



DEPARTMENT OF HEALTH & HUMAN SERVICES
Health Care Financing Administration

Center for Medicaid and State Operations
7500 Security Boulevard
Baltimore, MD 21244-185

October 23, 1998

Dear State Medicaid Director:

This letter is written to clarify the Health Care Financing Administration's (HCFA) intent regarding two provisions of an April 21, 1998 letter to State Medicaid Directors concerning guidance on changes in Federally Qualified Health Center (FQHC) and Rural Health Clinic (RHC) reimbursement requirements stemming from Balanced Budget Act of 1997 (BBA). The first provision is specifically referenced in the guidance, "Prohibition of Requirements for Higher Payments By Managed Care Organizations (MCOs)." The second provision relates to the availability of Federal financial participation for States that choose to pay above the minimum required levels of reimbursement for FQHCs/RHCs in a specific fiscal year.

Clarification on Prohibition of Requirements for Higher Payments by MCOs

As stated in the April 1998 letter, this provision requires the following:

"Under the pre-BBA law, States were allowed to delegate the requirement for cost-based reimbursement to MCOs. While section 4712(b)(2) of BBA places a floor on payments, it does not put a ceiling on payments (the law is silent). While the literal text of BBA does not impose an upper limit on what a State may require a managed care organization (MCO) to pay FQHC/RHC contractors, we recognize that permitting States to impose such requirements could result in access problems and have the opposite impact on MCO-FQHC/RHC contracting arrangements than what was intended by Congress. (That is, Congress intended to encourage contracting between FQHCs/RHCs and MCOs and to remove financial barriers to this contracting.) Therefore, it is our conclusion that States cannot impose any requirement on MCOs for payments to FQHCs/RHCs other than those contained in 4712(b)(2)."

Since the original guidance was issued, several States have proposed certain reimbursement approaches with MCOs for FQHC/RHC services that HCFA views as contradictory to the above stated policy. The specific approach (with slight variation) that has been proposed by several States involves payment by the State to the MCO of a capitation payment that includes the State's best estimate of 100 percent of the FQHCs/RHCs reasonable costs. In turn, the MCOs are required to make payments to FQHCs/RHCs equal to their reasonable costs.

While HCFA understands the reasons behind such a reimbursement approach, our view is that such reimbursement approaches are not consistent with the BBA and therefore violate the April 1998 policy guidance.

The following is a description of a reimbursement methodology that HCFA considers to be in compliance with the BBA. First, the methodology involves the State making a capitation payment to an MCO that does not include any enhancement for FQHC/RHC reasonable cost. Second, the State would make up the difference, directly with the FQHC/RHC, between the MCO payment to the FQHC/RHC and the FQHC's/RHC's estimated reasonable costs in the form of a quarterly supplemental payment. Third, the State would conduct any reconciliation, directly with the FQHC/RHC, that may be needed at the conclusion of each fiscal year to ensure that FQHCs/RHCs receive 100 percent reasonable cost (or whatever the requirement is in that specific fiscal year under the BBA).

This clarification is intended to assure that MCOs do not perceive or incur any undue burdens when contracting with FQHCs/RHCs versus other providers of care thus creating unintended barriers or disincentives to contract. Further, this clarification and our original policy are intended to not have the MCO involved in any issues regarding supplemental payments, reconciliation or any other reimbursement issue that would raise payment levels between the two parties above those of non-FQHCs/RHCs that provide a similar set of services.

HCFA expects States to come into compliance with this policy clarification as soon as possible. In order to come into compliance, States should amend existing MCO contracts by no later than December 31, 1998 and make appropriate changes to new contracts prior to their taking effect. This clarification does not affect a States' obligation under the BBA to comply with the FQHC/RHC reasonable cost-based provisions retroactive to October 1, 1997 as reflected in our April 1998 guidance. In other words, this clarification does not impact the underlying requirement which relates to the State-FQHC/RHC relationship (for reasonable cost-based reimbursement), but it does impact the State-MCO relationship.

Availability of Federal Financial Participation

Several States have inquired about the availability of Federal financial participation (FFP), also known as Federal matching, if a State chooses to pay FQHCs/RHCs above the minimum required levels of reimbursement contained in the BBA for a specific year. For example, if a State chooses to pay FQHCs/RHCs 100 percent of their reasonable costs in Fiscal Year 2000, when the BBA minimum requirement is for 95 percent, will the State receive FFP for the difference between 95 and 100 percent? In such circumstances where States choose to pay above the BBA minimum requirement for a particular fiscal year, FFP will be available for the differential amount, up to 100 percent of reasonable costs.

If you have any questions regarding this clarification, feel free to contact Sidney Trieger at (410) 786-6612 or Matt Barry at (410) 786-1176.

Sincerely,

/s/

Sally K. Richardson

Director

cc: Dr. Earl Fox, HRSA Administrator HCFA Regional Administrators HCFA Associate Regional Administrators for Medicaid and State Operations PHS Regional Administrators Nolan Jones, NGA Lee Partridge, APHSA Joy Wilson, NCSL