NATIONAL ASSOCIATION OF
COMMUNITY HEALTH CENTERS®

Health Center Financial Essentials

Section 330 grants provide federal operating support to community health centers, enabling them to serve all patients regardless of ability to pay. The funding also comes with benefits such as malpractice coverage under the Federal Tort Claims Act (FTCA), set payment protections under Medicaid and Medicare, and eligibility for discounted drug pricing through the 340B program. This funding exists within a financial landscape shaped by rising costs, reliance on Medicaid and other payers, and factors that create potential risks to stability and sustainability.

Revenue and Margins

Health centers rely on a mix of Medicaid, Medicare, private insurance, grant funding provided through the Health Center Program, savings generated from the 340B Drug Pricing Program, and patient self-pay to support operations. In recent years, operating costs, like workforce and other expenses, have grown faster than revenue, resulting in tight operating margins (the difference between revenue and expenses) across the sector. As a result, many health centers maintain limited financial reserves and are highly sensitive to payment delays, coverage changes, or unexpected cost increases.

Medicaid and Coverage Changes

Medicaid is the largest source of patient revenue for health centers overall, covering nearly half of all patients nationally and accounts for 61% of revenue for Health Center's based on 2024 Uniform Data System (UDS) data. Changes in Medicaid enrollment, such as eligibility redeterminations, when states reassess whether individuals still qualify for Medicaid coverage, or coverage losses, can create variability in revenue and increase administrative work. In addition, growth in the number of uninsured patients adds pressure on grant funding and collection efforts.

Payment Timing and Cash Flow

Health centers receive some payments on a predictable schedule, such as Medicaid and Medicare prospective payments, but other payments, like "wrap" payments, which reimburse the difference when managed-care payments fall short of the full PPS encounter rate—can be delayed by state and/or other reconciliation processes. Even when a center is technically owed money, cash may not be immediately available, creating temporary cash flow gaps. These timing issues can strain operations, particularly centers with limited financial reserves.

340B Drug Program

The 340B program allows health centers to purchase outpatient drugs at discounted prices, which can help fund services. However, the financial benefit depends on reimbursement rates, contract pharmacy arrangements, and compliance with program rules. Changes in manufacturers' policies or audits can affect the amount of money available, and strict record-keeping is required to avoid repayment obligations or other penalties.

Telehealth

Telehealth has become a meaningful part of health center services, accounting for a growing share of patient visits. While telehealth expands access, payment rules can change over time, particularly under Medicare's evolving policies. Centers must track policies carefully to ensure billing and reimbursement are accurate.

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This resource was developed with reference to relevant materials and expertise.

Workforce Costs and Inflation

In 2024, health centers employed over 313,000 full-time staff nationwide, but persistent workforce shortages and rising wages create financial pressures. Health centers cannot simply raise prices, so these pressures often lead to fewer available appointment slots, higher spending on contract labor, productivity demands that can affect quality and compliance, and delayed investments in areas such as security, analytics, and revenue cycle streams—the processes and systems used to generate, track, and collect payment from multiple sources including Medicaid, Medicare, private insurance, grants, 340B, and patient self-pay.

Key Areas to Watch

Even when health centers are technically "profitable," careful attention to revenue timing, payer mix, workforce, and program compliance is essential to maintain financial and operational stability Health center leadership should be aware of and monitor the following:

- ✓ **Cash flow timing:** Delays in reimbursement from Medicare, Medicaid, grant programs, and others can temporarily limit available cash.
- ✓ **Medicaid and payer mix changes:** Coverage losses, redeterminations, or increases in uninsured patients can increase administrative work and bad debt.
- ✓ **340B program reliance:** Contract pharmacy rules, audits, or manufacturer / federal policy changes can affect revenue available for services.
- ✓ **Telehealth policies:** Changing Medicare or state rules may affect reimbursement rates or billing practices.
- ✓ **Workforce pressures:** Staffing shortages and wage inflation can limit access, increase costs, and affect quality.
- ✓ **Cost growth vs. revenue growth:** Margins are thin, so rising expenses in labor, facilities, or operations can quickly impact sustainability.

Conclusion

Health centers operate in a complex financial environment. Section 330 grants provide important support, but most revenue comes from Medicaid, Medicare, and supplemental programs like the 340B Drug Pricing Program. Rising costs, workforce shortages, and coverage changes mean that even small delays or shifts in revenue can create cash flow pressures. Telehealth, Medicaid and Medicare wrap payments, and drug program margins add additional complexity. Overall, health centers are operating on extremely thin margines and can face real operational constraints if revenue or cash timing is disrupted.

Helpful Links and References

1. https://www.kff.org/medicaid/community-health-center-patients-financing-and-services/
2. https://www.medicaid.gov/federal-policy-guidance/downloads/sho10004.pdf
3. https://nachc.org/wp-content/uploads/2023/03/b9784c7326bea6f2202ef78a41872e03.pdf
4. https://www.hrsa.gov/opa/updates/2024-340b-covered-entity-purchases
5. https://www.nachc.org/2024-uds-early-takeaways-community-health-center-growth-under-pressure/
6. https://www.nachc.org/community-health-centers-grew-in-2024-but-patient-access-faces-a-tipping-point/
7. https://www.congress.gov/crs-product/R48696
8. https://issuu.com/nachc.com/docs/medicare_reimbursement_resources_for_fqhcs?fr=xKAE9_zU1NQ
9. Data.hrsa.gov

NOTE: Individual health center performance will vary based on state policy, payer mix, operational efficiency, and pharmacy model design.

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