

CMS Manual System	Department of Health & Human Services (DHHS)
Pub 100-20 One-Time Notification	Centers for Medicare & Medicaid Services (CMS)
Transmittal 393	Date: OCTOBER 24, 2008
	Change Request 6226

Subject: UPDATE TO CR 5020: Method of Cost Settlement for Inpatient Services for Rural Hospitals Participating Under Demonstration Authorized by Section 410A of the Medicare Modernization Act

I. SUMMARY OF CHANGES: This change request references CR 5020, which has changed the method of reimbursement for inpatient services for rural hospitals participating under the demonstration authorized by section 410A of the Medicare Modernization Act. This CR identifies four additional hospitals that will be participating in the demonstration. This also clarifies cost reporting rules pertaining to the calculation of payment based on reasonable cost principles for Medicare inpatient services.

New / Revised Material

Effective Date: July 1, 2008

Implementation Date: November 24, 2008

Disclaimer for manual changes only: The revision date and transmittal number apply only to red italicized material. Any other material was previously published and remains unchanged. However, if this revision contains a table of contents, you will receive the new/revised information only, and not the entire table of contents.

II. CHANGES IN MANUAL INSTRUCTIONS: (N/A if manual is not updated)

R=REVISED, N=NEW, D=DELETED-*Only One Per Row.*

R/N/D	Chapter / Section / Subsection / Title
N/A	

III. FUNDING:

SECTION A: For Fiscal Intermediaries and Carriers:

No additional funding will be provided by CMS; Contractor activities are to be carried out within their operating budgets.

SECTION B: For Medicare Administrative Contractors (MACs):

The Medicare Administrative Contractor is hereby advised that this constitutes technical direction as defined in your contract. CMS does not construe this as a change to the MAC Statement of Work. The contractor is not obligated to incur costs in excess of the amounts allotted in your contract unless and until specifically authorized by the Contracting Officer. If the contractor considers anything provided, as described above, to be outside the current scope of work, the contractor shall withhold performance on the part(s) in question and immediately notify the Contracting Officer, in writing or by e-mail, and request formal directions regarding continued performance requirements.

IV. ATTACHMENTS:

One-Time Notification

**Unless otherwise specified, the effective date is the date of service.*

Attachment – One-Time Notification

Pub. 100-20	Transmittal: 393	Date: October 24, 2008	Change Request: 6226
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SUBJECT: UPDATE TO CR 5020: Method of Cost Settlement for Inpatient Services for Rural Hospitals Participating Under Demonstration Authorized by Section 410A of the Medicare Modernization Act

This Change Request references CR 5020, which has changed the method of reimbursement for inpatient services for rural hospitals participating under the demonstration authorized by section 410A of the Medicare Modernization Act. CR 5020 provides instructions on the settlement process for the first and second years of the demonstration. This CR identifies four additional hospitals that will be participating in the demonstration. This CR also clarifies cost reporting rules pertaining to the calculation of a payment based on reasonable cost principles for Medicare inpatient services.

Effective Date: July 1, 2008

Implementation Date: November 24, 2008

I. GENERAL INFORMATION

A. Background: The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), mandates a demonstration that establishes rural community hospitals. An eligible hospital is located in a rural area, has fewer than 51 acute care beds, makes available 24-hour emergency services, and is not eligible for Critical Access Hospital designation. The authorizing statute mandates that the demonstration last for five years. Thirteen hospitals participated in the first year of the demonstration, which began October 1, 2004. Of these, four terminated their participation in December 2005. On June 6, 2008 CMS announced 4 additional hospitals to participate in the final years of the demonstration.

These are the 13 hospitals participating in the demonstration:

TABLE A – These nine hospitals were selected for the demonstration in 2004 and are currently participating. Each of these hospitals will participate in the demonstration for 5 complete cost report periods:

Provider No.	Hospital Name	City, State	Contractor Name	Cost Report End Date
20024	Central Peninsula General Hospital	Soldotna, Alaska	Noridian	6/30
20008	Bartlett Regional Hospital	Juneau, Alaska	Noridian	6/30
270002	Holy Rosary Healthcare	Miles City, Montana	Noridian	5/31
270032	Northern Montana Hospital	Havre, Montana	Noridian	6/30
280111	Columbus Community Hospital	Columbus, Nebraska	Wisconsin Physician Service (WPS)	4/30
290006	Banner Churchill Community Hospital	Fallon, Nevada	Wisconsin Physician Service (WPS)	12/31
320013	Holy Cross Hospital	Taos, New Mexico	Trailblazer	5/31
430048	Spearfish Regional Hospital	Spearfish, South Dakota	Noridian	6/30

460033	Garfield Memorial Hospital	Panguitch, Utah	Noridian	12/31
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TABLE B - Four hospitals were selected for the demonstration in 2008. Each hospital will begin to be paid under the demonstration methodology for Medicare inpatient services beginning with its first cost report period on or after July 1, 2008. These hospitals will participate until September 30, 2010.

Provider No.	Hospital Name	City, State	Contractor Name	Cost Report End Date
020027	Mt. Edgecumbe Hospital	Sitka, Alaska	Trailblazer	9/30
350003	St. Joseph's Hospital and Health Center	Dickinson, North Dakota	Noridian	6/30
430008	Brookings Health System	Brookings, South Dakota	Noridian	12/31
430060	Holy Infant Hospital	Hoven, South Dakota	Noridian	12/31

B. Policy:

- A) For each chosen hospital, in the first cost reporting period on or after implementation, the hospital's payment for covered inpatient services, excluding services in a psychiatric or rehabilitation unit that is a distinct part of the hospital, will be the reasonable cost of providing such services. Swing-bed services are included among the covered services for which the hospital receives payment on the basis of reasonable costs.
- B) The newly selected hospitals, i.e., those listed in Table B, will start being paid according to the demonstration methodology for Medicare inpatient services with their cost report periods beginning on or after July 1, 2008.
- C) For each of the already participating hospitals, the ending date will be at the end of its fifth cost report period upon participating in the demonstration. For any of the already participating hospitals that changes its cost reporting period during the demonstration period, its end date will be 5 years from its start in the demonstration. The hospital will be required to submit a partial year cost report for payment of the final period ending with the original cost report year end date. For the newly selected hospitals ONLY, the ending date of the demonstration is September 30, 2010.
- D) Reimbursement for the reasonable cost of services to beneficiaries is made according to the principles stated in 42 CFR 413 and Chapter 21 of Part I of the Provider Reimbursement Manual. As stated in these documents, only costs that can be directly attributed to patient care will be reimbursed.
- E) For the first and later cost reporting periods for the newly selected hospitals, and for the second and further for the already participating hospitals, the calculation of reasonable cost will include reasonable compensation equivalent and therapy limits, as stated in 42 CFR 415.70 and 42 CFR 413.106.
- F) Since first year cost reports for the already participating hospitals will already have been completed and settled, there is no requirement that these cost reports be reopened, or that the target amount be recalculated.

- G) In subsequent cost reporting periods of the demonstration program (i.e., for cost reporting periods after the first cost reporting period under the demonstration), payment for covered inpatient services is the lesser of the reasonable costs of providing such services or the target amount. This methodology applies to the 9 continuing hospitals, and the 4 newly added hospitals, beginning with the second cost report period of each under the demonstration.
- H) For the newly selected hospitals, if the ending date of the demonstration falls between the hospital's cost report start and end dates, the fiscal intermediary will calculate the payment based on the methodology outlined for subsequent cost report years based on the fraction of the cost report year prior to the methodology end date.
- I) For all other business requirements and policy provisions, the payment methodology will follow that outlined in CR 5020.

II. BUSINESS REQUIREMENTS TABLE

Use "Shall" to denote a mandatory requirement

Number	Requirement	Responsibility (place an "X" in each applicable column)										
		A / B	D M E	F I	C A R R I E R	R H H I	Shared-System Maintainers				OTHER	
							F I S S	M C S	V M S	C W F		
6226.1	CMS has identified 13 hospitals eligible to participate in the demonstration.											CMS ORDI
6226.2	CMS identifies 9 hospitals in Table A. These hospitals were selected in 2004. The contractors will pay these hospitals under the demonstration methodology for Years 1 through 5. For each of the already participating hospitals, the ending date will be at the end of its fifth cost report period upon participating in the demonstration. For any of the already participating hospitals that change the cost reporting period during the demonstration period, its end date will be 5 years from its start in the demonstration. The hospital will be required to submit a partial year cost report for payment of the final period ending with the original cost report year end date. 4 hospitals are identified in table B. They were selected	X										CMS- ORDI Hos- pital

Number	Requirement	Responsibility (place an "X" in each applicable column)									
		A / B M A C	D M E M A C	F I	C A R R I E R	R H H I	Shared-System Maintainers				OTHER
							F I S S	M C S	V M S	C W F	
	for participation in July 2008. The contractors will pay these hospitals for Medicare inpatient services under the demonstration methodology for the duration of their participation in the demonstration – for the first cost reporting period on or after July 1, 2008 until September 30, 2010.										
6226.3	Effective for cost reports beginning on or after January 1, 2005, the contractors will make payment for inpatient services and ONLY inpatient services of the 9 hospitals identified in Table A according to the reasonable cost of providing the services, as determined under applicable Medicare principles of reimbursement.	X									
6226.4	Effective for cost reports beginning on or after July 1, 2008, the contractors will make payment for inpatient services for the 4 hospitals identified in Table B according to the reasonable cost of providing the services, as determined under applicable Medicare principles of reimbursement.	X									
6226.5	For hospitals in Table A, the contractors will include in the calculation of reasonable costs for inpatient services for Years 2 through 5 the principles of reasonable compensation equivalents (RCE) and therapy limits, as expressed in 42 CFR 415.70 and 42 CFR 413.106.	X									
6226.6	For hospitals in Table B, the contractors will include in calculation of reasonable costs for inpatient services for Years 1 and further years the principles of reasonable compensation equivalents and therapy limits, as expressed in 42 CFR 415.70 and 42 CFR 413.06.	X									
6226.7	The contractors will make payments for inpatient services for the hospitals identified in Table B according to the following principles: 1) RCE and therapy limits are to be included in the calculation of reasonable costs for Years 1 AND 2. 2) If only part of a cost report year has been included at the time of the demonstration ending date on September 30, 2008, the FI will calculate payment according to demonstration methodology for the partial year.	X									
6226.8	For hospitals in Table A, the contractors are not required to reopen cost reports that have already been settled for Year 1 or to recalculate the target amount in the case that RCE and therapy limits are not included in the Year 1	X									

Number	Requirement	Responsibility (place an "X" in each applicable column)									
		A / B M A C	D M E M A C	F I	C A R R I E R	R H H I	Shared-System Maintainers				OTHER
							F I S S	M C S	V M S	C W F	
	reasonable cost calculation.										

III. PROVIDER EDUCATION TABLE

Number	Requirement	Responsibility (place an "X" in each applicable column)									
		A / B M A C	D M E M A C	F I	C A R R I E R	R H H I	Shared-System Maintainers				OTHER
							F I S S	M C S	V M S	C W F	
	None.										

IV. SUPPORTING INFORMATION

Section A: For any recommendations and supporting information associated with listed requirements, use the box below: N/A

Use "Should" to denote a recommendation.

X-Ref Requirement Number	Recommendations or other supporting information:

Section B: For all other recommendations and supporting information, use this space: N/A

V. CONTACTS

Pre-Implementation Contact(s): Sid Mazumdar, (410) 786-6673

Post-Implementation Contact(s): Sid Mazumdar, (410) 786-6673

VI. FUNDING

Section A: For *Fiscal Intermediaries (FIs)*, *Regional Home Health Intermediaries (RHHIs)*, and/or *Carriers*:

No additional funding will be provided by CMS; contractor activities are to be carried out within their operating budgets.

Section B: For *Medicare Administrative Contractors (MACs)*:

The Medicare Administrative Contractor is hereby advised that this constitutes technical direction as defined in your contract. CMS does not construe this as a change to the MAC Statement of Work. The contractor is not obligated to incur costs in excess of the amounts allotted in your contract unless and until specifically authorized by the Contracting Officer. If the contractor considers anything provided, as described above, to be outside the current scope of work, the contractor shall withhold performance on the part(s) in question and immediately notify the Contracting Officer, in writing or by e-mail, and request formal directions regarding continued performance requirements.