

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6217**

**BILL NUMBER: SB 306**

**DATE PREPARED:** Feb 19, 2001

**BILL AMENDED:** Feb 15, 2001

**SUBJECT:** Health Center Cost-Based Reimbursement.

**FISCAL ANALYST:** Alan Gossard

**PHONE NUMBER:** 233-3546

**FUNDS AFFECTED:** X

**GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State

X

**Summary of Legislation:** (Amended) This bill extends for two years a provision that: (1) adds services provided by certain federally defined community health centers to the services that are provided under Medicaid; (2) requires, if both the Office of Medicaid Policy Planning (OMPP) and the center agree, that each community health center receive its total reasonable cost reimbursement rate on a per visit basis for providing care to recipients of Medicaid; and (3) requires rural health clinics to be reimbursed under a cost-based methodology. (The introduced version of this bill was prepared by the Interim Study Committee on Medicaid Oversight.)

**Effective Date:** June 30, 2001.

**Explanation of State Expenditures:** States are currently required by federal statute to reimburse Federally Qualified Health Centers (FQHCs) at 100% of their reasonable cost reimbursement rate. The Balanced Budget Act of 1997 permits states to begin reducing the percentage of reimbursement in FFY2000. This bill would prevent the state from reducing the level of future Medicaid reimbursement to FQHCs. The Office of Medicaid Policy and Planning (OMPP) has not indicated any intent to lower the future level of reimbursement to FQHCs.

*Background:* FQHC's receive compensation for services rendered through federal grants, state grants, private insurance payments, patient contributions (based on a sliding fee scale according to income), in-kind contributions, and reimbursement through the Medicaid program. An "all-inclusive" reimbursement rate is determined for each FQHC through the submittal of annual cost reports, the determination by the state of allowable costs, and the total annual number of patient encounters experienced by the center.

In addition to physician services, FQHC's are required by federal regulations to provide diagnostic radiology services, laboratory services, emergency medical services available on a 24-hour basis, prenatal/post-partum care, transportation services, pharmacy services, nutritional and health education services, care coordination and case management, and translation services. The "all-inclusive" encounter reimbursement rate is to cover all of these services that are provided during a patient encounter. Some fee-for-service reimbursement occurs, but is minimal.

Prior to the passage of the federal Balanced Budget Act of 1997, states were **required** by federal statute to base reimbursement of FQHCs at a rate equivalent to 100% of the allowable costs. Upon passage of the Balanced Budget Act of 1997 and subsequent revision, states will be **permitted** to reduce the rate of compensation from the 100% level to a minimum of 95% of total allowable costs for FFY 2001 and FFY 2002; 90% for FFY2003; and 85% for FFY2004. OMPP has not at this time indicated that the state will reduce reimbursement in response to the federal changes.

The estimated potential Medicaid expenditure reduction to the state and corresponding reimbursement reduction to the FQHCs **prevented** by this bill (if the state were to otherwise opt to reduce Medicaid reimbursement to the extent allowed by federal law) is described in the following table.

**Potential Reduction of Expenditures from Change in Federal Requirements for FQHC Reimbursement.**

<b>Federal Fiscal Year</b>	<b>Phase-Out Schedule</b>	<b>Est'd Medicaid Reimbursement at 100%</b>	<b>Reduction in Medicaid Expenditures</b>	<b>Indiana Share</b>	<b>Federal Share</b>
FFY2001	95%	\$13,137,000	\$657,000	\$253,000	\$403,000
FFY2002	95%	13,978,000	699,000	270,000	429,000
FFY2003	90%	14,872,000	1,487,000	574,000	913,000
FFY2004	85%	15,824,000	2,224,000	858,000	1,366,000

Source: Indiana Primary Health Care Association

The above estimates are based on assumed average “all-inclusive” encounter rates of \$100 per encounter and Medicaid enrollment growth of 6.4% annually (including both growth from the Children’s Health Insurance Program (CHIP) and growth in the number of FQHCs).

**Explanation of State Revenues:** See Explanation of State Expenditures, above, regarding federal reimbursement of Medicaid expenditures.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Office of Medicaid Policy and Planning.

**Local Agencies Affected:**

**Information Sources:** Felice Vargo, Indiana Primary Health Care Association, 630-0845.  
Kathy Gifford, OMPP, 233-4455.