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MAY - 1 2016

Gary Jessee  
Associate Commissioner for Medicaid/CHIP  
State of Texas, Health and Human Services Commission  
4900 Lamar Boulevard  
Austin, TX 78751

Dear Mr. Jessee:

I am writing to inform you that the Centers for Medicare & Medicaid Services (CMS) is granting a 15-month temporary extension for Texas' section 1115(a) demonstration (11-W-00278/6), entitled "Texas Healthcare Transformation and Quality Improvement Program." Approval of this extension is under the authority of section 1115(a) of the Social Security Act, and is effective from the date of this letter through December 31, 2017.

This temporary extension allows Texas to continue its existing demonstration, which has aimed to expand Medicaid managed care to manage costs, develop improved care delivery throughout the state, and move towards quality-based payment systems. As part of this extension, the Delivery System Reform Incentive Payment (DSRIP) program and Uncompensated Care (UC) pool will be extended at their existing funding levels for an additional fifteen months.

During the fifteen month extension period, CMS will work with Texas towards agreement on an approach that supports adequate and appropriate levels of Medicaid payment under managed care. This fifteen month period will provide the time needed for the state to submit and CMS to review an independent report analyzing the Uncompensated Care pool and DSRIP and to develop reforms that will improve Medicaid payment systems and funding mechanisms and the quality of health care services for Texas' Medicaid beneficiaries. As we noted in our November 20 letter, CMS uses three principles to review states' uncompensated care pool requests: coverage is the best way to assure beneficiary access to health care for low income individuals and uncompensated care pool funding should not pay for costs that would otherwise be covered in a Medicaid expansion; Medicaid payments should support the provision of services to Medicaid and low income uninsured individuals; and provider payment rates must be sufficient to promote provider participation and access, and should support plans in managing and coordinating care. We appreciate your commitment to submit that report to CMS by August 31, 2016. This year, CMS will also work with Texas towards an approach to the future of the DSRIP that supports Texas's commitment to managed care in the STAR and STAR-Plus systems.

Although we are confident that CMS and Texas will reach agreement by the end of the 15 month extension period with respect to the Uncompensated Care pool and the DSRIP, the terms and conditions of the temporary extension provide that, should an alternative agreement not be

reached, CMS expects that the Uncompensated Care pool will not be renewed at the end of 2017 except at a reduced level consistent with CMS' principles for uncompensated care. Specifically, the reduction will limit the size of the Uncompensated Care pool to the costs of uncompensated and charity care for low-income individuals who are uninsured and cannot be covered through Medicaid or other insurance programs, using Texas hospital Medicare cost reports and projections of the potential impact of Medicaid expansion in Texas. In addition, the terms and conditions provide that absent an agreement, the DSRIP will phase down beginning at 25 percent in 2018, then by an additional 25 percentage points each year after that.

CMS approval of this Texas demonstration extension is conditioned on continued compliance with the enclosed set of STCs defining the nature, character, and extent of anticipated federal involvement in the project. The award is subject to your written acknowledgement of the award and acceptance of the Special Terms and Conditions (STCs) within 30 days of the date of this letter.

A copy of the revised STCs and the expenditure authorities is enclosed. A copy of the waiver list is also enclosed.

Your project officer for this demonstration is Mr. Eli Greenfield. He is available to answer any questions concerning your section 1115 demonstration and this amendment. Mr. Greenfield's contact information is:

Center for Medicare & Medicaid Services  
Center for Medicaid & CHIP Services  
Mail Stop: S2-03-06  
7500 Security Boulevard  
Baltimore, MD 21244-1850  
Telephone: (410) 786-6157  
Facsimile: (410) 786-5882  
E-mail: [Eli.Greenfield@cms.hhs.gov](mailto:Eli.Greenfield@cms.hhs.gov)

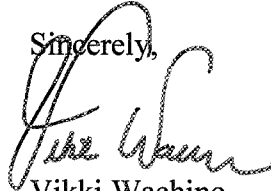
Official communications regarding official matters should be sent simultaneously to Mr. Greenfield and Bill Brooks, Associate Regional Administrator for the Division of Medicaid and Children's Health in our Dallas office. Mr. Brook's contact information is as follows:

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

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If you have any questions regarding this approval, please contact Mr. Eliot Fishman, Director, State Demonstrations Group, Centers for Medicaid & CHIP Services at (410) 786-9686.

Sincerely,

A handwritten signature in black ink, appearing to read "Vikki Wachino". The signature is fluid and cursive, with a large initial "V" and "W".

Vikki Wachino  
Director

Enclosure

cc: Bill Brooks, ARA Region VI