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## **Rural Community Hospital Demonstration – August 2009**

### **Overview**

The Centers for Medicare & Medicaid Services (CMS) is conducting a five-year “Rural Community Hospital Demonstration Program” as mandated under Section 410A of the Medicare Modernization Act. Congress included this provision in the law in response to financial concerns of small rural hospitals. The demonstration will test the feasibility and advisability of providing reasonable cost reimbursement for small rural hospitals. Thirteen small rural hospitals in eight sparsely populated States elected to participate.

In 2005, four hospitals dropped out after one year and converted to Critical Access Hospitals, leaving 9 hospitals

In 2008, four additional hospitals were selected when the solicitation was reopened, totaling 13 hospitals.

Since April 2009, 3 hospitals have dropped out of the demonstration. Two returned to sole community hospital status and one converted to a Critical Access Hospital.

There are currently 10 hospitals participating in the program. The hospitals that have withdrawn from the demonstration have been able to take advantage of other opportunities within the Medicare program that offer more favorable reimbursement.

### **Eligibility**

The following eligibility requirements have to be met for a hospital to be considered for participation in the demonstration. These requirements are specified in the authorizing legislation. An applicant has to be a hospital that:

- Is located in a rural area (as defined in section 1886(d)(2)(D) of the Social Security Act (42 U.S.C. 1395ww(d)(2)(D)) or treated as being so located pursuant to section 1886(d)(8)(E) of the Act (42 U.S.C. 1395ww(d)(8)(E)));
- Has fewer than 51 acute care beds, as reported in its most recent cost report;
- Makes available 24-hour emergency care services; and

- Is not eligible for CAH designation, or has not been designated a CAH under section 1820 of the Social Security Act.

The authorizing legislation requires that the demonstration be conducted in States with low population densities, as determined by the Secretary. For this demonstration, hospitals had to be located in one of the ten most sparsely populated States: Alaska, Idaho, Montana, Nebraska, Nevada, New Mexico, North Dakota, South Dakota, Utah, or Wyoming.

### **Demonstration Payment Methodology**

Hospitals selected for participation in the demonstration will receive payment for inpatient services, with the exclusion of services furnished in a psychiatric or rehabilitation unit that is a distinct part of the hospital, using the following rules:

1. Reasonable cost for covered inpatient services, for discharges occurring in the first cost reporting period on or after the implementation of the program;
2. For subsequent cost reporting periods, the lesser amount of reasonable cost or the previous year's amount updated by the inpatient prospective payment update factor for that particular cost reporting period.

### **Current Status of the Demonstration**

Nine of the 13 original hospitals that participated through 2008 began the demonstration at the start of their cost report years – between January 1, 2005 and July 1, 2005. Medicare Administrative Contractors and fiscal intermediaries associated with the hospitals have conducted audits of the first year cost reports toward the end of determining a Medicare payment for inpatient services based on reasonable costs. All 9 hospitals have completed settlements for the first year and second year.

### **Participating Hospitals**

The following hospitals are currently participating in the demonstration:

<u>Originally Participating Hospitals</u>	<u>City, State</u>
Central Peninsula General Hospital	Soldotna, Alaska
Bartlett Regional Hospital	Juneau, Alaska
Northern Montana Hospital	Havre, Montana
Columbus Community Hospital	Columbus, Nebraska
Banner Churchill Community Hospital	Fallon, Nevada
Holy Cross Hospital	Taos, New Mexico
Garfield Memorial Hospital	Panguitch, Utah

Hospitals Selected in 2008

Mt. Edgecumbe Hospital  
Brookings Health System  
Holy Infant Hospital

City, State

Sitka, Alaska  
Brookings, South Dakota  
Hoven, South Dakota

