

# Rural Community Hospital Demonstration Program

## Questions and Answers

1. The notice on the CMS website for the Rural Community Hospital Demonstration Program states that applications are due on July 2, 2004, yet the Proposed Rule for Proposed Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2005 Rates, published in the May 18, 2004 Federal Register, announces the demonstration program. This proposed rule states a comment period ending on July 12, 2004. Please explain this difference.

CMS announced the demonstration in the Hospital Proposed Rule because it pertains to inpatient services, and because the budget neutrality adjustment required for the demonstration requires changes in the overall payment rates for inpatient services. The comment period for the proposed rule is also the period for comments on the demonstration and the budget neutrality adjustment methodology. CMS is required to conduct the demonstration according to a Congressional mandate. The due date has been set at July 2, in order to allow time for sufficient evaluation and to be able to implement the project within the time period required by Congress.

2. Are Indian Health Service and tribally owned hospitals eligible for the demonstration?

Yes, Indian Health Service and tribally owned hospitals are eligible for the demonstration if they meet all other eligibility criteria.

3. Does a joint application among hospitals convey any advantage as far as being selected for the demonstration?

No. CMS will not make joint awards for the demonstration.

4. For Question 9 of the "Objective Information", listed in the demonstration application on the CMS website, how does the applicant calculate total operating margin?

Please use the following formula:

$$\frac{((\text{Net Patient Revenues} + \text{Total Other Income}) - (\text{Total Operating Expenses} + \text{Total Other Expenses}))}{(\text{Net Patient Revenues} + \text{Total Other Income})}$$

These individual quantities are line items on worksheet G-3 of the CMS Cost Report for Hospitals, Form CMS-2552-96:

Net Patient Revenues – Line 3  
Total Other Income – Line 25  
Total Operating Expenses – Line 4  
Total Other Expenses – Line 30

5. The authorizing legislation for the demonstration, Section 410A of the Medicare Modernization Act, states that "covered inpatient hospital services" includes extended care services furnished under an agreement under section 1883 of the Social Security Act (42 U.S.C. 1395 tt). However, there is no mention of this inclusion in the demonstration application found on the CMS website.

Covered inpatient services under the demonstration will include extended care services furnished under an agreement under Section 1883 of the Social Security Act.

6. Do psychiatric beds count against the demonstration's eligibility requirement of fewer than 51 acute care inpatient beds?

Section 410A, the authorizing legislation, states explicitly that beds in a psychiatric or rehabilitation unit of the hospital which is a distinct part of the hospital shall not be counted. However, psychiatric beds that are not separate from the hospital's inpatient beds are subject to the Medicare inpatient prospective payment system, and are to be counted against the bed limit for eligibility for the demonstration.

7. Is it required that a hospital be in a poor financial situation to be eligible for the demonstration?

No. However, potential applicants should be aware that they will be assessed on the issues listed in the questions on the application. Financial need is included among these criteria. It is possible that a hospital that submits a strong application on other points will be accepted despite its financial situation.

8. When will applicants be notified whom has been selected?

We plan that notification will occur in September 2004?

9. Will there be a coordinator for the program, like the States have for the Critical Access Hospital program?

The CMS Project Officer will be the coordinator of the Rural Community Hospital Demonstration Program. He will coordinate all activities within CMS, among the fiscal intermediaries, and will work with the CMS evaluation staff.

10. Will the demonstration project begin October 1, 2004 or January 1, 2005?

We are planning to begin the project on October 1, 2004.

11. Will hospitals use their current cost report year or would all 15 have a new year in order to coordinate the management of the project?

Hospitals will keep their current cost report year.

12. Are participating hospitals required to stay in for the full five years? How and when do you exit, if this is allowed?

Hospitals may exit at the end of any cost report year.

13. What happens at the end of the five-year period?

The participating hospitals will return to the payment system for Medicare inpatient services determined by then current law.

14. Will CMS require a specific survey process for the demonstration?

CMS will not require any survey process beyond what would customarily be required for rural hospitals. Nothing will change in the method by which CMS deems hospitals for meeting Conditions of Participation on JCAHO review.

15. Will RCH hospitals utilize a network hospital similar to the critical access program?

Transfer relationships and cooperation on patient care with other providers are certainly encouraged. In the demonstration application process, points will be awarded to applicants on the basis of these factors. However, there is no explicit requirement for a network hospital such as in the Critical Access program.

16. Are changes in State licensure necessary?

No changes in State licensure are required by CMS.

17. How will interim payments be made?

There will be no change in the frequency or amount of interim payments compared to how they would ordinarily be made. There will be no systems changes for the demonstration. Payment adjustments for cost-based reimbursement will be made in the cost report settlement process. Participating hospitals will receive as much cash flow from interim payments as they would receive without the demonstration.

18. Are there any restrictions on participating in the other rural improvements resulting from the Medicare Modernization Act, i.e., home health or ambulance add ons.

No, participation in the Rural Community Hospital Demonstration Program does not preclude hospitals from receiving these payment enhancements.

19. Define "target" amount with respect to costs.

See the web page for the Rural Community Hospital Demonstration Program under "Demonstration Payment Methodology".

20. What kind of training or education will be provided to fiscal intermediaries so that they are equipped to handle this program?

Instructions will be given to participating hospitals' fiscal intermediaries in the form of a program memorandum. CMS staff will give directions to the fiscal intermediaries in conducting payment changes.

21. Will RCH hospitals be required to utilize the same intermediary or have an opportunity to change fiscal intermediaries if they so wish?

We do not plan that hospitals participating in the demonstration will use the same fiscal intermediary. We expect that each participating hospital will maintain its relation with its current intermediary. Procedures for a hospital changing its fiscal intermediary will be the same as under current regulations.

22. How will CRNA pass through costs be handled?

The regular, current payment methodology for anesthesia services furnished by hospital or CAH nonphysician anesthetists, as expressed in CFR 412.113(c), will apply to demonstration hospitals. Other pass through payments such as graduate medical education will not be affected

23. If a RCH hospital is currently a sole community hospital or a disproportionate share hospital, will that status be retained? Will it be able to return to that status at the end of the project?

A hospital participating in the Rural Community Hospital Demonstration Program must adopt the demonstration's payment methodology. It will not maintain its status as either a sole community hospital or a rural referral center. At the end of the project, it will be able to return to that status if it meets the criteria under then current regulations.

24. Will states be required to follow suit with respect to Medicaid and reimburse inpatient and swing bed services on a cost basis?

The waiver authority granted by Section 410A of the Medicare Modernization Act applies only to Title XVIII. There is no mandate on the States to increase reimbursement for these services under Medicaid.

25. Will cost-based reimbursement for swing-bed services in the RCH demonstration program be calculated similar to the methodology used for Critical Access Hospitals?

Yes, CMS will use the same methodology for cost-based reimbursement for swing-bed services as for Critical Access Hospitals.

26. Will outpatient services continue to be reimbursed under the OPSS? Will the hold harmless position of the OPSS law apply to RCH hospitals?

Yes. Since the legislative mandate for section 410A applies only to inpatient services, both OPSS and the hold harmless provision will apply to demonstration hospitals.

27. Will RCH hospitals be required to complete the cost report worksheet S-3 II and III for the wage index? What if a RCH hospital had qualified for geographic reclassification prior to the project? How and when will it apply for the period subsequent to the project?

Yes, RCH hospitals will be required to complete the cost report worksheet S-3 II and III for the wage index. Although wage index data will not be used for the calculations of cost-based reimbursement, which will be applicable during the demonstration, submitting this data will be necessary for calculating payment for the period after the demonstration. During the period following the demonstration, a hospital may apply for reclassification according to standard procedures then in effect.

28. If a hospital applying for the demonstration program has recently lost its geographic classification for the wage index, can it communicate in the application what that additional financial difference would be (i.e., the most recent cost report that will be attached to the application will not show the financial impact of the most recent wage index/MSA adjustment).

A hospital can provide documentation showing the financial impact of the most recent geographic classification.

29. Ordinarily CMS incorporates wage index data from PPS hospitals into the calculation of hospital payment rates. Will the wage index data for RCH hospitals be included in this calculation?

A decision on this issue has not been made. This decision will be made by the CMS once the demonstration hospitals have been chosen.

30. What changes will be necessary to the cost report filed by RCH hospitals?

There will be no changes necessary to the cost report on account of the demonstration.

31. For mapping of the closest hospital or CAH, is a Yahoo or Mapquest document sufficient for verification?

Yes, this sort of document will be sufficient.

32. How is a hospital to verify that a facility is rural? What documentation can a hospital provide for this item?

The hospital should provide the name of the State and county in which it is located, along with documentation that the county is not listed as part of a metropolitan statistical county by the US Census bureau, or any other appropriate designation to show the county is considered rural for Federal policy purposes.

33. How should an applicant project its budget for the demonstration project?

There is no requirement for a budget. A hospital participating in the demonstration will be paid under the methodology specified in the authorizing legislation. The application asks hospitals to describe projects that it proposes to benefit the hospital and the community, its strategy for improving its financial situation, and how it works with other health care providers to serve the population. Applicants will be evaluated on the soundness and effectiveness of these proposals given the payment that they can expect to receive under the demonstration.