

LTCH PPS Federal rates would no longer be linked to the start of the Federal fiscal year, as is the update of the IPPS. This proposed change would necessitate publication of the final rule for the LTCH PPS by no later than June 1 of each year (proposed revised § 412.535).

We also are proposing to amend § 412.503 to include a definition of "long-term care hospital rate year". A "long-term care hospital rate year" would mean the 12-month period of July 1 through June 30. We would use this period for those calculations related to updating the Federal rate for payments under the LTCH PPS. The determination of the proposed fixed-loss threshold for outlier payment calculations, under § 412.525(a), would also be calculated based on the proposed LTCH rate year. (Section VI.C. of this proposed rule includes a more detailed discussion of our proposed outlier policy.)

Proposing a change for the annual Federal rate update period for the LTCH PPS has also necessitated a proposed recalculation of the excluded hospital market basket with capital estimate for the proposed forthcoming payment year, July 1, 2003 through June 30, 2004. In the August 30, 2002 final rule, we adopted a Federal rate of \$34,956 that was computed based on the excluded hospital with capital market basket calculated for the 12-month Federal fiscal year of October 1, 2002 through September 30, 2003. As already noted, we are proposing to change the Federal rate update for the LTCH PPS from the Federal fiscal year to a 12-month year of July 1 through June 30, and the proposed rates in this proposed rule are based on this period. Because the Federal rate of \$34,956 was originally computed based on a 12-month year, but in actuality will only be utilized for 9 months, if the proposed change in the LTCH PPS rate update year is finalized, we are proposing a budget neutral adjustment to the market basket update taking this 3-month differential into account in setting the Federal rate for July 1, 2003 through June 30, 2004. In addition, we are proposing that the change in the proposed 2004 LTCH PPS rate year be budget neutral. In section VI.B.1 of this proposed rule, we describe this proposed adjustment in greater detail.

We are proposing to update the LTCH PPS wage index that adjusts for differences in area wages under § 412.525(c) using the FY 1999 IPPS wage data because these are the best available data (as discussed in section VI.C. of this preamble).

We also are proposing to recalculate the budget neutrality offset to account for the effect of the transition period and the policy allowing LTCHs to elect 100 percent Federal rate payments rather than the transition blend. In addition, we are proposing an updated fixed-loss amount for determining outlier payments based on the updated proposed Federal rate (as discussed in section VII. of this preamble).

As discussed in section IV.C. of this proposed rule, we are not proposing an update to the LTC-DRG classifications or relative weights at this time. Currently, the LTC-DRG patient classifications utilized by the LTCH PPS for FY 2003 are based directly on the same version of DRGs used by the IPPS, that is, GROUPE 20.0. Therefore, we are not proposing any change to the timing of the annual update of the LTC-DRG classifications and relative weights. They would remain linked to the annual adjustments of the acute care hospital inpatient DRG system, which are based on the annual revisions to the ICD-9-CM codes, effective each October 1. Table 3 of the Addendum to the August 30, 2002 final rule (67 FR 56076-56084), which we are reprinting as Table 3 of the Addendum to this proposed rule, contains the LTC-DRG classifications and relative weights that we propose to continue to apply to discharges occurring during the period of July 1, 2003 through September 30, 2003. As an aid in calculating payment under the short-stay outlier policy, under § 412.529, we also are including, in column 3 of Table 3, the proposed five-sixths average length of stay that would be applied to each LTC-DRG in determining whether the LTCH stay is a short-stay outlier. The average length of stay for each DRG based on the FY 2001 MedPAR data, which were used for the FY 2003 LTCH PPS final rule, are still the best available complete LTCH discharge data available at this time.

The revised LTC-DRG classifications and relative weights for discharges occurring from October 1, 2003 through September 30, 2004, for payments under the LTCH PPS during that period would continue to be based on the annual updates to the acute care hospital inpatient DRG system. The FY 2004 DRGs and relative weights for the IPPS have not yet been proposed and we are unable to propose updated LTC-DRGs and relative weights (which would be based on the proposed updated acute care hospital inpatient DRGs and relative weights) at this time. Thus, we are proposing that the LTC-DRG classifications and relative weights would be presented for public comment in the proposed rule for the IPPS and

finalized in the IPPS final rule, for an effective date of October 1, 2003.

The proposed change in the rate year for the LTCH PPS from October 1 through September 30 to July 1 through June 30 means that, although the Federal rate calculations in the August 30, 2002 final rule were based on a 12-month year, only 9 months will elapse before the proposed July 1, 2003 update. We are proposing a prospective adjustment to the market basket update to take into account this 3-month differential in setting the proposed rates for July 1, 2003 through June 30, 2004.

Specifically, the proposed updates for the proposed 2004 LTCH PPS rate year would be affected as follows:

- The proposed update to the standard Federal rate calculated in accordance with § 412.523(c)(3) would be adjusted to account for updating the standard Federal rate on July 1, 2003, instead of October 1, 2003.
- The fixed-loss amount for determining high-cost outlier payments under § 412.525(a) would also be updated based on the proposed Federal rate effective for July 1, 2003 through June 30, 2004.

In section VI.B.1 of this proposed rule, we discuss the proposed computational adjustments resulting from our proposed establishment of a LTCH PPS rate year beginning July 1, 2003 through June 30, 2004.

Several provisions of the LTCH PPS would not be affected by the proposed change in the annual rate update year for the LTCH PPS from October 1 to July 1 because these policies are not based on any of the Federal rate calculations for the LTCH PPS. Specifically, the following provisions would not be affected:

- The transition blends provided for under § 412.533(a) would not be affected because they are linked to the start of each LTCH's cost reporting period, rather than to the start of the Federal fiscal year. (LTCHs being paid under the transition blend methodology would receive those blends for the entire 5-year transition period, unless they elect payments based on 100 percent of the Federal rate.) For instance, for cost reporting periods that began on or after October 1, 2002, and before October 1, 2003, the total payment for a LTCH is 80 percent of the amount that would have been calculated under the TEFRA payment system for that specific LTCH and 20 percent of the Federal prospective payment amount. For cost reporting periods beginning on or after October 1, 2003 and before October 1, 2004, the total payment for a LTCH is 60 percent of the amount that would have been calculated under the