



THE HOSPITAL & HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA

**Executive Briefing
Critical Access Hospitals**

Issue: Pennsylvania's rural hospitals face significant challenges to preserve access to health care in their communities. Pennsylvania's Medicaid program should adopt payment policies that mirror Medicare and pay these hospitals on a "reasonable cost basis."

Background: The Critical Access Hospital (CAH) Program, created by Congress, was established to help improve the healthcare delivery system in rural areas of the United States. The Critical Access Hospital Program was included in the Balanced Budget Act of 1997. Critical access hospitals receive reimbursement at 101 percent of cost for inpatient, outpatient and swing bed care. Eligible hospitals must be a rural hospital participating in the Medicare program, located more than 35 miles from another hospital or have been designated a "necessary provider" by the state, and have an average daily census of no greater than 25. There are other service requirements.

The Critical Access Hospitals (CAH) program was designed to improve rural health care access and reduce hospital closures. Critical Access Hospitals provide essential services to a community and are reimbursed by Medicare on a "reasonable cost basis" for services provided to Medicare patients. As of August 2007, there are 1,283 certified Critical Access Hospitals located throughout the United States. In Pennsylvania, there are 13 hospitals that are classified as Critical Access Hospitals (see attached list).

While Critical Access Hospitals are entitled to receive cost-based reimbursement for Medicare claims, there is no such guarantee for Medicaid reimbursement. Twenty-two states have adopted a Medicaid payment policy similar to that used for Medicare services provided by Critical Access Hospitals. Pennsylvania is not one of these states although, according to the October 2007 Pennsylvania Health Care Cost Containment Council report *Critical Condition: The State of Healthcare in Pennsylvania*, 56 of the 59 hospitals that lost money in fiscal years 2003-2005 are small community hospitals, many in rural areas.

Many of the Critical Access hospitals in Pennsylvania are in financial distress. Medicaid revenues represent an important share of Pennsylvania's Critical Access Hospitals' overall business (12.6 percent of net patient revenue, on average). Currently, the Department of Public Welfare pays these hospitals a per case amount for inpatient services and a fee for outpatient services. These payments represent 56 percent of these hospitals' costs. Adoption of a Medicare payment policy would significantly help preserve these hospitals in Pennsylvania's rural communities. It is estimated that the annual cost of adopting this policy would be \$10.5 million. The commonwealth's estimated annual share of this cost would be \$4.8 million.

Recommendation: The commonwealth should adopt a policy to pay Critical Access Hospitals in Pennsylvania under the Medicaid program using the same methodology that Medicare uses to pay these hospitals.

Proposed Legislative language:

Critical access hospital payments - For state fiscal years beginning on or after July 1, 2009, the department shall reimburse critical access hospitals that are licensed at 101% of allowable costs for both inpatient and outpatient services provided to patients covered by the Medical Assistance program.

Pennsylvania Critical Access Hospitals

Barnes Kasson County Hospital
Brookville Hospital
Bucktail Medical Center
Charles Cole Memorial Hospital
Corry Memorial Hospital
Endless Mountains Health System
Fulton County Medical Center
Jersey Shore Hospital
Mid-Valley Hospital
Muncy Hospital
Meyersdale Medical Center
Troy Community Hospital
Tyrone Hospital

Susquehanna County
Jefferson County
Clinton County
Potter County
Erie County
Susquehanna County
Fulton County
Lycoming County
Lackawanna County
Lycoming County
Somerset County
Bradford County
Blair County