Rural Community Hospital Demonstration Program: Solicitation of Additional Participants

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 Prescription Drug, Improvement, and Modernization Act of 2003. While section 410A allows up to 15 hospitals in sparsely populated states to participate, nine hospitals are currently participating in the program. CMS is conducting a new solicitation that will allow up to 6 new hospitals to participate in the demonstration for the remainder of the time period allowed by the law. This demonstration is scheduled to end in 2010.

Congress included this provision in the law in response to the financial concerns of small, rural hospitals that are too large to qualify as Critical Access Hospitals (CAH). The demonstration is designed to test feasibility and advisability of reasonable cost reimbursement for inpatient services to small rural hospitals. The demonstration is aimed at increasing the capability of the selected rural hospitals to meet the needs of their service areas.

Eligibility

The following eligibility requirements must be met for a hospital to be considered for participation in the demonstration. These requirements are specified in the authorizing legislation. 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. 1395 ww(d)(8)(E));
- Has fewer than 51 acute care inpatient beds, as reported in its most recent cost report;
- 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.

The authorizing legislation requires that the demonstration be conducted in States with low population densities, as determined by the Secretary. For this demonstration, hospitals must be located in one of the ten least densely 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) For discharges occurring in the first cost reporting period on or after the implementation of the program, their reasonable costs for 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. 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)) 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 period.

Application Process

Participation in the demonstration is voluntary. If an application meets basic eligibility requirements, it will be referred to a technical panel for evaluation and scoring. A panel of experts will conduct an independent review. The panelists' evaluations will include ratings based upon responses to the questions asked of the applicants. Panelists will examine the hospital's financial need, its strategy for improving its financial situation, and the benefit to its service area.

For a hospital to receive consideration by the technical review panel, it must submit the information that is requested on the cover sheet of CMS' Medicare Waiver Demonstration Application, which is included below. This cover sheet, or Medicare Waiver Demonstration Applicant Data Sheet, must be completed. In addition, applicants must submit the following information:

<u>Objective Information</u>

1. Evidence that the hospital is in a Federal designated rural area, as defined by the statutes referenced above.
2. Miles to the nearest hospital or CAH (A map with distances between providers would be helpful.)
3. Number of acute care inpatient beds, from the latest cost report (Beds in a psychiatric or rehabilitation unit of a hospital shall not be counted toward the total number of beds).
4. Does the hospital make available 24-hour emergency care services?
5. Is the hospital eligible for CAH designation?
6. Total Medicare payment for inpatient services from latest cost report.
7. Total Costs for Medicare inpatient services from the latest cost report.
8. The hospital's Medicare inpatient operating margin.

9. The hospital's operating margin (including inpatient services, outpatient services, distinct part psychiatric units, rehabilitation units, and home health agencies). The applicant should specify which among these is used in calculating this amount.

For 3, 6, 7, and 8 the applicant should also submit the relevant pages from the most recently submitted cost report. (Acute care beds: Worksheet S-3 Part I; Medicare Payment for Inpatient Services: Worksheet E, Part A; Total Medicare Inpatient Costs: Worksheet D-1; Medicare Inpatient Operating Margin; the applicant should calculate this amount from Medicare Payment for Inpatient Services and Total Medicare Inpatient Costs).

Descriptive Information:

1. **Goals for Demonstration** The applicant should describe any specific projects for which it will use additional Medicare funds obtained through the demonstration, and how any such projects will benefit the hospital and the community. Goals of such projects may include but are not limited to enhanced staffing, increased access to care and community outreach, provision of particular services, and shifts in service type. The applicant should describe the characteristics and duties of hospital staff, and how these might be enhanced by the demonstration.

2. **Strategy for Financial Viability** The applicant should describe its strategy for improving its financial situation, both in terms of efforts it has undertaken recently and those that it plans for under the demonstration. In particular, the applicant should detail efforts to control costs so as to be viable. How much revenue is expected from a change in Medicare reimbursement? Would this program allow the hospital to stay open, or not reduce services?

3. **Collaboration with Other Providers to Serve Area** The applicant should describe its current service area and the population it serves. The applicant should describe how it works with other health care providers and facilities together to serve the population and how any enhancements supported by additional Medicare funds will contribute to the population's health. How would this program allow the hospital to expand existing services? Will relationships with other providers change as a result of the demonstration?

Application Review

The application process will be competitive. A review panel will score all eligible applications. Responses to the 3 questions requesting descriptive information will be weighted equally in evaluating applications. Only technical acceptable applications with 70 points or more will be proposed for awards.

Due Date

Applications will be considered timely if we receive them on or before **March 24, 2008**. Applications must be received by 5 PM eastern time on the due date.

Only applications that are considered "timely" will be reviewed and considered by the technical panel.

Application Submission

Complete, sign, date, and return the Medicare Waiver Demonstration Applicant Data Sheet found on this web page. Fill in two-year Project Duration according to the hospital's cost report period beginning and end dates.

An unbound original and two copies plus an electronic copy on diskette or CD of the application must be submitted; however, applicants may, but are not required to submit six additional copies to assure that each review panelist receives the application in the manner intended by the applicant (e.g., collated, tabulated, colorized). The applications should be MAILED or sent by an overnight delivery services to the following address:

Centers for Medicare & Medicaid Services
ATTN: Sid Mazumdar, Rural Community Hospital Demonstration
Medicare Demonstrations Program Group
Mail Stop C4-15-27
7500 Security Boulevard
Baltimore, MD 21244

Applications must be typed for clarity and should not exceed 15 double-spaced pages, exclusive of the Medicare Waiver Demonstration Application Data Sheet, cost report pages, and maps. Because of staffing and resources limitations, and because we require an application containing an original signature, we cannot accept applications by facsimile (FAX) transmission.

For further information, contact Sid Mazumdar at (410) 786-6673 or siddhartha.mazumdar@cms.hhs.gov.

Demonstration Materials

The web site includes various documents describing the demonstration including the Federal Register notice announcing the demonstration. Be sure to check this web site periodically as we will update it as new information becomes available.