

**Rural Community Hospital Demonstration
Request for Applications
Frequently Asked Questions**

Q: What is the goal of the demonstration?

A: The goal of the demonstration is to test the feasibility and advisability of the establishment of rural community hospitals to furnish covered inpatient hospital services to Medicare beneficiaries. The demonstration provides and tests payment under a reasonable cost-based methodology for inpatient hospital services furnished by participating hospitals.

Q: What are the eligibility requirements for the demonstration?

A: As stipulated in section 410A of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, an applicant must 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 inpatient beds, as reported in its most recent cost report (not including beds in a psychiatric or rehabilitation unit which is a distinct part of the hospital);
- Makes available 24-hour emergency care services; and
- Is not eligible for Critical Access Hospital (CAH) designation, or has not been designated a CAH under section 1820 of the Social Security Act.

Q: Are hospitals required to be located in any particular States?

A: As permitted by the 21st Century Cures Act, additional hospitals selected for the demonstration under this solicitation may be located in any State.

The solicitation identifies the 20 states with lowest population density according to population estimates from the Census Bureau for 2013, from the ProQuest Statistical Abstract of the United States, 2015. These 20 States are: Alaska, Arizona, Arkansas, Colorado, Idaho, Iowa, Kansas, Maine, Mississippi, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Vermont, and Wyoming.

Consistent with the 21st Century Cures Act, CMS will give priority among the highest scoring applications received to applicants from these States.

Q: Is there a streamlined application process for hospitals that have already participated in the demonstration?

A: Hospitals that were participating in the demonstration as of the last day of the initial 5-year period, or as of December 30, 2014, and decide to continue participation do not have to complete this solicitation.

Q: What is the payment methodology for the demonstration?

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

- a) For discharges occurring in the first cost reporting period on or after the implementation of the extension, their reasonable costs of providing covered inpatient hospital services;
- b) For discharges occurring during the second or subsequent cost reporting period, the lesser of their reasonable costs or a target amount. The target amount in the second cost reporting period is defined as the reasonable costs of providing covered inpatient hospital services in the first cost reporting period, increased by the Inpatient Prospective Payment System (IPPS) update factor (as defined in section 1886(b)(3)(B)) of the Social Security Act for that particular cost reporting period. The target amount in subsequent cost reporting periods is defined as the preceding cost reporting period's target amount increased by the IPPS update factor for that particular cost reporting.

Q: What agreement will govern the hospitals' participation in the demonstration?

A: CMS will develop a participation agreement specifying payment principles, as well as administrative, auditing, and reporting requirements. This participation agreement will apply to each hospital participating in the second extension period. CMS will communicate to the hospitals on policy and operational issues.

Q: Will CMS apply the same methodology for determining budget neutrality for the new 5-year extension period for the demonstration program as earlier?

A: As in previous IPPS rules, for FY 2018 and future years, CMS is proposing to adjust the IPPS rates by an amount sufficient to account for the added costs of this demonstration program, thus applying budget neutrality across the payment system as a whole rather than merely across the participants in the demonstration program. CMS is seeking public comment in the FY 2018 IPPS/LTCH PPS proposed rule on the proposed budget neutrality methodology.

Q: What will be the period of performance for the demonstration?

A: CMS is seeking public comment in the FY 2018 IPPS/LTCH proposed rule with regard to the initiation of the period of performance for previously participating hospitals for the second extension period. CMS is proposing that the new 5-year extension period for each of the previously participating hospitals, as well as for each of the additional hospitals newly selected for the demonstration, begin with the start of each hospital's first cost reporting year on or after October 1, 2017 following upon the announcement of the selection of additional hospitals. More information about this proposal can be found in the Fiscal Year 2018 IPPS/LTCH PPS proposed rule.

Q: What information will be included in the solicitation for additional participants, or request for applications, for the demonstration?

A: The solicitation, or request for applications, solicits information from interested hospitals regarding their financial and service-oriented challenges, as well as strategies and proposals for

addressing them. We are asking hospitals to describe the impact of rural hospital closures on the needs of their service area, and also problems posed by the need to serve a sparse population.

Q: Is there a mileage requirement to qualify for the Rural Community Hospital Demonstration Program?

A: There is no mileage requirement for the Rural Community Hospital Demonstration Program. To be eligible for the demonstration, a hospital must be located in a rural area or treated as being located in a rural area, and meet the other criteria as defined in section 410A(f) of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, and also stated under “Eligibility Requirements for Participation” in the solicitation. CMS will evaluate applications according to the criteria stated in the solicitation.

Q: Will a hospital lose its Sole Community Hospital (SCH) designation if it participates in the Rural Community Hospital Demonstration Program? Specifically, will participating in the Demonstration have an impact on Medicare Outpatient Prospective Payment System (OPPS) payment for a hospital that is classified as an SCH?

A: A hospital will not lose its SCH designation as a result of participating in the Demonstration, and will be able to return to SCH payment under the Inpatient Prospective Payment System (IPPS) when it ends its participation in the demonstration, provided that it still meets the SCH requirements. Medicare OPPS payments will not be affected by the demonstration.

Q: If hospitals are accepted into the Rural Community Hospital Demonstration Program, can they withdraw at any time?

A: Participation in the demonstration is voluntary and a hospital can withdraw at any time. If a hospital is selected into the demonstration program, it will be able to opt out of participation prior to the beginning of its participation period (i.e., cost report start date). Once the period of participation has begun, CMS would prefer that the hospital remain in the demonstration until the end of the cost report year.

Q: Will Medicare separately reimburse inpatient capital on a cost basis for the Demonstration Hospitals?

A: Inpatient capital costs are included in the cost-based payment methodology for Medicare inpatient hospital services furnished under the Rural Community Hospital Demonstration Program.

Q: For Years 2 through 5 of the demonstration period, participating hospitals will receive payment for Medicare inpatient hospital services based on the lesser of the reasonable costs of providing such services in the cost reporting period involved, or a target amount. Will Medicare reimburse Rural Community Hospitals in the same manner that it reimburses Cancer Hospitals?

A: The payment methodology for Medicare inpatient hospital services furnished under the Rural Community Hospital Demonstration Program follows the requirements in section 410A of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. As explained under “Demonstration Payment Methodology” in the solicitation, hospitals selected for participation in the demonstration will receive payment for Medicare 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) For discharges occurring in the first cost reporting period on or after the implementation of the program, their reasonable costs of providing covered inpatient services;
- 2) For discharges occurring during the second or subsequent cost reporting period, the lesser of their reasonable costs or a target amount, calculated as described in the solicitation.

Q: Will IPPS add-ons and incentive payments apply to hospitals participating in the Demonstration?

A: Because a participating hospital will receive Medicare payment for inpatient hospital services based on a reasonable cost methodology, it will not receive add-ons associated with the IPPS. Therefore, the hospital will not receive the low-volume hospital payment adjustment, indirect medical education payments, or any additional payments as a Sole Community Hospital (SCH) or Medicare Disproportionate Share Hospital (DSH) (or any additional payments under the Medicare Dependent Hospital (MDH) program, if extended).

Because hospitals participating in the Demonstration are subsection (d) hospitals, the Hospital Value-Based Purchasing Program, Hospital Readmissions Reduction Program, and Hospital-Acquired Conditions Reduction Program will apply.

The due date for applications to CMS is **May 17, 2017**. The solicitation is available at <https://innovation.cms.gov/initiatives/Rural-Community-Hospital/>.