

DEPARTMENT OF HEALTH & HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
7500 Security Boulevard, Mail Stop S2-26-12  
Baltimore, Maryland 21244-1850



Center for Medicaid and State Operations

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SMDL #03-003

March 27, 2003

Dear State Medicaid Directors and State Health Officials:

We are writing to inform you of the Centers for Medicare & Medicaid Services (CMS) plan to implement the provisions of the State Children's Health Insurance Program (SCHIP) for the redistribution of \$2,206,440,396 in states' unexpended federal fiscal year (FY) 2000 SCHIP allotments. CMS has developed an interim strategy for redistribution of the unexpended FY 2000 funds. This interim redistribution will be limited to about one-half of the unexpended FY 2000 allotments. The interim redistribution will be made only to those states (including the commonwealths and territories) that have fully expended such allotments by the end of FY 2002 (September 30, 2002).

Under the SCHIP statute, title XXI of the Social Security Act (the Act), states are provided federal funds through federal fiscal year specific and state specific allotments. Generally, under section 2104(e) of the Act, each state's fiscal year specific SCHIP allotment is available for expenditure by the state only for a 3-year "period of availability." This includes the fiscal year in which these funds were allotted and the two succeeding fiscal years. Section 2104(f) of the Act provides for the Secretary to redistribute the amounts of the SCHIP allotments that are unexpended after the initial period of availability. These funds are available through the end of the fiscal year in which they are redistributed. The 3-year period of availability for states' FY 2000 SCHIP allotments ended at the end of FY 2002.

The Benefits Improvement and Protection Act of 2000 (BIPA) amended the Act to provide an exception to these processes for FY 1998 and FY 1999 allotments unexpended in the 3-year period of availability. Section 2104(g) of the Act specifies a redistribution methodology and provides that those states that did not fully expend their FY 1998 and FY 1999 allotments during the respective 3-year periods of availability could "retain" the availability of a portion of their unexpended allotments. Furthermore, the statute extended the availability of these redistributed and retained allotments through FY 2002.

For the FY 2000 allotments, however, sections 2104(e) and (f) of the Act requires us to do a redistribution of the unexpended funds. Under the current section 2104(f) of the Act, the Secretary must determine an "appropriate procedure" for redistribution of unexpended FY 2000 allotments. This redistribution may be made only to those states that fully expended their FY 2000 allotments during the associated 3-year period of availability. Unlike the BIPA

redistribution formula, there is no provision for states that did not fully expend their FY 2000 allotments during the 3-year period of availability to retain any portion of their unexpended FY 2000 allotment amounts. Furthermore, under section 2104(e) of the Act, any redistribution amounts of the FY 2000 allotments would remain available to states only through the end of the fiscal year in which they are reallocated, that is, until the end of FY 2003 (September 30, 2003).

Congress has been considering legislation that would have specified a formula for redistribution of the unexpended FY 2000 allotments. Since the period of availability for the redistributed allotments is only until the end of FY 2003, we are taking action to implement section 2104(f) of the Act. CMS will provide an interim redistribution of about one-half of aggregate unexpended FY 2000 allotments to allow a continued flow of SCHIP funds to the redistribution states to continue operation of their SCHIP programs. This interim redistribution does not constitute the Secretary's final determination of an "appropriate procedure" for a redistribution of the FY 2000 SCHIP allotments, and is subject to adjustment when such a procedure is adopted. However, we anticipate that Congress may continue to consider this issue in the next few months, and the interim redistribution is being made now in that context.

The amounts of the interim redistribution are intended to balance the potential need to minimize future adjustments when the final redistribution methodology redistribution is determined with the need to provide for a continued flow of funds to the redistribution states. As indicated above, section 2104(f) of the Act requires the redistribution of the unexpended FY 2000 allotments to those states that fully expended such allotments by the end of FY 2002. We have determined that there are 14 states and 5 territories and commonwealths that qualify for a redistribution under this provision.

Described below is an interim redistribution of the FY 2000 funds based on the minimum of three possible options for a final redistribution methodology.

- Option 1. The unexpended FY 2000 allotments would be reallocated based on certain state specific factors, such as the number of uninsured children and other individuals in the state, the numbers of individuals under the poverty level in the state, and the relative per capita income in the state.
- Option 2. Unexpended FY 2000 allotments would be reallocated based on the redistribution states' original FY 2000 SCHIP allotments.
- Option 3. The unexpended FY 2000 allotments would be reallocated based on a Congressional proposal. Under this proposal, redistribution states would receive about one-half of the total unexpended FY 2000 allotments. The funds would be allocated in accordance with the amounts of such states' total expenditures during the 3-year period of availability (FY 2000 - FY 2002) that are in excess of the states' FY 2000 allotments.

The minimum of the amounts determined under the methods described in the three options above was chosen because this approach will minimize the potential need to make future adjustments under the final redistribution process. In determining the interim amount, we made sure States would have sufficient funds in order to operate their programs through FY 2003, based on their projected FY 2003 spending estimates.

CMS intends to issue the final redistribution methodology (as determined by the Secretary) in the Federal Register by June 30, 2003, unless Congress passes legislation to specify the disposition of states' unexpended FY 2002 allotments. Redistribution by the end of June will allow the states one quarter to expend the redistribution funds.

For the territories and commonwealths, the interim redistribution is based on the full amount of the unexpended FY 2000 allotments because we do not anticipate that the final redistribution methodology would affect the amount available to each territory and commonwealth. We determined the interim redistribution based on the method used in the current statute for the unexpended FY 1998 and FY 1999 allotments, under which 1.05 percent of the total unexpended allotment funds were reserved for the territories and commonwealths. This reserved amount was then allocated among them in proportion to their FY 2000 allotments.

Attached to this letter is a chart containing the amounts of the interim redistribution for each redistribution state. As indicated in the chart, a total \$2,206,440,396 in unexpended FY 2000 allotments remained at the end of FY 2002. A total of \$1,034,898,780 will be redistributed on an interim basis. Of this total interim redistribution, the states will have available a total of \$1,011,731,155, and the territories and commonwealths will have available a total of \$23,167,624.

Consistent with CMS policy on redistributions, redistribution states have the option of choosing the ordering of their FY 2000 redistribution amounts in the application of expenditures against their available SCHIP allotments. We will be contacting the 14 redistribution states, and the 5 commonwealths and territories to obtain their election with respect to this interim redistribution. Upon final redistribution, these states will be permitted to revise their ordering election for the FY 2000 redistribution, and CMS will adjust its accounting for state payments to make that election effective as of the beginning of the fiscal year.

If you have any questions regarding this issue, please contact the CMS Regional Office responsible for your state.

Sincerely,

/s/

Dennis G. Smith  
Director

Enclosure

cc:

CMS Regional Administrators

CMS Associate Regional Administrators  
for Medicaid and State Operations

Michelle Mickey  
Acting Director, Health Policy Unit  
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ATTACHMENT

<b>INTERIM REDISTRIBUTION PAYMENT AMOUNTS FOR UNEXPENDED FY 2000 SCHIP ALLOTMENTS</b>	
<b>STATE</b>	<b>FY 2000 INTERIM REDISTRIBUTION PAYMENT AMOUNTS</b>
<b>Alaska</b>	<b>\$20,231,353</b>
<b>Kansas</b>	<b>\$21,481,440</b>
<b>Kentucky</b>	<b>\$71,982,061</b>
<b>Maine</b>	<b>\$14,670,423</b>
<b>Maryland</b>	<b>\$114,945,511</b>
<b>Massachusetts</b>	<b>\$53,096,780</b>
<b>Minnesota</b>	<b>\$16,765,515</b>
<b>Mississippi</b>	<b>\$40,863,532</b>
<b>New Jersey</b>	<b>\$110,931,518</b>
<b>New York</b>	<b>\$414,465,389</b>
<b>Rhode Island</b>	<b>\$25,048,495</b>
<b>South Carolina</b>	<b>\$32,649,064</b>
<b>West Virginia</b>	<b>\$18,804,528</b>
<b>Wisconsin</b>	<b>\$55,795,545</b>
<b>TOTAL STATES ONLY</b>	<b>\$1,011,731,155</b>
<b>COMMONWEALTHS AND TERRITORIES</b>	
<b>Puerto Rico</b>	<b>\$21,221,544</b>
<b>Guam</b>	<b>\$810,867</b>
<b>Virgin Islands</b>	<b>\$602,358</b>
<b>American Samoa</b>	<b>\$278,011</b>
<b>Northern Mariana Islands</b>	<b>\$254,844</b>
<b>TOTAL COMMONWEALTHS AND TERRITORIES</b>	<b>\$23,167,624</b>
<b>NATIONAL TOTAL</b>	<b>\$1,034,898,780</b>