

Rural Community Hospital Demonstration

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 tests the feasibility and advisability of reasonable cost reimbursement for small rural hospitals. Initially, in 2004, 14 small rural hospitals in eight sparsely populated States were selected to participate; however, of these, one hospital declined to join the program at the outset, and four hospitals dropped out after one year and converted to Critical Access Hospitals.

In 2008, CMS solicited hospitals again for the demonstration, this time selecting 4 new hospitals. The demonstration is scheduled to end in 2010.

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 had 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

Each of the 9 originally participating hospitals began the demonstration at the start of its cost report year – between January 1, 2005 and July 1, 2005. Each hospital has completed 3 years in the demonstration. Medicare Administrative Contractors (MACs) 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.

The 4 newly selected hospitals will participate in the program for cost report years beginning on or after July 1, 2008. For these 4 hospitals, the demonstration payment methodology will extend to September 30, 2008.

Participating Hospitals

The following hospitals were originally selected and are currently participating in the demonstration:

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

The following hospitals were newly selected for the demonstration in 2008.

Mt. Edgecumbe Hospital	Sitka, Alaska
St. Joseph's Hospital and Health Center	Dickinson, North Dakota
Brookings Health System	Brookings, South Dakota
Holy Infant Hospital	Hoven, South Dakota