FEDERALLY QUALIFIED HEALTH CENTERS PROSPECTIVE PAYMENT SYSTEMS FOR MEDICAID SERVICES

AN ISSUE BRIEF FROM LEGISLATIVE BUDGET BOARD STAFF

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OBJECTIVE

Federally Qualified Health Centers (FQHCs) provide comprehensive primary and preventive health care services to underserved populations and communities.

KEY FACTS

- Medicaid reimbursements were the largest funding source for FQHCs in Texas in calendar year 2012.
- Medicaid reimbursements to FQHCs are based on a Prospective Payment System (PPS). The PPS is calculated on a per-encounter baseline payment rate. Payments are increased each year by a standard medical inflation factor.
- There are no comparable Medicaid providers in Texas who are paid on a per-encounter rate or who offer the same scope of services that FQHCs do.

BUDGETARY IMPACT

In calendar year 2012, Texas FQHC Medicaid reimbursements totaled $190.4 million in All Funds ($78.7 million in General Revenue Funds) for Medicaid services.

STATUTORY REFERENCES

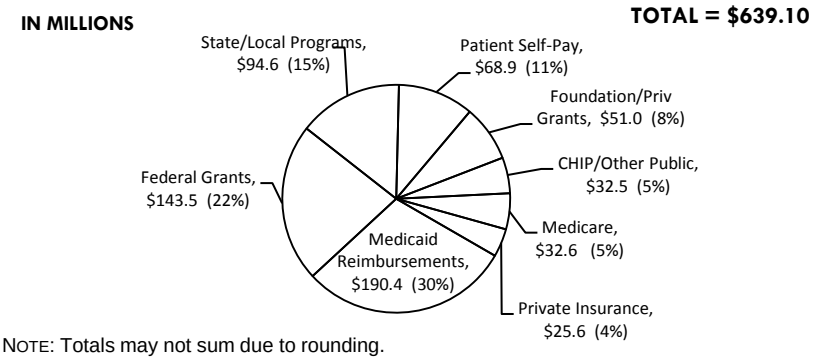
42 US Code Section 1396a (bb) (1)–(5)

Federally Qualified Health Centers (FQHCs) are "safety net" organizations that enhance the provision of primary health care services for underserved populations or communities. FQHCs must meet the requirements of the Health Center Program as defined by Section 330 of the federal Public Health Service Act, or qualify as an outpatient health program or facility operated by a tribe or tribal organization. In calendar year 2012, there were 69 FQHC grantees in Texas operating 330 clinic sites in 113 counties. FQHCs in Texas served approximately 1.1 million individuals in 2012. Some characteristics of the population served by Texas FQHCs include:

- 71 percent of patients between 15 and 64 years of age were female.
- 61 percent of individuals served by Texas FQHCs had incomes at or below 100 percent of the Federal Poverty Level, or $11,170 for an individual or $23,050 for a family of four in 2012.
- Of the individuals served by Texas FQHCs: 51 percent were uninsured; 39 percent had Medicaid, Medicare or other public health insurance coverage; and 10 percent had private health insurance coverage.

FQHCs receive federal grants directly from the federal government to support the operation and services of the health center. Additionally, these centers qualify for enhanced reimbursements from Medicaid and Medicare, as well as other benefits. In calendar year 2012, FQHC revenue totaled $639.1 million in All Funds. Medicaid reimbursements were the largest funding source for FQHCs in Texas, accounting for roughly 29.8 percent of FQHC revenue. State programs, such as the Family Planning Program at the Department of State Health Services, contract with FQHCs to provide services to clients. Fig. 1 shows the various revenue sources for Texas FQHCs.

FIG. 1: TEXAS FEDERALLY QUALIFIED HEALTH CENTERS REVENUE SOURCES CALENDAR YEAR 2012



NOTE: Totals may not sum due to rounding.
SOURCE: Legislative Budget Board.

PROSPECTIVE PAYMENT SYSTEM (PPS) AND ALTERNATIVE PROSPECTIVE PAYMENT SYSTEM (APPS) FOR MEDICAID SERVICES

The Texas Medicaid program is administered by the Health and Human Services Commission (HHSC). HHSC is responsible for the majority of reimbursements to Medicaid providers including FQHC providers.

Before December 2000, FQHC Medicaid reimbursements were based on a retrospective payment system. The payments were based on a provisional per-visit payment rate premised on the prior year's rate. FQHCs reconciled cost reports at the end of the year, and the levels of overall Medicaid payments were adjusted retroactively as necessary.

In 2000, Congress required states to implement a prospective payment system (PPS) to provide Medicaid reimbursements to FQHCs. PPS payments are based on a per-encounter baseline payment rate. The rate is unique to each center and is equal to 100 percent of the center's average cost per visit incurred during 1999 and 2000. In addition to the baseline payment, states are required to increase payments each year by a standard medical inflation factor. This factor is called the Medicare Economic Index (MEI). FQHCs can request an adjustment to their PPS rate if their costs have increased at a greater rate than the MEI. Federal statute allows states to use an Alternative Payment Methodology (APM) instead of the PPS. States can use an APM as long as the APM is agreed upon by the state and each individual FQHC. Additionally, the APM must result in a payment at least equal to the amount otherwise entitled using the PPS. The APM in Texas is called the Alternative Prospective Payment System (APPS). While the PPS rate is inflated by the MEI, the APPS rate is inflated by the MEI plus 0.5 percent each year. The effective rate for both methodologies is calculated at the beginning of each FQHC's fiscal year and is applied prospectively for that fiscal year. Each new in-state FQHC must select either the PPS or APPS reimbursement methodology within 30 days of receiving an enrollment letter from HHSC. If a selection is not made, HHSC will select the PPS methodology for the provider. FQHCs that select the APPS must submit annual cost reports to HHSC and may be subject to state-initiated reviews and prospective adjustments to their effective rate. Centers that select the PPS are not subject to these reviews. Both PPS and APPS rates can be adjusted each year to account for increases or decreases in the scope of services furnished by each center. In state fiscal year 2012, 86 percent of FQHC providers were reimbursed using the APPS methodology. According to the Texas Association of Community Health Centers, FQHCs typically select the APPS methodology over the PPS methodology because it is more accurate in reflecting FQHC's actual costs.

FIG. 2
AVERAGE AND RANGE OF TEXAS FEDERALLY QUALIFIED HEALTH CENTERS (FQHC) MEDICAID REIMBURSEMENT RATES CALENDAR YEARS 2009 THROUGH 2013

YEAR	AVERAGE FQHC RATE	LOWEST FQHC RATE	HIGHEST FQHC RATE
2009	$170.37	$98.25	$268.48
2010	$174.60	$100.90	$265.72
2011	$172.82	$85.69	$269.77
2012	$174.24	$86.63	$272.74
2013	$177.15	$87.76	$276.29

NOTES: Health and Human Services Commission (HHSC) data did not include Alternative Prospective Payment System (APPS) rates for three FQHC Look-alikes (A FQHC Look-Alike offers FQHC-like services but do not receive all of the benefits of FQHC status). HHSC analyzed and reset APPS rates in 2010, resulting in a reduction in some FQHC rates and a slight reduction in the average FQHC rate.

SOURCE: Health and Human Services Commission.

Fig. 2 shows the average and range of Medicaid FQHC reimbursement rates from calendar years 2009 to 2013. TACHC reports that FQHC Medicaid reimbursement rates vary due to factors such as: provider contract and employment arrangements; provider mix (physicians compared to mid-level providers) and productivity; services provided; and patient population.

HHSC conducted a FQHC rate analysis in 2010 and found that in most cases, the PPS methodology captured the provider's increased cost correctly. There were exceptions for providers that offered increased services compared to their base year. In calendar year 2012, FQHCs received $190.4 million in All Funds in Medicaid reimbursements ($78.7 million in General Revenue Funds and $111.7 million in Federal Funds). There are no comparable Medicaid providers in Texas who are paid on an encounter rate or that offer the same scope of services as FQHCs.

USEFUL REFERENCES

National Association of Community Health Centers: Emerging Issues in the FQHC Prospective Payment System
http://www.nachc.com/client//SPR38%20Emerging%20Issues%20in%20PPS%20September%2020111.pdf

2007 Government Effectiveness and Efficiency Report, *Expansion of Federally Qualified Health Centers in Texas,* p. 279
http://www.lbb.state.tx.us/Documents/Publications/GEER/Government%20Effectiveness%20and%20Efficiency%20Report%202007.pdf

CONTACT

Ayanna Clark Email: IssueBrief@lbb.state.tx.us