



## Centers for Medicaid and State Operations

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July 25, 2006

SMDL #06-017

Dear State Medicaid Director:

The purpose of this letter is to provide you with information regarding the availability of grant funds for the adoption of innovative methods to improve effectiveness and efficiency in providing medical assistance under Medicaid. Specifically, section 6081 of the Deficit Reduction Act of 2005 (DRA) provides funding for Medicaid Transformation Grants.

Medicaid spending growth has declined in recent years, likely reflecting many factors, including State reforms to deliver needed benefits more efficiently and effectively. The implementation of the DRA provides new opportunities for States to work with the Federal Government to build on the effective reforms to slow spending growth while providing needed coverage, and doing more to help people get the kind of care they prefer. Through the use of the Transformation Grants, States can work with Centers for Medicare and Medicaid Services (CMS) to create programs that are more aligned with today's Medicaid populations and the health care environment.

A new subsection (z) is added to section 1903 of the Social Security Act (the Act)—Medicaid Transformation Payments—specifying the criteria for the grants and listing examples of the permissible uses of the funds. Examples of the permissible uses of funds include, but are not limited to, the following:

- Methods for reducing patient error rates through the implementation and use of electronic health records, electronic clinical decision support tools, or e-prescribing programs;
- Methods for improving rates of collection from estates of amounts owed under Medicaid;
- Methods for reducing waste, fraud, and abuse under Medicaid, such as reducing improper payment rates, as measured by annual error rate measurement (PERM) projects;
- Implementation of a medication risk-management program as part of a drug use review program under section 1927(g) of the Act (See enclosure A for a description of what a medication risk-management program means for purposes of this grant program);
- Methods in reducing, in clinically appropriate ways, Medicaid expenditures for covered outpatient drugs, particularly in the categories of greatest drug utilization, by increasing the utilization of generic drugs through the use of education programs and other incentives to promote greater use of generic drugs; and

- Methods for improving access to primary and specialty physician care for the uninsured using integrated university based hospital and clinic systems.

Subsection (z) appropriates \$75,000,000 for grants for Federal fiscal year (FY) 2007 and \$75,000,000 for FY 2008. The Secretary will be specifying a method for allocating the funds available under this subsection among the States. The method will provide preference for States which design programs that target health providers who treat significant numbers of Medicaid beneficiaries. The method must provide that not less than 25 percent of the funds shall be allocated among States, the population of which (as determined according to data collected by the United States Census Bureau) as of July 1, 2004, was more than 105 percent of the population of the respective State (as so determined) as of April 1, 2000.<sup>1</sup> Grants under this provision will be made in the same manner as will other payments under section 1903(a) of the Act. There is no requirement for State matching funds for a State to receive payments under this subsection.

A State wishing to be considered for a grant under this subsection must submit an application to CMS by September 15, 2006. All State Medicaid agencies are eligible to apply. CMS is doing one grant solicitation for the two-year grant period of FYs 2007 and 2008. Awards for FY07 will be made for bona fide needs of FY07, and awards for FY08 will be made for bona fide needs of FY08. A State may submit only one application for both years. More than one program concept proposal and budget may be included in the application. Grant applications requesting funds to be used for State share or supplemental disproportionate share hospital payments will not be considered. (See enclosure B for instructions on how to submit a State grant application.)

Grant awards will be funded for the full two-year period of FYs 2007 and 2008 and awards will be announced in the form of an approval letter by October 31, 2006. Grant determinations are not subject to appeal. Grant awards and allocations<sup>2</sup> will be based on the number of States that apply and that meet the grant criteria. Payments will be subject to the terms and conditions included in the grant awards and will be further subject to the submission of an annual report on the programs supported by the payment to the State.

The required annual report must include information on the following (as required by the new section 1903(z)(3)(C) of the Act):

- The specific uses of the payment;

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<sup>1</sup> States with 5 percent growth, 2000-2004: Arizona, California, Colorado, Delaware, Florida, Georgia, Idaho, Maryland, Nevada, New Hampshire, North Carolina, Texas, Utah, Virginia, Washington. Source: Annual Estimates of the Population for the United States, States, and for Puerto Rico: April 1, 2000, to July 1, 2005 (NST-EST 2005-01), Population Division U.S. Census Bureau; Release Date: December 22, 2005.

<sup>2</sup> The amounts given to each State are variable, based on the number of States applying, their funding requests, and the constraints of the allocation methodology. States that are awarded grants may not receive the full funding amount requested. Thus, a State may modify its program in size and scope based on its funding allotment. The State must reflect any change to the proposed program to CMS within 30 days after the grant is awarded

- An assessment of quality improvements and clinical outcomes under the programs; and
- Estimates of cost savings resulting from the programs.

We strongly encourage you to consider these grant opportunities to develop proposals to enhance your Medicaid program. The CMS contact for this legislation is Jean Sheil, Director, Family and Children's Health Programs Group. She may be reached at 410-786-5647. Please do not hesitate to contact us if you have any additional questions.

Sincerely,

/s/

Dennis G. Smith  
Director

Enclosures

cc:

CMS Regional Administrators

CMS Associate Regional Administrators  
for Medicaid and State Operations

HHS Regional Directors

Martha Roherty  
Director, Health Policy Unit  
American Public Human Services Association

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