



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Department of Health

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Thursday, April 18, 2024

The Honorable Senator Stedman
Alaska State Legislature
State Capitol, Room 518
Juneau, AK 99801

RE: *Federally Qualified Health Centers Inflationary Freeze*

The Honorable Senator Stedman,

The Alaska Primary Care Association (APCA) has expressed concern about the Department of Health and Social Services' (DHSS) non-application of the inflationary adjustment for SFY 2016-2018 and its subsequent impact on the adequacy of funding for Federally Qualified Health Centers (FQHC) today.

APCA has made numerous demands on the Department of Health (the Department) with respect to Medicaid payments. This inflationary freeze is one of several issues the Department has been working through with APCA. The Department has not requested funding and continues to engage with APCA regarding the issues they have raised.

To provide background, FQHCs are a specific provider type with certain federal requirements that provide a structure for reimbursement by Medicaid. FQHCs can be reimbursed in one of two methodologies: the prospective payment system (PPS) and an alternative payment methodology (APM). These include inflationary adjustments based on the Medicare Economic Index (MEI) for PPS providers and the Global Insights Healthcare Cost Review for APM providers and are outlined in state regulation.

In SFY 2016, 2017, and 2018, the Department enacted regulations that froze Medicaid inflationary adjustments for all services, including FQHCs. This occurred through a regulatory process and was approved by the Centers for Medicare and Medicaid Services (CMS) in Alaska's State Plan. In the FQHC world, this affected providers in both rate setting systems.

In SFY 2019, 2020, 2021, 2022, 2023, and 2024 FQHCs were provided inflationary adjustments.

Although some Medicaid providers (hospitals and professional services) received rate cuts during SFY 2018, FQHCs were not impacted by these actions. Additionally, in SFY 2020 most Medicaid services received inflation freezes and some Medicaid services (hospitals, long term care, and professional services) received rate cuts as part of cost containment measures.

However, providers who were determined to be primary care providers, which included FQHCs, were not impacted by the rate cuts or inflation freezes.

Through our work with APCA and in response to their concerns, the Department is taking action to adjust the inflationary rate factor moving forward. The Department's approach to this is to update all Prospective Payment System (PPS) FQHC rates effective July 1, 2024, granting the SFY 2016-2018 inflation. This is based on the MEI of 0.8% for SFY16, 1.1% for SFY 2017, and 1.2% for SFY 2018 for a cumulative impact of 3.1%.

We anticipate the providers who will be impacted:

- 1) receive PPS rates and were enrolled in Alaska Medicaid since SFY 2016; or
- 2) use the Alternative Payment Methodology (APM) rate but have a PPS rate greater than their APM rate once SFY 2016-2018 inflation has been granted.

This inflationary adjustment is only prospective. No changes to past rates are being made and no claims are being reprocessed.

Seven of the fifteen FQHCs are on the Prospective Payment System (PPS) rate methodology. The other eight FQHCs are on the Alternative Payment Methodology (APM). APCA is only contending that the inflation freeze on the PPS is in error. The seven FQHCs on the prospective payment system make up about 25% of FQHC visits.

The providers currently on the PPS rate are:

- Camai Community Health Center
- Eastern Aleutian Tribes (Whittier Medical Clinic)
- Iliuliuk Family & Health Services
- Juneau Alliance for Mentally Ill (*Note: Juneau was not impacted by the inflation freeze as they enrolled in AK Medicaid in 2022*)
- Mat-Su Health Services
- Dahl Memorial Clinic
- Seward Community Health Center

The estimated fiscal impact for SFY25 of retroactively applying the inflationary increases to PPS rates, and paying the additional amount to providers is estimated to be approximately \$125,000 in total Medicaid funds.

Sincerely,



Emily Ricci
Deputy Commissioner
Department of Health

CC: Renee Gayhart, Division Director, Division of Health Care Services
Marcey Bish, Executive Director, Office of Rate Review