

ACT 144

H.B. NO. 1179

A Bill for an Act Relating to Rural Emergency Hospitals.

Be It Enacted by the Legislature of the State of Hawaii:

SECTION 1. The legislature finds that the federal government has recently authorized the creation of rural emergency hospitals, a new type of medicare provider meant to help address the concerning increase in rural hospital closures nationwide. Rural emergency hospitals provide rural communities with emergency department services, observation care, and tailored outpatient medical and health services, including laboratory and imaging services. By adopting the rural emergency hospital designation, a hospital can focus on these important services while eliminating certain high-cost services that the community is not utilizing, such as inpatient care. This focus allows the hospital to allocate its limited resources to better address needs of the community the hospital serves.

The legislature further finds that the creation of the rural emergency hospital designation may be beneficial to the financial health of certain hospitals and the communities they serve. By adopting a rural emergency hospital designation,

a hospital can take advantage of medicare reimbursement policies that allow the hospital to adapt to community needs while sustaining budget requirements. Specifically, rural emergency hospitals receive a fixed monthly payment equal to about \$3,200,000 annually. In addition, medicare payments for outpatient services such as diagnostic services are five per cent higher for rural emergency hospitals. Significantly, patients do not pay additional fees or premiums for receiving services at a rural emergency hospital. States can also determine their own ways to support rural emergency hospitals through medicaid and commercial reimbursement policies.

The legislature also finds that although the cessation of inpatient services may seem like a loss for a community, for many rural hospitals the volume of inpatient care is extremely low. For example, Lanai community hospital is a critical access hospital that averages less than one patient per day in its acute inpatient care beds. This low volume illustrates that people are seeking inpatient care at other locations. Despite this low volume, hospitals that maintain inpatient care services must still pay the increasingly high costs of staffing, equipment, and supplies needed to maintain inpatient care.

Besides inpatient care, Lanai community hospital currently provides emergency services along with thousands of days of nursing and skilled nursing care. Importantly, if Lanai community hospital becomes a rural emergency hospital, it would be able to surrender its inpatient licensed beds and allow the hospital to expand its availability of long-term care and skilled nursing beds, which are sorely needed by the community. The legislature notes that each rural emergency hospital is responsible for meeting higher-level patient care needs by having transfer agreements with local trauma centers.

The legislature finds that the federal government designed the rural emergency hospital designation for hospitals like Lanai community hospital, to allow those hospitals to best meet the health care needs of their communities by emphasizing emergency services, long-term care, and skilled nursing.

The legislature also finds that hospitals must first be recognized as a rural emergency hospital at the state level before they can pursue the new rural emergency hospital designation with the federal Centers for Medicare and Medicaid Services. A state can address licensure through the enactment of legislation, which should also ensure that the medicaid policy protections that currently support hospitals and the services the hospitals provide will continue after those facilities attain a rural emergency hospital designation.

Accordingly, the purpose of this Act is to:

- (1) Provide a statutory framework for the licensure of rural emergency hospitals at the state level; and
- (2) Clarify medicaid reimbursement policies for hospitals transitioning from a critical access hospital designation to a rural emergency hospital designation.

SECTION 2. Chapter 321, Hawaii Revised Statutes, is amended by adding a new section to part I to be appropriately designated and to read as follows:

“§321- Rural emergency hospitals; licensing. (a) The department of health may license a hospital as a rural emergency hospital if the hospital:

- (1) Elects to receive the medicare designation as a rural emergency hospital;
- (2) Provides emergency treatment and stabilization services for an average length of stay of twenty-four hours or less;
- (3) Meets the requirements of title 42 United States Code section 1395x(kkk)(2); and

- (4) Passes inspection and receives a recommendation from the department to the federal Centers for Medicare and Medicaid Services to operate as a rural emergency hospital.

(b) For the purposes of this section, “rural emergency hospital” means a hospital licensed under this section that was previously designated and operating as a critical access hospital as of December 27, 2020.”

SECTION 3. Section 346D-1.5, Hawaii Revised Statutes, is amended to read as follows:

“§346D-1.5 Medicaid reimbursement equity. Not later than July 1, 2008, there shall be no distinction between hospital-based and nonhospital-based reimbursement rates for institutionalized long-term care under medicaid. Reimbursement for institutionalized intermediate care facilities and institutionalized skilled nursing facilities shall be based solely on the level of care rather than the location. This section shall not apply to critical access hospitals. Reimbursement rates for facilities that convert from a critical access hospital to another facility type after April 1, 2025, may maintain a distinction after the facility’s conversion.”

SECTION 4. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.¹

SECTION 5. This Act shall take effect upon its approval.

(Approved May 30, 2025.)

Note

1. Edited pursuant to HRS §23G-16.5.