

South Dakota Department of Social Services (DSS) Federally Qualified Health Center (FQHC) and Rural Health Clinic (RHC) Services Rate Study

Stakeholder Workgroup Townhall

September 16, 2025

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Questions



Questions?

- The chat function is available for questions and feedback
- Please use the raise hand feature if you would like to speak
- Microphone and Video is enabled for participant questions



Additional Feedback

- Submit questions and/or feedback to our project email sdfqrhc@pcgus.com following the presentation
- All comments will be reviewed and incorporated as appropriate

Rate Study Overview

Introductions & Project Overview

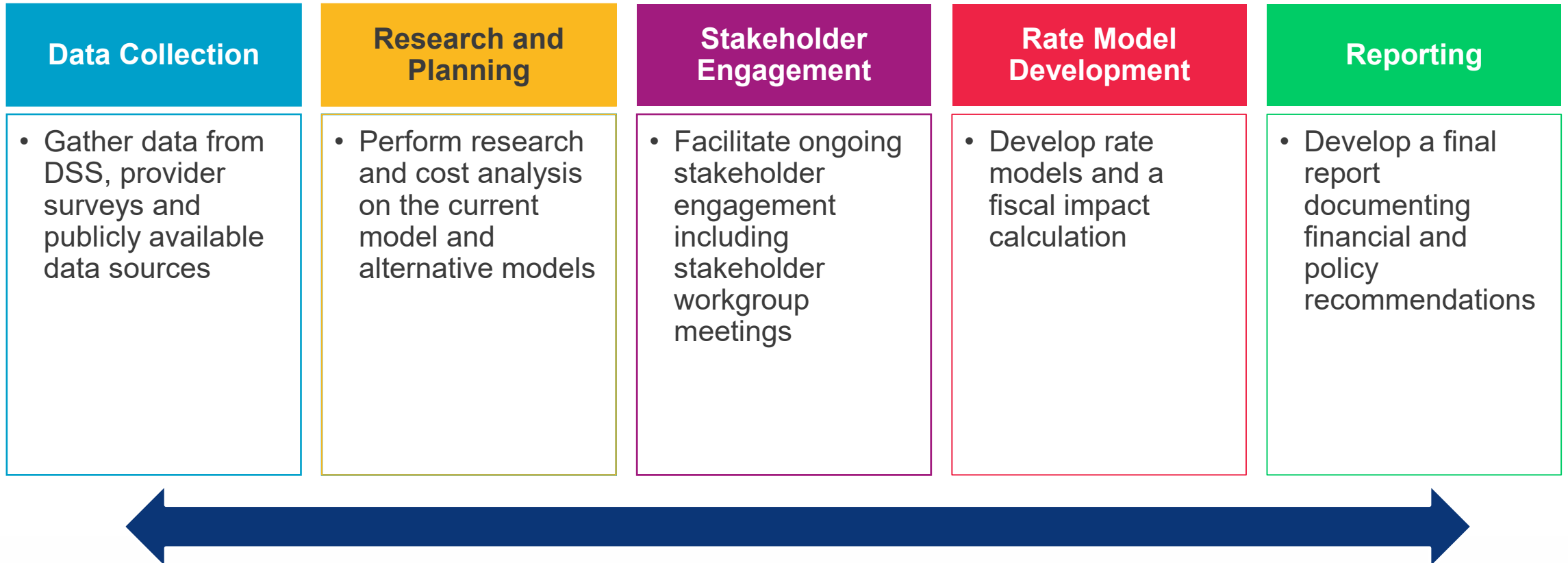
Public Consulting Group LLC (PCG) partnered with the South Dakota Department of Social Services (SD DSS) in March 2025 to conduct a comprehensive rate study of Federally Qualified Health Centers (FQHCs) and Rural Health Clinics (RHCs).

The goals of this project include the following:

- Performing an in-depth **analysis of current reimbursement policies**
- Evaluating existing **changes in scope of services** policies and processes
- Exploring **alternative payment model** options
- Identifying **areas for improvement and providing detailed recommendations** to achieve **better health outcomes and reduce healthcare costs**



Timeline



What We Heard from You

Workgroup Feedback Summary

- Identified challenges and opportunities related to reimbursement rates and policies
- Highlighted operational and policy barriers impacting care delivery and financial sustainability
- Emphasized the impact of current reimbursement rates on:
 - Budget constraints
 - Limited access in rural and frontier areas
 - Innovation barriers
 - Workforce recruitment and retention
- Captured recurring themes and insights to inform project recommendations



Workgroup Feedback Themes

Reimbursement Rates

- Falls short of actual care costs, especially in high-cost service areas
- Payments often cover only a fraction of per-visit expenses
- Underfunding risks long-term viability, especially in rural areas

Workforce Challenges

- Limited reimbursement rates hinder providers' ability to invest in workforce stability and long-term service delivery
- Rural and frontier providers face unique challenges including low patient volume, geographic isolation, housing scarcity, and compensation issues
- Urban providers struggle with staffing due to competition from higher-paying employers and rising housing costs, leading to budget strain from escalating compensation demands.

Provided Services & Innovation

- Reimbursement rates make it difficult to sustain essential services or expand services
- Staffing shortages and financial pressures have forced some clinics to reduce services and delay innovation
- Telehealth adoption has helped expand access, particularly for behavioral health and specialty care in rural areas



Workgroup Feedback Themes

Operational Challenges

- Service disruptions related to inadequate reimbursement and workforce shortages have led to paused, scaled-back, or reduced services
- High no-show rates and non-reimbursed patient-centered strategies (e.g., transportation, outreach) add financial strain, especially in rural areas
- Declining support from affiliated health systems is pushing providers to explore alternative ways to sustain essential services

Change in Scope of Service Policy

- Lack of transparency and guidance in rate-setting and approval processes creates confusion and hinders planning
- Communication gaps make navigation difficult, limiting providers' ability to make informed decisions
- Providers are calling for reform with standardized guidance, clear timelines, designated contacts, and regular rate reviews

Alternative Payment Methodologies and Value Based Purchasing

- Providers support transitioning to value-based models, but emphasize the need to first address reimbursement gaps, workforce stability, and administrative burdens
- Cost-based reimbursement remains essential for sustaining core services and financial stability
- Gradual approach is preferred—preserving cost-based elements while introducing value-driven incentives aligned with real-world challenges

Draft Report Highlights

Rate Models

PCG researched various payment methods, along with peer states' methodologies to determine the most effective approaches for designing an Alternative Payment Methodology (APM) for FQHCs and RHCs in South Dakota. This included:

Provider-Specific Cost-Based Rate

- Fixed rate based on individual provider costs

Statewide Average Rate

- Uniform rate based on average costs

Encounter Weighted Statewide Average Rate

- Average cost weighted by encounter volume



Benchmarks

To evaluate the reasonableness of the rate modeling, the PCG Team reviewed these main benchmarks for FQHCs and RHCs:

➤ **Cost-Based Benchmark**

- Aligned total allowable cost categories based on federal and state guidelines
- Adjusted provider total allowable costs to align with the same reporting period for data consistency
- Examined adjustment factors such as applying an administrative and overhead floor/cap to ensure rates remained fair and consistent

➤ **Medicare-Based Rates**

- Utilized the federal Prospective Payment System (PPS) and All-Inclusive Rate (AIR) as standardized national benchmarks

➤ **South Dakota Medicaid Management Information System (MMIS) Data**

- Analyzed MMIS data to evaluate service trends including encounter volume, service types, and differences between Fee-For-Service (FFS) and encounter-based payments



Rate Adjustments

To ensure fairness and consistency in rate modeling, specific adjustments were applied to account for outlier costs and excluded services.

➤ **Administrative & Overhead Cap**

- Higher administrative and overhead costs were capped using a per-encounter basis dividing the total administrative and overhead costs for all providers by their respective total encounters (producing a per-encounter administrative cost benchmark)
- To ensure outliers from significantly skewing rates, outlier providers were capped using the average per encounter benchmark plus, one standard deviation

➤ **Excluded FFS Payments**

- Medical and dental services paid under South Dakota Medicaid's fee-for-service structure were excluded from encounter-based payments in the rate modeling

Value-Based Payment (VBP) Implementation

- The Centers for Medicare and Medicaid Services (CMS) defines four (4) Health Care Payment Learning & Action categories of APMs
- South Dakota may leverage the Rural Health Transformation Program (RHTP) funding to support early VBP efforts for FQHCs and RHCs

➤ Funding Uses

- Launch the initial APM focused on closing the cost gap, support provider transformation, and fund early incentive payments

➤ Recommended Progression

- Move from Category 2A (pay-for-reporting) to Category 3B (shared savings with risk) as RHTP funds phase out

Category	Risk Level	Model Type	Key Features
Category 2C	Low	Pay-for-performance	FFS-based with quality bonuses
Category 3A	Moderate	Shared savings (upside only)	Providers share savings if costs are below benchmark
Category 3B	Moderate-High	Shared savings + downside risk	Providers share savings and are liable for losses
Category 4	High	Population-based payment	Providers receive prospective payments for total cost of care

Report Conclusion

Current Challenges

- South Dakota's existing reimbursement structures are insufficient to sustain the comprehensive care provided by FQHCs and RHCs, threatening financial stability and access to essential services.

Recommended Path Forward

- Transitioning to an APM that narrows the cost gap, streamlines administrative processes, and clarifies scope of service adjustments—based on data analysis, stakeholder input, and peer comparisons.
- Positions the state to modernize its payment system and supports providers.

Report Recommendation

PCG's recommendations were based on the analysis of cost report data, MMIS data, relevant research, and federal and state guidance:

Recommendation	Meaning
Integrate an updated change in scope of service policy	A clearly defined, updated change in scope of services policy enables timely rate adjustments aligned with service delivery, while providing transparency through standardized methodology, data requirements, contact information, and an appeals process
Invest in primary care and support provider participation in value-based care models	Investing in primary care and incentivizing FQHC and RHC participation in value-based care strengthens care coordination, improves outcomes, and aligns reimbursement with quality metrics to support efficient, patient-centered Medicaid services
Adopt an APM that is structured by statewide weighted average rates.	Using an encounter-weighted statewide average rate promotes fairness and efficiency in reimbursement, reduces disparities, simplifies implementation for new providers, and supports accurate budget forecasting



Projected Rates

- A statewide weighted average would be the following depending on funding level:

Percentage	FQHC	RHC
100%	\$374.93	\$299.14
95%	\$356.18	\$284.18
90%	\$337.44	\$269.23
85%	\$318.69	\$239.31
80%	\$299.94	\$254.27

- A fully funded statewide weighted average dental APM would be \$235.47

Encounter Weighted Statewide Average Rate

- Uses actual encounter volumes from providers which reflect the true cost of care delivery
- Promotes rate equity
- Ensures high-volume providers appropriately influence the rate

Change in Scope of Services Policy

Change in Scope of Service Policy Overview

Purpose

- Ensures PPS reimbursement rates for FQHCs and RHCs reflect actual services delivered

Current South Dakota Definition

- Change in scope is defined as adding a new service into the current per diem service base or removing a service that is in the existing service base

Federal Guidance Alignment

- Policy aligns with federal guidance but lacks clarity and transparency

OPPORTUNITY FOR IMPROVEMENT

Peer state analysis identified structured approaches that South Dakota could adopt to enhance transparency and improve provider experience.



Recommendations for Consideration



1

Establish a clear definition that includes type, intensity, duration or amount of service delivered including the calculation methodology



2

Determine whether a minimum threshold for rate impact (e.g. +/- 5%) triggers a change in scope rate adjustment



3

Implement a standardized change in scope of services request form, documentation requirements, and state level contact



4

Adopt a fixed annual submission window to streamline the review process and provide clarity for everyone involved in the process



5

Adopt a standardized decision and appeal process for a change in scope decision

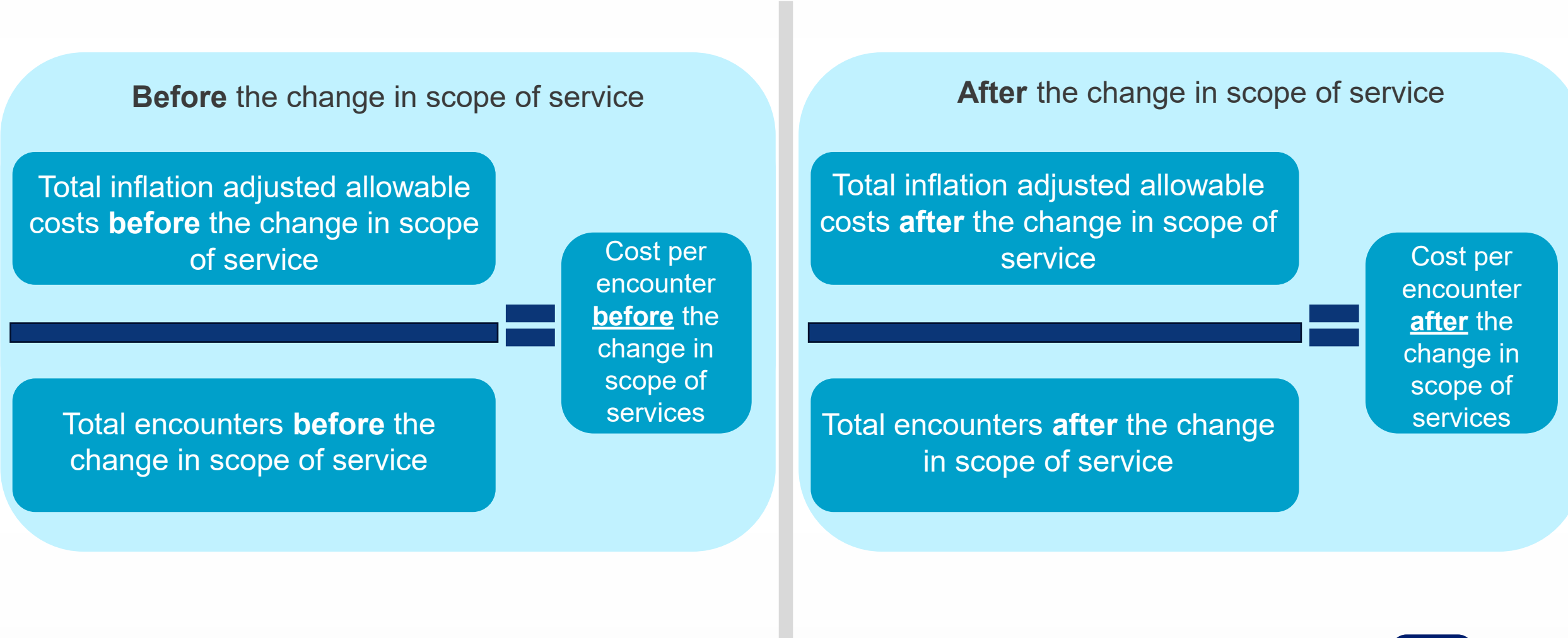


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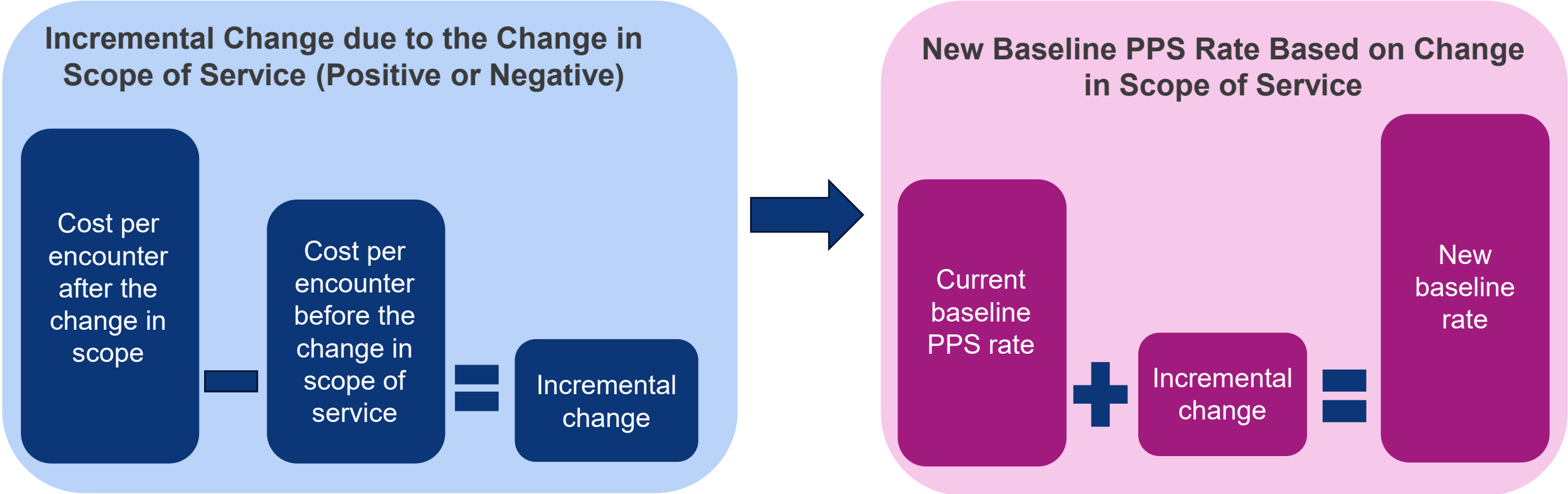
Clarify the parameters around setting the interim rate and the effective date of the change in scope of service rate adjustment

The recommendations provided by PCG are intended to support the state in enhancing provider experience and are offered for consideration in future policy revisions. Final decisions regarding adoption and implementation rest solely with the state, and no changes are guaranteed until the official policy is revised and released.

PPS Scope Change Calculation

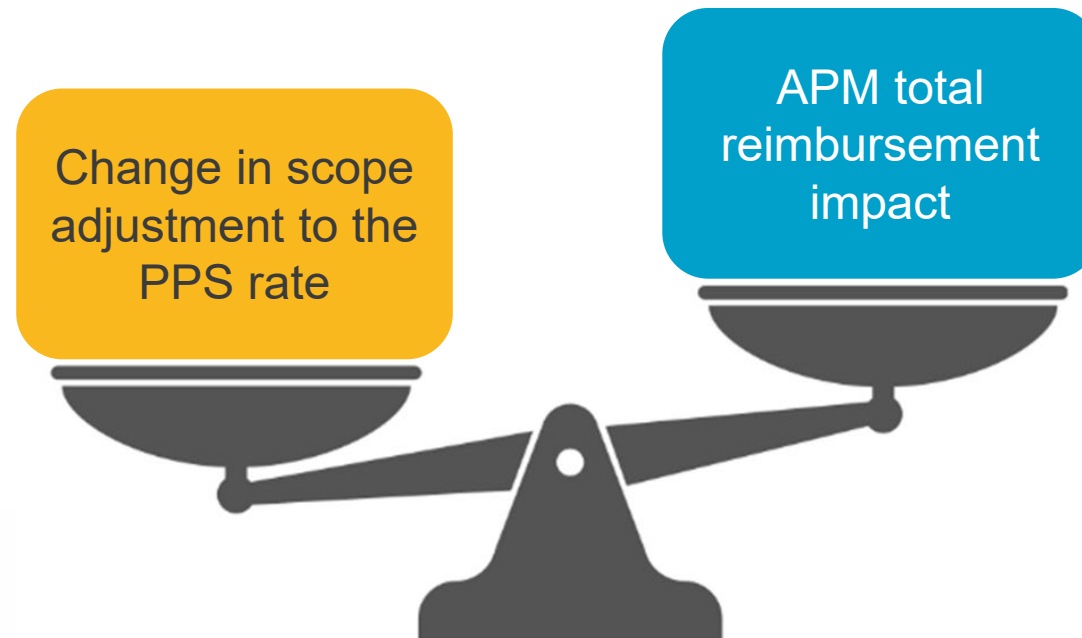


PPS Scope Change Calculation Continued



Change in Scope of Service Versus Alternative Payment Methodology (APM) Consideration

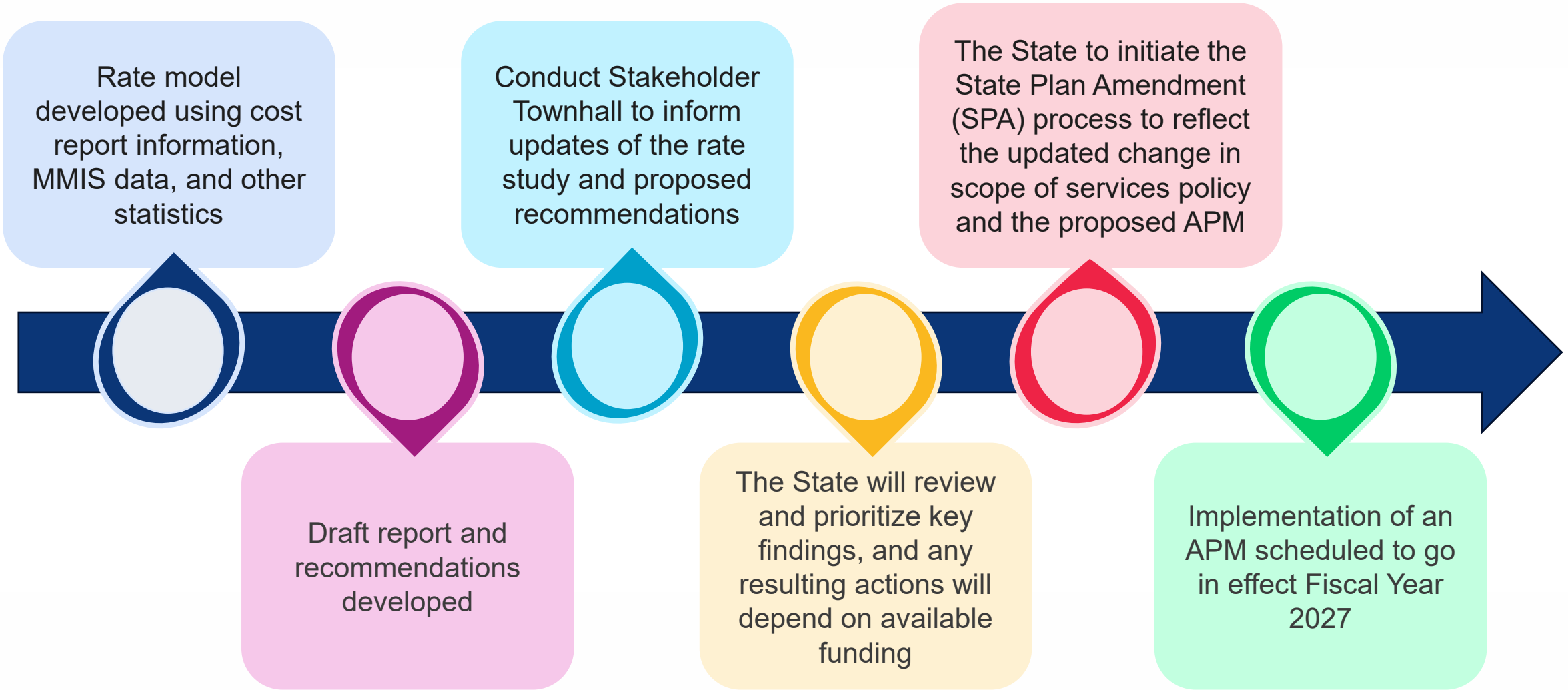
- Change in scope of service adjustments typically result in only a small incremental increase to the PPS rate
- Change in scope impact may be limited compared to broader reform opportunities under a proposed APM
- An APM provides a more comprehensive approach to achieving sustainability and innovation long-term



Next Steps

Next Steps

Note: Final recommendations are at the sole discretion of the state, and no changes are guaranteed until the official policy is revised and published.



Contact Information

Thank you for your valuable contributions to the rate study!

Your insights have been instrumental in deepening our understanding of current reimbursement structures and shaping our recommendations to DSS.

Please reach out to us for further feedback and questions at the following contact:



Reach out to our project inbox: sdfqrhc@pcgus.com



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