CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 17, 2015

S. 607
Rural Community Hospital Demonstration Extension Act of 2015

As ordered reported by the Senate Committee on Finance on June 24, 2015

SUMMARY

S. 607 would extend the Rural Community Hospital (RCH) demonstration program for an additional five years, through the end of calendar year 2021. Under the demonstration program, Medicare pays certain hospitals in rural areas on the basis of the reasonable costs they incur instead of using the payment rates determined by Medicare's Acute Inpatient Prospective Payment System (IPPS). CBO estimates that enacting S. 607 would increase direct spending by $27 million in fiscal year 2016 but that this additional spending would be offset in future years. Therefore, the bill, on net, would have no significant effect on direct spending over the 2016-2025 period. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending. Enacting the legislation would not affect revenues.

S. 607 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of S. 607 is shown in the following table. The costs of this legislation fall within budget function 570 (Medicare).

	By Fiscal Year, in Millions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	27	-23	-4	0	0	0	0	0	0	0	0	0
Estimated Outlays	27	-23	-4	0	0	0	0	0	0	0	0	0

BASIS OF ESTIMATE

S. 607 would allow the 22 hospitals participating in the Rural Community Hospital (RCH) demonstration program as of December 30, 2014, to continue in the program for an additional five years. The term of participation in the current round of the demonstration program is limited to five years. Under current law, seven of the 22 hospitals will complete their term of participation by the end of fiscal year 2015, 11 will complete their participation during fiscal year 2016, and the remaining four will do so early in fiscal year 2017.

Medicare pays each hospital in the demonstration program its reasonable costs for inpatient services. Reasonable costs are defined as the hospital's actual cost per discharge during a year, subject to the limitation that reasonable costs cannot increase more quickly than the percentage adjustment that was used to update Medicare's IPPS payment rates for the current year.

Hospitals participating in the demonstration program generally receive payments that are higher than payments calculated using Medicare's IPPS rates. However, the demonstration is designed to be budget neutral. The Centers for Medicare & Medicaid Services (CMS) accomplishes this by reducing IPPS payments to non-participating hospitals by an amount the Secretary estimates will offset the cost of the demonstration for the upcoming year—that is, the expected difference between payments to RCH participants for the upcoming year and what they would be paid using IPPS payment rates.

By August 2, 2015, CMS will issue a final rule for the IPPS in fiscal year 2016 that will include an adjustment to payment rates that reflects the expected cost of the demonstration for the 15 hospitals that will continue to participate under current law for part or all of fiscal year 2016. That adjustment will not reflect the cost of including the seven hospitals that will complete their terms of participation by the end of fiscal year 2015 under current law, nor will it include the cost of extending the participation of hospitals that will complete their participation during fiscal year 2016.

Based on the adjustments made in recent years ($47 million and $54 million for 2014 and 2015, respectively), as well as the preliminary estimate of the adjustment included in the proposed rule for the IPPS for fiscal year 2016 ($26 million), CBO estimates that net direct spending would increase in fiscal year 2016 by $27 million because all 22 hospitals would participate for the full year, whereas the budget-neutrality adjustment would account for only part of that participation.

Based on information provided by CMS, CBO expects that CMS would make an adjustment to IPPS payment rates for services furnished during fiscal year 2017 that would offset both the expected cost of the demonstration in that year and the estimated costs from 2016 that were not offset by that year's adjustment. As a result, CBO estimates that spending for services furnished during fiscal year 2017 would decline by an additional $27 million. (Because Medicare payments are made after services are furnished, CBO estimates that $4 million of that reduction would be realized in fiscal year 2018.) In total, CBO estimates that enacting S. 607 would not have a significant effect on direct spending over the 2016-2025 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for S. 607, the Rural Community Demonstration Act of 2015, as ordered reported by the Senate Committee on Finance on June 24, 2015

	By Fiscal Year, in Millions of Dollars												
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2015-2020	2015-2025
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	27	-23	-4	0	0	0	0	0	0	0	0	0

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 607 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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