

Legislative Analysis



MEDICARE RURAL HOSPITAL FLEXIBILITY PROGRAM

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House Bill 6245 (Substitute H-1)
Sponsor: Rep. Mary Ann Middaugh
Committee: Health Policy
First Analysis (11-9-04)

BRIEF SUMMARY: The bill would allow certain small hospitals to retain their status as a rural hospital, and therefore eligibility in the Medicare Rural Hospital Flexibility Program.

FISCAL IMPACT: Permitting the Department of Community Health to designate rural hospitals as critical providers in order to satisfy the federal eligibility requirements for certification as critical access hospitals (CAHs) would increase the hospitals' reimbursement rates from Medicare; however, it will not have an impact on state costs. Furthermore, there would be a minuscule loss in licensed bed fee revenue if rural hospitals were designated as CAHs.

THE APPARENT PROBLEM:

The Medicare Rural Hospital Flexibility Program (MRHFP) allows a small hospital to reconfigure its operations and be licensed as a critical access hospital (CAH), which enables the hospital to be reimbursed for services provided to Medicare patients for its reasonable cost of providing service rather than by a predetermined amount based on the diagnosis. However, a hospital must meet stringent state and federal criteria addressing, among other things, number of beds, maximum hours a patient may be admitted, and location. In Michigan, to be eligible for the MRHFP, a hospital must be designated as a rural primary care hospital and so must be located outside of a metropolitan statistical area.

Currently, there are 22 CAHs in the state, and one hospital is currently in the process of applying for CAH status. Four of these CAHs are now in danger of losing their eligibility in the MRHFP because due to population changes recorded by the 2000 census, they are now located within a metropolitan statistical area and therefore are classified as being "urban". It has been suggested that the criteria for designation as a rural hospital be amended so that these small hospitals can retain their eligibility in the MRHFP.

THE CONTENT OF THE BILL:

House Bill 6245 would add a new section to the Public Health Code (MCL 333.21571) to amend the criteria for designation as a rural hospital for purposes of MRHFP eligibility. Under the bill, a hospital not located outside a metropolitan statistical area could still be designated as a rural hospital if located in a city, village, or township with a population of no more than 10,000 and in a county with a population of no more than 110,000. Population would be determined according to the official 2000 federal decennial census.

A hospital determined to be a rural hospital under the bill could be designated by the Department of Community Health as a critical provider in order to satisfy eligibility requirements for certification as a CAH.

For purposes of the bill, "rural hospital" would be defined as a hospital located outside a metropolitan statistical area as defined under federal law or a hospital that satisfied the new criteria established in the bill.

ARGUMENTS:

For:

Small hospitals have high fixed costs and do not see the volume of patients that larger, metropolitan hospitals do. If a hospital is in a rural area, has no more than 25 acute care beds, and the average length of patient stay is 96 hours or less, the hospital can apply for designation as a critical access hospital (CAH). The benefit to the small hospital is that reimbursement for treating Medicare recipients is done on the actual cost of treating the patient, rather than the typical Medicare payment that is based on a predetermined amount per diagnosis.

Michigan currently has 22 CAHs, with one hospital seeking CAH designation. However, four of these hospitals – Borgess-Lee Memorial Hospital in Cass County, Hills and Dales General Hospital in Tuscola County, and Sheridan Community Hospital and Kelsey Memorial Hospital in Montcalm County – are in danger of losing their CAH status. To be a rural hospital, a hospital must be outside of a metropolitan statistical area. The latest census figures reveal that these four hospitals are now within a metropolitan statistical area. In reality, these hospitals serve a rural population and could face closure if they lose the ability to be reimbursed for actual costs.

The bill would protect the CAH status of these hospitals, as well Lakeshore Community Hospital in Oceana County, which is in the process of applying for CAH designation, by allowing the Department of Community Health to still designate as rural a hospital located in a rural county, even though it may be located close to a larger city. In addition, the bill would qualify seven more hospitals located in rural areas but close to an urban center for CAH designation - should they decide it beneficial. Passage of the bill is considered to open up \$8 million to \$10 million in federal funds that would be lost otherwise.

POSITIONS:

The Department of Community Health supports the bill. (11-9-04)

Representatives from the following organizations indicated support for the bill on 11-9-04:

Michigan Health & Hospital Association (MHA)

Lakeview Hospital

Ascension Health – Michigan

Allegan General Hospital

Eaton Rapids Medical Center

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.