HEALTH AND SAFETY CODE - HSC

DIVISION 106. PERSONAL HEALTH CARE (INCLUDING MATERNAL, CHILD, AND ADOLESCENT) [123100 - 125850] *(Division 106 added by Stats. 1995, Ch. 415, Sec. 8.)*

PART 4. PRIMARY HEALTH CARE [124400 - 124945] *(Part 4 added by Stats. 1995, Ch. 415, Sec. 8.)*

CHAPTER 6. Small and Rural Hospitals [124800 - 124870] *(Chapter 6 added by Stats. 1995, Ch. 415, Sec. 8.)*

124800. The Legislature finds and declares all of the following:

(a) Rural hospitals serve as the “hub of health,” and through that role attract and retain in their communities physicians, nurses, and other primary care providers. Because of economies of scale compounded by reimbursement reforms, many rural hospitals will close before the end of this decade. This will result in the departure of primary care providers and the loss of emergency medical services both to residents and persons traveling through the area. The smallest and most remote facilities are at highest risk.

(b) The rural hospital is often one of the largest employers in the community. The closure of such a hospital means the loss of a source of employment. This has an economic impact beyond the health sector. Further, economic development of a rural area is, in part, tied to the existence of a hospital. People, for example, tend not to retire to areas where there is not reasonable access to physician and hospital-based services.

(c) Rural hospitals, especially the smaller facilities, lack access to the sophisticated expertise necessary to deal with current reimbursement regulations and the associated bureaucracy.

(d) Most rural hospitals are unable to participate in programs that provide access to short- and long-term financing due to lender requirements for credit enhancement.

(e) Because of economies of scale compounded by regulations under Title 22 of the California Code of Regulations and other regulations, rural hospitals have high, fixed costs that, in the present reimbursement environment, cannot be offset by revenues generated from serving a relatively small population base. Further, in an economically depressed rural area, community contributions are not sufficient to offset deficits.

(f) Rural hospitals are an important link in the Medi-Cal program, and without special consideration that takes into account their unique circumstances, rural hospitals will be unable to continue providing services to Medi-Cal patients. This is especially true for outpatient services that are reimbursed at less than 60 percent of costs.

(g) While only a very small percentage of the Medi-Cal budget for inpatient and outpatient services is spent for services rendered by rural hospitals, their participation is essential to preserve the integrity of the entire Medi-Cal program.

(Added by Stats. 1995, Ch. 415, Sec. 8. Effective January 1, 1996.)

124805. (a) The Legislature recognizes the need to strengthen, and in some cases salvage, rural hospitals to ensure that adequate access to services is provided to residents of rural areas as well as tourists and travelers who, at certain times, may outnumber the residents. Further, the Legislature recognizes that this will require a comprehensive approach. Therefore, the Legislature intends that:

(1) Expertise be provided to endangered rural hospitals to both of the following:

(A) Carry out a strategic assessment of potential business and diversification of service opportunities.

(B) Develop a specific plan of action when feasible.

(2) Access, when appropriate, be provided to special eligibility programs within the California Health Facilities Financing Authority.

(3) Short-term technical assistance be available on fiscal and program matters.

(4) The department continue to provide regulatory relief through program flexibility.

(5) Inpatient reimbursement limitations be modified so as not to single out rural hospitals for application.

(6) Reimbursement rates for outpatient services be set at a level that will provide incentives for rural hospitals to focus on the provision of outpatient services and that will reduce the financial losses incurred by the facilities in providing those services.

(b) The Legislature recognizes that for certain rural settings, an acute care hospital as defined in subdivision (a) of Section 1250 may no longer be cost-effective. Therefore, a rural alternative model that preserves the primary and emergency care systems must be identified, studied through demonstration projects, and developed as a new category of health facility.

(c) The Legislature recognizes that a rural alternative facility may not conform to what is now depicted in state or federal regulation. Therefore, to identify a model, implement demonstration projects, and establish the rural alternative hospital as a license category of health facility, a cooperative effort will be required between the department, the federal Health Care Financing Administration, and the health care industry. To this end, the Legislature intends that the department inform the federal Health Care Financing Administration of its interest in establishing the rural alternative hospital program and subsequently seek any necessary waivers.

(Added by Stats. 1995, Ch. 415, Sec. 8. Effective January 1, 1996.)

124810. Unless the context otherwise requires, the definitions contained in this article govern the construction of this chapter.

(Added by Stats. 1995, Ch. 415, Sec. 8. Effective January 1, 1996.)

124815. "Department" means the State Department of Health Services.

(Added by Stats. 1995, Ch. 415, Sec. 8. Effective January 1, 1996.)

124820. "High-risk rural hospital," means a hospital as defined in subdivision (a) of Section 124840 that can demonstrate through audited and interim financial reports and projections that it is probable that it will need to cease operations within one year.

(Added by Stats. 1995, Ch. 415, Sec. 8. Effective January 1, 1996.)

124825. The department shall, in consultation with an organization of interest, develop recommendations on the type and scope of technical assistance that needs to be available to small and rural hospitals from within the department. The recommendations of an organization of interest shall be given consideration by the department in development of subsequent budgets.

(Added by Stats. 1995, Ch. 415, Sec. 8. Effective January 1, 1996.)

124830. "Director" means the State Director of Health Services.

(Added by Stats. 1995, Ch. 415, Sec. 8. Effective January 1, 1996.)

124835. "Organizations of interest" means nonprofit organizations that typically represent the interests of hospitals and health systems.

(Added by Stats. 1995, Ch. 415, Sec. 8. Effective January 1, 1996.)

124840. "Small and rural hospital" means an acute care hospital that meets either of the following criteria:

(a) Meets the criteria for designation within peer group six or eight, as defined in the report entitled Hospital Peer Grouping for Efficiency Comparison, dated December 20, 1982.

(b) Meets the criteria for designation within peer group five or seven and has no more than 76 acute care beds and is located in an incorporated place or census designated place of 15,000 or less population according to the 1980 federal census.

(Added by Stats. 1995, Ch. 415, Sec. 8. Effective January 1, 1996.)

124845. "Strategically located" means a hospital as defined in subdivision (a) of Section 124840 that, by virtue of its location, or the location of a major portion of the hospital's service area, can demonstrate that its existence is essential to provide health services including emergency services and stabilization to the service area and transient populations.

(Added by Stats. 1995, Ch. 415, Sec. 8. Effective January 1, 1996.)

124850. The department shall provide expert technical assistance to strategically located, high-risk rural hospitals to assist the hospitals in carrying out an assessment of potential business and diversification of service opportunities. In providing the technical assistance on business opportunities, the department shall consult with other appropriate agencies. The high-risk rural hospital, in

cooperation with the department, may develop a short-term plan of action if, in its opinion, the results of the assessment so indicate. The department, in consultation with an organization of interest, shall do all of the following:

(a) Establish a process for identifying strategically located, high-risk rural hospitals and reviewing requests from the hospitals for assistance.

(b) Develop a standard format for the strategic assessment.

(c) Develop a model action plan.

(d) Establish criteria for review of action plans.

(e) Request input and assistance from organizations of interest.

(f) Make the strategic assessment format and model action plan available to all small and rural hospitals.

(Amended by Stats. 2004, Ch. 225, Sec. 56. Effective August 16, 2004.)

124855. Any small and rural hospital may apply to the California Health Facilities Financing Authority for consideration under special eligibility programs if the hospital has successfully completed the assessment and developed an action plan.

(Added by Stats. 1995, Ch. 415, Sec. 8. Effective January 1, 1996.)

124860. (a) The department, after consultation with an organization of interest, shall select two strategically located, high-risk rural hospitals to plan and implement rural alternative hospital demonstration projects. To the extent possible, the department shall choose two demonstration sites, with one site serving an isolated mountainous area where access may be impeded by adverse weather conditions, and one site located in a rural agricultural community. Hospitals shall be selected on the basis of their interest in becoming a demonstration site and on their suitability as model rural alternative hospitals. The demonstration projects shall include, but not be limited to, identification of the following:

(1) Appropriate mix and type of services to be provided locally and obtained on referral.

(2) Types and numbers of personnel required.

(3) Probability of, and the amount of, reimbursement under current regulations.

(4) Statutory and regulatory changes necessary to license the facility and maximize reimbursement.

(b) In administering the rural alternative hospital demonstration project, the department shall do all of the following:

(1) Establish two demonstration sites on or before January 1, 1990, and operate the projects for a period of up to 18 months.

(2) Grant exceptions to the licensure requirements for general acute care hospitals that are necessary to serve the purposes of this section when the granting of the exceptions do not jeopardize the health and welfare of patients.

(3) Convey to the Federal Health Care Financing Administration its intent to establish the rural alternative hospital demonstration project and seek any necessary appropriate waivers.

(4) Consider requests for grant funds made by demonstration site hospitals pursuant to subdivision (a) of Section 1188.86 as meeting criteria for priority funding.

(5) Monitor and evaluate demonstration site projects as to the applicability of these models for statewide application.

(c) The department, based on interim findings from the demonstration projects, shall do either of the following:

(1) Prepare and adopt regulations establishing the rural alternative hospital as a licensed health facility by January 1, 1992.

(2) Submit to the Legislature by that date a report detailing why a category of health facility should not be established.

(Added by Stats. 1995, Ch. 415, Sec. 8. Effective January 1, 1996.)

124865. The department shall continue to provide regulatory relief when appropriate through program flexibility for such items as staffing, space, and physical plant requirements.

(Added by Stats. 1995, Ch. 415, Sec. 8. Effective January 1, 1996.)

124870. (a) The department shall adopt regulations that will provide for an increase in reimbursement rates for outpatient services rendered to Medi-Cal patients by small and rural hospitals, as defined in Section 124840, over and above those reimbursement rates specified in Section 51509 of the California Code of Regulations. The amount of this increase shall be governed by the funding allocated for this specific purpose in the Budget Act, or in another specific appropriation measure.

(b) The rate adjustment authorized by subdivision (a) shall be allocated to eligible hospitals as follows:

(1) A separate percentage increase shall be calculated for minimum floor and nonminimum floor hospitals based on the ratio of each small and rural hospitals' Medi-Cal outpatient payments to the total of all small and rural hospitals' Medi-Cal outpatient payments during the preceding calendar year, as determined by the department. The percentage rate increase for minimum floor hospitals shall be 125 percent of the rate increase percentage calculated for nonminimum floor hospitals. The combined rate increases for minimum floor and nonminimum floor hospitals shall not exceed the funds appropriated for this purpose.

(2) For purposes of this section, "minimum floor hospital" means a hospital (A) where Medi-Cal payments for outpatient services during the preceding calendar year were less than $^1/_2$ percent of the total of Medi-Cal payments for outpatient services rendered by all small and rural hospitals during that period and (B) where the total gross patient revenue from all sources during that period was less than ten million dollars ($10,000,000).

(3) For purposes of this section, "nonminimum floor hospital" means a hospital (A) where Medi-Cal payments for outpatient services during the preceding calendar year equaled or exceeded $^1/_2$ percent or of the total of Medi-Cal payments for outpatient services rendered by all small and rural hospitals during that period or (B) where the total gross patient revenue from all sources during that period was ten million dollars ($10,000,000) or more.

(c) For the purpose of calculating the percentage increase, if any eligible hospital had less than a full year of operation upon which to determine the ratio of Medi-Cal expenditures as defined in paragraph (1) of subdivision (b), the department shall extrapolate the Medi-Cal paid claims expenditures for that hospital to estimate a full year's Medi-Cal claims expenditure.

(d) Payment under this section shall be contingent upon submission of approved claims for Medi-Cal outpatient services rendered after January 1, 1989.

(e) The Director of Health Services shall adopt emergency regulations pursuant to Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code to implement the rate adjustments required under this section. The adoption of these regulations shall be deemed an emergency and necessary for the immediate preservation of the public peace, health, or safety. Notwithstanding any provision of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code, emergency regulations adopted by the department to implement the rate adjustments required under this section shall not be subject to any review, approval, or disapproval by the Office of Administrative Law at any stage of the rulemaking process. These regulations shall become effective immediately upon their filing with the Secretary of State.

(f) Notwithstanding any other provision of law, reimbursement rates adopted pursuant to this section shall not exceed the hospital's usual and customary charges for services rendered.

(g) The department shall maximize federal financial participation in implementing this section.

(h) This section shall become operative July 1, 1989.

(Amended by Stats. 2000, Ch. 158, Sec. 1. Effective January 1, 2001.)