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CRITICAL TEXAS MEDICAID AND CHIP FUNDING ISSUES BEFORE U.S. SENATE

U.S. Senate Leaders Need to Hear From You!

****SEE CALL TO ACTION BELOW****

The U.S. Senate soon will consider the Medicare provider "givebacks" bill that is being negotiated in the Senate Finance Committee. Action is expected to begin in the next few days. **Three (3) important provisions may be included in this legislation that could greatly benefit all Texas Medicaid programs (from children to the elderly and disabled), as well as the Children's Health Insurance Program (CHIP).** Taken together these provisions would help substantially reduce Texas' Medicaid and CHIP funding challenges both immediately and over the long term.

BACKGROUND

The 3 items are:

1. **FMAP Relief.** A temporary increase in the federal share of Medicaid costs, to help all states with budget woes caused by the recession (\$484.1 million additional federal dollars for Texas over the next two years);
2. **"CHIP Dip."** Eliminating the "CHIP Dip" and allowing states to use their unspent CHIP dollars from earlier years (BOTH are needed to prevent major Texas CHIP shortfalls by 2007; could bring Texas additional federal funds totaling more than the FMAP relief over a 3-year period);
3. **ICHIA.** The Immigrant Children's Health Improvement Act by Senators John McCain (R-AZ) and Bob Graham (D-FL) would allow states to provide Medicaid and CHIP to legal immigrant children and pregnant women without a 5-year wait. Texas now provides CHIP to these legal immigrant children using 100% state dollars, so this change would allow our program to get federal CHIP matching dollars and make our CHIP budget go further.

What You Can Do: Calls to Texas Senator Kay Bailey Hutchison are needed NOW ((202) 224-5922), but equally important are calls to Finance Committee Chairman Max Baucus (D-MT; (202) 224-2651), Ranking Member Charles Grassley (R-IA; (202) 224-3744), Majority Leader Tom Daschle (D-SD; (202) 224-2321) and Minority Leader Trent

Lott (R-MS; (202) 224-6253), urging them to include these measures. Calls to Governor Rick Perry, Lt. Governor Bill Ratliff, and Speaker Pete Laney asking them to urge our Congressional leaders to support these provisions will also be helpful.

This *Policy Page* describes #2, the "CHIP Dip." CPPP described an early version of #1 FMAP Relief in *Policy Page* #142 (November 2001); for updated information on the new legislation, see <http://www.cbpp.org/7-12-02health.pdf>. For more information on #3 Immigrant Children's Health Improvement Act provisions, see *Policy Page* #168 (July 2002) at www.cppp.org.

"CHIP DIP" THREATENS TEXAS CHIP: ACTION NEEDED NOW TO PROTECT PROGRAM FROM CUTS

The Problem:

Texas and at least 17 other states are facing shortfalls in **federal** CHIP funds between 2003 and 2007 unless Congress takes action soon. Legislation (S. 2860) sponsored by Senators Jay Rockefeller (D-WV) and Lincoln Chafee (R-RI), and supported by the original co-sponsors of the CHIP legislation, Senators Orrin Hatch (R-UT) and Edward Kennedy (D-MA) has been filed in the U.S. Senate to address the problem, but Congress will need to act quickly for states to be assured that they will not be faced with cutting CHIP enrollment. While Texas CHIP advocates are accustomed to

having to fight battles in our state Legislature to secure adequate state matching dollars for Texas CHIP, the threat today must be addressed in Congress.

There are **two problems** creating the federal funds crunch, and thus a two-piece “fix” is under consideration.

First, when Congress created CHIP under the Balanced Budget Act of 1997 (BBA), all funding items in the BBA 1997 were reduced arbitrarily between 2002-2004 in order to force a balanced budget test. For CHIP, this meant that the annual total U.S. federal funding level of \$4.275 billion allocated for each year from 1998 through 2001 was reduced to \$3.15 billion per year from 2002 to 2004. In 2005 and 2006, the allocation was to increase to \$4.05 billion per year. **In Texas, the dip meant our 2002 federal allocation was only about two-thirds of the 2001 amount.**

BBA allowed states to carry forward unused allocations for 2 additional years, and Congress extended this carry-forward (for states’ 1998 and 1999 allocations) in 2000 under the Medicare, Medicaid and SCHIP Benefit Improvement and Protection Act (BIPA). Because these carry-forward funds have been available, and because Texas did not start to spend significant CHIP funds until 2000, our state has not yet felt the impact of the “CHIP Dip,” even though the cut first hit in 2002. However, our highly successful CHIP enrollment and time limits on unspent year 2000 funds mean amounts available for carry-forward are declining, and the impact of the dip will catch up with us if Congress does not act.

If Congress does not restore CHIP block grant funding levels, Texas could face a major shortfall in FEDERAL CHIP funds as early as 2006, forcing substantial enrollment cuts. One national study estimates that by 2007, federal CHIP funds available for Texas will only be about 60% of what is needed to maintain the program. However, projections of the size of any shortfall change dramatically depending on assumptions about CHIP enrollment and increases in health insurance costs. Because of this uncertainty, state agency analysts say that the shortfall might be very small in 2006, but even in a best-case scenario a shortfall substantial enough to require major program reductions is expected in 2007. **It is important to note that unless Congress acts, even with flat caseloads and very low inflation the cut-backs in federal funding will eventually make it impossible to sustain Texas CHIP eligibility and benefit standards.**

States like Texas which chose to create a separate state CHIP program (rather than a Medicaid expansion) will be hurt worst by the “dip.” States with child Medicaid expansions for CHIP would still get matching funds — but at the lower Medicaid rate — for CHIP children if they exhaust their CHIP block grant funds, while separate programs like ours will simply be out of money.

Second, Texas and other states that have unspent fiscal year 1998, 1999, or 2000 funds must return those funds to the U.S. Treasury if they do not use them by the end of this federal fiscal year (FFY 2002, ending September 30, 2002).

State CHIP officials have taken a variety of steps to preserve the maximum possible amount of the state’s 2000 allocation, but without a change from Congress, some funds will revert to the federal government. Texas stands to lose \$285 million, but the proposed fix included in S. 2860 would allow us to retain at least \$114 million (40%) of this. **This could postpone Texas’ CHIP Dip problem by at least one year, until FY 2007 or even 2008. Texas needs, at minimum, the 40% carry-forward in S. 2860; simply extending the carry-forward extension as written in the 2000 BIPA “fix” will NOT help Texas.** (Note: because of Texas’ now-robust CHIP enrollment, Texas does not expect to ever again risk “lapsing” CHIP funds back to the U.S. Treasury.)

But, the carry-forward is only a short-term fix, two years at best. Texas will still badly need restoration of the CHIP Dip if our program is not to be drastically cut back. If Congress chooses to address only the carry-forward issue now, it will buy states some time, but the CHIP Dip will have to be addressed eventually.

The Fix:

Texas should urge the U.S. Congress to address two state CHIP funding issues:

1. eliminate the “CHIP dip”, which will reduce the CHIP block grant allocation to states, leading to projected unsustainable shortfalls, and
2. extend the carry-forward period for states to access their unexpended CHIP allocations, in a manner similar to that proposed in S. 2860.

More Reasons to Support these Policies:

Congress did not single out the CHIP block grant for reduced funding; all items in BBA 1997 were reduced arbitrarily from 2002-2004 to meet the balanced budget test. In light of the recession and reduced revenues putting pressures on state budgets, Congress should maintain level CHIP funding as a form of fiscal relief for states.

The extended carry-forward would require no new federal funding, as these are dollars already appropriated. Since all data suggest that states do need, and will spend, these funds, Congress should extend states’ access to their block grant allocations.

The Bush Administration has recognized the need to extend the expiring funds to help avert the projected national enrollment decline; the Administration’s fiscal year 2003 budget includes a provision to extend until the end of fiscal year 2006 the availability of the expiring funds. Similarly, the National Governors Association has called for an extension of the expiring funds.

According to a report from the Center on Budget and Policy Priorities in Washington, D.C other states that will also face a federal fund shortfall by 2007 if Congress fails to address the CHIP dip include Alaska, Arizona, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Minnesota, Mississippi, Missouri, New Jersey, New York, Rhode Island,

West Virginia, and Wisconsin. California is expected to face a shortfall by 2008 or 2009.

For more information on this topic see Center on Budget and Policy Priorities, [OMB Estimates Indicate that 900,000 Children Will Lose Health Insurance Due to Reductions in Federal SCHIP Funding, August 2, 2002, <http://www.cbpp.org/7-15-02health.htm>](#), and Families USA, [Children Losing Health Coverage: 900,000 Children in Jeopardy of Losing Health Coverage, September 12, 2002, <http://www.familiesusa.org/SCHIPreport.pdf>](#), or contact Anne Dunkelberg at CPPP (dunkelberg@cppp.org).

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