including Texas). Texas' rolls were 36% below June 2003, with only Florida, Colorado and Wisconsin similarly situated, having had caseload drops from 2003-2005 of 36%, 23% and 22% respectively. Since June 2005, Texas' CHIP rolls have fluctuated substantially and are currently very close to June 2005 levels, Florida's have continued to drop, Wisconsin's rolls have grown modestly, and Colorado's rolls have recovered significantly. **This means that Texas and Florida children in particular will lose out unless Congress authorizes funds not just to continue current SCHIP operations, but instead enough to cover the hundreds of thousands of eligible, but not enrolled, uninsured children in our states.**

| National SCHIP Enrollment Changes, 2003-2005 | | | | |
|--|-----------|-----------|----------|----------|
| | June 2003 | June 2005 | Change | % Change |
| U.S | 3,951,141 | 4,027,099 | +75,958 | 1.9% |
| Colorado | 53,118 | 40,696 | -12,422 | -23.4% |
| Florida | 317,683 | 203,983 | -113,700 | -35.8% |
| Texas | 512,986 | 326,473 | -186,513 | -36.4% |
| Wisconsin | 35,785 | 28,006 | -7,779 | -21.7% |

Source: Kaiser Commission on Medicaid and the Uninsured, "SCHIP Enrollment in 50 States: June 2005 Data Update," December 2006, <http://www.kff.org/medicaid/7607.cfm>.

A Shorter Period to Spend SCHIP Funds Will Speed Up Funding Problems for Texas. The Administration has proposed reducing the time states are given to spend an annual allocation from the current 3 years to just 2 years. Texas CHIP has been highly dependent on carry-forward from earlier years, and a change in the period of allocation will put Texas in a federal funding shortfall even sooner.

Other Issues in the National Debate. Future use of SCHIP funds to cover parents is a policy that will be questioned in the national debate. Given that many states need additional federal funds just to serve the low-income uninsured children targeted by the original federal law, some believe that funds should not be used for coverage of parents. On the other hand, many of the states that have implemented coverage of parents with SCHIP funds also provided children's Medicaid coverage at income levels well above poverty prior to SCHIP's creation, and thus were not able to benefit as much from the new program as states with less generous coverage. Finding ways to make SCHIP funding fairer for these states will be at issue in the congressional discussion.

Finally, health care advocates are adamant that Medicaid is the strong foundation on which SCHIP is built, and must be protected and strengthened—not cut—as Congress reauthorizes SCHIP.

Texas needs a Reauthorization Formula Designed to Fund CHIP Growth to Cover all Eligible, but Not Enrolled, Children. A reauthorized SCHIP block grant with no additional funds will require Texas to cut back once again on benefits or eligibility standards in CHIP. And, federal increases designed only to support current caseloads will not be sufficient to allow Texas CHIP caseloads to cover eligible children who are not enrolled (i.e., return to pre-2003 coverage), or to allow for perinatal coverage or premium assistance programs.

In a zero-sum scenario, other states would like to see Texas' SCHIP allocation reduced to free up money for their programs. However, children's health advocates nationwide agree that the appropriate goal for SCHIP reauthorization should at a minimum allow states to serve currently eligible but not enrolled uninsured children. This is the only position that will not disadvantage Texas children and taxpayers in the SCHIP reauthorization debate. Moreover, advocates for children's health care concur that covering every child in the U.S. with decent health care is an affordable and practical goal. A strong Congressional SCHIP reauthorization program will be a necessary first step toward that goal.

Why Care? Because CHIP and Children's Medicaid Have Reduced Uninsured Rate of Low-income Children

In 1997, when Congress created the SCHIP Block Grant, U.S. Census estimated that over 22% of children below 200% FPL were uninsured nationwide. Today, that percentage has dropped below 15%. Even in Texas, with the largest uninsured rates in the country, coverage of children has improved dramatically due to children's Medicaid and CHIP. And, these program can do even more. **The number of uninsured Texas children could be reduced by half if most of the eligible, but not enrolled, children were signed up for Medicaid or CHIP.**

Children's Uninsured Rate Drops. In 1997, 24%-25% of Texas children were uninsured (about 1.4 million children), and over three quarters (76%) of these were in families at or below 200% FPL. Since then, the creation of Texas CHIP and the streamlining of children's Medicaid enrollment and renewal (to make it more like CHIP) have resulted in the public coverage of about 1 million more Texas children. Today, 20.4% of Texas children under age 19 (1.37 million) are uninsured; and just over two-thirds (68%) are in families below 200% FPL. Since there are 638,000 more children in Texas today than in 1997, the percentage of uninsured Texas children has dropped substantially (by about 4%) even though the number remains close to 1.4 million. And, the uninsured rate among Texas children below 200% FPL (i.e., the group potentially served by children's Medicaid and CHIP) has dropped from 35% to 29%.

Half the Uninsured Kids Could be Covered Today. Census estimates put the number of uninsured Texas children in families below 200% FPL at about 919,000. Adjusting for undocumented children (estimated at around 230,000), most of the remaining 689,000 children should be able to enroll in either Medicaid or CHIP. Texas will need increased federal SCHIP block grant funding in order to cover the CHIP-eligible children in this group.

The States are Moving to Cover More Kids. Inspired by the success of Medicaid and SCHIP, three states have begun implementing programs with a goal of covering all children with no upper income limit. Building on their child Medicaid-CHIP programs Massachusetts, Illinois, and Pennsylvania provide subsidized coverage of children up to 300% to 400% of poverty, and allow buy-in for children at higher incomes. A number of other states (CA, CO, MN, NM, NY, OR, WA, WI) are currently considering similar major expansions of access to care for children, designed to ultimately reach coverage for every child. A strong SCHIP reauthorization that allows states to make real progress in covering more children is a critical next step toward making sure all American children get the health care they need to be happy, healthy and strong.

**Texas' Federal SCHIP Financing Situation
(all figures are in thousands of dollars)**

| | FFY2002 | FFY2003 | FFY2004 | FFY2005 |
|---|----------------|----------------|----------------|----------------|
| Available Federal SCHIP Funds | \$1,537,435 | \$1,189,539 | \$1,029,478 | \$1,092,327 |
| Rollover from Previous Years | 1,235,595 | 878,035 | 698,627 | 642,356 |
| New Annual Allotment | 301,840 | 311,504 | 330,852 | 449,971 |
| SCHIP Funds Redistributed from Other States | 0 | 0 | 0 | 0 |
| Federal SCHIP Funds Spent or Lost | \$659,400 | \$490,912 | \$387,123 | \$311,504 |
| Spending | 535,735 | 405,629 | 282,484 | 287,659 |
| Unspent Funds Lost to Other States | 123,664 | 85,283 | 104,639 | 23,845 |
| Federal SCHIP Funds Remaining at the End of Year | 878,035 | 698,627 | 642,356 | 780,823 |

12/13/06: CRS reports TX lapse of FY 2004 unspent is \$61.5, 3/31/07 will lapse \$20 million from 2005 allocation under H.R. 6164.

Source: Center on Budget and Policy Priorities' SCHIP financing model.

Under BIPA, a formula was created to redistribute states' unspent 1998 and 1999 SCHIP allotments. Unspent 1998 funds were redistributed in 2001 and unspent 1999 funds were redistributed in 2002.

Unspent FFY1998 Federal SCHIP Funds Lost - \$170 million; Unspent FFY1999 Federal SCHIP Funds Lost - \$324.5 million

Notes:

ⁱ A November 2006 poll found that 56% of voters support funding SCHIP to allow expansion to more children, and another 26% support funding to insure continued coverage of current numbers. See: Georgetown University Center for Children and Families, *Too Close to Turn Back: Covering America's Children*, December 2006, <http://ccf.georgetown.edu/pdfs/121206tooclosereport.pdf> .

ⁱⁱ Federal CMS actuaries estimate that, without new funds, CHIP enrollment nationally will drop from 4.4 million in 2006 to 2.9 million in 2012. See CBPP, "Freezing SCHIP Funding In Coming Years Would Reverse Recent Gains In Children's Health Coverage," <http://www.cbpp.org/6-5-06health.htm> .

ⁱⁱⁱ September 2003 Texas CHIP enrollment was 507,259; as of December 2006 children enrolled had declined to 326,231.

^{iv} Under the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA), a formula was created to redistribute states' unspent 1998 and 1999 SCHIP allotments. Unspent 1998 funds were redistributed in 2001 and unspent 1999 funds were redistributed in 2002. Texas lost 35 percent of its unspent 1998 allotment in 2001 and 58 percent of its unspent 1999 allotment in 2002, as did all other states with unspent funds.

^vCenter on Budget and Policy Priorities, *Congress Delays SCHIP Funding Shortfalls in 2007 by Several Months*, December 15, 2006, <http://www.cbpp.org/12-11-06health.pdf> ; Congressional Research Service, *SCHIP Provisions of H.R. 6164 (NIH Reform Act of 2006)*, Order Code RS22553, Updated December 13, 2006.

^{vi} Kaiser Commission on Medicaid and the Uninsured, <http://www.kff.org/medicaid/upload/Enrolling-Uninsured-Low-Income-Children-in-Medicaid-and-SCHIP-Fact-Sheet-UPDATE.pdf> , March 2005.

^{vii} Latest month for which reliable 50-state data are available; see Kaiser Commission on Medicaid and the Uninsured, *SCHIP Enrollment in 50 States: June 2005 Data Update*, December 2006, <http://www.kff.org/medicaid/7607.cfm> .