

percent and less than 10 percent. Three areas experience an increase greater than 10 percent. A total of 15 areas

experience decreases of more than 5 percent and less than 10 percent.

Finally, 1 area experiences a decline of 10 percent or more.

| Percentage change in area wage index values | Number of labor market areas | |
|-------------------------------------------------------------|------------------------------|---------|
| | FY 2002 | FY 2003 |
| Increase more than 10 percent | 2 | 3 |
| Increase more than 5 percent and less than 10 percent | 26 | 10 |
| Increase or decrease less than 5 percent | 335 | 344 |
| Decrease more than 5 percent and less than 10 percent | 10 | 15 |
| Decrease more than 10 percent | 1 | 1 |

Among urban hospitals, 42 would experience an increase of between 5 and 10 percent and 9 more than 10 percent. A total of 22 rural hospitals have increases greater than 5 percent, but none have greater than 10-percent increases. On the negative side, 55

urban hospitals have decreases in their wage index values of at least 5 percent but less than 10 percent. Two urban hospitals have decreases in their wage index values greater than 10 percent. There are 17 rural hospitals with decreases in their wage index values

greater than 5 percent but less than 10 percent. There are no rural hospitals with decreases in their wage index value greater than 10 percent. The following chart shows the projected impact for urban and rural hospitals.

| Percentage change in area wage index values | Number of hospitals | |
|-------------------------------------------------------------|---------------------|-------|
| | Urban | Rural |
| Increase more than 10 percent | 9 | 0 |
| Increase more than 5 percent and less than 10 percent | 42 | 22 |
| Increase or decrease less than 5 percent | 2565 | 1985 |
| Decrease more than 5 percent and less than 10 percent | 55 | 17 |
| Decrease more than 10 percent | 2 | 0 |

D. Combined Impact of DRG and Wage Index Changes—Including Budget Neutrality Adjustment (Column 5)

The impact of DRG reclassifications and recalibration on aggregate payments is required by section 1886(d)(4)(C)(iii) of the Act to be budget neutral. In addition, section 1886(d)(3)(E) of the Act specifies that any updates or adjustments to the wage index are to be budget neutral. As noted in the Addendum to this final rule, we compared simulated aggregate payments using the FY 2002 DRG relative weights and wage index to simulated aggregate payments using the FY 2003 DRG relative weights and blended wage index. In addition, we are required to ensure that any add-on payments for new technology under section 1886(d)(5)(K) of the Act are budget neutral. As discussed in section II.D. of this final rule, we are approving one new technology for add-on payments in FY 2003. We estimate the total add-on payments for this new technology will be \$74.8 million.

We computed a wage and recalibration budget neutrality factor of 0.993209. In Table I, the combined overall impacts of the effects of both the DRG reclassifications and recalibration and the updated wage index are shown in column 5. The 0.0 percent impact for all hospitals demonstrates that these

changes, in combination with the budget neutrality factor, are budget neutral.

In addition, section 4410 of Public Law 105–33 provides that, for discharges on or after October 1, 1997, the area wage index applicable to any hospital that is not located in a rural area may not be less than the area wage index applicable to hospitals located in rural areas in that State. This provision is required to be budget neutral. The impact of this provision, which is to increase overall payments by 0.1 percent, is not shown in columns 1, 2, 3, and 4. It is included in the impacts shown in column 5.

The changes in this column are the sum of the changes in columns 1, 2, 3, and 4, combined with the budget neutrality factor and the wage index floor for urban areas. There also may be some variation of plus or minus 0.1 percentage point due to rounding.

E. Impact of MGCRB Reclassifications (Column 6)

Our impact analysis to this point has assumed hospitals are paid on the basis of their actual geographic location (with the exception of ongoing policies that provide that certain hospitals receive payments on bases other than where they are geographically located, such as hospitals in rural counties that are

deemed urban under section 1886(d)(8)(B) of the Act). The changes in column 6 reflect the per case payment impact of moving from this baseline to a simulation incorporating the MGCRB decisions for FY 2003. These decisions affect hospitals' standardized amount and wage index area assignments.

By February 28 of each year, the MGCRB makes reclassification determinations that will be effective for the next fiscal year, which begins on October 1. The MGCRB may approve a hospital's reclassification request for the purpose of using another area's standardized amount, wage index value, or both. The final FY 2003 wage index values incorporate all of the MGCRB's reclassification decisions for FY 2003. The wage index values also reflect any decisions made by the CMS Administrator through the appeals and review process.

Section 1886(d)(8)(D) of the Act requires that the overall effect of geographic reclassification is budget neutral. Therefore, we applied an adjustment of 0.991095 to ensure that the effects of reclassification are budget neutral. (See section II.A.4.b. of the Addendum to this final rule.)

As a group, rural hospitals benefit from geographic reclassification. Their payments rise 2.5 percent in column 6. Payments to urban hospitals decline 0.5