

MICHIGAN PRIMARY CARE ASSOCIATION RATE REBASING FINAL REPORT

JULY 2023



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EXECUTIVE SUMMARY

STUDY PURPOSE

The Michigan Primary Care Association (MPCA) requested that Health Management Associates (HMA) study the average cost per visit for Michigan federally qualified health centers (FQHCs) through calendar year (CY) 2021 and compare the cost per visit to the inflated maximum prospective payment rate (PPR).

STUDY ELEMENTS AND LIMITATIONS

Following are details about the study's elements and limitations.

- Use of 2017–2021 Medicare FQHC cost reports to determine direct, indirect, and total costs
- Computation of per visit (encounter) cost for medical and behavioral health services only
- Limitations of Medicare FQHC cost report:
 - Inconsistent reporting of costs for dental services
 - Does not capture dental visits
 - Fringe benefits and medical supplies are considered indirect cost and, therefore, are distributed within the defined allocation methodology
 - Overallocation of indirect cost to certain areas disproportionate to the nature of the program or services provided

FQHC PPR VERSUS FQHC AVERAGE TOTAL COST PER VISIT

As Tables 1 and 2 and Figure 1 indicate, during the period MPCA asked HMA to study (2017–2021), Michigan healthcare providers PPR payments were insufficient reimbursement PPR to cover the total costs of providing care. Furthermore, the data indicate that the chasm between PPR payment and total costs grew over that timeframe.

Table 1. Components of Total Cost, PPR Rates, and Net Deficits in PPR versus Total Cost per Visit

MICHIGAN PRIMARY CARE ASSOCIATION COMPONENTS OF TOTAL COST, MICHIGAN PPR RATES, & AND NET DEFICIT IN PPR VERSUS TOTAL COST PER VISIT											
	2021	% of Total Cost	2020	% of Total Cost	2019	% of Total Cost	2018	% of Total Cost	2017	% of Total Cost	
Direct Cost: Practitioner	\$ 86.62	32.4%	\$ 84.93	33.2%	\$ 78.83	34.2%	\$ 75.11	33.7%	\$ 71.02	32.8%	
Direct Cost: Other	64.49	24.1%	60.85	23.8%	58.10	25.2%	57.09	25.6%	56.29	26.0%	
Total Direct Cost	\$ 151.10		\$ 145.78		\$ 136.93		\$ 132.20		\$ 127.30		
Indirect Cost	116.64	43.6%	110.32	43.1%	93.71	40.6%	90.45	40.6%	89.49	41.3%	
Total Cost	\$ 267.74		\$ 256.11		\$ 230.64		\$ 222.65		\$ 216.79		
Michigan PPR Rates	\$ 171.55		\$ 169.65		\$ 165.20		\$ 163.01		\$ 160.37		
Net Deficit in PPR versus Total Cost per Visit	\$ (96.19)		\$ (86.46)		\$ (65.44)		\$ (59.64)		\$ (56.42)		

Figure 1. Gap in Total Cost per Visit and PPR

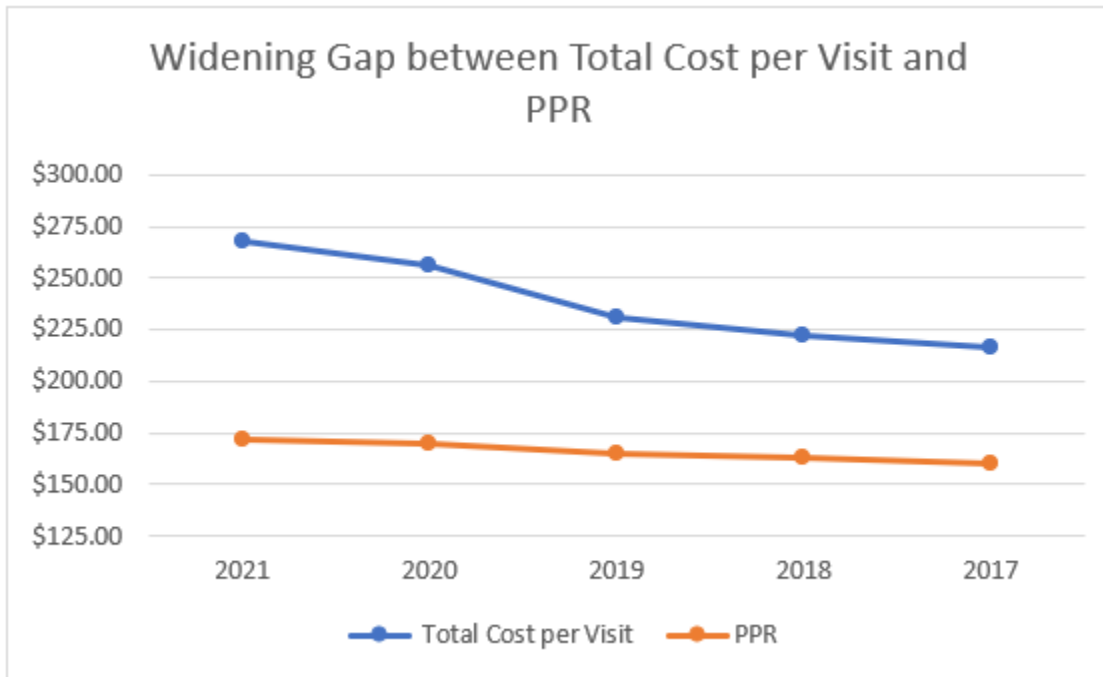


Table 2. FQHC PPR Compared with FQHC Average Cost per Visit

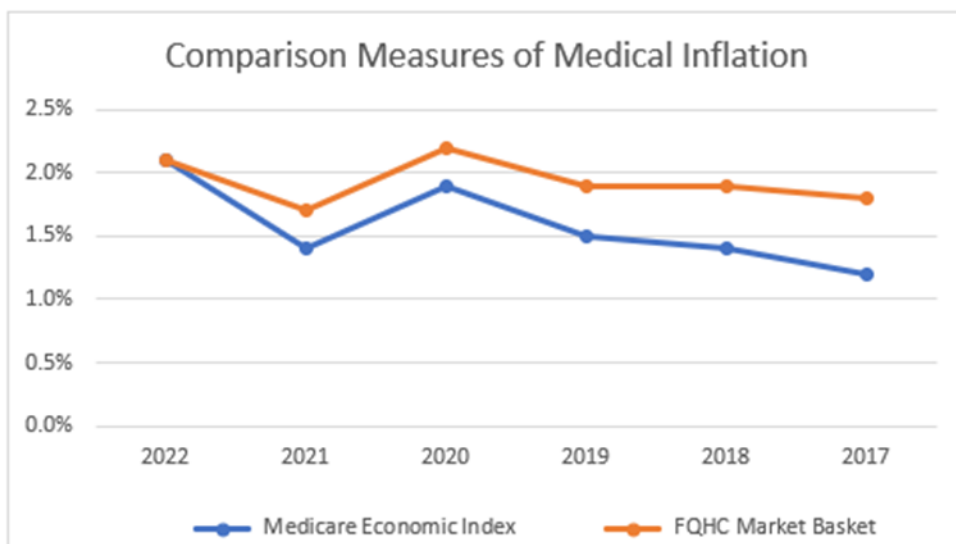
Comparison of 2021 FQHC Prospective Payment Rate (PPR) versus FQHC average Cost Per Visit	
Prospective Payment rate per visit	\$ 171.55
Total Cost (Direct Cost + Indirect Cost) per Visit	\$ 267.74
Deficit of PPR versus Total Cost	\$ (96.19)
36%; Deficit in PPR versus Total Cost	
56%; Increased in PPR needed to meet Total Cost	

STUDY DEFINITIONS, PARAMETERS, AND TERMS

- Time period: CY 2017–2021
- FQHCs in 2021
 - Number of FQHCs studied: 40
 - Visits
 - Total 1,530,526 (83% medical and 17% behavioral health)
 - Medicaid: Forty-six percent (46%)
 - 2021 total visits were slightly higher than 2018 (pre-COVID 19 period), with behavioral visits being the major contributor to this rebound
- Annual inflationary rates (See Figure 2)
 - Medicare Economic Index (MEI) used to inflate Michigan PPR annually

- FQHC market basket used to inflate Medicare PPR
 - In 2017–2021 the FQHC market basket inflationary rates exceeded MEI by an average of 0.35 percent per year.
- Apply a uniform and consistent methodology to calculate the average cost per visit for all FQHCs
 - Use of Medicare-required annual cost report filing and cost allocation
 - Determine cost per visit consistent with Medicare methodology
- Direct costs
 - Providers of medical and behavioral healthcare, such as physicians, nurse practitioners, and clinical psychologists
 - Providers of clinical support services, including registered nurses, medical assistants, and radiology technicians
 - Pharmacy costs (both staff salaries and cost of pharmaceuticals)
- Indirect costs
 - Medical supplies
 - Staff support, such as clinic receptionists, clinic directors, and billing staff
 - Employee benefits for providers and support staff
 - Transportation
 - Facility such as rent, utilities, and janitorial

Figure 2. Comparison Measures of Medical Inflation (MEI versus FQHC Market Basket)



IN SUMMARY, HMA FOUND:

- Cost per visit continues to outpace the inflated PPR
- MEI inflationary increases are less than FQHC market basket, which accounts for an estimated \$14.00 of the Total PPR deficit
- Forty-one (41%) percent of the PPR deficit has occurred since 2017
- Major drivers of costs:
 - For direct cost it was practitioner costs
 - For indirect cost, it was administrative and general and medical supplies

REPORT DETAILS, PROCESS, & RESULTS

BACKGROUND

At the request of the Michigan Primary Care Association (MPCA), Health Management Associates (HMA) studied the average cost per visit at Michigan's federally qualified health centers (FQHCs) through calendar year (CY) 2021 and compared the cost per visit to the inflated maximum prospective payment rate (PPR). This report is intended only for informational purposes. HMA neither makes recommendations nor is responsible for the report's use in MPCA's advocacy efforts.

Section 702 of the federal Benefits Improvement and Protection Act of 2000 (BIPA) allowed federally qualified health centers (FQHCs) to be reimbursed through a prospective payment system (PPS). The State of Michigan elected to reimburse FQHCs through the PPS for ambulatory and outpatient medical services, including medical (both physician and mid-level practitioner), behavioral health (including clinical psychologists and clinical social workers), and dental services. The Michigan Department of Health and Human Services (MDHHS) has authority over participating state FQHCs.

Under the Michigan PPS, the prospective payment rate (PPR) was equal to 100 percent of the average FQHC reasonable costs of providing Medicaid services in fiscal years (FYs) 1999 and 2000. Subsequently, the per visit cost has been adjusted annually using the Medicare Economic Index (MEI) based on changes in the MEI for the previous calendar year.

MDHHS has elected to reimburse FQHCs under the PPS methodology outlined in Section 1902 (bb)(6)(B) of the Social Security Act (created by the Medicare, Medicaid and SCHIP Benefit Improvement and Protection Act of 2000 [BIPA]), or MDHHS may implement an alternative payment methodology (APM). If an alternative payment methodology is selected, it must result in payment at least equal to the amount that an FQHC would receive under the PPS. An FQHC is reconciled annually to the PPR.

Federal regulations from the Centers for Medicare & Medicaid Services (CMS) require all FQHCs to maintain adequate financial and statistical records and to provide annual cost reports, and all freestanding FQHCs must submit Form CMS-224-14 Federally Qualified Health Center Cost Reports within five months of the close of the facility's fiscal year (FY).

The Michigan Primary Care Association (MPCA) requested that Health Management Associates (HMA) perform a study on the average cost per visit for Michigan FQHCs through calendar year (CY) 2021 and compare it with the maximum PPR. The study objectives are as follows:

- Quantify the cost that the PPR has been unable to address since its establishment in 2000 because of the following factors:
 - Changing delivery systems
 - Investment in infrastructure, including technology
 - Inflationary rates not reflective of the costs FQHCs are incurring
- Develop a uniform and consistent methodology to calculate the average cost per visit for all FQHCs
- Use the study when considering alternative payment methodologies (APMs) that are designed to consider changing healthcare delivery systems and value-based payment (VBP) arrangements

DEFINITIONS AND TERMINOLOGY

HMA uses the following definitions and terminology throughout this report.

Cost report: Form CMS-224-14 Federally Qualified Health Center Cost Report.

Direct costs: Costs that can be identified with a specific cost objective. In an FQHC, definition this would apply to costs for providers or support personnel for the direct provision of patient care.

Indirect costs: Costs incurred for a common or joint purpose that benefits more than one cost objective. The FQHC incurs these costs, but they are directly attributable to providing clinical services.

Inflation measures: These include:

- Consumer price index (CPI) for medical care: Tracks consumer out-of-pocket spending on healthcare, weighting physician services at 41 percent and hospital services at 27 percent
- FQHC market basket: Reflects cost structure of the FQHCs by measuring the percentage increases in a market basket of FQHC goods and services less a productivity adjustment
- Medicare economic index (MEI): A measure of physician practice cost inflation that estimates annual changes in physicians' operating costs and earnings level, including salaries, prices of supplies, and resource utilization

Non-reimbursable costs: Include costs associated with a non-Medicare-approved intern or resident training program and with retail pharmacy, marketing, and communications.

Other FQHC services: Include the costs of Medicare-excluded services, such as dental (unless separately identified), hearing tests, some eye exams. The technical component of diagnostic tests (e.g., radiology, screening lab tests, ambulance services, care coordination, telehealth, and chronic care management) also are classified as such.

Pharmacy: Costs of routine and nonroutine drugs, pharmacy supplies, and pharmacy personnel.

Reasonable costs: The per visit amount that Medicare approved and paid as of October 1, 2001, and then adjusted to reflect the cost of providing services to Medicaid enrollees who are not also Medicare beneficiaries.

Reimbursable pass-through costs: Includes allowable graduate medical education costs and costs of vaccines, such as influenza and COVID-19.

Salaries: Gross salaries paid to employees, including vacation, holiday, sick, other paid time-off, as well as severance and bonus pay.

Uncaptured indirect costs: Indirect costs allocated to non-patient care services, such as other FQHC services and non-reimbursable cost centers.

Visit: A medical or behavioral health encounter between a patient and a healthcare practitioner who exercises independent judgment in the provision of services.

DATA USED AND THEIR SOURCES

A uniform methodology to calculate the cost per visit for services rendered at FQHCs would provide the best comparison with the Michigan PPR for the same year. HMA used the required annual Medicare Federally Qualified Health Center Cost Report for each Michigan FQHC's fiscal year (FY) ending in 2017–2021. The cost report provides a uniform and consistent method of cost classification (direct and indirect), cost allocation (indirect to direct), and computation of the cost per visit. Specific instructions are set forth for each line in the cost report, creating a homogenous approach to capturing cost and cost per visit computations. The cost report allots each FQHC a small level of discretion.

To obtain the five years of Medicare cost reports, HMA extracted data from Health Financial Systems, a fully approved CMS vendor, which offers data that are collected and edited to CMS standards. Doing an advanced search for each year's cost report, the data was then extracted from Worksheets A, B, E, F, and S of the cost report.

The Medicare cost report has some limitations. For example, it provides limited information that can be used to determine dental costs per visit. For those Michigan FQHCs that provide dental services, the costs are captured as "other FQHC services," either separately identified as a line item or, consistent with the cost report instructions, placed within Medicare excluded services. Moreover, dental visits are unidentified within the cost report. Given these constraints, HMA was unable to compare the cost of a dental visit with the Michigan PPR.

The cost report also does not address how costs and related net revenues for 340B pharmaceuticals are classified. Some FQHCs report the costs associated with 340B within a line denoted as retail pharmacy in the non-reimbursable cost centers with no offset of costs/net revenues related to the 340B program. With no offset for this expense, a disproportionate share of indirect costs is made to the retail pharmacy and, correspondingly, reduces the indirect cost allocation to the practitioner. The impact of this omission is described further in the "Uncaptured Indirect Cost per Visit" section of this report.

TOTAL COST

Using the FY-end trial balance, each FQHC classifies expenses on the cost report based on the following categories:

- General service cost centers or indirect cost
- Direct care cost centers encompassing both direct cost, practitioner and direct cost, other
- Reimbursable pass-through costs
- Other FQHC services (See Appendix B for detail)
- Non-reimbursable cost centers (See Appendix C for detail)

Table 1 shows the dollars and percentages spent in each cost category in FYs 2017–2021.

Table 1. Cost Categories for All FQHCs

MICHIGAN PRIMARY CARE ASSOCIATION										
Cost Categories; ALL FQHCs										
All FQHCs										
	2021	% of Total Cost	2020	% of Total Cost	2019	% of Total Cost	2018	% of Total Cost	2017	% of Total Cost
General Service Cost Centers	\$ 334,782	41.2%	\$ 311,877	44.3%	\$ 291,675	43.1%	\$ 281,804	41.4%	\$ 265,226	41.6%
Direct Care Cost Centers	\$ 274,962	33.8%	\$ 267,757	28.3%	\$ 263,391	28.2%	\$ 257,855	31.4%	\$ 242,091	31.0%
Reimbursable Pass Through Costs	\$ 3,859	0.5%	\$ 3,921	0.5%	\$ 4,131	0.5%	\$ 5,019	0.5%	\$ 4,591	0.7%
Other FQHC Services	\$ 103,267	12.7%	\$ 101,652	15.3%	\$ 108,240	15.8%	\$ 105,408	14.1%	\$ 104,041	15.2%
Non-Reimbursable Cost Centers	\$ 95,447	11.7%	\$ 98,182	11.7%	\$ 97,065	12.5%	\$ 81,129	12.6%	\$ 69,425	11.5%
Total Costs	\$ 812,316		\$ 783,390		\$ 764,501		\$ 731,215		\$ 685,375	
Total Costs Without Non-reimbursable	\$ 716,869		\$ 685,207		\$ 667,436		\$ 650,086		\$ 615,950	
% Increase <Decrease> vs Prior Year										
General Service Cost Centers	6.8%		6.5%		3.4%		5.9%			
Direct Care Cost Centers	2.6%		1.6%		2.1%		6.1%			
Reimbursable Pass Through Costs	-1.6%		-5.4%		-21.5%		8.5%			
Other FQHC Services	1.6%		-6.5%		2.6%		1.3%			
Non-Reimbursable Cost Centers	-2.9%		1.1%		16.4%		14.4%			
Total Costs	3.6%		2.4%		4.4%		6.3%			
Total Costs Without Non-reimbursable	4.4%		2.0%		2.6%		5.3%			

Figures 1 and 2, respectively, depict the components of total cost by category for 2017–2021 and percentage increase in costs from the prior year, exclusive of non-reimbursable expenses.

Figure 1. Components of Total Cost by Category for 2017–2021

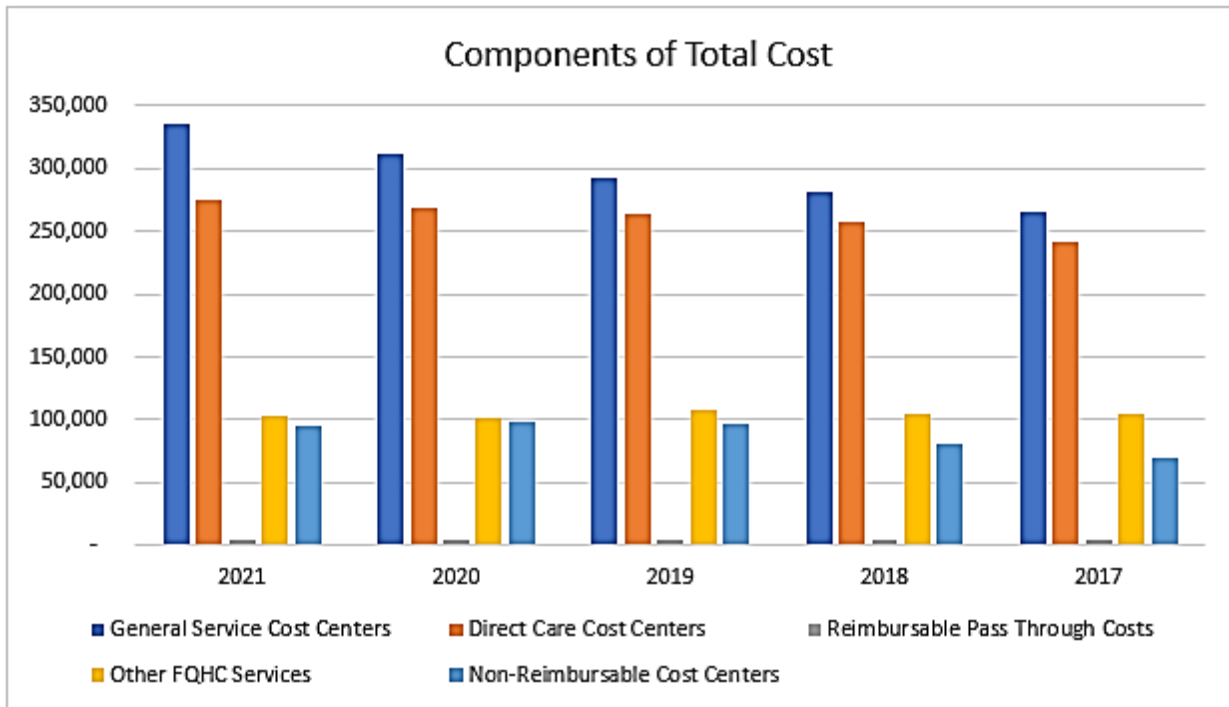
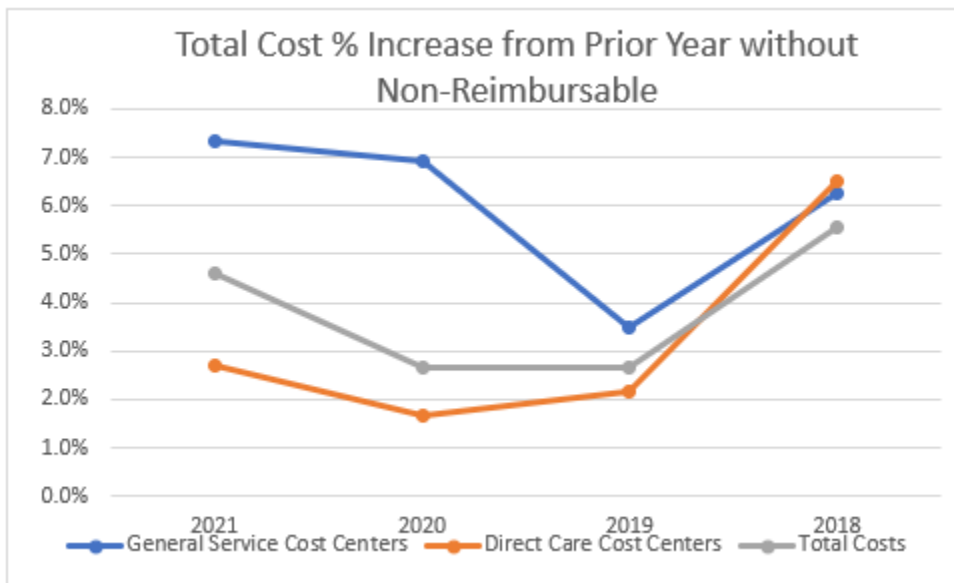


Figure 2. Percentage Increase in Costs from Prior Year, Exclusive of Non-Reimbursable Expenses



As the table and figures illustrate, total costs without non-reimbursables from 2017 to 2021 (a four-year period) rose by 16.4 percent. The average four-year increase was 4.1 percent, with the greatest one-year hike occurring in 2018 (5.5%). During the same time frame, general service costs climbed by 26 percent, with a four-year average increase of 6.6 percent. Direct care cost increased by 13.6 percent with a four-year average of 3.4 percent. Direct cost of care in 2021 increased 4.4 percent from 2019, with the annual increase averaging 2.2 percent.

The MPCA conducted a study that used the salary increases provided to FQHC staff from 2019 to 2022 and benchmarked these pay raises against the 2019 full-time equivalents (FTEs) for direct care cost for healthcare practitioners and their support staff. Over the three-year period, the direct salaries tied to wage rates increased by 10.4 percent, with an average per year hike at 3.5 percent. The MPCA used the same approach for indirect care staff. The indirect staff cost due to wage rates rose by approximately 8.7 percent in 2019–2022. Over the three-year period, the average indirect staff cost increase was 2.9 percent.

Total direct care costs experienced a smaller increase than general service cost, with most of the cost resulting from the wage rate increase, as the MPCA study demonstrated.

METHODOLOGY USED TO DETERMINE COST PER VISIT

The Medicare cost report computes total average cost per visit, which accounts for all payer visits, including both medical and behavioral healthcare. With the overall Medicaid visits in Michigan for 2021 being nearly 46 percent of total visits, this average serves as a sound proxy for Medicaid cost per visit. Within the cost report, the Medicare average cost per visit is bifurcated between medical and behavioral healthcare.

Each FQHC's cost per visit was calculated using the costs classified into Direct Care Cost Centers and an allocation from General Services Cost and presented herein as three components of total cost; direct cost; practitioner, direct cost; other, and indirect cost. Total visits represent the combination of total medical and total behavioral visits. To arrive at a statewide average, the weighted average based on visits was used, encompassing all the FQHCs and then further broken down between urban and rural location (See Appendices A and D). Total number of FQHCs, total medical and behavioral health visits, and payer mix are outlined in Table 2 and illustrated in Figures 3 and 4 on the next two pages.

Table 2. Total Number of FQHC Visits by Type and Payer

MICHIGAN PRIMARY CARE ASSOCIATION FQHC'S REVIEWED										
	2021	% of Total	2020	% of Total	2019	% of Total	2018	% of Total	2017	% of Total
Number of FQHCs	40		37		39		38		37	
Visits By Type										
Medical Visits	1,431,159	82.7%	1,406,448	84.5%	1,466,797	86.6%	1,520,071	88.1%	1,461,977	90.1%
Behavioral Visits	299,367	17.3%	257,405	15.5%	226,957	13.4%	205,035	11.9%	161,421	9.9%
Total Medical and Behavioral Visits	<u>1,730,526</u>	<u>100.0%</u>	<u>1,663,853</u>	<u>100.0%</u>	<u>1,693,754</u>	<u>100.0%</u>	<u>1,725,106</u>	<u>100.0%</u>	<u>1,623,398</u>	<u>100.0%</u>
% Chg YOY	4.0%		-1.8%		-1.8%		6.3%			
Medical and Behavioral Visits By Payer										
Medicaid	802,724	46.4%	762,976	45.9%	766,167	45.2%	824,155	47.8%	781,347	48.1%
Medicare	158,442	9.2%	168,781	10.1%	214,510	12.7%	231,383	13.4%	222,290	13.7%
Other	769,360	44.5%	732,096	44.0%	713,077	42.1%	669,568	38.8%	619,761	38.2%
Total	<u>1,730,526</u>	<u>100.0%</u>	<u>1,663,853</u>	<u>100.0%</u>	<u>1,693,754</u>	<u>100.0%</u>	<u>1,725,106</u>	<u>100.0%</u>	<u>1,623,398</u>	<u>100.0%</u>

Figure 3. Total Medical and Behavioral Health Visits

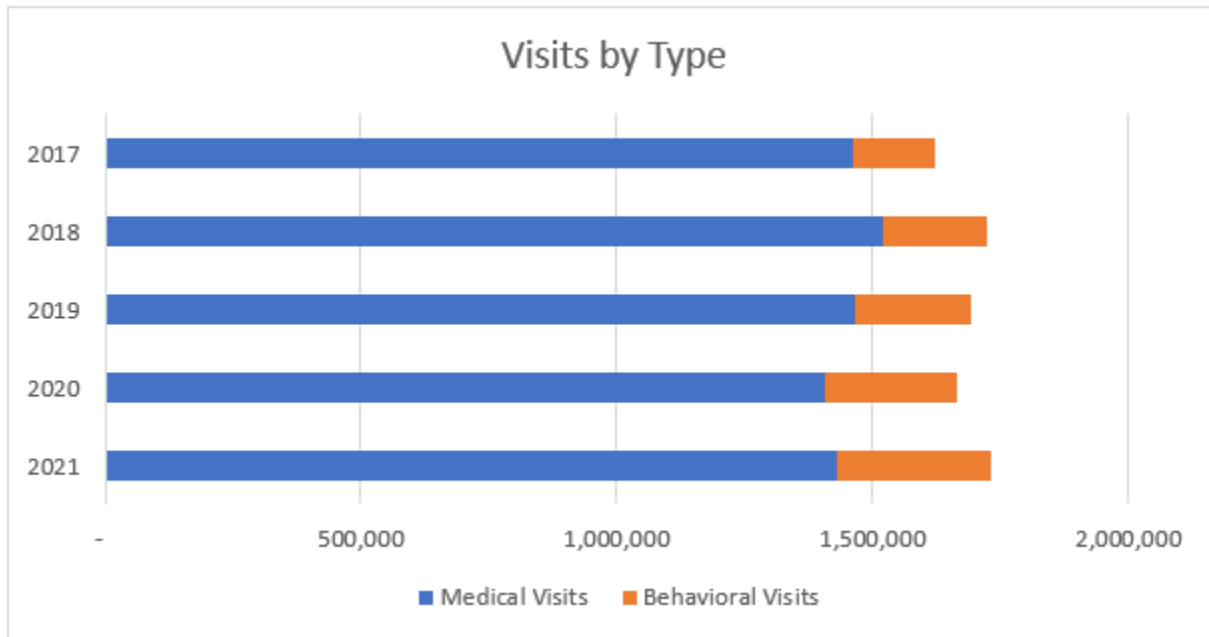
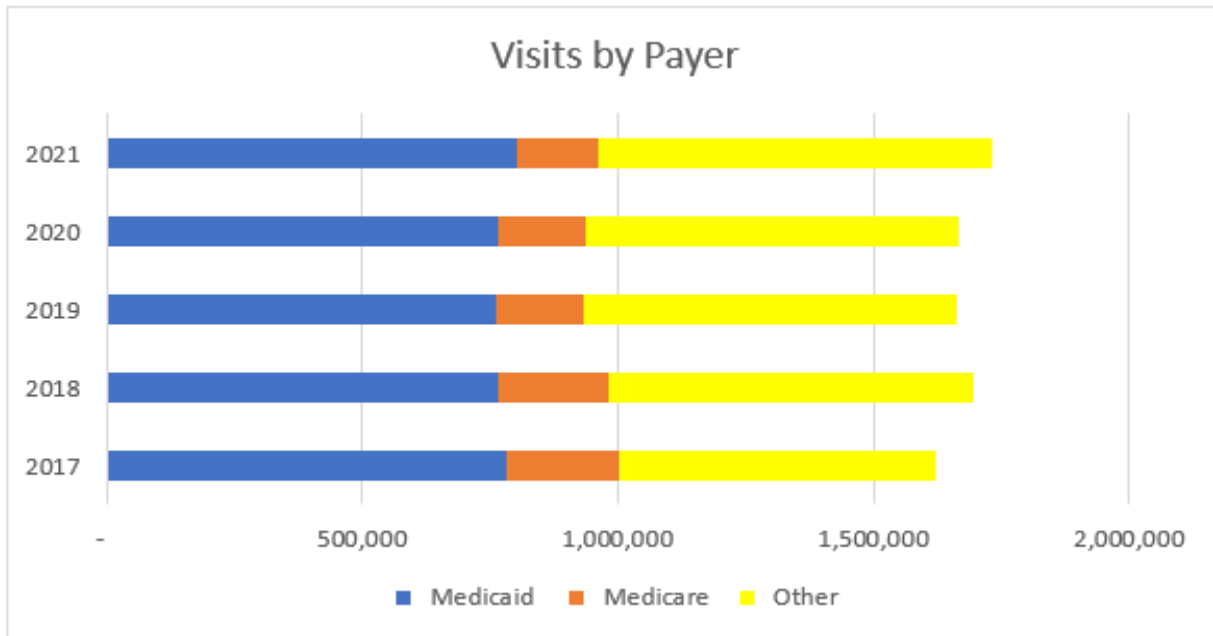


Figure 4. Visits by Payer



Medical visits declined from 88.1 percent of total visits in 2018 to 82.7 percent in 2021. A notable drop in total medical visits from 2018 occurred in both 2019 (3.5%) and 2020 (7.5%), reflecting the impact of the pandemic. However, behavioral visits have increased every year since 2017. Total visits in 2021 were slightly higher than the pre-COVID-19 period of 2018, with behavioral visits being the major contributor to this rebound.

Although Medicaid-covered services percentage remained stable in 2017–2021 (weighted average of 46.7%), Medicare visits decreased in 2021 by 31.5 percent from 2018, causing the Medicare payor mix to drop by 4.2 percentage points in 2021 from 2018.

The 2021 three component costs that contribute to a total cost per visit for all Michigan FQHCs with a further breakout between urban and rural are reflected in Table 3.

Table 3. Components of Total Costs at FQHCs

MICHIGAN PRIMARY CARE ASSOCIATION COMPONENTS OF TOTAL COST All FQHCs										
	2021	% of Total Cost	2020	% of Total Cost	2019	% of Total Cost	2018	% of Total Cost	2017	% of Total Cost
Direct Cost; Practitioner	\$ 86.62	32.4%	\$ 84.93	33.2%	\$ 78.83	34.2%	\$ 75.11	33.7%	\$ 71.02	32.8%
Direct Cost; Other	64.49	24.1%	60.85	23.8%	58.10	25.2%	57.09	25.6%	56.29	26.0%
Total Direct Cost	\$ 151.10		\$ 145.78		\$ 136.93		\$ 132.20		\$ 127.30	
Indirect Cost	116.64	43.6%	110.32	43.1%	93.71	40.6%	90.45	40.6%	89.49	41.3%
Total Cost	\$ 267.74		\$ 256.11		\$ 230.64		\$ 222.65		\$ 216.79	
\$ Increase <Decrease> vs Total Direct Cost; Prior Year	\$ 5.32		\$ 8.85		\$ 4.73		\$ 4.89			
% Increase <Decrease> vs Total Direct Cost; Prior Year	3.7%		6.5%		3.6%		3.8%			
\$ Increase <Decrease> vs Total Cost; Prior Year	\$ 11.64		\$ 25.47		\$ 7.99		\$ 5.85			
% Increase <Decrease> vs Total Cost; Prior Year	4.5%		11.0%		3.6%		2.7%			
% Increase <Decrease> from Total Cost from 2018	20.3%		15.0%							
% Increase <Decrease> from 2018 Total Cost annual average	6.8%		7.5%							

Direct Costs

For each FQHC the total direct cost is the sum of direct cost, practitioner plus direct cost (other), divided by total visits (medical and behavioral).

Direct costs, practitioner: The cost report allows FQHCs to identify salaries and other related costs, such as continuing medical education, assigned to specific practitioners. The following services are separately identified in the cost report:

- Physician (including employed or under a services agreement)
- Physician assistant
- Nurse practitioner
- Visiting registered nurse (RN)
- Visiting licensed practical nurse (LPN)
- Certified nurse midwife
- Clinical psychologist
- Clinical social worker
- Laboratory technician
- Registered dietician/ certified diabetes self-management trainer (DSMT)/medical nutrition therapy (MNT) educator
- Physical therapist
- Occupational therapist

Direct cost, other: Staff costs are attributed to individuals who provide services that incidental to these healthcare professionals, such as RNs and LPNs. Also included are costs of other allied health personnel who provide diagnostic, technical, therapeutic, and other support services (i.e., medical assistant and pharmacy staff).

The major driver of total direct cost was practitioner costs, which grew by 22.0 percent in 2017–2021, averaging a 5.5 percent increase per year. The largest percentage of cost growth (7.7%) occurred in 2019–2020, reflecting the combination of higher wage rates, staff turnover, and the decrease in visits.

Other direct costs grew by 14.6 percent in 2017–2021, averaging 3.6 percent per year.

Indirect Costs

Indirect cost per visit is determined by taking the general service cost allocated to direct cost, practitioner plus direct cost, other and dividing by the total visits. The general service cost allocation is determined using the following formula:

$$\frac{(\text{Total Indirect Cost} - \text{Pharmacy Cost}) / (\text{Total Cost} - \text{Total Indirect Cost}) \times (\text{Direct Cost, Practitioner} + \text{Direct Cost, Other})}{\text{Total Visits (Medical + Behavioral)}}$$

Indirect costs (referred to as overhead in the cost report) are accumulated through the general service cost centers identified on the cost report, including:

- Capital-related costs (building, fixtures, movable equipment)
- Employee benefits
- Administrative and general services
- Plant operations and maintenance
- Janitorial
- Medical records
- Medical supplies
- Transportation

Total indirect cost per visit grew by 26.2 percent in 2017–2021, averaging a 6.5 percent increase annually.

Table 4 depicts the major drivers of indirect costs, with administrative and general (A&G) expenses representing approximately 60 percent of total indirect cost. A&G grew by 23.3 percent in 2017–2021, averaging a 5.8 percent increase per year. Over the same period, medical supplies costs grew by 78.2 percent, averaging a 19.6 percent increase per year, though the most pronounced spike occurred at the height of the pandemic (2019–2020).

Table 4. Key Drivers of Indirect Costs

MICHIGAN PRIMARY CARE ASSOCIATION FQHC'S REVIEWED										
	2021	% of Total Cost	2020	% of Total Cost	2019	% of Total Cost	2018	% of Total Cost	2017	% of Total Cost
Total Indirect Cost Net of Pharmacy	\$ 334,781,568		\$ 311,876,669		\$ 291,674,694		\$ 281,804,346		\$ 265,226,489	
Key Drivers of Indirect Cost										
A & G	\$ 203,896,323	60.9%	\$ 187,717,834	60.2%	\$ 169,925,106	58.3%	\$ 167,810,044	59.5%	\$ 165,337,437	62.3%
Medical Supplies	\$ 16,324,375	4.9%	\$ 15,438,495	5.0%	\$ 12,612,500	4.3%	\$ 10,206,279	3.6%	\$ 9,157,268	3.5%
Employee Benefits	\$ 27,095,430	8.1%	\$ 25,824,809	8.3%	\$ 29,551,571	10.1%	\$ 24,485,325	8.7%	\$ 17,597,981	6.6%
	\$ 247,316,128	73.9%	\$ 228,981,138	73.4%	\$ 212,089,177	72.7%	\$ 202,501,648	71.9%	\$ 192,092,686	72.4%

As noted earlier, only a portion of indirect costs are allocated to direct costs associated with the patient visit. The allocated indirect costs per visit from 2017 to 2021 grew by 24.7 percent, averaging a 6.2 percent increase per year.

The total cost per visit is determined by dividing the sum of direct costs and indirect costs by the total number of medical and behavioral health visits each year. Indirect costs represent 40.6–43.6 percent of the total cost per visit.

The difference between the PPR and the Total Cost per visit in 2021 is \$97.95, which indicates that the PPR does not cover 36.6 percent of the cost per visit. The weighted average 2021 Total Cost per visit increased by \$50.95 (23.5%) from 2017, while the PPR MEI inflated rates increased by \$11.07 (7.0%) which accounts for nearly \$40.00 of the difference. The 2021 PPR would need increased by 57.7 percent to cover the cost of each visit. See Table 5 and Figure 5.

Table 5. PPR Rates versus Total Cost per Visit

Michigan Primary Care Association PPR Rate Comparison to Total Cost Per Visit					
	2021	2020	2019	2018	2017
Michigan PPR Rates					
Behavioral/Medical	\$171.55	\$169.65	\$165.20	\$163.01	\$160.37
% Increase <Decrease>	1.4%	1.9%	1.5%	1.4%	1.2%
Total Cost per Visit*	\$267.74	\$256.11	\$230.64	\$222.65	\$216.79
\$ Increase <Decrease> vs Total Cost; Prior Year	\$11.64	\$25.47	\$7.99	\$5.85	
% Increase <Decrease> vs Total Cost; Prior Year	4.5%	11.0%	3.6%	2.7%	
Gap between Medicaid PPR/ Total Cost per visit	-\$96.19	-\$86.46	-\$65.44	-\$59.64	-\$56.42
% Unreimbursed vs Total Cost	35.9%	33.8%	28.4%	26.8%	26.0%
% Increase <Decrease> vs PPR Rate	-56.1%	-51.0%	-39.6%	-36.6%	-35.2%
* Weighted averaged of all FQHCs					

Figure 5. PPR Shortfall Compared with Total Cost per Visit



Uncaptured indirect cost

As Table 6 demonstrates, the cost report methodology allocates indirect costs based on the amount of direct costs from the following four categories :

- Direct care costs
- Reimbursable pass-through costs
- Other FQHC services
- Non-reimbursable cost centers

Table 6. Uncaptured Indirect Cost

MICHIGAN PRIMARY CARE ASSOCIATION UNCAPTURED INDIRECT COST										
Definition: The portion of Total Indirect Cost (less Pharmacy) that is allocated to Other FQHC Services and Nonreimbursable Cost Centers and therefore is not included in the Cost Per Visit										
	2021	% of Total Cost	2020	% of Total Cost	2019	% of Total Cost	2018	% of Total Cost	2017	% of Total Cost
Total Indirect Cost*	\$359,165		\$335,265		\$314,574		\$309,525		\$294,410	
Pharmacy	-\$24,383		-\$23,389		-\$22,899		-\$27,721		-\$29,184	
Total Indirect Cost Net of Pharmacy	\$334,782		\$311,877		\$291,675		\$281,804		\$265,226	
General Service Cost Allocated to Direct Visit Cost	\$212,251	63.4%	\$203,004	65.1%	\$180,251	61.8%	\$176,418	62.6%	\$170,182	64.2%
Uncaptured Indirect Allocated Cost	\$122,530	36.6%	\$108,873	34.9%	\$111,423	38.2%	\$105,387	37.4%	\$95,044	35.8%
Total Visits	1,730,526		1,663,853		1,693,754		1,725,106		1,623,398	
Uncaptured Cost per Visit	\$70.81		\$65.43		\$65.78		\$61.09		\$58.55	

Therefore, any costs classified within the second through fourth categories noted above will receive a proportionate share of indirect cost. This indirect cost allocation amount is then divided by total visits to arrive at uncaptured indirect cost per visit. Though general service costs are incurred to support programs/services in other areas, in some instances the allocation is disproportionate to the actual general services rendered, causing an overallocation. For example, some FQHCs have identified retail pharmacy in the non-reimbursable cost center (\$32,482 in 2021). The costs associated with the retail pharmacy are those generated primarily by the FQHC's 340B program. This retail pharmacy receives allocations of fringe benefits (in some cases) and other administrative indirect costs, which is disproportionate to the actual staff and other costs incurred in staffing/managing the program. The calculation of uncaptured indirect cost is a means of identifying and quantifying the major drivers and magnitude of this overallocation of indirect costs in some FQHCs.

For comparison purposes, the computed total cost per visit used in this study excludes any component of uncaptured indirect cost. The Uncaptured Indirect Cost calculation is intended to identify a shortfall in the indirect cost methodology or classification of certain non-direct care costs on the cost report.

COST TRENDING COMPARED WITH INFLATION MEASURES

Under the Michigan PPS, the PPR is adjusted annually based on changes in the MEI from the previous CY. The MEI inflated maximum PPR for CY 2021 in Michigan was \$176.82 and \$157.79 for urban and rural FQHCs, respectively. The weighted (based upon urban and rural visits; see Appendix D) maximum PPR rate was used for all years in this study as the comparable against the weighted average of the FQHC total cost per visit.

In 2017, CMS changed the inflation rate used to annually increase the Medicare FQHC PPS rate from MEI to the FQHC market basket. MDHHS maintained the use of MEI. The FQHC market basket is more accurate because it focuses on the costs incurred at FQHCs across the country. The CPI for medical care also was used for comparison purposes. See Table 7 for the six-year comparison of the three Inflation measures.

Table 7. Comparison Measures of Medical Inflation

MICHIGAN PRIMARY CARE ASSOCIATION Comparison Measures of Medical Inflation						
	2022	2021	2020	2019	2018	2017
Inflation:						
Medicare Economic Index	2.1%	1.4%	1.9%	1.5%	1.4%	1.2%
FQHC Market Basket	2.1%	1.7%	2.2%	1.9%	1.9%	1.8%
Medical CPI	2.2%	1.8%	3.2%	4.6%	2.0%	1.8%

Using the MEI rather than the FQHC market basket, established January 1, 2017, generates a \$2.68 lower PPR for urban FQHCs in Michigan for the six-year period of 2017–2022. The annual average difference in the inflation rate between the MEI and FQHC market basket was approximately 0.35 percent per year. Extrapolating this percentage difference back to 2002 (the first-year inflation was applied to the PPR) would have generated a larger PPR of an estimated \$14.18 for urban FQHCs in 2022.

Using the MEI rather than the CPI for medical care generates a lower PPR of \$9.94 for urban FQHCs in Michigan from 2017 to 2022. For this same period, the annual average difference in the inflation rate between the MEI and CPI for medical care was approximately 1 percent per year. Extrapolating this percentage difference back to 2002 (the first-year inflation was applied to the PPR) would have generated a larger PPR for urban FQHCs of an estimated \$44.17 today.

Approximately \$14 of the \$96 difference between the 2021 PPR and the 2021 cost per visit, could have been mitigated had the FQHC market basket been applied since 2001 (see Table 8).

Table 8. Impact of Different Inflation Measures on PPR

Impact on PPR Rates With Differing Inflation Measures						
<u>YEAR BEGIN</u>	<u>Medicare Economic Index</u>	<u>FQHC Market Basket Adj</u>	<u>Consumer Price Index (CPI) Medical Care</u>	<u>PPR Rate with MEI</u>	<u>PPR Rate with FQHC Market</u>	<u>PPR Rate with CPI Medical</u>
16-Jan	1.1%	N/A	4.10%			
17-Jan	1.2%	1.8%	1.80%	\$166.27	\$166.27	\$166.27
18-Jan	1.4%	1.9%	2.00%	\$168.60	\$169.43	\$169.60
19-Jan	1.5%	1.9%	4.60%	\$171.13	\$172.65	\$177.40
20-Jan	1.9%	2.2%	3.20%	\$174.38	\$176.45	\$183.07
21-Jan	1.4%	1.7%	1.80%	\$176.82	\$179.45	\$186.37
22-Jan	2.1%	2.1%	2.20%	\$180.53	\$183.21	\$190.47
6 Year Average	1.58%	1.93%	2.60%	\$175.75	\$178.59	\$184.17
Difference to MEI		0.35%	1.02%		\$ 2.68	\$ 9.94
Extrapolated 2002-2022		0.35%	1.00%		\$ 14.18	\$ 44.17

CMS also prepares market basket reports for other healthcare providers. When comparing the Medicare inflation rates applied to other medical related industries for the denoted six-year period (2017 to 2022) it becomes evident that the hospital industry Medicare inflation exceeded the MEI by more than two-thirds of a

percent on average for each year. The skilled nursing industry exceeded the MEI by three-quarters of a percent on average each year.

SUMMARY

The gap between the Michigan PPR and the FQHC average cost per visit as of 2021 has grown to nearly \$96.00 per visit, with 41 percent of the growth in the gap has occurring since 2017. Moreover \$14.00 (15%) of the gap can be attributed to using an inflationary index that does not fully represent the cost growth in FQHC services.

Total cost without non-reimbursable, in absolute terms, from 2017 to 2021 increased by 16.7 percent. The average four-year increase was 4.2 percent with the greatest one-year increase occurring in 2018 (5.5%). During the same timeframe, general service costs increased by 26.2 percent with a four-year average of 6.6 percent. Direct care costs increased by 13.6 percent, with a four-year average of 3.4 percent. For this same time period the four-year average of the MEI inflation was 1.6%.

APPENDIX A. URBAN AND RURAL COSTS PER VISIT

MICHIGAN PRIMARY CARE ASSOCIATION COMPONENTS OF TOTAL COST										
Urban										
Urban	2021	% of Total Cost	2020	% of Total Cost	2019	% of Total Cost	2018	% of Total Cost	2017	% of Total Cost
Direct Cost	\$ 83.67	30.8%	\$ 82.90	32.5%	\$ 78.30	33.0%	\$ 75.11	33.7%	\$ 68.94	32.1%
Other Direct Cost	64.92	23.9%	59.42	23.3%	59.72	25.1%	57.09	25.6%	56.29	26.2%
Total Direct Cost	\$ 148.59		\$ 142.31		\$ 138.02		\$ 132.20		\$ 125.23	
Indirect Cost Allocation	122.73	45.2%	113.14	44.3%	99.47	41.9%	90.45	40.6%	89.49	41.7%
Total Cost	\$ 271.32		\$ 255.46		\$ 237.49		\$ 222.65		\$ 214.72	
\$ Increase <Decrease> vs Total Cost; Prior Year	\$ 15.87		\$ 17.96		\$ 14.85		\$ 7.93			
% Increase <Decrease> vs Total Cost; Prior Year	6.2%		7.6%		6.7%		3.7%			
\$ Increase <Decrease> vs Total Direct Cost; Prior Year	\$ 6.28		\$ 4.29		\$ 5.82		\$ 6.97			
% Increase <Decrease> vs Total Direct Cost; Prior Year	4.4%		3.1%		4.4%		5.6%			

MICHIGAN PRIMARY CARE ASSOCIATION COMPONENTS OF TOTAL COST										
Rural										
Rural	2021	% of Total Cost	2020	% of Total Cost	2019	% of Total Cost	2018	% of Total Cost	2017	% of Total Cost
Direct Cost	\$ 96.02	36.7%	\$ 90.71	35.2%	\$ 79.94	36.9%	\$ 80.78	35.0%	\$ 75.23	32.9%
Other Direct Cost	63.45	24.2%	64.94	25.2%	54.72	25.3%	61.75	26.7%	65.40	28.6%
Total Direct Cost	\$ 159.47		\$ 155.65		\$ 134.66		\$ 142.53		\$ 140.63	
Indirect Cost Allocation	102.18	39.1%	102.31	39.7%	81.71	37.8%	88.48	38.3%	87.84	38.4%
Total Cost	\$ 261.65		\$ 257.96		\$ 216.37		\$ 231.01		\$ 228.47	
\$ Increase <Decrease> vs Total Cost; Prior Year	\$ 3.69		\$ 41.59		\$ (14.65)		\$ 2.54			
% Increase <Decrease> vs Total Cost; Prior Year	1.4%		19.2%		-6.3%		1.1%			
\$ Increase <Decrease> vs Total Direct Cost; Prior Year	\$ 3.82		\$ 21.00		\$ (7.87)		\$ 1.90			
% Increase <Decrease> vs Total Direct Cost; Prior Year	2.5%		15.6%		-5.5%		1.3%			

APPENDIX B. OTHER FQHC SERVICES

MICHIGAN PRIMARY CARE ASSOCIATION										
FQHC'S REVIEWED										
	2021	% of Total Cost	2020	% of Total Cost	2019	% of Total Cost	2018	% of Total Cost	2017	% of Total Cost
Other FQHC Services	\$ 103,267,493		\$ 101,652,427		\$ 108,239,957		\$ 105,407,781		\$ 104,040,744	
Key Drivers of Other FQHC Services										
Medicare Excluded Services	\$ 54,906,525	53.2%	\$ 60,004,329	59.0%	\$ 61,747,354	57.0%	\$ 61,136,808	58.0%	\$ 60,226,471	57.9%
Drugs Charged to Patients	\$ 15,889,251	15.4%	\$ 13,558,404	13.3%	\$ 12,699,367	11.7%	\$ 12,811,926	12.2%	\$ 11,309,187	10.9%
Dental	\$ 9,279,408	9.0%	\$ 8,298,734	8.2%	\$ 11,637,755	10.8%	\$ 6,197,001	5.9%	\$ 5,266,366	5.1%
	<u>\$ 80,075,184</u>	<u>77.5%</u>	<u>\$ 81,861,467</u>	<u>80.5%</u>	<u>\$ 86,084,476</u>	<u>79.5%</u>	<u>\$ 80,145,735</u>	<u>76.0%</u>	<u>\$ 76,802,024</u>	<u>73.8%</u>

APPENDIX C. NON-REIMBURSABLE COSTS

MICHIGAN PRIMARY CARE ASSOCIATION										
FQHC'S REVIEWED										
	<u>2021</u>	<u>% of</u> <u>Total</u> <u>Cost</u>	<u>2020</u>	<u>% of</u> <u>Total</u> <u>Cost</u>	<u>2019</u>	<u>% of</u> <u>Total</u> <u>Cost</u>	<u>2018</u>	<u>% of</u> <u>Total</u> <u>Cost</u>	<u>2017</u>	<u>% of</u> <u>Total</u> <u>Cost</u>
Non-Reimbursable Cost Centers**	\$ 95,447,043		\$ 101,403,533		\$ 97,206,263		\$ 120,671,460		\$ 69,424,672	
Key Drivers of Non-Reimbursable										
Retail Pharmacy	\$ 32,482,032	34.0%	\$ 24,008,006	23.7%	\$ 33,792,815	34.8%	\$ 25,396,805	21.0%	\$ 14,552,640	21.0%
Other (Communications, WIC, Marketing)	\$ 53,711,018	56.3%	\$ 68,882,537	67.9%	\$ 44,976,147	46.3%	\$ 78,225,309	64.8%	\$ 41,770,095	60.2%
	\$ 86,193,050	90.3%	\$ 92,890,543	91.6%	\$ 78,768,962	81.0%	\$ 103,622,114	85.9%	\$ 56,322,735	81.1%
Total FQHC Services & Non-Reimbursable Cost	\$ 198,714,536		\$ 203,055,960		\$ 205,446,220		\$ 226,079,241		\$ 173,465,416	

APPENDIX D. URBAN AND RURAL MEDICAL AND BEHAVIORAL VISITS

MICHIGAN PRIMARY CARE ASSOCIATION FQHC'S REVIEWED										
Urban	2021	% of Total	2020	% of Total	2019	% of Total	2018	% of Total	2017	% of Total
Number of FQHCs	25		25		26		23		24	
Medical Visits	1,029,842	82.6%	1,050,017.0	84.9%	990,809	86.8%	1,042,924	88.2%	970,056	89.7%
Behavioral Visits	221,418	17.4%	194,054.0	15.1%	157,255	13.2%	150,460	11.8%	117,743	10.3%
Total Medical and Behavioral Visits	1,251,260	100.0%	1,244,071	100.0%	1,148,064	100.0%	1,193,384	100.0%	1,087,799	100.0%
% Chg YOY	0.6%		8.4%		-3.8%		9.7%			
Medical and Behavioral Visits By Payer										
Medicaid	644,678	51.5%	627,064	50.4%	555,550	48.4%	615,177	51.5%	571,330	52.5%
Medicare	87,820	7.0%	98,409	7.9%	116,527	10.1%	129,808	10.9%	118,508	10.9%
Other	518,762	41.5%	518,598	41.7%	475,987	41.5%	448,399	37.6%	397,961	36.6%
Total	1,251,260	100.0%	1,244,071	100.0%	1,148,064	100.0%	1,193,384	100.0%	1,087,799	100.0%

MICHIGAN PRIMARY CARE ASSOCIATION FQHC'S REVIEWED										
Rural	2021	% of Total	2020	% of Total	2019	% of Total	2018	% of Total	2017	% of Total
Number of FQHCs	15		15		13		15		13	
Medical	401,317	83.7%	356,431.0	85.5%	475,988	91.6%	477,147	90.4%	491,921	91.1%
Behavioral	77,949	16.3%	63,351	14.5%	69,702	8.4%	54,575	9.6%	43,678	8.9%
Total Medical and Behavioral Visits	479,266	100.0%	419,782	100.0%	545,690	100.0%	531,722	100.0%	535,599	100.0%
% Chg YOY	12.4%		-30.0%		2.6%		-0.7%			
Medical and Behavioral Visits By Payer										
Medicaid	158,046	33.0%	135,912	30.9%	210,617	42.1%	208,978	36.6%	210,017	40.5%
Medicare	70,622	14.7%	70,372	17.8%	97,983	17.8%	101,575	19.2%	103,782	17.8%
Other	250,598	52.3%	213,498	51.3%	237,090	40.1%	221,169	44.2%	221,800	41.7%
Total	479,266	100.0%	419,782	100.0%	545,690	100.0%	531,722	100.0%	535,599	100.0%

MICHIGAN PRIMARY CARE ASSOCIATION FQHC'S REVIEWED										
Rural	2021	% of Total	2020	% of Total	2019	% of Total	2018	% of Total	2017	% of Total
Number of FQHCs	15		12		13		15		13	
Medical	401,317	83.7%	356,431.0	85.5%	475,988	91.6%	477,147	90.4%	491,921	91.1%
Behavioral	77,949	16.3%	63,351	14.5%	69,702	8.4%	54,575	9.6%	43,678	8.9%
Total Medical and Behavioral Visits	479,266	100.0%	419,782	100.0%	545,690	100.0%	531,722	100.0%	535,599	100.0%
% Chg YOY	14.2%		-23.1%		2.6%		-0.7%			
Medical and Behavioral Visits By Payer										
Medicaid	158,046	33.0%	135,912	30.9%	210,617	42.1%	208,978	36.6%	210,017	40.5%
Medicare	70,622	14.7%	70,372	17.8%	97,983	17.8%	101,575	19.2%	103,782	17.8%
Other	250,598	52.3%	213,498	51.3%	237,090	40.1%	221,169	44.2%	221,800	41.7%
Total	479,266	100.0%	419,782	100.0%	545,690	100.0%	531,722	100.0%	535,599	100.0%

APPENDIX E. SOURCES OF DATA

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