ALASKA STATE HOSPITAL & NURSING HOME ASSOCIATION

MEDICARE RURAL COMMUNITY HOSPITAL DEMONSTRATION

FEBRUARY 2014

History

The Centers for Medicare & Medicaid Services (CMS) is conducting the Rural Community Hospital Demonstration Program (RCH), which was initiated as a 5-year program under its original mandate, section 410A of the Medicare Modernization Act of 2003, and extended for an additional 5-year period under section 10313 of the Affordable Care Act. Congress included these provisions in these laws in response to the financial concerns of small rural hospitals.[1] **The goal of the program is to test the feasibility and advisability of cost based reimbursement for small rural hospitals that are too large to be Critical Access Hospitals.** Hospitals in this category often experience negative Medicare margins on inpatient services.[2]

To be eligible to participate in the RCH, a hospital needed to meet the following criteria:

- Located in a rural area;
- Have fewer than 51 acute care beds;
- Make available 24-hour emergency services; and
- Ineligible for Critical Access Hospital designation.

Currently, there are 22 hospitals participating in the demonstration. Seven hospitals were selected between 2004 and 2008, while 15 are participating as result of the Affordable Care Act expansion. The period of performance will conclude December 31, 2016 or earlier, depending on the hospital fiscal year and the date the hospital joined the demonstration.[3]

Budget Neutrality

When Congress originally authorized the RCH demonstration, the program was required to be "budget neutral" so as not to increase the Medicare budget. According to Section 410A of the Medicare Modernization Act of 2003 (MMA):

> *"in conducting the demonstration program under this section, the Secretary shall ensure that the aggregate payments made by the Secretary do not exceed the amount which the Secretary would have paid if the demonstration program under this section was not implemented."*

This demonstration received a score of "zero" from the Congressional Budget Office (CBO) under the MMA, signaling that it met the budget neutrality requirement. When the demonstration was extended in 2010 under the Patient Protection and Affordable Care Act of 2010, it again received a "zero" score[4]. The cost for the demonstration is provided through a downward adjustment to Inpatient Prospective Payment System (IPPS) hospitals. This adjustment is made by annually by CMS. As a result, the demonstration has not increased the Medicare budget.

---

[1] http://innovation.cms.gov/Files/fact-sheet/RCHDFactSheet.pdf

[2] DHHS Press Release "Secretary Sebelius Announces An Expansion of the Rural Community Hospital Demonstration Under the Affordable Care Act", August 27, 2010.

[3] DHHS CMS MLN Matters 8076, Change Request 8076, released 12-21-12.

[4] http://www.cbo.gov/sites/default/files/cbofiles/attachments/hr4872_0.pdf, 3-18-10, page 5 of 11.

Benefits to Alaskan Hospitals

Three Alaskan hospitals have been participating in the demonstration. Central Peninsula Hospital in Soldotna and Bartlett Regional Hospital in Juneau began participating at program inception in 2004, and will end on June 30, 2015. SEARHC Mt. Edgecumbe Hospital in Sitka joined the demonstration in 2008, and will end on September 30, 2015.

Although a few hospitals participating in the demonstration withdrew because they believed the reimbursement obtained under the traditional payment systems was more beneficial, that is not the case for any of the Alaska hospitals in the demonstration. According to the most recent cost reports available, the hospitals in one year received an additional **$12.6 million** reimbursement for inpatient services to Medicare patients, breaking down as follows:[5]

- **SEARHC Fiscal Year Ending 9-30-12: $3.1 Million**
- **Bartlett Fiscal Year Ending 6-30-13: $3.7 Million**
- **Central Peninsula Fiscal Year Ending 6-30-13: $5.8 Million**

The increased annual reimbursement has allowed the hospitals to expand critical services, purchase needed technology and equipment, and attract physicians to the region, stabilizing essential health services in large regions of Alaska.

Payment Methodology

"Hospitals selected for the demonstration will be paid the reasonable costs of providing covered inpatient hospital services, with the exclusion of services furnished in a psychiatric or rehabilitation unit that is a distinct part of the hospital…"[6]

Hospitals receive payment using the following rules[7]:

1. Reasonable cost for covered inpatient services, for discharges occurring in the first cost reporting period on or after 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.

Future Possibilities

Three possibilities exist for the future of the Rural Community Hospital Demonstration:

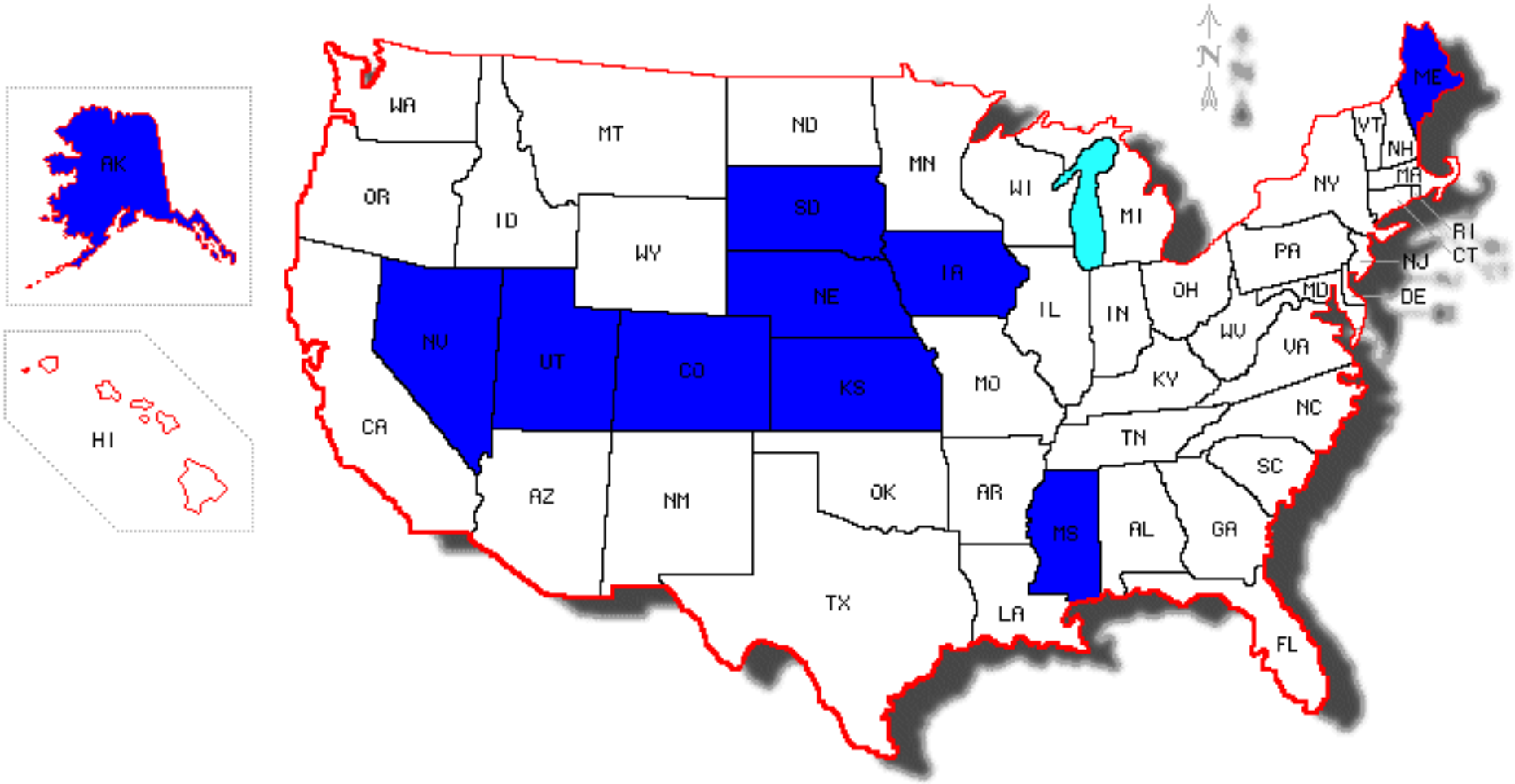
1. Demonstration program ends.
2. Demonstration is extended and/or expanded to other hospitals.
3. Rural Community Hospital becomes a new provider type, open to any hospitals that meet the requirements.

CMS is conducting an evaluation of the program, subcontracted to Mathematica Policy Research. Congress will receive a final evaluative report from the Secretary of DHHS within one year of the close of the demonstration, in 2017.

---

[5] E-mail communication from Martin C. Michiels, Healthcare Consulting Services, LLC, 12-10-2013.
[6] Federal Register/ Vol. 75, No. 167, page 52960/ Monday, August 30, 2010 / Notices
[7] http://innovation.cms.gov/Files/fact-sheet/RCHDFactSheet.pdf

Rural Community Demonstration Hospitals



2014 RCH Demonstration Hospitals

State	City	Hospital	Senators	Congress
AK	Juneau	Bartlett Regional Hospital	Begich D/ Murkowski (R)	Young
AK	Soldotna	Central Peninsula Hospital	Begich D/ Murkowski (R)	Young
AK	Sitka	Mt. Edgecumbe	Begich D/ Murkowski (R)	Young
CO	Delta	Delta County Memorial Hospital	Udall (D)/Bennet (D)	DeGette, Polis, Tipton, Gardner, Lamborn, Coffman, Perlmutter
CO	Steamboat Springs	Yampa Valley Medical Center	Udall (D)/Bennet (D)	DeGette, Polis, Tipton, Gardner, Lamborn, Coffman, Perlmutter
CO	Sterling	Sterling Regional Medical Center	Udall (D)/Bennet (D)	DeGette, Polis, Tipton, Gardner, Lamborn, Coffman, Perlmutter
IA	Carroll	St. Anthony Regional Hospital	Grassley (R)/Harkin (D)	Braley, Loebsack, Latham, King
IA	Grinnell	Grinnell Regional Medical Center	Grassley (R)/Harkin (D)	Braley, Loebsack, Latham, King
IA	Newton	Skiff Medical Center	Grassley (R)/Harkin (D)	Braley, Loebsack, Latham, King
IA	Spirit Lake	Lakes Regional Healthcare	Grassley (R)/Harkin (D)	Braley, Loebsack, Latham, King
KS	Fort Scott	Mercy Hospital	Roberts (R)/Moran (R)	Huelskamp, Jenkins, Yoder, Pompeo
KS	Independence	Mercy Hospital	Roberts (R)/Moran (R)	Huelskamp, Jenkins, Yoder, Pompeo
KS	Junction City	Geary Community Hospital	Roberts (R)/Moran (R)	Huelskamp, Jenkins, Yoder, Pompeo
KS	Ulysses	Bob Wilson Memorial Hospital	Roberts (R)/Moran (R)	Huelskamp, Jenkins, Yoder, Pompeo
ME	Ellsworth	Maine Coast Memorial Hospital	King (I)/Collins (R)	Pingree, Michaud
ME	Waterville	Inland Hospital	King (I)/Collins (R)	Pingree, Michaud
MS	Columbia	Marion General Hospital	Cochran (R)/Blunt (R)	Nunnelee, Thompson, Harper, Palazzo
NE	Columbus	Columbus Community Hospital	Johanns (R)/Fishcher (R)	Fortenberry, Terry, Smith
NV	Fallon	Banner Churchill Community Hospital	Reid (D)/Heller (R)	Titus, Amodei, Heck,Horsford
NM	Las Vegas	San Miguel Hospital	Udall (D)/Heinrich (D)	Grisham, Pearce, Lujan
SD	Brookings	Brookings Health Center	Johnson (D)/Thune (R)	Noem
UT	Panguitch	Garfield Memorial Hospital	Hatch (R)/Lee (R)	Bishop, Stewart, Chaffertz, Matheson

	Senate	House
Democrats	8	13
Republicans	13	24
Independents	1	