

PPS standard Federal rate is discussed in further detail in the August 30, 2002 final rule (67 FR 56027–56037).

Under the reasonable cost-based TEFRA reimbursement system, the excluded hospital market basket was used to update the hospital-specific limits on payment for operating costs of LTCHs. The excluded hospital market basket is based on operating costs from FY 1992 cost report data and includes Medicare-participating long-term care, rehabilitation, psychiatric, cancer, and children's hospitals. Since LTCHs' costs are included in the excluded hospital market basket, this market basket index, in part, also reflects the costs of LTCHs. However, in order to capture the total costs (operating and capital-related) of LTCHs, we added a capital component to the excluded hospital market basket for use under the LTCH PPS. We refer to this index as the excluded hospital with capital market basket.

Beginning with the implementation of the LTCH PPS in FY 2003, the excluded hospital with capital market basket based on FY 1992 Medicare cost report data has been used for updating payments to LTCHs. The FY 1992-based market basket reflected the distribution of costs in FY 1992 for Medicare-participating freestanding rehabilitation, long-term care, psychiatric, cancer, and children's hospitals. This information was derived from the FY 1992 Medicare cost reports. A full discussion of the methodology and data sources used to construct the FY 1992-based excluded hospital with capital market basket is included in Appendix A of the August 30, 2001 final rule (67 FR 56085–56086). In this proposed rule, we are proposing to revise and rebase the excluded hospital with capital market basket, based on more recent data, to an FY 1997 base year for application beginning with the proposed 2004 LTCH PPS rate year.

We believe it is appropriate to propose to rebase the LTCH PPS market

basket based on the most recent complete data available (FY 1997) since these data would more accurately reflect LTCH current costs. This proposed rebasing of the LTCH PPS market basket from an FY 1992 base year to a FY 1997 base year is consistent with the rebasing of both the IPPS and the excluded hospital market basket used under the TEFRA payment system for FY 2003, as discussed in the August 1, 2002 IPPS final rule (67 FR 50032–50047).

The operating portion of the proposed FY 1997-based excluded hospital with capital market basket that we are proposing to use under the LTCH PPS is derived from the FY 1997-based excluded hospital market basket used under the TEFRA payment system. The methodology we proposed to use to develop the proposed operating portion of the market basket under the LTCH PPS is the same methodology used to describe the rebasing of the excluded hospital market basket used under the TEFRA payment system, which is described in greater detail in the August 1, 2002 IPPS final rule (67 FR 50042–50044). In brief, the operating cost category weights in the FY 1997-based excluded market basket added to 100.0. These weights were determined from FY 1997 Medicare cost report data, the 1997 Business Expenditure Survey, and the 1997 Annual Input-Output data from the Bureau of the Census. In this proposed rule, in applying the proposed FY 1997-based market basket we are proposing to make the same two methodological revisions that we established when we rebased the hospital inpatient market basket and the excluded hospital market basket in the August 1, 2002 IPPS final rule: (1) Changing the wage and benefit price proxies to use the Employment Cost Index (ECI) wage and benefit data for hospital workers; and (2) adding a cost category for blood and blood products.

When we add the weight for capital costs to the excluded hospital market

basket, the sum of the operating and capital weights must still equal 100.0. Based on FY 1997 Medicare cost reports for excluded hospitals, the capital cost weight would be 8.968 percent. Because capital costs would account for 8.968 percent of total costs for excluded hospitals in FY 1997, operating costs must, therefore, account for 91.032 percent (100 percent – 8.968 percent). Each operating cost category weight in the FY 1997-based excluded hospital market basket from the August 1, 2002 IPPS final rule (67 FR 50442–50444) was multiplied by 0.91032 to determine its weight in the FY 1997-based excluded hospital with capital market basket.

The aggregate capital component of the proposed FY 1997-based excluded hospital market basket (8.968 percent) was determined from the same set of Medicare cost reports used to derive the operating component. The detailed capital cost categories of depreciation, interest, and other capital expenses were also determined using the Medicare cost reports. We needed to determine two sets of weights for the capital portion of the proposed revised and rebased market basket. The first set of weights identifies the proportion of capital expenditures attributable to each capital cost category; the second set represents relative vintage weights for depreciation and interest. The vintage weights identify the proportion of capital expenditures that is attributable to each year over the useful life of capital assets within a cost category (See 67 FR 50046–50047, August 1, 2002, for a discussion of how vintage weights are determined).

The cost categories, price proxies, and base-year FY 1992 and proposed FY 1997 weights for the proposed excluded hospital with capital market basket are presented below in Table I. The vintage weights for the proposed FY 1997-based excluded hospital with capital market basket are presented in Table II.

TABLE I.—PROPOSED EXCLUDED HOSPITAL WITH CAPITAL INPUT PRICE INDEX (FY 1992-BASED AND PROPOSED FY 1997-BASED) STRUCTURE AND WEIGHTS

Cost category	Price/wage variable	Weights (%), base-year FY 1992 ^{1,2}	Proposed weights (%) base-year FY 1997 ^{1,2}
Total		100.000	100.000
Compensation		57.935	57.579
Wages and Salaries	ECI—Wages and Salaries, Civilian Hospital Workers	47.417	47.335
Employee Benefits	ECI—Benefits, Civilian Hospital Workers to Capture Total Costs.	10.519	10.244
Professional fees: Non-Medical	ECI—Compensation: Professional & Technical	1.908	4.423
Utilities		1.524	1.180
Electricity	PPI—Commercial Electric Power	0.916	0.726
Fuel Oil, Coal, etc	PPI—Commercial Natural Gas	0.365	0.248
Water and Sewerage	CPI-U—Water & Sewerage Maintenance	0.243	0.206