

1 **SEC. __. RESTRUCTURING MEDICAID PHARMACY PAYMENTS TO USE**

2 **AVERAGE SALES PRICE METHODOLOGY.**

3 (a) **IN GENERAL.**—Section 1927(e)(4) (42 U.S.C. 1396r-8(e)(4)) is amended to read as
4 follows—

5 "(4) **PAYMENT LIMIT EQUAL TO MANUFACTURER'S AVERAGE SALES**
6 **PRICE.**—Payment may not be made under section 1903(a) to a State for a quarter with
7 respect to the ingredient costs or dispensing fees for covered outpatient drugs furnished
8 under a State plan under this title to the extent that the aggregate State expenditures for
9 such ingredient costs and dispensing fees for such quarter exceed the expenditures the
10 State would have made for such quarter had the State payment for each covered
11 outpatient drug furnished been equal to 106 percent of the manufacturer's average sales
12 price (determined in the same manner as the manufacturer's average sales price is
13 determined under section 1847A) for such drug."

14 (b) **CONFORMING AMENDMENT.**—Section 1903(i)(10) (42 U.S.C. 1396b(i)(10)) is
15 amended—

16 (1) in subparagraph (A), by striking "and" at the end;

17 (2) in subparagraph (B), by striking "; or"; and inserting ", and"; and

18 (3) by adding at the end the following new subparagraph:

19 "(C) with respect to any amount that exceeds the payment limit described
20 in section 1927(e)(4); or".

21 (c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to payment
22 for drugs furnished on or after October 1, 2005.

1 **SEC. ____.** **TRANSFER OF ASSETS REFORM.**

2 (a) **IN GENERAL.**—Section 1917(c) of the Social Security Act (42 U.S.C. 1396p(c)) is
3 amended in paragraph (1)(D) to read as follows:

4 “(D) The date specified in this subsection is the first day of the first month
5 during or after which assets have been transferred for less than fair market value,
6 or the date on which the individual is eligible for medical assistance under the
7 State plan, whichever is later, and which does not occur during any other period of
8 ineligibility under this subsection.”.

9 (b) **EFFECTIVE DATE.**—

10 (1) **IN GENERAL.**— Subject to paragraph (2), the amendment made by this
11 section shall be effective October 1, 2005.

12 (2) **PROSPECTIVE APPLICATION.**— The provisions of this section shall apply
13 with respect to asset transfers made on or after the date specified in paragraph (1).

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1 **SEC. ____ . PHASE-DOWN OF BROAD-BASED HEALTH CARE-RELATED TAX**
2 **TO THREE PERCENT.**

3 (a) **IN GENERAL.**—Section 1903(w)(4) of the Social Security Act (42 U.S.C.
4 1396b(w)(4)) is amended by inserting after subparagraph (C) the following new subparagraph:

5 "(D)(i) Revenues attributable to such tax, expressed as a percentage of the
6 taxpayer's net operating revenues attributable to the items or services assessed (the
7 "revenue percentage"), exceed the percentage specified in clause (ii).

8 "(ii)(I) For purposes of clause (i), the percentage specified in this clause is
9 three percent (or such lower percentage as the Secretary may establish by
10 regulation), except as otherwise provided in subclause (II).

11 "(II) For purposes of clause (i), in the case of a tax in effect before
12 October 1, 2005, the percentage specified in this clause for each of the first and
13 second fiscal years following the enactment of this subparagraph is the greater of
14 three percent or—

15 "(aa) for the first such fiscal year, the lesser of five percent, or one
16 percentage point less than the revenue percentage for such tax as of
17 September 30, 2005; and

18 "(bb) for the second such fiscal year, the lesser of four percent, or
19 two percentage points less than the revenue percentage for such tax as of
20 September 30, 2005."

21 (b) **EFFECTIVE DATE.**—The amendment made by this section shall be effective
22 October 1, 2005.

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1 **SEC. __. MANAGED CARE ORGANIZATION PROVIDER TAX REFORM.**

2 **(a) IN GENERAL.**—Section 1903(w)(7)(A)(viii) of the Social Security Act (42 U.S.C.
3 1396b(w)(7)(A)(viii)) is amended to read as follows:

4 **"(viii) Services of managed care organizations (including health**
5 **maintenance organizations, preferred provider organizations and such**
6 **other similar organizations as the Secretary may specify by regulation)."**

7 **(b) EFFECTIVE DATE.**—The amendment under this section shall be effective October
8 1, 2007.

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1 **SEC. __. DISALLOWANCE OF STATE MEDICAID PAYMENTS NOT RETAINED**
2 **BY GOVERNMENTAL ENTITIES.**

3 (a) **DISALLOWANCE OF EXPENDITURES.**—Section 1903(i) of the Social Security
4 Act (42 U.S.C. 1396b(i)) is amended—

5 (1) in paragraph (19), by striking the period at the end and inserting "; or";

6 (2) in paragraph (20), by striking the period at the end and inserting "; or"; and

7 (3) by inserting immediately after paragraph (20) the following new paragraph:

8 “(21) with respect to any amount paid for care and services furnished under the
9 State plan, or under any waiver or demonstration program, by a facility or other entity
10 (including any affiliated physician or other individual provider) that is directly or
11 indirectly owned, employed, operated, or controlled by a State, county, city, or other local
12 government entity or taxing district, that—

13 “(A) exceeds the amount of such payment retained under the ownership
14 and control of any such entity or district for the purpose of providing such care
15 and services, including allocable administrative and operating expenses; or

16 “(B) during any quarter was, as an express or implicit condition for
17 payment of such entity under the State plan—

18 “(i) returned, directly or indirectly, by the entity to the State or to
19 any county, city, or other local government entity within such State; or

20 “(ii) used to supplant other State or local government funding
21 obligations.”.

22 (b) **CONFORMING AMENDMENT WITH RESPECT TO RETURN BY PROVIDERS**

1 OF NON-FEDERAL FUNDS.—Section 1903(w)(6) (42 U.S.C. 1396b(w)(6)) is amended by
2 inserting "but subject to subsection (i)(21), " after "Notwithstanding the provisions of this
3 subsection,".

4 (c) STATE ASSURANCES.—Section 1902(a) of the Social Security Act (42 U.S.C.
5 1396a(a)) is amended—

6 (1) in paragraph (66), by striking "and" at the end;

7 (2) in paragraph (67) by striking the period at the end and inserting "; and";

8 (3) by inserting after paragraph (67), as so amended, the following new paragraph:

9 "(68) exclude any arrangement described under 1903(i)(21) and provide such
10 assurances and other information as the Secretary determines appropriate to demonstrate
11 that the State estimate of its quarterly expenditures, reported pursuant to section
12 1903(d)(1)(A), does not include expenditures of the type for which Federal matching
13 payments are not permitted under section 1903(i)(21), including, with respect to any
14 proposed State plan amendment affecting provider payments, information regarding—

15 "(A) whether any portion of the proposed payments would be directly or
16 indirectly returned to the State or a county, city, or other local government or
17 taxing district;

18 "(B) the sources of funds constituting the non-Federal share of such
19 payments;

20 "(C) the extent to which the proposed payments would constitute payment
21 in full for care and services under this title, including a description found
22 sufficient by the Secretary of the methodology used to determine the amount of

1 such payments and of any supplemental or other enhanced payments for such care
2 and services;

3 "(D) the methodology used by the State, pursuant to regulations under
4 section 705 of the Medicare, Medicaid, and SCHIP Benefit Improvement and
5 Protection Act of 2000 (P.L. 106-554 Appendix F), to estimate the upper payment
6 limit for—

7 "(i) State government-owned and operated facilities;

8 "(ii) non-State government-owned and operated facilities; and

9 "(iii) privately-owned and operated facilities; and

10 "(E) the extent to which any provider described in clauses (i) or (ii) of
11 subparagraph (D) would receive payments under this title which, in the aggregate,
12 would exceed the reasonable cost of such services; and

13 "(F) such other information, assurances and certifications (including
14 certifications from the State or a county, city, or other local government entity or
15 taxing district in such State) as the Secretary determines appropriate.”.

16 (d) ENFORCEMENT.— Section 1903 of the Social Security Act (42 U.S.C. 1396b) is
17 amended by adding at the end the following new subsection:

18 "(x) ENFORCEMENT OF LIMITS ON PAYMENTS TO GOVERNMENTAL
19 PROVIDERS.—

20 "(1) STATE PLAN AUDITS.— If the Secretary determines that information
21 submitted by a State pursuant to this title is insufficient to demonstrate that the State’s
22 report of its estimated or actual quarterly expenditures (pursuant to subsection (d)(1)(A))

1 excludes expenditures of the type for which Federal matching payments are not permitted
2 under subsection (i)(21), the Secretary shall audit, at such times and to the extent
3 determined necessary and appropriate by the Secretary, the program under the State plan
4 under this title, including any demonstration or waiver programs.

5 "(2) ACTIONS BY SECRETARY.— If information obtained by the Secretary in
6 accordance with this subsection or otherwise under this title demonstrates to the Secretary
7 that—

8 "(A) any State report of its estimated or actual quarterly expenditures
9 (pursuant to subsection (d)(1)(A)) includes expenditures of the type for which
10 Federal matching payments are not permitted under subsection (i)(21), the
11 Secretary shall reduce, defer, or disallow such expenditures.

12 "(B) any existing State plan methodology would result in expenditures for
13 which Federal matching payments are not permitted under subsection (i)(21), the
14 Secretary shall defer or disallow such expenditures and disapprove such
15 methodology to the extent it resulted in such expenditures."

16 (e) EFFECTIVE DATE.—

17 (1) IN GENERAL.— Except as provided under subsection (2), the amendments
18 made by this section shall be effective October 1, 2006.

19 (2) COMPLIANCE TRANSITION PERIOD.—The Secretary shall not consider a
20 State plan under title XIX of the Social Security Act to be out of compliance nor disallow
21 claimed State expenditures under such plan, solely on the basis of the amendments made
22 under this section, for any calendar quarter in which the State expenditures otherwise

1 disallowable under Section 1903(i)(21) (as added under subsection (a))—

2 (A) are permissible under the upper payment limit transition provision
3 established under section 705(b) of the Medicare, Medicaid, and SCHIP Benefits
4 Improvement and Protection Act of 2000 (P.L. 106-554 Appendix F); and

5 (B) do not, as a percentage of the maximum State expenditures so
6 permissible for such quarter, exceed the corresponding percentage of permissible
7 expenditures for the preceding quarter.

1 **SEC. __ . COST-LIMITED REIMBURSEMENT OF GOVERNMENTAL**
2 **PROVIDERS.**

3 (a) **DISALLOWANCE OF EXPENDITURES IN EXCESS OF COST.**— Section 1903(i)
4 of the Social Security Act (42 U.S.C. 1396b(i)) is amended—

5 (1) in paragraph (19), by striking the period at the end and inserting "; or";

6 (2) in paragraph (20), by striking the period at the end and inserting "; or"; and

7 (3) by inserting immediately after paragraph (20) the following new paragraph:

8 "(21) (A) subject to subparagraph (B), with respect to any amount expended as
9 medical assistance for care or services furnished by a governmental provider (as defined
10 in subsection (x)(4)), including care or services furnished under a waiver or
11 demonstration program, that exceeds the lesser of—

12 "(i) the approved rate of payment for such assistance under the
13 plan; or

14 "(ii) the provider's actual allowable cost for furnishing such care or
15 services, as determined by the Secretary pursuant to subsection (x).

16 "(B) the provisions of subparagraph (A) shall not apply with respect to
17 adjustments to payments to disproportionate share hospitals described in section
18 1923."

19 (b) **STATE ASSURANCES.**—Section 1902(a) of the Social Security Act (42 U.S.C.
20 1396a(a)) is amended—

21 (1) in paragraph (66), by striking "and" at the end;

22 (2) in paragraph (67) by striking the period at the end and inserting "; and";

1 (3) by inserting paragraph (67), as so amended, the following new paragraph:

2 "(68) exclude any expenditures described in 1903(i)(21) and provide such
3 assurances and other information as the Secretary determines appropriate to demonstrate
4 that the State estimate of its quarterly expenditures, reported pursuant to section
5 1903(d)(1)(A), does not include expenditures of the type for which Federal matching
6 payments not permitted under section 1903(i)(21)."

7 (c) DEVELOPMENT OF COST-LIMITED PAYMENT; ENFORCEMENT.—Section
8 1903 of the Social Security Act (42 U.S.C. 1396c) is amended by adding at the end the following
9 new subsection:

10 "(x) COST-LIMITED PAYMENT OF GOVERNMENTAL PROVIDERS.—

11 "(1) COST METHODOLOGY.—

12 "(A) IN GENERAL.—For purposes of subsection (i)(21)(A)(ii), the
13 Secretary shall develop a uniform methodology in accordance with this subsection
14 for use by States for determining the cost of care and services furnished to
15 individuals eligible for medical assistance by governmental providers (as defined
16 in paragraph (4)). Such uniform methodology shall include a standard form to be
17 used nationwide for the reporting of cost data.

18 "(B) COST DATA UTILIZED.—For purposes of applying the
19 methodology developed under subparagraph (A), the States shall utilize available
20 cost data including—

21 "(i) any cost reports made by governmental providers (as defined in
22 paragraph (4)) under title XVIII;

1 "(ii) quarterly cost estimates provided by States pursuant to section
2 1903(d)(1)(A);

3 "(iii) financial records of governmental providers provided by
4 States and audited by the Secretary under section 1902(a)(42); and

5 "(iv) data from such other cost reporting mechanisms as the
6 Secretary determines appropriate.

7 "(C) STATE AUDIT OF COST DATA.— For purposes of this paragraph,
8 the State shall conduct an annual independent audit to determine that allowable
9 costs for a provider are determined in accordance with the provisions of this
10 subsection and otherwise under this title.

11 "(2) ENFORCEMENT.— If the Secretary determines, based on information
12 obtained in accordance with this subsection or otherwise under this title, that any State
13 reports of estimated or actual expenditures (submitted pursuant to subsection (d)(1)(A))
14 include expenditures of the type for which Federal matching payments are not permitted
15 under subsection (i)(21), the Secretary shall reduce, defer, or disallow such expenditures.

16 "(3) AUDIT OF STATE COST DATA.— The Secretary shall audit, at such times
17 and to such extent determined necessary and appropriate by the Secretary, the cost
18 reporting data utilized by States and providers pursuant to this subsection.

19 "(4) DEFINITIONS.— For purposes of this subsection—

20 "(A) the term "governmental provider" means a facility or other entity
21 (including any affiliated physician or other individual provider) that—

22 "(i) furnishes care and services under the State plan, or under any

1 waiver or demonstration program, and;

2 "(ii) is directly or indirectly owned, employed, operated, or
3 controlled by a State, county, city, or other local government entity or
4 taxing district; and

5 "(B) the term "cost" for purposes of this subsection means the reasonable
6 cost of care and services described in section 1905(a), as would be determined
7 under section 1861(v) and regulations under such section."

8 (d) EFFECTIVE DATE.—

9 (1) IN GENERAL.—Except as otherwise provided under this subsection, the
10 amendments made under this section shall take effect upon enactment.

11 (2) ENFORCEMENT.— The following provisions of the Social Security Act, as
12 added under this section, shall take effect October 1, 2006—

13 (A) Section 1903(i)(21) (as added by subsection (a)); and

14 (B) Section 1903(x)(2) (as added by subsection (c)).

15 (3) COMPLIANCE TRANSITION PERIOD.—The Secretary shall not consider a
16 State plan under title XIX of the Social Security Act to be out of compliance nor disallow
17 claimed State expenditures under such plan, solely on the basis of the amendments made
18 under this section, for any calendar quarter in which the State expenditures otherwise
19 disallowable under Section 1903(i)(21) (as added under subsection (a))—

20 (A) are permissible under the upper payment limit transition provision
21 established under section 705(b) of the Medicare, Medicaid, and SCHIP Benefits
22 Improvement and Protection Act of 2000 (P.L. 106-554 Appendix F); and

1 (B) do not, as a percentage of the maximum State expenditures so
2 permissible for such quarter, exceed the corresponding percentage of permissible
3 expenditures for the preceding quarter.

4 (e) CONFORMING AMENDMENT WITH RESPECT TO PAYMENT OF CERTAIN
5 INPATIENT HOSPITAL SERVICES.— Section 1903(i)(3) of the Social Security Act (42
6 U.S.C. 1396b(i)(3)) is amended by inserting ", subject to paragraph (21)" after "fair
7 compensation to such institution for such services".

1 **SEC. ____ . CLARIFICATION OF DEFINITION OF REHABILITATION**
2 **SERVICES.**

3 (a) IN GENERAL.—Section 1905 of the Social Security Act (42 U.S.C. 1396d) is
4 amended—

5 (1) in subsection (a), in the matter following paragraph (27)—

6 (A) by striking "or" after subparagraph (A);

7 (B) by striking the period after subparagraph (B) and inserting "; or" and

8 (C) by inserting after subparagraph (B) the following new subparagraph:

9 "(C) any payment with respect to rehabilitation services for purposes of
10 paragraphs (9), (13), or other any other provision of this subsection if such
11 services do not meet the requirements of subsection (x).".

12 (2) by adding after subsection (w) the following new subsection:

13 "(x) the term "rehabilitation services" means services which—

14 "(1) are intended for the maximum reduction of physical or mental disability and
15 restoration of an individual to the best possible functional level;

16 "(2) are necessary for the achievement of specific, measurable outcomes related to
17 the purposes described in paragraph (1);

18 "(3) are prescribed by a physician or other licensed practitioner of the healing arts
19 within the scope of his or her practice under State law;

20 "(4) are provided by, or under the direction of, a physician or other licensed
21 practitioner of the healing arts within the scope of his or her practice under State law;

22 "(5) are provided consistent with the requirements of section 1902(a)(23) (with

1 respect to freedom of choice of provider); and

2 "(6) are not allowable services or an administrative function under any other
3 Federal, State, or local program, including programs under—

4 "(A) title IV of this Act; or

5 "(B) any other Federal, State, or local authority governing provision of
6 services pertaining to education, mental health, job training, housing, parole and
7 probation, juvenile justice, public guardianship, foster care, or child welfare."

8 (b) CONFORMING STATE PLAN REQUIREMENTS.—Section 1902(a) of the Social
9 Security Act (42 U.S.C. 1396a(a)) is amended—

10 (1) in paragraph (66) by striking "and" at the end;

11 (2) in paragraph (67) by striking the period at the end and inserting "; and" and

12 (3) by adding after paragraph (67), as so amended, the following new paragraph:

13 "(68) provide, with respect to rehabilitation services described in section 1905(x),
14 such information and assurances as the Secretary determines appropriate to demonstrate
15 that the State furnished such services in accordance with the requirements of such
16 section."

17 (c) PAYMENT EXCLUSION.—Section 1903(i) of the Social Security Act (42 U.S.C.
18 1396b(i)) is amended by inserting immediately after paragraph (8) the following new paragraph:

19 "(9) with respect to any amount expended for rehabilitation services (as described
20 in section 1905(x)), to the extent the Secretary determines that such services—

21 "(A) are furnished without charge to individuals in the State irrespective of
22 such individuals' eligibility for medical assistance;

1 "(B) are not billed under a fee schedule; or

2 "(C) are not provided with respect to a specific individual."

3 (d) ENFORCEMENT.— Section 1903 of the Social Security Act (42 U.S.C. 1396b) is
4 amended by adding at the end the following new subsection:

5 "(x) ENFORCEMENT OF LIMITATIONS ON PAYMENT FOR REHABILITATION
6 SERVICES.—

7 "(1) STATE PLAN AUDITS.— If the Secretary determines that information
8 submitted by a State pursuant to this title is insufficient to demonstrate that the State's
9 report of its estimated or actual quarterly expenditures (pursuant to subsection (d)(1)(A))
10 excludes expenditures of the type for which Federal matching payments are not permitted
11 under subsection (i)(9), the Secretary shall audit, at such times and to the extent
12 determined necessary and appropriate by the Secretary, the program under the State plan
13 under this title, including any demonstration or waiver programs.

14 "(2) ACTIONS BY SECRETARY.— If information obtained by the Secretary in
15 accordance with this subsection (or otherwise under this title) demonstrates to the
16 Secretary that the State report described in paragraph (1) includes expenditures for which
17 Federal matching is barred under subsection (i)(9), or that any existing State plan
18 methodology would result in such expenditures, the Secretary shall reduce, defer, or
19 disallow such expenditures."

20 (e) EFFECTIVE DATE.—The provisions of this section shall take effect October 1, 2006.

1 **SEC. ____ . CLARIFICATION OF DEFINITION OF CASE MANAGEMENT**
2 **SERVICES.**

3 (a) **IN GENERAL.**—Section 1915(g) of the Social Security Act (42 U.S.C. 1396n(g)(2))
4 is amended by amending paragraph (2) to read as follows:

5 "(2) For purposes of this subsection, the term 'case management services' means
6 services which—

7 "(A) will assist individuals eligible under the plan in gaining access to
8 needed medical, social, educational, and other services;

9 "(B) are distinct from such medical, social, education, and other services;

10 "(C) are used to achieve specific, measurable outcomes for specific
11 individuals in accordance with subparagraph (A); and

12 "(D) subject to paragraph (3), are not allowable services or an
13 administrative function under any other Federal, State, or local program, including
14 programs under—

15 "(i) title IV of this Act; or

16 "(ii) any other Federal, State, or local authority governing provision
17 of services pertaining to education, mental health, job training, housing,
18 parole and probation, juvenile justice, public guardianship, foster care, or
19 child welfare.

20 "(3) Subparagraph (2)(D) shall not apply with respect to case management
21 services (as otherwise defined under paragraph(2)) furnished to an infant or toddler with a
22 disability pursuant to the child's individualized family service plan under part C of the

1 Individuals with Disabilities Education Act."

2 (b) CONFORMING STATE PLAN REQUIREMENTS.—Section 1902(a) (42 U.S.C.
3 1396a(a)) is amended—

4 (1) in paragraph (66) by striking "and" at the end;

5 (2) in paragraph (67) by striking the period at the end and inserting "; and"

6 (3) by adding after paragraph (67), as so amended, the following new paragraph:

7 "(68) provide, with respect to case management services as described in section
8 1915(g), such information and assurances as the Secretary determines appropriate to
9 demonstrate that the State has furnished such services in accordance with the
10 requirements of such section."

11 (c) PAYMENT EXCLUSION.—Section 1903(i) (42 U.S.C. 1396b(i)) is amended by
12 inserting immediately after paragraph (8) the following new paragraph:

13 "(9) notwithstanding section 8435 of the Technical and Miscellaneous Revenue
14 Act of 1988 (P.L. 100-647), with respect to any amount expended for case management
15 services (as described in section 1915(g)), to the extent the Secretary determines that such
16 services—

17 "(A) are furnished without charge to individuals in the State irrespective of
18 such individuals' eligibility for medical assistance;

19 "(B) are not billed under a fee schedule; or

20 "(C) are not provided with respect to a specific individual."

21 (d) ENFORCEMENT.—Section 1903 of the Social Security Act (42 U.S.C. 1396b) is
22 amended by adding at the end the following new subsection:

1 "(x) ENFORCEMENT OF LIMITATIONS ON PAYMENT FOR CASE
2 MANAGEMENT SERVICES.—

3 "(1) STATE PLAN AUDITS.— If the Secretary determines that information
4 submitted by a State pursuant to this title is insufficient to demonstrate that the State's
5 report of its estimated or actual quarterly expenditures (pursuant to subsection (d)(1)(A))
6 excludes expenditures of the type for which Federal matching payments are not permitted
7 under subsection (i)(9), the Secretary shall audit, at such times and to the extent
8 determined necessary and appropriate by the Secretary, the program under the State plan
9 under this title, including any demonstration or waiver programs.

10 "(2) ACTIONS BY SECRETARY.— If information obtained by the Secretary in
11 accordance with this subsection (or otherwise under this title) demonstrates to the
12 Secretary that the State report described in paragraph (1) includes expenditures for which
13 Federal matching is not permitted under subsection (i)(9), or that any existing State plan
14 methodology would result in such expenditures, the Secretary shall reduce, defer, or
15 disallow such expenditures."

16 (e) EFFECTIVE DATE.—The provisions of this section shall take effect October 1, 2006.

1 **SEC. ____ . FEDERAL MATCHING RATE FOR CASE MANAGEMENT SERVICES.**

2 **(a) IN GENERAL.**—Section 1903(a) of the Social Security Act (42 U.S.C. 1396b(a)) is
3 amended—

4 (1) in paragraph (1), by inserting before the semicolon "(other than for services
5 specified in paragraph (8))";

6 (2) by striking the period at the end of paragraph (7) and inserting "; plus"; and

7 (3) by inserting after paragraph (7) the following new paragraph:

8 "(8) 50 per centum of the sums expended during such quarter for case
9 management services, as described in subsections (c)(4)(B) and (g)(2) of section 1915,
10 and 50 per centum of any administrative expenditures related to providing such
11 services."

12 **(b) EFFECTIVE DATE.**— This section shall be effective with respect to calendar
13 quarters beginning on or after October 1, 2005.

14

1 **SEC. ____ . ALLOTMENT LIMITS FOR MEDICAID ADMINISTRATIVE COSTS.**

2 (a) IN GENERAL.—Section 1903 of the Social Security Act (42 U.S.C. 1396b) is
3 amended—

4 (1) in subsection (a), in the matter preceding paragraph (1), by inserting "(subject,
5 except with respect to medical assistance expenditures under paragraph (1), to the
6 allotment limits under subsection (x))" after "under this title"; and

7 (2) by adding at the end the following new subsection:

8 "(x) STATE ADMINISTRATIVE COST LIMITATION.—

9 "(1) IN GENERAL.—Payments to a State under paragraphs (2) through (7) of
10 subsection (a) for calendar quarters in fiscal year 2006 or any succeeding fiscal year shall
11 not exceed, in the aggregate, an amount equal to the State's administrative cost allotment,
12 as determined under this subsection.

13 "(2) ALLOTMENT FORMULA.—The administrative allotment for a State—

14 "(A)(i) for fiscal year 2006 shall be an amount equal to the Federal share
15 of total allowable costs claimed by the State under paragraphs (2) through (7) of
16 subsection (a) for calendar quarters in fiscal year 2003, determined as of
17 September 30, 2004, adjusted in accordance with clause (ii).

18 "(ii) the amount specified in clause (i) shall be increased by a
19 percentage equal to the sum of the percentages described in clause (iii).

20 "(iii) the percentages described in this clause are, with respect to
21 each consecutive 12-month period in the 36-month period ending March
22 30, 2006, the percentage change in the consumer price index (for all urban

1 consumers; U.S. city average) plus 4.5 percentage points; and

2 "(B)(i) for each succeeding fiscal year, shall be the State's administrative
3 allotment for the preceding fiscal year, increased by the percentage described in
4 clause (ii).

5 "(ii) the percentage described in this paragraph is the percentage
6 change in the consumer price index (for all urban consumers; U.S. city
7 average) for the 12-month period ending on March 30 of such fiscal year,
8 plus 4.5 percentage points."

9 (b) EFFECTIVE DATE.—The amendments made by this section shall be effective with
10 respect to calendar quarters beginning on or after October 1, 2006.

11