

Rural Community Hospital Demonstration – November 2011

Overview

The Centers for Medicare & Medicaid Services (CMS) is conducting the Rural Community Hospital Demonstration Program, which was initiated as a 5-year program under its original mandate, section 410A of the Medicare Modernization Act of 2003, and extended for an additional 5-year period under section 10313 of the Affordable Care Act. Congress included these provisions in these laws in response to the financial concerns of small rural hospitals. The demonstration will test the feasibility and advisability of providing reasonable cost reimbursement for small rural hospitals.

In 2004, thirteen rural hospitals in eight sparsely populated States elected to participate.

In 2005, 4 hospitals dropped out after one year and converted to Critical Hospital status, leaving 9 hospitals participating in the demonstration.

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

Between April 2009 and August 2010, 4 hospitals dropped out of the demonstration, 3 returned to sole community hospital status and one converted to become a Critical Access Hospital. This left 8 hospitals participating in the demonstration. These hospitals would continue for an additional 5-year period following upon the conclusion of their first 5-year period. The hospitals that have withdrawn from the demonstration were able to take advantage of other opportunities within the Medicare program that offer more favorable reimbursement.

In August 2010, CMS announced a solicitation for new hospitals in accordance with the Affordable Care Act mandate. Applications were due October 14, 2010, and in April 2011 CMS announced that 18 new hospitals would begin the demonstration for a 5-year period beginning for each hospital with its cost report year beginning on or after April 1, 2011'

Since the new awards to the hospitals in 2011, 3 hospitals have withdrawn from the demonstration. One, among the original hospitals that was selected in 2004, withdrew on account of more favorable relative reimbursement from the standard program. One hospital among those receiving awards in 2011 withdrew to become a Critical Access Hospital. One hospital among those receiving awards in 2011 withdrew, saying that the standard program reimbursement was more favorable.

There are currently 23 hospitals participating in the demonstration.

Eligibility

The following eligibility requirements had 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.

Section 410A of the Medicare Modernization Act required that the demonstration be conducted in States with low population densities as determined by the Secretary. For the initial demonstration period beginning in 2004, 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.

The Affordable Care Act provision expanded eligibility to 20 States, to be determined according to the same criteria and data as for the initial solicitation. Thus, these were the 20 most densely populated States, which were eligible in 2010: Alaska, Arizona, Arkansas, Colorado, Idaho, Iowa, Kansas, Maine, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Utah, and 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 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.

Evaluation

The mandate for the demonstration also requires a Report to Congress evaluating the project. This evaluation will assess the impact of the demonstration on the financial viability of participating hospitals as well as the ability of hospitals to meet their strategic and operational goals. The evaluation will consist of case study and financial impact analyses.

Participating Hospitals

The following hospitals are currently participating in the demonstration:

Originally Participating Hospitals

City, State

Central Peninsula Hospital	Soldotna, Alaska
Bartlett Regional Hospital	Juneau, Alaska
Columbus Community Hospital	Columbus, Nebraska
Banner Churchill Community Hospital	Fallon, Nevada
Garfield Memorial Hospital	Panguitch, Utah
Mt. Edgecumbe Hospital	Sitka, Alaska
Brookings Health Center	Brookings, South Dakota

Newly Selected Hospitals

City, State

Delta County Memorial Hospital	Delta, Colorado
Yampa Valley Medical Center	Steamboat Springs, Colorado
Sterling Regional Medical Center	Sterling, Colorado
St. Anthony Regional Hospital	Carroll, Iowa
Grinnell Regional Medical Center	Grinnell, Iowa
Skiff Medical Center	Newton, Iowa
Lakes Regional Healthcare	Spirit Lake, Iowa
Mercy Hospital	Fort Scott, Kansas
Mercy Hospital	Independence, Kansas
Geary Community Hospital	Junction City, Kansas
Bob Wilson Memorial Hospital	Ulysses, Kansas
Maine Coast Memorial Hospital	Ellsworth, Maine
Franklin Memorial Hospital	Farmington, Maine
Inland Hospital	Waterville, Maine
Marion General Hospital	Columbia, Mississippi
San Miguel Hospital Corporation	Las Vegas, New Mexico