

TABLE II.—PROPOSED EXCLUDED HOSPITAL WITH CAPITAL INPUT PRICE INDEX (FY 1997) VINTAGE WEIGHTS—Continued

	Year (from farthest to most recent) *	Building and fixed equipment (23-year weights) *	Movable equipment (11-year weights) *	Interest: capital-related (23-year weights) *
22 .....		0.064	.....	0.087
23 .....		0.065	.....	0.090
Total .....		1.0000	1.0000	1.0000

\*Weights may not sum to 1.000 due to rounding.

Table III. compares the FY 1992-based excluded hospital with capital market basket to the proposed FY 1997-based excluded hospital with capital market basket. As shown in the table, the proposed rebased and revised market basket grows slightly faster over the FY 1999–2001 period than the FY 1992-based market basket. The major reason for this was the switching of the wage and benefit proxy to the ECI for hospital workers from the previous occupational blend. This revision had a similar impact on the IPPS and excluded market baskets, as described in the August 1, 2002 final rule (67 FR 50043–50047).

TABLE III.—PERCENT CHANGES IN THE FY 1992–BASED AND PROPOSED FY 1997–BASED EXCLUDED HOSPITAL WITH CAPITAL MARKET BASKETS, FYS 1999–2004

Fiscal year (FY)	Percentage change	
	FY 1992-based excluded hospital market basket	Proposed rebased FY 1997-based excluded market basket
1999 .....	2.3	2.7
2000 .....	3.4	3.1
2001 .....	3.9	4.0
Average historical .....	3.2	3.3
2002 .....	2.8	3.7
2003 .....	2.8	3.1
2004 .....	3.0	3.3
Average forecast .....	2.9	3.3

In the August 30, 2002 LTCH PPS final rule (67 FR 56016 and 56085–56086), we discussed why we believe the excluded hospital with capital market basket provides a reasonable measure of the price changes facing LTCHs. However, we have been researching the feasibility of developing a market basket specific to LTCH services. This research has included analyzing data sources for cost category weights, specifically the Medicare cost reports, and investigating other data

sources on cost, expenditure, and price information specific to LTCHs. Based on this research (as discussed below), at this time we are not proposing to develop a market basket specific to LTCH services.

Our analysis of the Medicare cost reports indicates that the distribution of costs among major cost report categories (wages, pharmaceuticals, capital) for LTCHs is not substantially different from the proposed 1997-based excluded hospital with capital market basket presented in this proposed rule. Data on other major cost categories (benefits, blood, contract labor) that we would like to analyze were excluded by many LTCHs in their Medicare cost reports. An analysis based on only the data available to us for these cost categories presented a potential problem since no other major cost category weight would be based on LTCH data.

We conducted a sensitivity analysis of annual percent changes in the market basket when the weights for wages, pharmaceuticals, and capital in LTCHs were substituted into the excluded hospital with capital market basket. Other cost categories were recalibrated using ratios available from the IPPS market basket. On average between FY 1995 and FY 2002, the proposed excluded hospital with capital market basket shows increases at nearly the same average annual rate (2.9 percent) as the market basket with LTCH weights for wages, pharmaceuticals, and capital (2.8 percent). This difference is less than the 0.25 percentage point criterion that determines whether a forecast error adjustment is warranted under the IPPS update framework.

We believe that an excluded hospital with capital market basket adequately reflects the price changes facing LTCHs. We will continue to solicit comments about issues particular to LTCHs that should be considered in relation to the proposed FY 1997-based excluded hospital with capital market basket and to encourage suggestions for additional data sources that may be available.

#### b. Proposed LTCH Market Basket Increase for the Proposed 2004 LTCH PPS Rate Year

As stated earlier, for LTCHs paid under the LTCH PPS, we are proposing that the 2004 rate year update would apply to discharges occurring from July 1, 2003 through June 30, 2004. Because we are proposing to change the timeframe of the standard Federal rate annual update, we needed to calculate an update factor that would reflect this proposed change in the update cycle. Presently, the current rate cycle is October 1, 2002 through September 30, 2003. This means that the standard Federal rate (\$34,956.15; see the August 30, 2002 final rule, 67 FR 56033) was determined based on the market basket increase through September 30, 2003. Since we are proposing to change the rate update cycle and, therefore, update the standard Federal rate 3 months earlier (that is, July 1, 2003 instead of October 1, 2003), we need to propose an adjustment to the projected full (12-month) market basket increase to eliminate the projected increase for the 3-month overlapping period (July 1, 2003 through September 30, 2003).

Thus, we needed to account for the fact that the FY 2003 standard Federal rate of \$34,956.15 already includes an update for the 3-month period from July 1, 2003 through September 30, 2003. In the absence of this proposed change, the update for FY 2004 would have been calculated using the estimated increase between FY 2003 and FY 2004. For the proposed update for the proposed 2004 LTCH PPS rate year, we calculated the estimated increase between FY 2003 and the proposed 2004 LTCH PPS rate year. Based on the fourth quarter 2002 forecast of the proposed rebased FY 1997-based excluded hospital with capital market basket, this calculation results in an increase that is 0.8 percentage points less than it would have been if the proposed change in the LTCH PPS rate cycle would not be made. The projected market basket increase for this 3-month period (0.8