



Public Health Law

Office for State, Tribal, Local and Territorial Support
Centers for Disease Control and Prevention

Medicaid Service Delivery: Federally Qualified Health Centers

The federal-state Medicaid partnership gives each state considerable flexibility in implementing its Medicaid program.¹ Recent changes in healthcare law, including the enactment of the Patient Protection and Affordable Care Act (ACA) as interpreted by the US Supreme Court, provide states the legal framework to further transform delivery of state Medicaid programs.² These and other legal authorities give states flexibility to make changes to the administration of their Medicaid plans to cover additional populations, expand available services, or implement innovations in healthcare delivery. To cope with the expansion of state Medicaid programs, many state governments rely on federally qualified health centers (FQHCs) to help expand the delivery of services to newly Medicaid-eligible populations.

Federally Qualified Health Centers (FQHCs)

The FQHC program is intended to increase the provision of primary care services in underserved communities.³ Individuals receiving care from FQHCs are mostly low-income and uninsured or covered by Medicaid.⁴ Increasing primary care capacity through FQHCs in underserved communities is expected to decrease use of costly healthcare services, such as emergency room visits and hospitalizations, and result in savings to state Medicaid programs.⁵

Recent federal legislation, including the American Reinvestment and Recovery Act (ARRA) and the ACA, has included substantial appropriations intended to expand FQHCs' role in healthcare delivery.⁷

The ARRA appropriated \$2 billion in funding for FQHCs, including \$1.5 billion in funds for the cost of new equipment and construction of new facilities.⁸ The ACA included an \$11 billion appropriation (to be

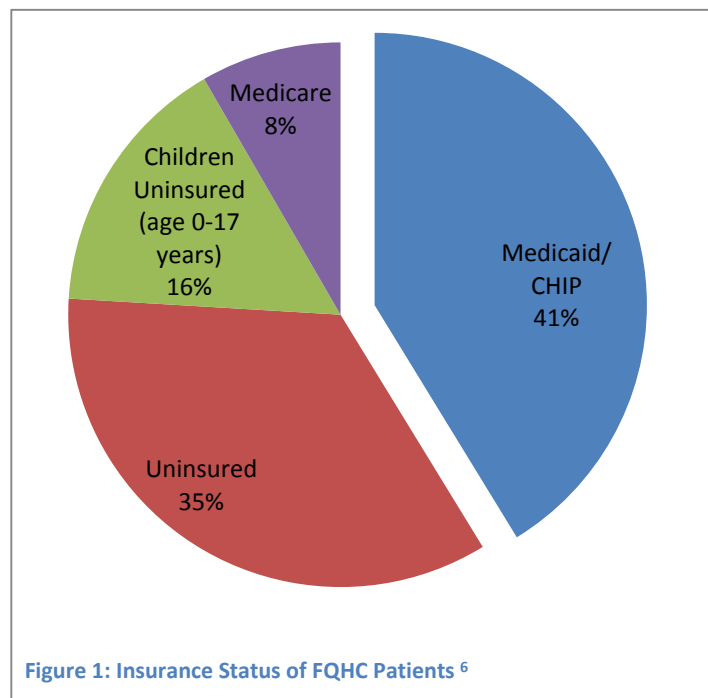


Figure 1: Insurance Status of FQHC Patients⁶



spent in FY 2011–2015) for a Health Center Trust Fund to support expanded operations and cost of new equipment and construction of new facilities.⁹ However, a 2011 federal budget agreement reduced FY

FQHC: Patient Population¹¹

Age

- Children (< 18 years old) = 31.7%
- Adult (18–64 years) = 60.9%
- Older adults (age 65 years and over) = 7.4%

Income

- 92.8% of patients at or below 200% of FPL
- 71.9% of patients at or below 100% of FPL

2011 funds to FQHCs by \$600 million, a reduction that continued in FY 2012. These funding reductions have limited the expansion of FQHC services across the nation.^{10,}

There are four types of FQHCs: community health centers, migrant health centers, healthcare-for-the-homeless centers, and public housing primary care centers.¹² FQHCs include nonprofit organizations receiving grants through Section 330 of the Public

Health Services (PHS) Act,¹³ certain tribal organizations, and FQHC “look-alikes.”¹⁴

FQHCs are eligible for enhanced reimbursement from Medicare and Medicaid but must meet certain requirements.¹⁵ Section 330 of the PHS Act requires that FQHCs

- Demonstrate need of the patient population;
- Provide comprehensive services to an underserved area or population;
- Offer a sliding fee scale;
- Use an ongoing quality improvement system; and,
- Be governed by a board of directors responsible for setting health center policies.¹⁶

Services Provided

FQHCs are required to provide primary care services to all age groups.¹⁷ Preventive health services must be provided by health centers either on site or with another provider through arrangement.¹⁸ Additional health services that must be provided directly through the health center or by arrangement with another provider include behavioral and mental health services,¹⁹ environmental health services,²⁰ and certain special occupation-related health services.^{21,}

FQHCs are required to have an ongoing quality improvement program that maintains the confidentiality of patient records.²³ The health center must also have a quality assurance program that periodically assesses “the

FQHC: Care and Services²²

FQHC provide primary and preventive care services, including

- Medical (18.6 million patients)
- Dental (4.4 million patients)
- Mental health (1.1 million patients)
- Substance abuse (105,000 patients)
- Vision (388,000 patients)
- Enabling (2.1 million patients)

Specialty referrals

appropriateness of the utilization of services and the quality of services provided or proposed to be provided to individuals served by the center.”²⁴

FQHC Finances

Medicaid is the largest source of FQHC revenue, making up 37 percent of total revenue and 63 percent of patient-related revenue for FQHC grantees.²⁵ Medicaid reimbursement to FQHCs operates under a prospective payment system (PPS) as established by the Benefits Improvement and Protection Act of 2000 (BIPA).²⁶ The PPS renders Medicaid payments per encounter for healthcare services based on the projected actual costs of services.²⁷ Payment amounts are determined by the historical use of FQHC services.²⁸ FQHC PPS reimbursement rates can be adjusted to reflect changing circumstances, such as significant changes to the use of services.²⁹ Under PPS, FQHCs receive an enhanced payment from Medicaid in comparison to non-FQHC providers, which incentivizes FQHCs to accept more Medicaid patients. Alternatively, BIPA allows state Medicaid agencies to establish their own reimbursement rates to FQHCs if the reimbursement is not less than that under the PPS rate and the FQHC consents.³⁰

Further information on Medicaid transformation and FQHCs can be found at <http://www.cdc.gov/phlp/docs/anthology-fqhc.pdf>.

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This issue brief includes laws enacted through September 2014.

¹ *Medicaid Information by Topic*, CENTERS FOR MEDICARE AND MEDICAID SERVICES, <http://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/By-Topic.html> (last visited Apr. 14, 2014).

² Patient Protection and Affordable Care Act, Pub. L. No. 111-148, 124 Stat. 119 (2010); *see also Nat’l Fed’n of Indep. Bus. v. Sebelius*, 132 S. Ct. 2566, 183 L. Ed. 2d 450 (2012).

³ *Federally Qualified Health Center*, CENTERS FOR MEDICARE AND MEDICAID SERVICES (2013), <http://www.cms.gov/Outreach-and-Education/Medicare-Learning-Network-MLN/MLNProducts/downloads/fqhcfactsheet.pdf> (last visited Apr. 14, 2014).

⁴ *Id.* at 147.

⁵ Richard Ku et al., *Using primary care to bend the curve: estimating the impact of a health center expansion on health care costs*, GEORGE WASHINGTON UNIVERSITY, SCHOOL OF PUBLIC HEALTH AND HEALTH SERVICES, DEPARTMENT OF HEALTH POLICY (2009), http://hsrc.himmelfarb.gwu.edu/cgi/viewcontent.cgi?article=1024&context=sphhs_policy_ggrchn (last visited Apr. 14, 2014); Jennifer Rothkopf et al., *Medicaid Patients Seen at Federally Qualified Health Centers Use Hospital Services Less Than Those Seen by Private Providers*, 30 HEALTH AFF. 7, 1335–42 (2011).

⁶ *2013 Health Center Data*, Health Resources and Services Administration, available at <http://bphc.hrsa.gov/uds/datacenter.aspx?year=2013> (last visited Apr. 14, 2014).

⁷ Pub. L. No. 111-5, 123 Stat. 115 (2009); Pub. L. No. 111-148, 124 Stat. 119 (2010).

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- ⁸ *Community Health Centers: The Challenge of Growing to Meet the Need for Primary Care in Medically Underserved Communities*, THE HENRY J. KAISER FAMILY FOUNDATION, at 12–5 (2012), <http://www.nhchc.org/wp-content/uploads/2011/09/Kaiser-health-center-challenges-March-2012.pdf> (last visited Apr. 14, 2014).
- ⁹ *Id.*
- ¹⁰ *Id.*; *Federally Qualified Health Centers: Are They Effective?*, CENTER FOR HEALTHCARE RESEARCH & TRANSFORMATION (2013), <http://www.chrt.org/publication/federally-qualified-health-centers-effective/> (last visited Sept. 9, 2014).
- ¹¹ *Supra* note 6.
- ¹² 42 U.S.C. § 254b.
- ¹³ *Id.*
- ¹⁴ An FQHC “look-alike” is an entity that meets the same eligibility requirements of entities receiving Section 330 PHS Act grants, but do not receive grant funding. Instead, FQHC look-alikes receive some of the same benefits as FQHCs, such as cost-based reimbursement for Medicare services, prospective payment system reimbursement, or state-approved alternative payment methodology for Medicaid services. *Report to Congress: Medicare and the Health Care Delivery System* MEDICARE PAYMENT ADVISORY COMMISSION, at 157 (2011), available at http://www.medpac.gov/documents/reports/Jun11_EntireReport.pdf?sfvrsn=0 (last visited Apr. 23, 2014).
- ¹⁵ *Federally Qualified Health Centers*, RURAL ASSISTANCE CENTER, <http://www.raconline.org/topics/federally-qualified-health-centers> (last visited Apr. 14, 2014); FQHC Prospective Payment System: Essential to the Health Center Model, National Association of Community Health Centers, http://www.nachc.org/client/Health%20Center%20PPS%20Fact%20Sheet_final.pdf (last visited Apr. 14, 2014); 42 U.S.C. § 1396a (bb).
- ¹⁶ *Id.* § 254b.
- ¹⁷ *Federally Qualified Health Centers: Frequently Asked Questions*, RURAL ASSISTANCE CENTER, <http://www.raconline.org/topics/federally-qualified-health-centers/faqs> (last visited Apr. 23, 2014). There is some evidence that suggests the quality of care delivered at FQHCs is at least comparable, if not superior, to private primary care providers in the delivery of ambulatory care. See L. Goldman et al., *Federally Qualified Health Centers and Private Practice Performance on Ambulatory Care Measures*, 43 AM. J. PREV. MED. 2, 142–8 (2012).
- ¹⁸ *Federally Qualified Health Centers: Frequently Asked Questions*, *supra* note 15.
- ¹⁹ *Id.* § 254b(2)(A).
- ²⁰ *Id.* § 254b(2)(C).
- ²¹ *Id.* § 254b(2)(D).
- ²² *Supra* note 6.
- ²³ 42 U.S.C. § 254b(k)(3)(C).
- ²⁴ 42 C.F.R. § 51c.303(c)(2).
- ²⁵ Revenue figures were compiled in 2009 by the Medicare Payment Advisory Commission from the Health Resources and Services Administration data warehouse. *Report to Congress: Medicare and the Health Care Delivery System*, *supra* note 12 at 151.
- ²⁶ *Id.*; *the FQHC Prospective Payment System*, MEDICAID-CHIP STATE DENTAL ASSOCIATION, *Understanding* at slide 4 <http://www.nationaloralhealthconference.com/docs/presentations/2013/04-24/Mary%20Foley%20-%20Understanding%20the%20Prospective%20Payment%20System.pdf> (last visited Apr. 23, 2014); *Federally Qualified Health Centers: An Overview*, CENTER FOR HEALTHCARE RESEARCH & TRANSFORMATION (2013), <http://www.chrt.org/publication/federally-qualified-health-centers-overview/> (last visited May 18, 2015).
- ²⁷ 42 U.S.C. § 1396a (bb).
- ²⁸ *Id.* § 405.2464.
- ²⁹ *Id.*
- ³⁰ *Report to Congress: Medicare and the Health Care Delivery System*, *supra* note 12 at 151.