As of January 2019, Pennsylvania had 15 federally designated Critical Access Hospitals (CAH), ranking the commonwealth’s CAH infrastructure the tenth smallest nationally. This limited infrastructure is particularly important given that 21 percent of Pennsylvania’s population is rural, ranking it the 33rd largest rural state in the U.S.

Hospitals are the key provider of health care in rural areas throughout Pennsylvania, where they act as anchors for a broad range of health and human services in their communities. These hospitals also are major contributors to the local economy and most are among the largest employers in their counties.

Furthermore, during 2018, the federal Office of Rural Health Policy (ORHP) recognized the commonwealth’s CAHs for achieving the third highest quality ranking in the nation. ORHP noted that Pennsylvania was one of the first states to achieve 100 percent reporting for key CMS quality measurement programs and is one of the only programs nationally to have a staff member dedicated to CAH quality improvement.
Federally Defined Critical Access Hospitals

The federal CAH program was created by Congress in the Balanced Budget Act of 1997 to help improve the health care delivery system in rural areas of the United States and reduce hospital closures. CAHs receive Medicare reimbursement at 101 percent of cost for inpatient, outpatient, and swing bed care. To be eligible for the program, hospitals must:

- Be a rural hospital participating in the Medicare program
- Be located more than 35 miles from another hospital or have been designated a “necessary provider” by the state
- Have an average daily census of no greater than 25
- Provide 24-hour emergency care services

Rural Hospitals Face Unique Challenges

The economic and demographic characteristics of CAH catchment areas make them more vulnerable than their urban or suburban counterparts for several reasons:

- Rural areas experience significant health professional shortages while caring for populations who are generally older and poorer.
- A greater proportion of the CAH workforce is comprised of contracted clinicians. For example, CAHs within the commonwealth contract with 39 percent of their physician workforce and employ 61 percent as staff while, on average, Pennsylvania hospitals contract with 22 percent of its physician labor and employ 78 percent as staff.
- Pennsylvania’s smaller rural hospitals face significant fiscal challenges as they strive to preserve access to health care in their communities.
- Even with federal implementation of the CAH program, CAHs generally have lower financial margins than other Pennsylvania hospitals, driven by chronic underpayment for services to patients covered by Pennsylvania’s Medical Assistance (MA) program. While CAHs are entitled to receive cost-based reimbursement for Medicare claims, there is no such guarantee for Medicaid reimbursement.
- The financial profiles of CAHs are often more tenuous than other hospitals: the average 2017 operating margin for Pennsylvania’s CAHs was 2.3 percent, compared with 5.2 percent at hospitals across the state.

![Operating Margins of CAHs vs. all PA Hospitals](Source: HAP's March 2019 Analysis of 2017 PHC4 financial data.)
Payment Policy Needed to Protect Patient Access to Care in Rural Communities

- Compared with other hospitals, CAHs have a greater reliance on—and vulnerability to—government programs, such as Medicare and Medicaid. The DSH payment to CAHs helps ensure that vital health care services are available to MA patients and other low-income persons in Pennsylvania’s most rural areas.

What Needs to be Done

- Rural CAHs currently are supported through an annual supplemental appropriation for MA, which is subject to state budgetary pressures.
- HAP supports changing the Pennsylvania Human Services Code to ensure payments to CAHs for treating MA and uninsured patients are more stable and not subject to the yearly appropriation process.

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2 Ibid.
4 Most CAHs are among the top 15 employers in their county. Source: Pennsylvania Department of Labor & Industry. Labor Market Analysis, Labor Market Facts, Questions on Employers in Your Local Area, What are the Largest Employers in an Area? Last accessed 03/12/2019.
7 What are the benefits of CAH status. Rural Health Information Hub, Rural Assistance Center for Federal Office of Rural Health Policy. Last accessed 3/1/2019.
10 Based on HAP’s March 2019 analysis of 2013-2017 American Community Survey 5-Year Data Files from the Census Bureau.
11 Based on HAP’s March 2019 analysis of Pennsylvania Department of Health’s 2017 Hospital Report dataset.