



DEC 26 1996

Dear State Medicaid Director:

In response to State inquiries, I am issuing this letter which provides information on the allowability as a Medicaid administrative cost, of State expenditures for bus passes (for example, with respect to fixed route transportation services) used to assure transportation for Medicaid eligible individuals to providers of covered services.

States also asked whether the recipients would be able to use the bus passes for non-Medicaid purposes in addition to using the bus passes to obtain medical services. Finally, States expressed concerns about the practicality of applying cost-allocation provisions required by the Office of Management and Budget (OMB) Circular A-87 dated May 17, 1995, which governs the allowability of costs under Medicaid.

The following provides information regarding funding under the Medicaid program for the use of bus passes. These provisions would also be applicable for funding of other similar fixed-route modes of transportation such as subway passes.

Subject to the following conditions, States may claim Federal Financial participation (FFP), as an administrative cost, in State expenditures for monthly bus passes as part of their Medicaid non-emergency transportation program, if set forth as a method to assure non-emergency transportation to providers which are described in the approved State plan. This guidance does not apply to bus passes, or other transportation services, furnished as medical assistance, which are not the subject of this letter.

### **Proper and Efficient Administration**

Section 1902(a)(4) of the Social Security Act (the Act) requires Medicaid State plans to provide for "such methods of administration ... as are found by the Secretary to be necessary for the proper and efficient operation of the plan." Section C.1.a of Attachment A of OMB Circular A-87 requires that costs be "necessary and reasonable for proper and efficient performance and administration of Federal awards" in order for costs to be allowable. This principle applies to the Medicaid program with respect to purchase of bus passes. Under this requirement States should establish some process or test for determining whether a bus pass is reasonable for particular individuals.

- **Cost Effectiveness** Under the provision of proper and efficient administration, an essential requirement is cost-effectiveness. In purchasing bus passes for purposes of transportation of recipients under the Medicaid program, a State must determine whether the purchase is cost-effective. The cost-effectiveness determination should include consideration of the following:
- **Comparison of Payment Methods and Modes of Transportation** Cost-effectiveness requires that the costs of the bus pass for the individual be no more than costs of other

payment methods for the bus trips. Therefore, the costs of the bus pass (whether on a monthly or other bases) must be compared to the cost of single (bus) trips a beneficiary would make to Medicaid providers to obtain Medicaid services. The cost of the monthly bus pass should not exceed the cost of the individual bus trips. In this regard, the cost-effectiveness of different methods of payment for a specific mode of transportation are compared. Thus in general, in determining cost-effectiveness it would not be appropriate to compare the costs of a bus pass to the cost of single trips under modes of transportation other than a bus, for example, taxi cabs.

However, the provision of transportation by taxi cabs or other modes of transportation is also a cost-effectiveness issue. Therefore, in addition to determining the most cost-effective method for paying for bus transportation, the costs associated with trips to a Medicaid provider (whether paid on the basis of single trips or by bus passes) should be compared with those of other modes of transportation such as taxis. In that situation the issue is whether the costs associated with transportation by bus is more cost-effective than paying for the other mode of transportation (taxis). We expect that transportation by bus would almost always be less costly than transportation by taxi. Therefore, in general, the State would determine that the taxi is not a cost-effective mode of transportation. Again, in determining whether bus passes are cost effective, a State should first determine the most cost-effective method for paying for bus transportation. Second, as appropriate, the State would determine whether another mode or transportation is even more cost effective.

Payment for bus trips may be made on a basis other than monthly. But tickets/tokens might be purchased through discount for a set number of individuals trips. For example, a bus pass for 10 individual trips might be sold for a discount from the cost of 10 individual trips. The State agency might also negotiate a bulk purchase of individual bus tokens for a discounted amount.

- Appropriate to the Individual's Needs and Personal Situation Purchase of a bus pass must be appropriate to the needs and personal situation of the individual. In determining cost-effectiveness under this condition, States should include consideration of the following related to the needs and personal situation of the individual:
  - . Medical condition
  - . Transportation factors
    - . Direct route availability
    - . Distance/length of transportation
    - . Scheduling of medical appointments

. Availability of other resources for providing and reimbursing for transportation

### **Allocation Requirements of OMB Circular A-87.**

Under the provisions of OMB Circular A-87, cost allocation may be required in purchasing bus passes under certain circumstances. Section C.3. of Attachment A of OMB Circular A-87 provides that costs be allocated to programs based on the relative benefits received, that is, by the benefiting program(s). In general, if other Federal, State or local programs could be used as a resource for the cost of a monthly bus pass, a determination of whether cost allocation is applicable must be made. A State should ascertain whether other programs or funding sources are available before assuming the entire cost of the bus pass under the Medicaid program.

Cost allocation for the cost of a bus pass used for Medicaid transportation would not be required if other uses (such as personal use) for the bus pass were not substantial. If the sole or primary anticipated use of the bus pass was for transportation to Medicaid providers, no cost allocation plan would be necessary as long as there are no other programs or funding sources which benefited from the activity. That is, if no substantial benefit is available to another program the only (or main) effective recipient of (transportation) benefits is the Medicaid program. If the primary use of the bus pass is for transportation to Medicaid providers and the only other use was personal use which did not affect the cost of the bus pass, no cost allocation would be required.

Thus, if the only or primary need of the individual is to obtain transportation to Medicaid providers, and there are no other, or very minimal, uses of the bus pass (regardless of personal use of the bus pass), no cost allocation for the costs of the bus pass would be necessary. The State should ascertain that no other programs or funding sources are involved and that there was no other substantial uses anticipated for the bus pass before assuming the entire cost of the bus pass under the Medicaid program.

### **Freedom of Choice**

If the State elects to cover transportation as an administrative cost, than freedom of choice requirements do not apply and the State can contract exclusively with a public transit service.

Freedom of choice requirements to not apply to administrative transportation activities (but would apply, absent a waiver, to transportation furnished as a medical service). If bus services are available only in selected areas, the State must assure equivalent transportation by other means in other areas, or must obtain a waiver of the Statewideness requirements. To preclude the need for a waiver, States could establish a hierarchy for determining the necessity of particular modes of transportation. For example, a State could have requirements under which free transportation must be used if available; if not, municipal bus services must be used if available and appropriate; and finally, taxi services may be used only if neither free transportation nor bus services are available.

**Procurement Requirements**

Funding for the costs of bus pass transportation under Medicaid must be consistent with the general procurement requirements of State law and Federal regulations at 45 CFR Part 45, which require competitive bidding to the maximum extent practical.

We hope this information is useful to you. If you have any questions or require further information, please contact the CMS Regional Office serving your State.

Sincerely,

/s/

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