

a change. Because the LTCH PPS was only recently implemented, sufficient new data have not been generated that would enable us to conduct a comprehensive reevaluation of the appropriateness of adjusting the phase-in. However, we have reviewed the most recent data available and did not find any evidence to support a change in the 5-year phase-in of the wage index. Therefore, we are not proposing to adjust the phase-in at this time. In addition, as stated earlier, the 5-year phase-in of the wage index would not be affected by the proposed establishment of a LTCH PPS rate year of July 1 to June 30. Instead, the 5-year phase-in of the wage index established in the August 30, 2002 final rule (67 FR 56018) will continue to follow the Federal fiscal year. That is, for cost reporting periods beginning on or after October 1, 2003 and before September 30, 2004 (FY 2004), the applicable proposed LTCH wage index will be two-fifths of the proposed applicable LTCH PPS index values discussed below. However, we will reevaluate LTCH data as they become available and would propose to adjust the phase-in if subsequent data support a change.

Section 412.525(c) provides that the adjustment to account for differences in area wage levels is made by multiplying the labor-related portion of the Federal rate by the appropriate wage index value for the area in which the LTCH is physically located. In the August 30, 2002 final rule (67 FR 56018), based on the best available data at that time, we stated that the wage index adjustment is based on the FY 2002 inpatient acute care hospital wage index data without taking into account geographic reclassification under section 1886(d)(8) and section 1886(d)(10) of the Act. For the proposed 2004 LTCH PPS rate year, we are proposing that the wage index adjustment provided for under § 412.525(c) be based on the most recent available inpatient acute care hospital wage data, that is, the FY 2003 inpatient acute care hospital wage index data without taking into account geographic reclassification under section 1886(d)(8) and section 1886(d)(10) of the Act. As we noted above, the 5-year phase-in of the wage index adjustment would not be affected by the proposed change in the LTCH PPS rate update cycle and will continue to be based on the Federal fiscal year. However, we are proposing to update the data used to compute the annual wage index values on the proposed 2004 LTCH PPS rate year cycle (July through June). For example, for a LTCH with a cost reporting period from January 1, 2003 through December

31, 2003, the LTCH will be paid using the one-fifth wage index value for its entire cost reporting period. For the first 6 months of that period (January 1, 2003 through June 30, 2003), the one-fifth wage index value would be based on the FY 2000 inpatient acute care hospital wage index data without taking into account geographic reclassifications under sections 1886(d)(8) and (d)(10) of the Act as established in the August 30, 2002 final rule (67 FR 56018). Under our proposal to update the data used to compute the LTCH PPS wage index values for July 1, 2003 through June 30, 2004, for the next 6 months (July 1, 2003 through December 31, 2003) the LTCH would still be paid using one-fifth of the wage index value, but the wage index value would now be computed using FY 2003 inpatient acute care hospital wage index data without taking into account geographic reclassifications under sections 1886(d)(8) and (d)(10) of the Act (as shown in Tables 1 and 2 of the Addendum of this proposed rule). For the LTCH's cost reporting period from January 1, 2004 through December 31, 2004, the LTCH would be paid using the two-fifth wage index value. For the first 6 months of that period (January 1, 2004 through June 30, 2004), the two-fifth wage index value would be based on the FY 2000 inpatient acute care hospital wage index data without taking into account geographic reclassifications under sections 1886(d)(8) and (d)(10) of the Act, as shown in Tables 1 and 2 of the Addendum of this proposed rule.

In the August 30, 2002 final rule (67 FR 56018), for FY 2003 we used the FY 2002 inpatient acute care hospital wage index data without taking into account geographic reclassifications under sections 1886(d)(8) and (d)(10) of the Act. The inpatient acute care hospital wage index data, without taking into account geographic reclassification under section 1886(d)(8) or section 1886(d)(10) of the Act, is also used under other postacute care PPSs, such as the IRF PPS and the SNF PPS. As we discussed in the August 30, 2002 final rule (67 FR 56019), since hospitals that are excluded from the IPPS are not required to provide wage-related information on the Medicare cost report and we would need to establish instructions for the collection of such LTCH data in order to establish a geographic reclassification adjustment under the LTCH PPS, the wage adjustment established under the LTCH PPS is based on a LTCH's actual location without regard to the urban or rural designation of any related or affiliated provider. In this proposed rule, for the proposed 2004 LTCH PPS

rate year, we are proposing to use the FY 2000 inpatient acute care hospital wage index data without taking into account geographic reclassifications under sections 1886(d)(8) and (d)(10) of the Act, because it is the most recent available complete data. This is the same wage data that were used to compute the FY 2003 wage indices currently used under the IPPS. The proposed LTCH wage index values for July 1, 2003 through June 30, 2004 is shown in Table 1 (for urban areas) and Table 2 (for rural areas) in the Addendum of this proposed rule. As noted above, for cost reporting periods beginning on or after October 1, 2002 and before September 30, 2003 (FY 2003), the applicable LTCH wage index is one-fifth of the full FY 2003 acute care hospital inpatient wage index data, without taking into account geographic reclassifications under sections 1886(d)(8) and (d)(10) of the Act. For cost reporting periods beginning on or after October 1, 2003 and before September 30, 2003 (FY 2004), the applicable proposed LTCH wage index would be two-fifths of the full FY 2003 acute care hospital inpatient wage index data, without taking into account geographic reclassification under sections 1886(d)(8) and (d)(10) of the Act.

In conjunction with our proposal to rebase the excluded hospital with capital market basket from an FY 1992 to an FY 1997 base year (as discussed in section VI.B.1.a. of this preamble), we also are proposing to use a labor-related share that is determined from our proposed FY 1997-based excluded hospital with capital market basket. In the August 30, 2002 final rule (67 FR 56016), we established a labor-related share of 72.885 percent based on the relative importance of the labor-related share of operating and capital costs of the excluded hospital with capital market basket with an FY 1992 base-year. In this proposed rule, as discussed in further detail below, we are proposing a labor-related share of 72.612 percent based on the relative importance of the labor-related share of operating costs (wages and salaries, employee benefits, professional fees, postal services, and all other labor-intensive services) and capital costs in the proposed FY 1997 rebased excluded hospital with capital market basket.

To determine the proposed labor-related share, we use the cost categories contained in the proposed FY 1997-based excluded hospital with capital market basket that are influenced by local labor markets, which reflect the different rates of price change for these cost categories between the base year