



DEPARTMENT OF HEALTH & HUMAN SERVICES  
Health Care Financing Administration

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Center for Medicaid and State Operations  
7500 Security Boulevard  
Baltimore, MD 21244-1850

**DATE:** June 14, 2001

**FROM:** Director  
Survey and Certification Group, CMSO

**SUBJECT:** Urban/Rural Reclassification

**TO:** Associate Regional Administrator  
Division of Medicaid and State Operations  
Regions I-X

The purpose of this program memorandum is to clarify recent changes in the definition of rural classification/reclassification. Recent changes in the Balanced Budget Refinement Act have redefined the definition of rural classification/reclassification for purposes of becoming eligible to participate in the Medicare Rural Hospital Flexibility Program as a Critical Access Hospital. This expansion of the definition of rural status may create a financial hardship for those small hospitals who are classified as urban for purposes of PPS reimbursement as a hospital. These small, remote hospitals need to maintain their status as an urban hospital until the time that they officially convert to CAH status. Some hospitals have requested assurance from HCFA that rural status will be assured to them prior to a survey for CAH compliance but will not be effective until certification as a CAH becomes a reality. This is essential to maintain financial viability for these small remote hospitals during the conversion process.

The CAH eligibility for rural classification/reclassification can be met by any one of the following criteria:

- the hospital is located in a non-MSA county; or
- the hospital is located in a census tract considered rural under the Goldsmith Modification; or
- the hospital is treated as rural by the State through a statutory or regulatory provision adopted by the State.

If the HCFA regional office determines that an urban hospital meets the requirements to be granted rural status for purposes of CAH participation, that assurance may be given to the hospital in writing with the qualifier that the rural status will not be effective until the CAH is certified. In this way, the State agency survey of the CAH can be scheduled and completed while the hospital keeps the urban status for PPS reimbursement until the CAH effective date.

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The following wording is suggested for inclusion in the written assurance.

"Based on information showing that X hospital is (choose one) located in a census tract that has been designated as rural under the "Goldsmith" modification; or is considered by State law or regulation to be located in a rural area of its state, we have determined that X hospital satisfies the criteria for rural reclassification as set forth in 1886(d)(8)(E)(i) of the Social Security Act, implemented in 42 C.F.R. §412.10. If following a State survey, it is determined that X hospital could have qualified as a critical access hospital, except that it is not located in a rural area, the rural reclassification will be effective on the effective date of the hospital's certification as a CAH. Accordingly, the hospital will be paid as an urban hospital under PPS prior to that date and as a CAH beginning with that date.

If you have any questions, please contact Marjorie Eddinger at telephone (410) 786-0375.

/s/

Steven P. Pelovitz  
Director