

December 12, 2011

Mr. Billy Millwee  
State Medicaid Director  
Texas Health and Human Services Commission  
4900 North Lamar  
P.O. Box 13247  
Austin, TX 78711

Dear Mr. Millwee:

We are pleased to inform you that Texas' request for a new Medicaid section 1115(a) Demonstration, entitled "Texas Healthcare Transformation and Quality Improvement Program" (Project Number 11-W-00278/6), has been approved for the period starting with the date of this approval letter through September 30, 2016.

Texas' new section 1115 Demonstration has a two-fold purpose: to expand the existing Medicaid managed care programs, STAR and STAR+PLUS, statewide, and to establish two funding pools that will assist providers with uncompensated care costs, and promote health system transformation.

The new Demonstration subsumes the State's existing section 1915(b) and 1915(b)/(c) waivers under which the STAR and STAR+PLUS managed care programs are currently operating. The populations served under the new Demonstration are unchanged from the section 1915 waivers. Pursuant to the planned statewide expansion of STAR and STAR+PLUS in March 2012, beneficiaries in both programs will have unlimited monthly access to medically necessary prescription medications, and STAR+PLUS beneficiaries will receive non-behavioral health inpatient services through their health plan. In addition, Medicaid-eligible children statewide will receive coverage for a full array of primary and preventive dental services through pre-paid dental health plans, through the Children's Dental Program. We commend the State on taking steps to move toward establishing comprehensive and coordinated care for the most vulnerable Texans, and we look forward to working with you in the coming months as you establish network adequacy prior to the planned March 2012 statewide expansion, and ensure the protections for beneficiaries built into the special terms and conditions.

The Demonstration also takes an important step forward by redirecting the supplemental payments that currently exist under the Medicaid State plan to the Demonstration in order to improve care delivery systems and capacity, while emphasizing accountability and transparency, and requiring demonstrated improvements at the provider level for the receipt of such payments.

The Delivery System Incentive Reform Payment (DSRIP) Pool is designed to incentivize activities that support hospitals' collaborative efforts to improve access to care and the health of

the patients and families they serve. The initiatives supported by the DSRIP will align with the following four broad categories, which are under development by the State: infrastructure development, program innovation and redesign, population-focused improvement, and clinical improvements in care. Reform activities will be conducted by Regional Healthcare Partnerships (RHPs) that are financially supported and directed by a public hospital or local governmental entity that will collaborate with other healthcare providers to evaluate current challenges in the delivery system, and agree to a course of investment and action to address those challenges over the course of the Demonstration. Payments will not be made from the DSRIP Pool until CMS has approved the plans submitted to the State by each Regional Healthcare Partnership (RHP), as specified in the Special Terms and Conditions (STCs).

Distributions from the Uncompensated Care (UC) Pool in the first year of the Demonstration are Transition Payments to hospitals and physician groups that received supplemental payments under the Medicaid State plan for claims adjudicated during FFY 2011. This transition period ensures that those providers are eligible to secure historical Medicaid funding as the State develops the pool payment methodologies. Distribution of funds from the Uncompensated Care Pool in the second year of the Demonstration is contingent upon approval by the Centers for Medicare & Medicaid Services (CMS) of the State's provider cost reporting tool and all required protocols as described in the STCs.

CMS acknowledges the State's withdrawal of the request to impose the monthly prescription drug limitation in place under the Medicaid State plan on STAR and STAR+PLUS enrollees. We appreciate the State's efforts to ensure that comprehensive benefits are provided to Medicaid beneficiaries, and CMS will work closely with Texas to monitor beneficiary access to covered services under the STAR and STAR+PLUS programs.

As previously discussed, CMS has not approved, and did not incorporate, the following requests from the State's proposal into the section 1115 Demonstration:

1. Federal funding for Designated State Health Programs;
2. Authority to shift funding between the UC and DSRIP Pools within a given Demonstration year; and to carry forward unspent UC or DSRIP funds to future Demonstration years.

As of the date of this letter, the Texas Demonstration is authorized through September 30, 2016, upon which date, unless reauthorized, all waivers and authorities granted to operate this Demonstration will expire. Our approval of this Demonstration project is subject to the limitations specified in the attached waiver and expenditure authorities. The State may deviate from Medicaid State plan requirements only to the extent that those requirements have been specifically waived or listed as inapplicable to expenditures for Demonstration expansion populations and other services not covered under the State plan.

The approval is also conditioned upon the State's compliance with the enclosed STCs, defining the nature, character, and extent of anticipated Federal involvement in the project. The award is subject to our receiving your written acknowledgement of the award, and acceptance of the STCs, waiver list, and expenditure authorities within 30 days from the date of this letter.

Your project officer for this Demonstration is Ms. Nicole Kaufman. She is available to answer any questions concerning your section 1115 Demonstration, and may be contacted as follows:

Ms. Nicole Kaufman  
Centers for Medicare & Medicaid Services  
Center for Medicaid and CHIP Services  
Mailstop S2-01-16  
7500 Security Boulevard  
Baltimore, MD 21244-1850  
Telephone: (410) 786-6604  
Facsimile: (410) 786-5882  
Email: Nicole.Kaufman@cms.hhs.gov

Official communications regarding program matters should be sent simultaneously to Ms. Kaufman and Mr. Bill Brooks, Associate Regional Administrator in our Dallas Regional Office. Mr. Brooks' address is:

Mr. Bill Brooks  
Associate Regional Administrator  
Division of Medicaid & Children's Health Operations  
1301 Young Street, Suite 714  
Dallas, TX 75202

We extend our congratulations to you on this award, and we appreciate your collaboration through the review process. If you have any questions regarding this correspondence, please contact Ms. Victoria Wachino, Director, Children and Adults Health Programs Group, Centers for Medicaid and CHIP Services, (410) 786-5647.

We look forward to continuing to work with you and your staff.

Sincerely,

/s/

Marilyn Tavenner  
Acting Administrator

Enclosures

cc: Bill Brooks, Associate Regional Administrator, Dallas Regional Office  
Cheryl Rupley, State Coordinator for Texas, Dallas Regional Office  
Nicole Kaufman, Project Officer, Centers for Medicare & Medicaid Services