



Arizona State Senate Issue Brief

November 20, 2024

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 *Issue Briefs* series 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. Nothing in the Brief should be used to draw conclusions on the legality of an issue.

CRITICAL ACCESS HOSPITALS

INTRODUCTION

The federal 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, improve rural emergency medical services and 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 provides training and technical assistance to build capacity, support innovation and promote sustainable improvement in the rural health care system, ensuring high quality health care is available in rural communities and is aligned with community needs. Rural hospitals that meet specified criteria 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.¹

ENHANCED MEDICARE REIMBURSEMENT

Typically, Medicare reimburses hospitals based on a fixed, predetermined amount per hospital discharge, based on the patient's diagnosis. To receive Medicare reimbursement, hospitals agree to accept the Medicare payment rates even if their costs exceed the reimbursement. Hospitals that keep their costs under the fixed payment may keep the difference.²

A hospital that is designated as a CAH is eligible for Medicare reimbursement of inpatient and outpatient services equal to 101 percent of a hospital's reasonable costs, after the deduction of applicable beneficiary cost-sharing. The cost of treating Medicare patients is estimated using accounting data from Medicare Cost Reports and is based on a combination of factors, including the number of days a patient stays in the hospital and the dollar value of charges incurred for ancillary services. This is inherently different

¹ [Health Resources & Services Administration \(HRSA\) – Flexibility Program](#)

² [Centers for Medicare and Medicaid Services \(CMS\) – Prospective Payment Systems](#)

than the way Medicare funds other types of hospitals, which are generally funded at a fixed, pre-determined rate. In 2022, CAH payments totaled \$12 billion nationwide, representing about six percent of all Medicare inpatient and outpatient payments to hospitals.³

CRITERIA FOR CAH DESIGNATION

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, seven days a week;
- have an annual average length of stay of 96 hours or less per patient for acute care services;
- be located more than 35 miles from another hospital or CAH (or 15 miles in mountainous terrain or areas with only secondary roads) or certified by the state, before January 1, 2006, as a *necessary provider* of health care services to residents in the area; and
- maintain no more than 25 inpatient beds used for either inpatient or post-acute skilled nursing services, no more than 10 of which may be in psychiatric or rehabilitation units.

Before January 1, 2006, states were given flexibility to determine the criteria for a *necessary provider* which could be used in lieu of the geographic remoteness requirement; however, states are no longer able to designate a necessary provider and therefore all newly designated CAHs must meet the geographic remoteness

³ [Medicare Payment Advisory Commission](#)

criteria. CAHs that were established prior to 2006 using the state-determined necessary provider criteria were grandfathered into the CAH Program. States may designate hospitals that are not located in rural areas as *rural* for the purposes of the program, if the area is treated as rural under outlined regulations.⁴

Both the *necessary provider* and *rural* designations allow states to increase the number of hospitals designated as CAHs. According to the U.S. Human Resources & Services Administration, the number of CAHs in the United States has grown from 41 in 1999 to 1,366 in 2024, with locations across 45 states.⁵

CAHS IN ARIZONA

In Arizona, the Center for Rural Health at 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 Center for Rural Health, 17 hospitals have received the CAH designation in Arizona.⁶

In addition to cost-based Medicare reimbursement, some Arizona CAHs also qualify for increased reimbursement from the Arizona Health Care Cost Containment System (AHCCCS) in the form of supplemental payments. CAH reimbursement monies are appropriated annually by the state and administered by AHCCCS. In FY 2024, AHCCCS supplemental payments to CAHs totaled \$30,257,408. CAHs that are Indian Health Service facilities are excluded from the AHCCCS payments, as these hospitals are entirely funded using federal monies. Therefore, only 12 of the 17 Arizona CAHs receive AHCCCS funding.⁷

⁴ [CMS — Medicare Learning Network CAH Booklet](#)

⁵ [HRSA – Data Explorer](#)

⁶ [University of Arizona Rural Health Office](#)

⁷ [AHCCCS: CAH Supplemental Payments](#)

ADDITIONAL RESOURCES

- Arizona Health Care Cost Containment System
[CAH Payments](#)
- Centers for Medicare & Medicaid Services
[Medicare Learning Network Booklet about CAHs](#)
- Joint Legislative Budget Committee
[FY 2025 Appropriations Report](#)
- Medicare Payment Advisory Commission
[Fact Sheet on CAH Payment System](#)
- Rural Health Information Hub
[CAHs](#)
- University of Arizona Rural Health Office
[Rural Hospital Flexibility Program](#)
[Arizona CAH Designation Manual](#)