

**§ 412.523 Methodology for calculating the Federal prospective payment rates.**

\* \* \* \*

(c) \* \* \*

(3) *Computation of the standard Federal rate.* The standard Federal rate is computed as follows:

(i) *For FY 2003.* Based on the updated costs per discharge and estimated payments for FY 2003 determined in paragraph (c)(2) of this section, CMS computes a standard Federal rate for FY 2003 that reflects, as appropriate, the adjustments described in paragraph (d) of this section. The FY 2003 standard Federal rate is effective for discharges occurring in cost reporting periods beginning on or after October 1, 2002 through June 30, 2003.

(ii) *For long-term care hospital prospective payment system rate years beginning July 1, 2003 and after.* The standard Federal rate for long-term care hospital prospective payment system rate years beginning July 1, 2003 and after will be the standard Federal rate for the previous long-term care hospital prospective payment system rate year, updated by the increase factor described in paragraph (a)(2) of this section, and adjusted as appropriate as described in paragraph (d) of this section. For the rate year from July 1, 2003 through June 30, 2004, the updated and adjusted standard Federal rate will be offset by a budget neutrality factor to account for updating the FY 2003 standard Federal rate on July 1 rather than October 1.

\* \* \* \*

(d) \* \* \*

(3) *One-time prospective adjustment.* The Secretary will review payments under this prospective payment system and may make a one-time prospective adjustment to the long-term care hospital prospective payment system rates by October 1, 2006, so that the effect of any significant difference between actual payments and estimated payments for the first year of the long-term care hospital prospective payment system is not perpetuated in the prospective payment rates for future years.

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5. Section 412.525 is amended by revising paragraph (a) to read as follows:

**§ 412.525 Adjustments to the Federal prospective payment.**

(a) *Adjustments for high-cost outliers.*

(1) CMS provides for an additional payment to a long-term care hospital if its estimated costs for a patient exceed the adjusted LTC-DRG payment plus a fixed-loss amount. For each long-term care hospital rate year, CMS determines a fixed-loss amount that is the maximum loss that a hospital can incur under the prospective payment system for a case with unusually high costs.

(2) The fixed-loss amount is determined for the long-term care hospital rate year using the LTC-DRG relative weights that are in effect on July 1 of the rate year.

(3) The additional payment equals 80 percent of the difference between the estimated cost of the patient care (determined by multiplying the hospital-specific cost-to-charge ratios by the Medicare allowable covered charge) and the sum of the adjusted Federal prospective payment for the LTC-DRG prospective payment system payment and the fixed-loss amount.

(4)(i) For discharges occurring on or after October 1, 2002 through June 30, 2003, no retroactive adjustments will be made to outlier payments upon cost report settlement to account for differences between the estimated cost-to-charge ratio and the actual cost-to-charge ratio of the case.

(ii) For discharges occurring on or after July 1, 2003, high-cost outlier payments are subject to the provisions of § 412.84(i) and (m) for adjustments of cost-to-charge ratios.

\* \* \* \*

6. Section 412.529 is amended by:

A. Revising paragraph (c)(4).

B. In paragraph (d), the term "LTCH's" is removed and the term "long-term care hospital's" is added in its place.

**§ 412.529 Special payment provision for short-stay outliers.**

\* \* \* \*

(c) \* \* \*

(4)(i) For discharges occurring on or after October 1, 2002 through June 30, 2003, no retroactive adjustments will be made to short-stay outlier payments upon cost report settlement to account for differences between cost-to-charge ratio and the actual cost-to-charge ratio of the case.

(ii) For discharges occurring on or after July 1, 2003, short-stay outlier payments are subject to the provisions of § 412.84(i) and (m) for adjustments of cost-to-charge ratios.

\* \* \* \*

7. Section 412.535 is revised to read as follows:

**§ 412.535 Publication of the Federal prospective payment rates.**

CMS publishes information pertaining to the long-term care hospital prospective payment system effective for each annual update in the **Federal Register**.

(a) Information on the unadjusted Federal payment rates and a description of the methodology and data used to calculate the payment rates are published on or before June 1 prior to the start of each long-term care hospital prospective payment system rate year which begins July 1.

(b) Information on the LTC-DRG classification and associated weighting factors is published on or before August 1 prior to the beginning of each Federal fiscal year.

(Catalog of Federal Domestic Assistance Program No. 93.773, Medicare—Hospital Insurance)

Dated: December 20, 2003.

**Thomas A. Scully,**

*Administrator, Centers for Medicare & Medicaid Services.*

Dated: February 14, 2003.

**Tommy G. Thompson,**

*Secretary.*

**Addendum**

This addendum contains the tables referred to throughout the preamble to this proposed rule. The tables presented below are as follows:

Table 1.—Proposed Long-Term Care Hospital Wage Index for Urban Areas for Discharges Occurring from July 1, 2003 through June 30, 2004

Table 2.—Proposed Long-Term Care Hospital Wage Index for Rural Areas for Discharges Occurring from July 1, 2003 through June 30, 2004

Table 3.—Proposed LTC-DRG Relative Weights, Geometric Mean Length of Stay, and Short-Stay Five-Sixths Average Length of Stay for the Period of July 1, 2003 through September 30, 2003

TABLE 1.—PROPOSED LONG-TERM CARE HOSPITAL WAGE INDEX FOR URBAN AREAS FOR DISCHARGES OCCURRING FROM JULY 1, 2003 THROUGH JUNE 30, 2004

MSA	Urban area (Constituent counties)	Full wage index <sup>1</sup>	1/5 wage index <sup>2</sup>	2/5 wage index <sup>3</sup>
0040 .....	Abilene, TX			