

**DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF DIRECTOR**

ACTION REFERRAL

TO	DATE
<i>Bowling</i>	<i>8-1-06</i>

DIRECTOR'S USE ONLY	ACTION REQUESTED
1. LOG NUMBER 000124	<input type="checkbox"/> Prepare reply for the Director's signature DATE DUE _____
2. DATE SIGNED BY DIRECTOR <i>cc: Wells, Riess, Singletary</i> <i>File</i>	<input type="checkbox"/> Prepare reply for appropriate signature DATE DUE _____ <input type="checkbox"/> FOIA DATE DUE _____
	<input checked="" type="checkbox"/> Necessary Action

APPROVALS <small>(Only when prepared for director's signature)</small>	APPROVE	* DISAPPROVE <small>(Note reason for disapproval and return to preparer.)</small>	COMMENT
1.			
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3.			
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DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-26-12
Baltimore, Maryland 21244-1850



Centers for Medicaid and State Operations

RECEIVED

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SM DL #06-017

Dear State Medicaid Director:

Department of Health & Human Services
OFFICE OF THE 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

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cc: Wells
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- 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. 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 allocations² 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;

¹ 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.

² 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.

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- 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,



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

Joy Wilson
Director, Health Committee
National Conference of State Legislatures

Matt Salo
Director of Health Legislation
National Governors Association

Jacalyn Bryan Carden
Director of Policy and Programs
Association of State and Territorial Health Officials

Christie Raniszewski Herrera
Director, Health and Human Services Task Force
American Legislative Exchange Council

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Lynne Flynn
Director for Health Policy
Council of State Governments

Enclosure A

Medication Risk Management Program Definition

For purposes of this grant program, a medication risk-management program means a program for targeted beneficiaries that ensures that covered outpatient drugs are appropriately used to optimize therapeutic outcomes through improved medication use, and to reduce the risk of adverse events. Such a program may include the following elements:

- The use of established principles and standards for drug utilization review and best practices to analyze prescription drug claims of targeted beneficiaries and identify outlier physicians;
- On an ongoing basis, provide outlier physicians: a comprehensive pharmacy history for each targeted beneficiary under their care; information regarding the frequency and cost of relapses and hospitalizations of targeted beneficiaries under the physician's care; applicable best practice guidelines, and empirical references; and
- Monitoring of outlier physician's prescribing, such as failure to refill, dosage strengths, and provide incentives and information to encourage the adoption of best clinical practices.

The term "targeted beneficiaries" in the above description means Medicaid-eligible beneficiaries who are identified as having high prescription drug costs and medical costs, such as individuals with behavioral disorders or multiple chronic diseases who are taking multiple medications.

MEDICAID TRANSFORMATION GRANT APPLICATION INSTRUCTIONS

Announcement Date: July 25, 2006
CMS Teleconference: August 15, 2006
Due Date of Application: September 15, 2006
Award Announcements: October 2006

Grant Application Requirements/ Content and Submission

Requirements:

1. Proposal request must be from the State Medicaid agency;
2. Proposal must have approval of the State Medicaid Director;
3. Proposals may complement your other State Medicaid reform initiatives, activities under other DRA provisions, and/or involve collaboratives with other States' Medicaid programs;
4. A State may submit for consideration more than one program concept proposal in a single application; and
5. Grant awards are not to be used for any State share or supplemental disproportionate share hospital payments.

Application Content: 160 total point score for each program proposal—15 page limit.

Cover sheet: The cover sheet should include the following (not included in the page limit):

- State, Name of Project, Name of the Medicaid agency
- Contact Person Name and Title
- Contact Person Telephone and Fax number
- Contact Person E-mail Address

Abstract: 10 points—single spaced, one page, not included in the page limit.

Provide a clear, concise description of the proposed project that should include the goals of the project, the total projected budget, a description of how the grant will be used to improve the efficiency and effectiveness of the Medicaid program, and the expected outcome of the project.

Project Narrative: 120 total points—The project narrative should provide a clear description of each of the following:

- *Statement of Project/Need* (15 points)—Describe the project, discuss why this project is needed, and describe the innovation of the project.
- *Project Justification* (15 points)—Describe how the Medicaid program that will be demonstrated by the project will cause/contribute to improving the effectiveness and efficiency of the State's Medicaid program.

- **Project Goals and Outcomes** (15 points)—Describe the goals and anticipated outcomes/impact of the project. If applicable, also describe the technology that will be used and if it adheres to accepted industry standards.
- **Estimate of Impact to Beneficiaries** (15 points)—Describe the projected number of individuals who will be directly affected by the project, and clearly define the project target area (i.e., county, region-wide, statewide).
- **Description of Magnitude of the Transformation/System Change** (15 points)— Describe the size and scope of the project in terms of transforming the current Medicaid system, and discuss the potential for replication of the project in other States in regions of the applicant’s State.
- **Description of Sustainability of the Project** (15 points)—Describe the State’s plan to sustain the project after the grant funding is exhausted.
- **Evaluation Plan** (15 points)—Describe the evaluation plan of the project (at a minimum, the State needs to ensure compliance with the statutory reporting requirements of the new section 1903(z)(3)(C)(ii) & (iii) of the Act).
- **Description of Project Implementation Readiness** (15 points)—Describe the State’s ability and plan for implementation of the project. The description should include implementation tasks/timeline with milestones and status.

Budget: 30 points—The budget section must include the following:

- **Estimated budget total**—Provide the budget breakdown by the requested Federal grant amount and separated by each grant year (i.e., Federal fiscal years 2007 and 2008).
- **Total estimated funding requirements for each year**—Provide estimated funding requirements and description for each year for each of the following line items:
 - Personnel/Fringe benefits
 - Contractual cost (including consultant contracts)
 - Supplies
 - Equipment
 - Other costs (provide clear description and justification)

Application Submission Process:

Each grant application must be submitted electronically to: Matransgrant@cms.hhs.gov.

CMS Project Contacts:

For questions that require programmatic technical assistance, please contact Lyn Killman at 410 786-5957 or Lyn.Killman@cms.hhs.gov or Wanda Pigatt-Canty at 410-786-6177 or Wanda.Pigatt-canty@cms.hhs.gov

Details of the August 15, 2006, teleconference will be posted by August 8, 2006 on the Centers for Medicare & Medicaid Services Medicaid Transformation Grant Web site at www.cms.hhs.gov/MedicaidTransformationGrants/