On April 29, 2014, the Centers for Medicare & Medicaid Services (CMS) released a final rule introducing a prospective payment system (PPS) for Federally Qualified Health Centers (FQHC). The final rule, serving as the product of a Patient Protection and Affordable Care Act (ACA) directive to reform previous payment methodologies to FQHCs, creates an encounter-based per diem rate that increases the overall bundled payment made to an FQHC per patient visit. As mentioned in a previous Health Capital Topics article, FQHCs traditionally provide preventative and primary health services to individuals in medically underserved areas (MUA), including but not limited to:

1. Children’s eye and ear examinations;
2. Immunizations;
3. Prenatal and post-partum care;
4. Cholesterol screening;
5. Clinical psychology and social worker services;
6. Tuberculosis testing; and,
7. Clinical breast exams and mammography referrals for women.

Using grant funds through Section 330 of the Public Health Service Act as well as Medicare reimbursement dollars, over 9,000 FQHC sites rendered these basic healthcare services for over 21 million people in the United States. These centers, commonly organized as community health centers; migrant health centers; or, public housing primary care centers; have “become an integral component of the Nation’s health care safety net system.”

The final rule issued by CMS set the base rate of payment to FQHCs for their provided medical services to $158.85, an upward adjustment from its September 2013 proposal of $155.90. This base figure is adjusted based on the FQHC’s geographic location to determine the final PPS payment received by the FQHC. Additionally, the final PPS payment received by the FQHC may also be adjusted based on whether the patient:

1. Is a new patient;
2. Is receiving an initial preventive physical examination (IPPE); and/or,
3. Is receiving an annual wellness visit (AWV).

If the patient is new to the FQHC, receiving an IPPE, or receiving an AWV, the FQHC will be reimbursed at a 34% higher rate than its regular, geographically-adjusted PPS rate. Notably, this PPS payment structure does not include payment for influenza and pneumococcal vaccines; these vaccines will continue to be reimbursed at 100% of all reasonable costs incurred by the FQHC for providing these services.

The final rule also sets the formula to calculate beneficiary coinsurance for each FQHC visit. Under the new FQHC PPS, which complies with ACA coinsurance requirements, a beneficiary must pay a coinsurance of 20% on the lesser of the following two amounts:

1. The FQHC’s actual charges for services provided; or,
2. The final PPS payment to the FQHC by Medicare.

Establishing which of the above two amounts the Medicare beneficiary is responsible for is determined by the costs reported to Medicare by the FQHC. However, Medicare beneficiaries will not sustain any coinsurance responsibility for preventive services furnished to them by the FQHC. This coinsurance rule does not apply to services outside the scope of primary or preventive care services, such as a referral to a hospital for specialist treatment.

The new FQHC PPS marks a significant shift from its current reimbursement methodology, as the final rule increases base payments from the current reimbursement rates of $111.67 and $129.02 for rural and urban FQHC locations, respectively. With the increase of the base PPS to $158.85, and annual adjustments to be implemented in the future, CMS estimated that the FQHC PPS will increase Medicare payments to FQHCs nationally by $170 million in 2015, $250 million in 2016, and $300 million by 2019. While noting that beneficiary coinsurance is expected to rise due to the increase in PPS payment, CMS noted it lacked sufficient data to accurately estimate the amount of the potential increase in beneficiary coinsurance. CMS will begin implementing the FQHC PPS on October 1, 2014, joining those other ACA reforms already enacted. As the implementation of the FQHC PPS begins, and is assessed along with other ACA reforms, the role of FQHCs should be continuously evaluated to determine their effectiveness in contributing to the goals of the ACA and resulting benefits to beneficiaries.

(Continued on next page)
[Continued on next page]
Mr. Cimasi holds a Masters in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Institution of Chartered Surveyors (FRICS – Royal Institute of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Accredited Valuation Analyst (AVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors). He has served as an expert witness on cases in numerous courts, and has provided testimony before federal and state legislative committees. He is a nationally known speaker on healthcare industry topics, the author of several books, the latest of which includes: "Accountable Care Organizations: Value Metrics and Capital Formation" [2013 - Taylor & Francis, a division of CRC Press], “The Adviser’s Guide to Healthcare” – Vols. I, II & III [2010 – AICPA], and “The U.S. Healthcare Certificate of Need Sourcebook” [2005 - Beard Books]. His most recent book, entitled "Healthcare Valuation: The Financial Appraisal of Enterprises, Assets, and Services," was published by John Wiley & Sons in March 2014.

Mr. Cimasi is the author of numerous additional chapters in anthologies; books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious "Shannon Pratt Award in Business Valuation" conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows. In 2011, he was named a Fellow of the Royal Institution of Chartered Surveyors (RICS).

Todd A. Zigrang, MBA, MHA, ASA, FACHE, is the President of HEALTH CAPITAL CONSULTANTS (HCC), where he focuses on the areas valuation and financial analysis experience, and has participated in the development of a physician-owned multi-specialty MSO and networks involving a wide range of specialties; physician-owned hospitals, as well as several limited liability companies for the purpose of acquiring acute care and specialty hospitals, ASCs and other ancillary facilities; participated in the evaluation and negotiation of managed care contracts, performed and assisted in the valuation of various healthcare entities and related litigation support engagements; created pro-forma financials; written business plans; conducted a range of industry research; completed due diligence practice analysis; oversee the selection process for vendors, contractors, and architects; and, worked on the arrangement of financing.

Mr. Zigrang holds a Master of Science in Health Administration and a Masters in Business Administration from the University of Missouri at Columbia. He is a Fellow of the American College of Healthcare Executives, and serves as President of the St. Louis Chapter of the American Society of Appraisers (ASA). He has co-authored "Research and Financial Benchmarking in the Healthcare Industry" (STP Financial Management) and "Healthcare Industry Research and its Application in Financial Consulting" (Aspen Publishers). He has additionally taught before the Institute of Business Appraisers and CPA Leadership Institute, and has authored research papers before the Healthcare Financial Management Association; the National CPA Health Care Adviser’s Association; Association for Corporate Growth; Infocast Executive Education Series; the St. Louis Business Valuation Roundtable; and, Physician Hospitals of America.

Matthew J. Wagner, MBA, is Senior Vice President of HEALTH CAPITAL CONSULTANTS (HCC), where he focuses on the areas of valuation and financial analysis. Mr. Wagner has provided valuation services regarding various healthcare related enterprises, assets and services, including but not limited to, physician practices, diagnostic imaging service lines, ambulatory surgery centers, physician-owned insurance plans, equity purchase options, physician clinical compensation, and healthcare equipment leases.

John R. Chwarzinski, MSF, MAE, is a Vice President of HEALTH CAPITAL CONSULTANTS (HCC). Mr. Chwarzinski holds a Master’s Degree in Economics from the University of Missouri in St. Louis, as well as a Master’s Degree in Finance from the John M. Olin School of Business at Washington University in St. Louis. Mr. Chwarzinski’s areas of expertise include advanced statistical analysis, econometric modeling, and economic and financial analysis.

Jessica L. Bailey, Esq., is the Director of Research of HEALTH CAPITAL CONSULTANTS (HCC), where she conducts project management and consulting services related to the impact of both federal and state regulations on healthcare exempt organization transactions and provides research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services. Ms. Bailey is a member of the Missouri and Illinois Bars and holds a J.D. and Health Law Certificate from Saint Louis University School of Law, where she served as Fall Managing Editor for the Journal of Health Law and Policy.