



Arizona State Senate Issue Brief

September 21, 2006

Note to Reader:

The Senate Research Staff provides nonpartisan, objective legislative research, policy analysis and related assistance to the members of the Arizona State Senate. The *Research Briefs* series, which includes the *Issue Brief*, *Background Brief* and *Issue Paper*, is intended to introduce a reader to various legislatively related issues and provide useful resources to assist the reader in learning more on a given topic. Because of frequent legislative and executive activity, topics may undergo frequent changes. Additionally, nothing in the *Brief* should be used to draw conclusions on the legality of an issue.

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INTRODUCTION

The Medicare Rural Hospital Flexibility Program (Flex Program) was created by the U.S. Balanced Budget Act of 1997 to sustain access to primary care services for rural residents, to improve rural emergency medical services and to encourage the development of rural health delivery networks. The Flex Program includes several components to improve rural health care, including the Critical Access Hospital (CAH) Program. The CAH Program was created to promote the financial viability of limited-service hospitals located in rural areas and thereby preserve access to care in these hospitals for rural residents. Rural hospitals that meet specified criteria (discussed below) may be designated as CAHs and receive Medicare reimbursement based on a different formula than non-CAH hospitals.

In addition, states can receive federal grants under the Flex Program to plan and implement rural health care plans and networks and designate facilities as CAHs.

ENHANCED MEDICARE REIMBURSEMENT

Typically, Medicare reimburses hospitals based on a fixed, predetermined amount per hospital discharge, based on the patient's diagnosis. This fixed amount is intended to reflect approximately the average cost for a hospital to treat a patient with that diagnosis. In order to receive Medicare reimbursement, hospitals agree to accept the Medicare payment rates even if their costs exceed the reimbursement; however, hospitals that keep their costs under the fixed payment may keep the difference.

A hospital that is designated as a CAH is eligible for Medicare reimbursement of inpatient and outpatient services that is equal to 101 percent of a hospital's reasonable costs, after the deduction of applicable beneficiary cost-sharing. A reimbursement system that is based on a hospital's actual costs benefits hospitals whose costs exceed the Medicare fixed payments. Because rural hospitals often have lower patient volume and limited resources and, therefore, higher per patient costs, many rural hospitals benefit from a cost-based rather than fixed amount payment structure.

CRITERIA FOR CAH DESIGNATION

In order to be designated as a CAH, a hospital must be located in a state that has developed a rural health plan and must meet all of the following criteria:

- be a current Medicare hospital, a hospital that stopped operating on or after November 29, 1989, or a health clinic or health center that was a hospital before it was downsized;
- be located in a rural area or in an area declared “rural” by the state;
- provide 24-hour emergency care services;
- have an average length of stay of 96 hours or less;
- be located more than 35 miles from another hospital or CAH (15 miles in mountainous terrain or areas with only secondary roads) or certified by the state, before January 1, 2006, as a “necessary provider”;
- operate no more than 25 inpatient beds, which can be used for either inpatient or post-acute skilled nursing services, and no more than 10 psychiatric or rehabilitation unit beds.

Before January 1, 2006, states were given flexibility to determine the criteria for a “necessary provider,” which may be used in lieu of the geographic remoteness requirement. After January 1, 2006, states are no longer able to designate “necessary provider” and therefore all newly designated CAHs must meet the geographic remoteness criteria. CAHs that were established prior to 2006 using the “necessary provider” criteria were grandfathered into the program.

In addition, states may declare hospitals that are not located in rural areas as “rural” for the purposes of the program.

Both the “necessary provider” and “rural” designations allow states to increase the number of hospitals designated as CAHs. According to the Medicare Payment Advisory Commission, the number of CAHs in the United States grew from 41 in 1999 to 1,055 in 2005.

CAHs IN ARIZONA

In Arizona, the Rural Health Office of the University of Arizona College of Public Health administers the activities of the Flex Program, including the development of the State Rural Health Plan to designate eligible rural hospitals as CAHs. According to the Rural Health Office, to date, 12 hospitals have received CAH designation in Arizona and 2 hospitals have pending applications.

In addition to cost-based Medicare reimbursement, some Arizona CAHs also qualify for reimbursement from the Arizona Health Care Cost Containment System (AHCCCS, the state’s Medicaid program) that is more favorable than a typical Medicaid payment. Beginning in FY 2001-2002, the Legislature has appropriated \$1.7 million, consisting of both state General Fund and Federal Title XIX Medicaid monies, annually for CAHs. This appropriation is a fixed amount and is not based upon the number of hospitals eligible for reimbursement. The monies are administered by AHCCCS. CAHs that are Indian Health Service facilities are excluded from the AHCCCS payments; these hospitals are paid using 100 percent federal funds. Therefore, only 8 of the 12 Arizona CAHs receive AHCCCS CAH funding.

• **ADDITIONAL RESOURCES** •

- University of Arizona
Rural Health Office
Rural Hospital Flexibility Program
520-626-5823
<http://azflexprogram.publichealth.arizona.edu>
- Centers for Medicare & Medicaid Services
Fact Sheet on the Critical Access Hospital Program
<http://www.cms.hhs.gov/MLNProducts/downloads/2006cah.pdf>
- Annual Appropriations Report, Joint Legislative Budget Committee
<http://www.azleg.gov/jlbc.htm>