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Primary Care Innovation: Health Center Investing in the Fast-Moving World of Reform

Federally Qualified Health Centers (FQHCs) are Essential Community Providers (ECPs) serving some of America's most vulnerable populations. Given the integral position FQHCs play in the healthcare safety net, FQHCs have a strong early lead in the race to implement the transformations mandated by healthcare reform, including the transition to electronic health records and the new focus on primary care. But changes to healthcare payment models rob FQHCs of some of the certainty of their business plan and it's not clear where FQHCs will find funding to pay for the next round of investments in transformational change.

"Payment is changing radically, and with that business models will change," says Ronda Kotelchuck, founding CEO of the Primary Care Development Corporation (PCDC).

Experts shared ideas on how to adapt to these challenges and opportunities at "The Primary Care Innovation Circle: Health Center Investing in the Fast-Moving World of Health Care Payment Reform," a roundtable discussion held May 30, 2013 at the Yale Club in New York City and co-hosted by PCDC and CohnReznick LLP. The participants included leaders from the FQHC industry, executives from major insurance companies, representatives from community development financial institutions and lenders, and other key stakeholders.

FQHCs Already Have Advantages...

New payment models incentivize many of the activities that FQHCs already do well, including primary care, coordination of care, and the use of electronic health records. Many FQHCs have already made significant transitions to electronic health records and collecting the data that will be needed to measure performance under new payment systems.

FQHCs have also concentrated on primary care for decades. Healthcare reform explicitly focuses on providing care through primary care physicians instead of through hospital emergency rooms. In addition, patient-centered medical homes (PCMHs) as an effective way to deliver primary care have been at the very core of an FQHC's historic business model. "Primary care is the wave of the future," says Gil Bernhard, Managing Director of CohnReznick's Healthcare Industry Practice.

The strong connections the FQHCs have to their communities should also help FQHCs retain patients even after those patients previously uninsured obtain health insurance and can choose other healthcare providers. "Community roots will keep FQHCs at the center of patient-centered care," says Bernhard. For example, in Massachusetts, 98.1 percent of the population is now insured, according to a 2012 report by the Blue Cross Blue Shield of Massachusetts Foundation, and FQHCs continue to serve significant numbers of newly-insured people.

"We have many challenges, but losing patients is not one," says James W. Hunt, Jr., President & CEO of the Massachusetts League of Community Health Centers.

Because healthcare reform focuses on so many of the strengths of FQHCs, there may also be an opportunity for FQHCs to compete – not just to keep patients who now have healthcare coverage, but to win newly-insured patients. "FQHCs have an interesting opportunity to create a one-stop shopping place for a population," says Lisa Whittemore, Vice President of Network Performance Improvement for Blue Cross Blue Shield of Massachusetts.

Key Takeaways

- Changes to healthcare payment models rob FQHCs of some of the certainty of their business plan.
- New payment models also incentivize many of the things that FQHCs already do well, including primary care and coordination of care.
- Many FQHCs have already done a great deal of work to transition to electronic health records and collect data that will be necessary under new payment models.
- Strong links between FQHCs and their communities will help FQHCs continue to attract newly-insured patients.
- It will take considerable, continuous investment to meet requirements of healthcare reform. State and federal money to help pay for transformation is now difficult to find.
- Investment companies from community development financial institutions to Wall Street are becoming more interested in FQHCs.
- Smaller FQHCs may need to join forces or even merge with other FQHCs to adapt to reforms.



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But FQHCs Face Challenges Ahead... and Uncertainty About New Payment Models

Change is coming quickly. In Massachusetts, Blue Cross and Blue Shield has already placed 86 percent of its network of health providers into its new “alternative quality contract,” including most of the major hospital healthcare systems. The new payment system provides payment incentives based on both efficiency and quality of care, using 64 quality measures. Payers in other states will not be far behind.

These new payment systems can expose FQHCs to competition, risk, and uncertainty. “With payment mechanisms shifting from fee for service, FQHCs are facing greater competition and less certainty on payment than they have had,” says Foster Gesten, Medical Director, Office of Quality & Patient Safety for the New York State Department of Health, noting that the Prospective Payment System require Medicare and Medicaid to pay FQHCs a cost-related rate.

Under the new system, some FQHCs worry they may lose patients who receive health insurance thanks to healthcare reform and that patients may choose to seek their healthcare elsewhere. That could leave FQHCs with an even higher concentration of patients who remain uninsured, such as undocumented immigrants. As more patients obtain healthcare coverage, existing funding that currently covers the uninsured may dry-up. This concentration of uninsured patients coupled with the potential loss of funding for uncompensated care could threaten the financial viability of FQHCs. Also, newly-insured patients who continue to rely on FQHCs for their healthcare will now have insurance to pay for their healthcare. The rates and methods by which insurers will pay may become an issue.

Competition from Hospitals and Large, For-Profit Health Systems

Propelled by the Affordable Care Act, with the increase in empty hospital beds, many hospital networks are shifting their focus to primary care. These hospitals may offer high salaries to lure primary care doctors away from FQHCs. However, FQHCs can compete to keep doctors by offering benefits beyond salary. “A reasonable schedule, being part of a primary healthcare team, reasonable compensation with some incentives, and respect keep you in the community health system in Massachusetts,” says Hunt. “Our surveys show that a salary doesn’t get you to the soccer game at night.”

The shift toward patient-centered care will also require a tremendous investment – even for FQHCs that have begun the process. Large hospital systems will be able to invest huge amounts of money on hiring staff and investing in new technology. “Care coordination and patient engagement requires an army... a whole back room of people to do this right,” says Paloma Hernandez, President and CEO for Urban Health Plan, and a member of the PCDC Board of Directors.

The investment in transformation will need to be continuous. The data that healthcare providers gather will suggest changes and improvements that will be impossible to predict at the beginning of the process. “We are seeing this as a continuous transformational process that will take time to unfold. Right now FQHCs need resources to implement and assess the impact of the changes we are making,” says Neil Calman, MD, President & CEO of the Institute for Family Health.

Transformation is Hard to Fund

New payment structures offer FQHCs a share of the savings that come from transformation. But these payments, if they come, will arrive long after the FQHC must invest in transformation. “Any primary care practice that is serious about transformation needs working capital if they are really going to do it,” says Richard Bohrer of the National Association of Community Health Centers (NACHC).

Other than New York and Massachusetts, most states offer little funding to pay for FQHCs to implement transformational change. Federal money to help pay for transformation is also now difficult to find because of budget battles in Congress and budget cuts mandated by the Sequestration. “If you have access to funds to facilitate transformation now is the time to engage. We are at a time of convergence, systems are becoming payers; payers are becoming intermediaries, everything is on the table as we move from fee for service to value-based reimbursement and payment reform,” says Gary Jacobs, Managing Director, Health Industries Advisory Practice for PricewaterhouseCoopers and a PCDC Board member.

Investment companies, from community development financial institutions to Wall Street, are interested in FQHCs and, under the right circumstances, can potentially provide debt financing — which historically has not been widely available to FQHCs. The renewed interest of mainstream investors in primary care and the growth of programs such as the New Markets Tax Credit may also make facility capital more available.

“Community organizations and nonprofits like FQHCs need access to upfront and working capital funding to begin to provide these critical services,” said Dan Nissenbaum, a Managing Director in the Goldman Sachs Urban Investment Group, which financed the construction of Urban Health Plan’s new facility in the South Bronx in New York City in 2011. “The ability to utilize a New Market Tax Credits structure with equity and debt to meet a provider’s needs is a great investment that is financially attractive and socially beneficial.”

Smaller FQHCs may need to join forces or even merge with other FQHCs to attract capital and adapt to reforms, such as the requirement to gather data. Participants of the discussion asserted that many FQHCs are small, and may be too small to make or raise the investment capital necessary to keep up with reform.

The Road Ahead

As ECPs, the sustainability of FQHCs is critical to the success of healthcare reform nationwide. However, many reform initiatives are changing many of the rules that FQHCs have lived by for decades by changing the payment models that have allowed FQHCs to stay in business and grow strong. But reform also offers opportunities. Reform favors the kind of primary care the FQHCs provide and the skills like patient-centered care and electronic health records that FQHCs have already begun to master. These advantages could position FQHCs near the center of the new conversation on healthcare in the future.

What Does CohnReznick Think?

It is clear that health reform and the design of new payment models have been born from the realization that emphasis on preventive and primary care services is the foundation for transforming the healthcare delivery system. And the goal of this transformation is to improve health outcomes and drive down overall healthcare costs. However, if the dollars are not adequately re-allocated to primary care, the desired changes will not occur. In addition, if the healthcare delivery system really wants to drive change, then the reimbursement paid to primary care providers must cover their costs of transformation. FQHCs are the primary care safety net of this country and are currently wrestling with the issues of transformation and balancing reimbursement and cost. If the dollars do not cover the cost, then behaviors will remain the same, and the premise of shifting the healthcare delivery system to the primary care setting is improbable.

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About Primary Care Development Corporation (PCDC)

Founded in 1993, PCDC is a nonprofit dedicated to expanding and transforming primary care in underserved communities to improve health outcomes, lower health costs and reduce disparities through capital investment, performance improvement services, and policy and advocacy. For more information please visit www.pcdc.org or call 212-437-3900.

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