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# CMS Manual System

## Pub. 100-04 Medicare Claims Processing

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Department of Health &  
Human Services (DHHS)  
Centers for Medicare &  
Medicaid Services (CMS)

Transmittal 68

Date: JANUARY 16, 2004

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**CHANGE REQUEST 3052**

**I. SUMMARY OF CHANGES:** Critical Access Hospitals (CAH) may operate up to 25 beds as either acute or swing 25 beds. States may continue to certify facilities as necessary providers in order for them to be designated as CAHs until January 1, 2006. CAH reimbursement is 101% of reasonable costs. These changes have been established with the “Medicare Prescription Drug, Improvement, and Modernization Act” (MPDIMA) of 2003. The effective date for these changes is January 1, 2004.

**NEW/REVISED MATERIAL - EFFECTIVE DATE:** January 1, 2004

**\*IMPLEMENTATION DATE:** April 5, 2004

*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.*

**II. CHANGES IN MANUAL INSTRUCTIONS: (N/A if manual not updated.)**  
**(R = REVISED, N = NEW, D = DELETED – (Only One Per Row.)**

R/N/D	CHAPTER/SECTION/SUBSECTION/TITLE
R	3/ 30/ Medicare Rural Hospital Flexibility Program and Critical Access Hospitals (CAHs).
R	3/ 30.1/ Requirements for CAH Services and CAH Long-Term Care Services.
R	3/30.1.1/Payment for Inpatient Services Furnished by a CAH
R	3/ 30.1.2/ Payment for Post- Hospital SNF Care Furnished by a CAH.

**\*III. FUNDING:**

**These instructions should be implemented within your current operating budget.**

**IV. ATTACHMENTS:**

X	Business Requirements
X	Manual Instruction
	Confidential Requirements
	One-Time Notification
	Recurring Update Notification

**\*Medicare contractors only**

## Attachment - Business Requirements

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**SUBJECT: New Requirements for Critical Access Hospitals.** These changes have been established with the Medicare Prescription Drug Improvement and Modernization Act (MPDIMA) of 2003, PL 108-173.

### I. GENERAL INFORMATION

**A. Background:** New legislation signed into law on December 8, 2003 made changes to:

1. Bed limitations for CAH's.
2. The Waiver Authority of States in determining the designation of CAH's.
3. The payment of reasonable costs to CAH's.

**B. Policy:**

The bed limitations for CAH's have increased from 15 to 25 total beds. This total may include acute and swing beds. The 15 beds maximum for acute beds for CAH's have been abolished. Public Law 108-173 allows the State to continue to certify facilities as necessary providers when designating facilities as CAH's has been extended until January 1, 2006. CAH payment increases to 1.01 times reasonable cost for inpatient acute care and swing bed services effective January 1, 2004.

**C. Provider Education:** Do not post to the Internet until you receive further instructions.

### II. BUSINESS REQUIREMENTS

*"Shall" denotes a mandatory requirement*

*"Should" denotes an optional requirement*

Requirement #	Requirements	Responsibility
3052.1	Effective January 1, 2004 bed limits for CAH's will be 25 beds.	FI
3052.1.1	The total of 25 beds for CAH's may include any mix of acute and swing beds effective January 1, 2004	FI
3052.1.2	Effective December 8, 2003, States continue to be allowed to certify facilities as necessary providers and designate them as CAH's until	FI

	January 1, 2006.	
3052.1.3	CAH's shall be paid 101% of reasonable costs for inpatient acute care and swing bed services for cost reporting periods beginning on and after January 1, 2004.	FI
3052.1.4	These services shall be accepted on Type of Bill (TOB) 11X or 18X	FI, CWF

### III. SUPPORTING INFORMATION AND POSSIBLE DESIGN CONSIDERATIONS

#### A. Other Instructions: N/A

X-Ref Requirement #	Instructions
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#### B. Design Considerations: N/A

X-Ref Requirement #	Recommendation for Medicare System Requirements

#### C. Interfaces: N/A

#### D. Contractor Financial Reporting /Workload Impact: N/A

#### E. Dependencies: N/A

#### F. Testing Considerations: N/A

### IV. SCHEDULE, CONTACTS, AND FUNDING

<b>Effective Date: January 1, 2004</b> <b>Implementation Date: April 5, 2004</b> <b>Pre-Implementation Contact(s): Pat Barrett, 410-786-0508</b> <b>Post-Implementation Contact(s): Appropriate Regional Office</b>	<b>These instructions should be implemented within your current operating budget.</b>
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## **30 - Medicare Rural Hospital Flexibility Program and Critical Access Hospitals (CAHs)**

*(Rev. 68, 10-16-04)*

**A3-3610.19, HO-415.19, A3-3610.20, HO-415.20**

*The Medicare law allows establishment of a Medicare rural hospital flexibility program by any State that has submitted the necessary assurances and complies with the statutory requirements for designation of hospitals as critical access hospitals (CAHs).*

To be eligible as a CAH, a facility must be a currently participating Medicare hospital, a hospital that ceased operations on or after November 29, 1989, or a health clinic or health center that previously operated as a hospital before being downsized to a health clinic or health center. *The facility must be located in a rural area of a State that has established a Medicare rural hospital flexibility program, or must be located in a Metropolitan Statistical Area (MSA) of such a State and be treated as being located in a rural area based on a law or regulation of the State, as described in 42 CFR 412.103. It also must be located more than a 35-mile drive from any other hospital or critical access hospital unless it is designated by the State, prior to January 1, 2006, to be a "necessary provider".* In mountainous terrain or in areas with only secondary roads available, the mileage criterion is 15 miles. *In addition, the facility must make available 24-hour emergency care services, provide not more than 25 beds for acute (hospital-level) inpatient care or in the case of a CAH with a swing bed agreement, swing beds used for SNF-level care. The CAH maintains a length of stay, as determined on an annual average basis, of no longer than 96 hours.*

The facility is also required to meet the conditions of participation for CAHs ([42 CFR Part 485, Subpart F](#)). Designation by the State is not sufficient for CAH status. To participate and be paid as a CAH, a facility must be certified as a CAH by CMS.

### **A - Grandfathering Existing Facilities**

As of October 1, 1997, no new Essential Access Community Hospital (EACH) designations can be made. The EACHs designated by CMS before October 1, 1997, will continue to be paid as sole community hospitals for as long as they comply with the terms, conditions, and limitations under which they were designated as EACHs.

## **30.1 - Requirements for CAH Services and CAH Long-Term Care Services**

*(Rev. 68, 10-16-04)*

**A3-3610.21, HO-415.21**

A CAH may provide acute inpatient care for a period that does not exceed, as determined on an annual average basis, 96 hours per patient. The CAH's length of stay will be calculated by their FI based on patient census data and reported to the CMS regional office. If a CAH exceeds the length of stay limit, it will be required to develop and implement a corrective action plan acceptable to the CMS regional office, or face termination of its Medicare provider agreement.

Items and services that a CAH provides to its inpatients are covered if they are items and services of a type that would be covered if furnished by a hospital to its inpatients.

A CAH may use its inpatient facilities to provide post-hospital SNF care and be paid for SNF-level services if it meets the following requirements:

1. The facility has been certified as a CAH by CMS;
2. ***The facility operates up to 25 beds for either acute (CAH) care or SNF swing bed care.*** (any bed of a unit of the facility that is licensed as a distinct-part SNF is not counted under paragraph (1) of this section); and
3. The facility has been granted swing-bed approval by CMS.

A CAH that participated in Medicare as a rural primary care hospital (RPCH) on September 30, 1997, and on that date had in effect an approval from CMS to use its inpatient facilities to provide post-hospital SNF care, may continue in that status under the same terms, conditions, and limitations that were applicable at the time those approvals were granted.

### **30.1.1 - Payment for Inpatient Services Furnished by a CAH**

***(Rev. 68, 10-16-04)***

**A3-3610.22, R1860A3, HO-415.22, HO-415.24**

***For cost reporting periods beginning after October 1, 1997, payment for inpatient services of a CAH is the reasonable cost of providing the services. Effective for cost reporting periods beginning after January 1, 2004, payment for inpatient services of a CAH is 101% of the reasonable cost of providing the services, as determined under applicable Medicare principles of reimbursement, except that following principles do not apply:***

- The lesser of costs or charges (LCC) rule,
- Ceilings on hospital operating costs,
- The reasonable compensation equivalent (RCE) limits for physician services to hospitals and
- The payment window provisions for preadmission services treated as inpatient services under §40.3.

Payment for inpatient CAH services is subject to Part A deductible and coinsurance requirements. Inpatient services should be billed as a 11X type of bill.

Payment for a cost reporting period subsequent to the initial 12-month period for which the CAH operates is made on the basis of adjusting the amount determined for the initial 12-month period. Under [§1886\(b\)\(3\)\(B\)\(i\)](#) of the Act, the adjustment added to the per diem amount is the market basket percentage increase for the subsequent cost reporting period applicable to hospitals located in rural areas.

### **30.1.2 - Payment for Post-Hospital SNF Care Furnished by a CAH**

***(Rev. 68, 10-16-04)***

**HO-415.23, HO-415.24, A3-3610.23, A3-3610.24**

The SNF-level services provided by a CAH, are paid *at 101% of reasonable cost.* Since this is consistent with the reasonable cost principles, FIs *will now* pay for those services *at 101% reasonable cost.* Hospitals must follow the rules for payment in [§60](#) for swing-bed services.

*All CAH swing bed SNF-level care bills are submitted and processed with a "z" in the third position of the provider number.*

Coinsurance and deductible are applicable for inpatient CAH payment.

All items on Form CMS-1450 are completed in accordance with Chapter 25.