

WHITE PAPER

A New Model For Rural Hospital Sustainability

**REH Designation Can Help
Hospitals Overcome Financial
and Operational Challenges**



EXECUTIVE SUMMARY

Many U.S. rural and community hospitals have been shuttered or initiated cutbacks in services amid a rapidly shifting health care environment. To help mitigate their financial and operational challenges, the federal government established the rural emergency hospital (REH) designation in January 2023. This is a new Medicare provider program created to improve hospital sustainability and offer greater patient access to healthcare services.

This white paper explores the role of REHs, various trends impacting this model, implications of REHs, and key considerations involved in REH conversions.

INTRODUCTION

Focused on improving health equity in rural communities, Congress approved the REH designation in January 2023, through the Consolidated Appropriations Act of 2021. REH standards are closely aligned with the Critical Access Hospital (CAH) designation, which lessens rural hospitals' financial vulnerability and enhances healthcare access by keeping key services in their communities.

According to the National Academy of State Health Policy, 14 states have approved legislation or adopted emergency regulations as of June 2023, allowing hospitals to become eligible for REH status.

REH allows for the following services:

- **Emergency department services**
- **Observation care**
- **Additional outpatient medical and health services including ancillary services, provider-based clinics, radiology, lab and therapies if they do not exceed an annual per patient average length of stay of 24 hours.**

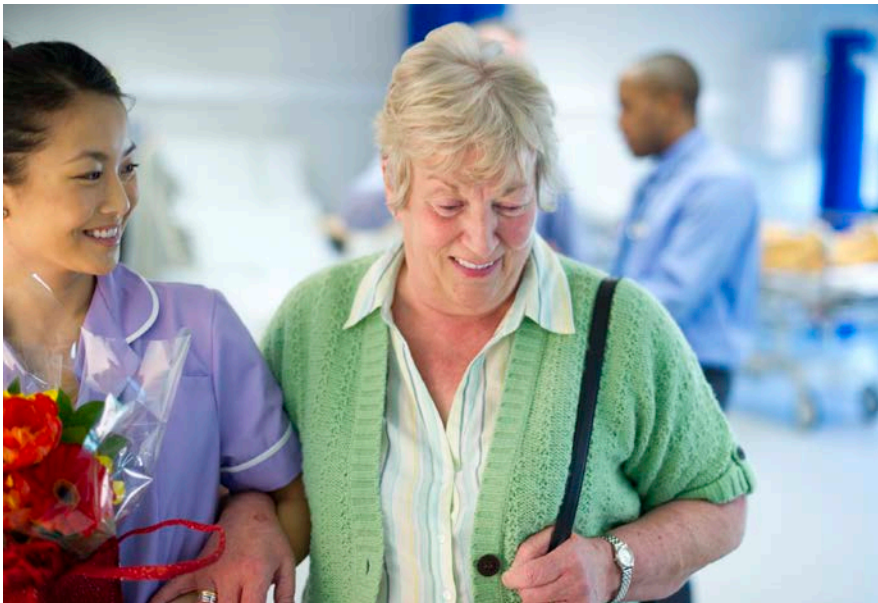
TRENDS IMPACTING REH DESIGNATION

Since 2005, 191 U.S. rural hospitals have closed their doors or undergone conversions (excluding REH conversions) according to the University of North Carolina's The Cecil G. Sheps Center for Health Services Research. This situation is expected to worsen, as hundreds of rural hospitals have been identified as 'at risk of closing'.

A combination of factors has led to the financial turmoil that has plagued many small hospitals. Their predicament is blamed on years-long declines in inpatient admissions as more people living in rural and remote areas travel to larger hospitals for care. Shrinking insurance reimbursements also have hindered sustainability of rural hospitals, many of which are located in impoverished areas with older populations.

Additionally, rising labor costs and medical, drug and other supplies have contributed to their plight, particularly during the COVID-19 pandemic. During the pandemic, some of the increasing labor costs resulted from hospitals paying higher fees for contract nurses and other healthcare professionals in response to worker shortages. The end of the pandemic-related federal funding further strained operations at rural hospitals, burdened with higher costs in caring for COVID-19 patients.





SOME CONSIDERATIONS FOR REH CONVERSION

When developing and reviewing key considerations for an REH conversion, hospital leadership may want to use a framework developed by the North Carolina Health Research Program as a guide for undergoing this conversion process:

- **FEASIBILITY:** This refers to the financial stability of the REH model which differs for hospitals building a new facility or converting an existing facility to an REH. Either option may require consultant evaluation regarding service mix and volume, operating revenue and expenses, capital needs, and longer-term sustainability.
- **WORKFORCE:** REH conversions stand to risk staff shortages. That means hospitals must focus on recruiting and retention of staff, the appropriate staffing mix and telemedicine to meet patient volume demand.
- **COMMUNITY:** Evaluating and establishing community support is critical for hospitals planning REH conversions, which will likely elicit a strong community reaction to the loss of inpatient services and staff. To win support, hospital leadership will need to engage members of the community and local officials, strive to focus on healthy equity, and implement strategies to help mitigate the impact of REHs on the local economy, especially if the full-service hospital is a major employer.
- **PARTNERSHIPS:** Partnering with other healthcare organizations will be needed as REHs transfer patients for higher levels of care. REHs will need to expand the role for the local EMS and its referral networks, along with working with community health and social service providers to ensure quality care is not impacted.
- **REGULATION:** CMS and state regulations will require REHs to prepare for new issues to emerge as this model evolves. REHs will need to focus on licensure, quality measures and scope of practice to meet regulatory requirements governing REHs.

IMPLICATIONS OF REH CONVERSIONS

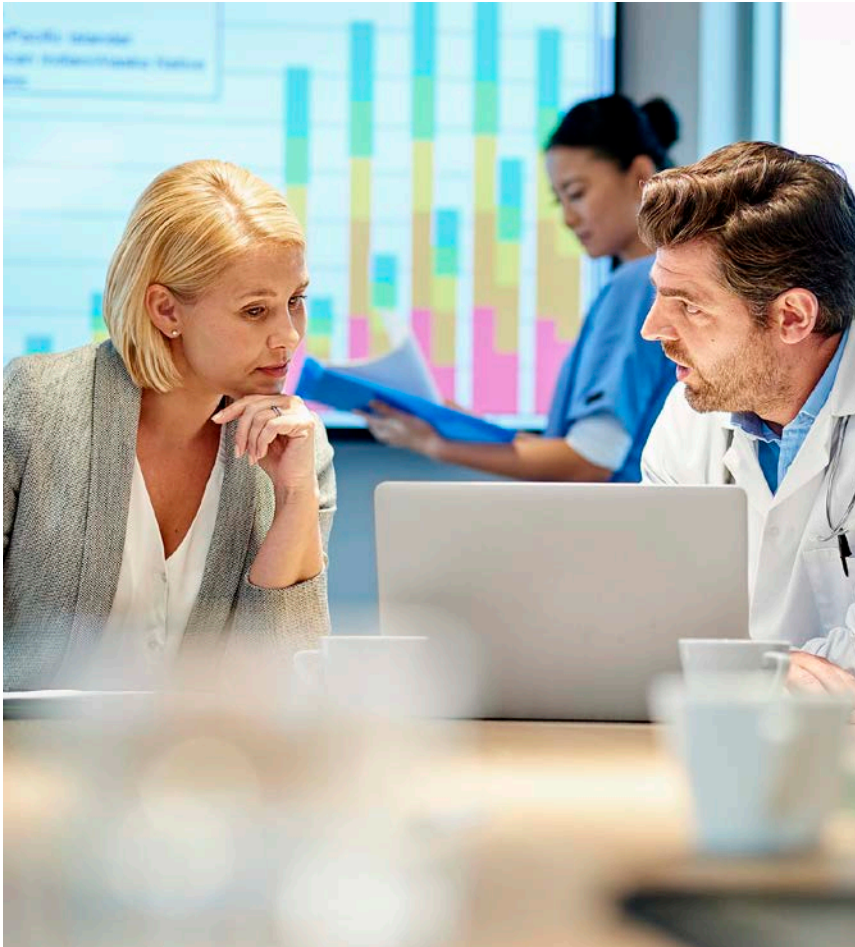
Hospital leaders and other stakeholders must weigh the pros and cons of an REH designation when deciding whether to choose this care-delivery model.

THE PROS: An REH designation can improve the performance of rural hospitals facing challenges to their operations. With an REH designation, The Centers for Medicare and Medicaid Services (CMS) gives hospitals a premium on outpatient billings of 5 percent, or a reimbursement of 105 percent instead of 100 percent. REHs also are allowed a fixed monthly payment of \$276,234, called Additional Facility Payment (AFP).

THE CONS: In exchange for these payments, CMS requires hospitals to offer fewer services to their community. As a result, hospitals may suffer the consequences of losing staff, incurring revenue losses on eliminated surgical procedures, and risking a negative community perception of “taking away our hospital”. In some cases, there’s the possibility that an REH designation will not prevent closure.

CONCLUSION

Navigating an REH conversion can be a complex and cumbersome process. Community Hospital Corporation (CHC) is a resource available to help rural and community hospitals evaluate the REH designation and successfully guide them through this process. Contact CHC today to help assess your hospital's alternatives to achieve sustainability in a challenging environment.



THE BENEFITS OF REH

- REHs receive a monthly facility fee payment of **\$276,234** (2024 figure — approximately \$3.2 million annually)
- Covered outpatient services are reimbursed at **105% of Medicare OPPS rates** (excludes lab services)
- REHs continue to provide **24 hour emergency services, laboratory, diagnostic radiology, pharmacy and discharge planning**
- REHs can offer outpatient surgery services
- REHs can provide additional outpatient services including a distinct part unit (DPU) skilled nursing facility to provide post REH or post hospital services
- REHs can serve as an originating site for telehealth services
- Option to convert back to PPS or CAH at a later point in time



Community Hospital Corporation owns, manages and consults with hospitals through CHC Hospitals, CHC Consulting and CHC ContinueCARE, with the purpose to collaborate with partners and bring innovative solutions to support the vibrancy and accessibility of community healthcare. Based in Plano, Texas, CHC provides the resources and experience community hospitals need to improve quality outcomes, patient satisfaction and financial performance.

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