DHCS
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DIRECTOR

State of California—Health and Human Services Agency
Department of Health Care Services

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May 10, 2019

Dear Interested Parties:

FQHC AND RHC FINANCIAL INCENTIVE AND PAY FOR PERFORMANCE PAYMENT POLICY

Background

Federally Qualified Health Centers (FQHCs) and Rural Health Clinics (RHCs) provide covered health care services to Medi-Cal beneficiaries in federally designated medically underserved rural or urban areas and are a critical part of the health care delivery system's safety net. Per federal law, FQHCs and RHCs are to be reimbursed for their reasonable costs in providing covered health care services to Medi-Cal beneficiaries through the Prospective Payment System (PPS) methodology.[1] Depending on the delivery system, FQHCs and RHCs are reimbursed for covered services either by a Medi-Cal managed care health plan (MCP) or their delegated entity or subcontractor, with accompanying wrap-around payment from the Department of Health Care Services (DHCS) when applicable, or by DHCS directly through a fee-for-service (FFS) payment.[2] The managed care payment with an accompanying wrap-around payment, or the FFS payment, shall constitute the full PPS payment that the FQHC or RHC is entitled to receive, subject to required reconciliation audit processes.

Additionally, MCPs may contract with FQHCs or RHCs for financial incentive payments, such as risk pool payments, bonuses, or withholds. Such financial incentive payments can also be referred to as pay-for-performance (P4P) payments. Any financial incentive or P4P payments provided to FQHCs or RHCs, as allowable under federal and state law[3], are prohibited from being included in the calculation of wrap-around or supplemental payments made to the FQHC or RHC by DHCS. Such policy is further defined in the Centers for Medicare and Medicaid Services, State Medicaid Directors Letter dated September 27, 2000, available at: https://www.medicaid.gov/Federal-Policy-Guidance/downloads/smd092700.pdf.

[1] 42 U.S.C. § 1396a(bb).
[2] As of March 2018, 82% of Medi-Cal beneficiaries were covered by MCPs, and 18% by FFS - Research and Analytic Studies Division, July 2018. *Medi-Cal Monthly Enrollment Fast Facts, March 2018 as of the MEDS Cut-off for June 2018*. California Department of Health Care Services.
[3] See, for example, Title 42, Code of Federal Regulations, Section 405.2469(c) and California Welfare and Institutions (W&I) Code, section 14132.100 (h).

DHCS Policy Regarding Financial Incentive or P4P Payments for FQHCs and RHCs in Medi-Cal Managed Care

MCPs may utilize financial incentives or P4P payments to FQHCs or RHCs to reduce unnecessary utilization of services or otherwise reduce patient costs. Furthermore, financial incentives or P4P payments may be utilized by MCPs to, among other purposes, improve the quality of health care delivered to beneficiaries, improve beneficiary experience of care, increase utilization of preventive services, ensure network adequacy through extended or increased clinic hours, or ensure completeness/timeliness of DHCS-required encounter data submissions. Consistent with federal law, such contractual payment terms, including financial incentives or P4P payments, shall not result in payments that are less than the payments made by the MCP to non-FQHC or RHC contracted providers, who are providing similar services.[4]

In order to exclude such payments in reconciliation, MCPs may not utilize financial incentives or P4P payments to pay a FQHC or RHC an additional rate per service or visit based exclusively on utilization. For example, a flat rate (e.g. $15) to be paid per annual well-child visit in addition to the FQHC's or RHC's contracted rate with the MCP. This type of payment would be included in the calculation of wrap-around or supplemental payments made to the FQHC or RHC by the state. However, if the MCP financial incentive or P4P payment required the FQHC or RHC to increase the percent of assigned children receiving a well-child visit annually by a defined amount (e.g. 10% increase) over a defined period of time, with defined conditions under which payments will be made, this financial incentive or P4P payment could be excluded in the calculation of wrap-around payments or supplemental payments made to the FQHC or RHC.

Therefore, in order to exclude MCP financial incentive or P4P payments made to FQHCs and RHCs from the calculation of wrap-around or supplemental payments, DHCS offers the following policy considerations for MCPs and FQHCs/RHCs in structuring financial incentive or P4P payments:

- The MCP shall establish and maintain clear, objective criteria for the financial incentive or P4P payments and the conditions under which payments will be made.
- The MCP financial incentive or P4P payment could be structured as, but need not be limited to, risk pool payments, bonuses, or withholds, provided the arrangement meets all conditions applicable to the DHCS reconciliation audit process and federal claiming, including those referenced herein.

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[4] 42 U.S.C. § 1396b(m)(2)(A)(ix).

- The MCP financial incentive or P4P payment must enumerate specific metrics and/or performance terms for the FQHC or RHC to attain the financial incentive or P4P payment. For example, an incentive could be earned by meeting identified goals that exceed a baseline within a specified time period or receiving an incentive payment for achieving Primary Care Medical Home recognition from a national accrediting body.
- The MCP shall have written agreements in place with the FQHC or RHC prior to the start of the financial incentive or P4P payment period in which the financial incentive or P4P payment would apply. The amount of the financial incentive or P4P payment may not be known in advance, as the amount may vary, based on the FQHC's or RHC's performance; however, the financial incentive or P4P payment agreement must articulate the methodology that will be used to determine the financial incentive or P4P payment amount. This requirement for written agreements will be deemed to have been met if the plan program guidelines published prior to start of program articulates the methodology and eligible providers for the financial incentive or P4P payment.
- The financial incentive or P4P payments shall be similar to, and not less in amount than, other financial incentives or P4P payments the MCP makes to non-FQHC or RHC contracted providers, who are providing similar services.
- The MCP shall evaluate the effectiveness of such financial incentive or P4P payments and adjust or discontinue them if they are determined ineffective upon evaluation.
- The MCPs must make available to DHCS, upon request, its written agreement, as well as, policies and procedures for oversight and monitoring of such financial incentive or P4P payments.
- This policy does not pertain to grant funding that MCPs may provide to FQHCs/RHCs for the purposes of building suitable clinical infrastructure or adding clinical capacity to an FQHC/RHC, as such grants are not subject to reconciliation.
- The financial incentive or P4P payment arrangements must meet all applicable conditions of federal and state law.

To the extent the MCP financial incentive or P4P payments do not satisfy the aforementioned requirements, as determined by DHCS, the financial incentive or P4P payments shall be included when calculating final wrap-around payments made to a FQHC or RHC, during the DHCS reconciliation audit process. The amount of Medicaid reimbursement available for such payments remains subject to applicable State and federal approvals.

This policy applies to all MCPs and delegated entities. MCPs are responsible for ensuring that their delegates comply with all applicable State and federal laws and regulations, contract requirements, and other DHCS guidance, including APLs and Policy Letters. These requirements must be communicated by each MCP to all applicable subcontractors, delegated entities or network providers.

Sincerely,

[redacted]

Mari Cantwell
Chief Deputy Director
Health Care Programs
State Medicaid Director