

before the discharge date. We want to remind IRFs that, as specified in § 412.610(c)(1)(ii) and § 412.610(c)(2)(iii), we may use the IRF-PAI item-by-item guide and other instructions to identify items that have a different admission or discharge assessment time period. We may specify different admission and discharge assessment time periods in order to capture patient information for payment and quality of care monitoring objectives appropriately.

V. Patient Classification System for the IRF PPS

As previously stated, in this proposed rule we are proposing to use the same case-mix classification system that was set forth in the August 7, 2001 final rule. It is our intention to pursue the development of possible refinements to the case-mix classification system that will continue to improve the ability of the PPS to accurately pay IRFs. We have awarded a contract to the RAND Corporation (RAND) to conduct additional research that will, in the initial stages, provide us with the data necessary to address the feasibility of developing and proposing refinements. When the study has been completed, we plan to review various approaches so that we can propose an appropriate methodology to develop and apply refinements. Any specific refinement proposal resulting from this research will be published in the **Federal Register**.

Table 1, *Proposed Relative Weights for Case-Mix Groups (CMGs)*, presents the proposed CMGs, comorbidity tiers, and corresponding Federal relative weights. We also present the average length of stay for each CMG. As we discussed in the August 7, 2001 final rule (66 FR 41353), the average length of stay for each CMG, along with the discharge destination, is used to determine when an IRF discharge meets the definition of a transfer, which results in a per diem case level adjustment (66 FR 41354). Because these data elements are not changing as a result of this proposed rule, Table 1 is identical to Table 1 that was published in the August 7, 2001 final rule (66 FR 41394 through 41396). The proposed relative weights reflect the inclusion of cases with an interruption of stay (patient returns on day of discharge or either of the next 2 days). The methodology we used to construct the data elements in Table 1 is described in detail in the August 7, 2001 final rule (66 FR 41350 through 41353).

VI. Proposed Fiscal Year 2004 Federal Prospective Payment Rates

A. Expiration of the IRF PPS Transition Period

The transition period provision under section 1886(j)(1) of the Act and § 412.626 of the regulations expired for cost reporting periods beginning on or after October 1, 2002 (FY 2003 and beyond). Accordingly, the payment for discharges during FY 2004 will be based entirely on the proposed adjusted FY 2004 IRF Federal PPS rates.

B. Description of the IRF Standardized Payment Amount

In the August 7, 2001 final rule, we established a standard payment amount referred to as the budget neutral conversion factor under § 412.624(c). In accordance with the methodology described in § 412.624(c)(3)(i), the budget neutral conversion factor for FY 2002, as published in the August 7, 2001 final rule, was \$11,838.00. Under § 412.624(c)(3)(i), this amount reflects, as appropriate, any adjustments for outlier payments, budget neutrality, and coding and classification changes as described in § 412.624(d).

The budget neutral conversion factor is a standardized payment amount and the amount reflects the budget neutrality adjustment for FY 2002, as described in § 412.624(d)(2). The statute requires a budget neutrality adjustment only for fiscal years 2001 and 2002. Accordingly, we believe it is more consistent with the statute to refer to the standardized payment as the standardized payment conversion factor, rather than refer to it as a budget neutral conversion factor. Thus, after careful consideration, we are proposing to change all references to the budget neutral conversion factor in §§ 412.624(c) and 412.624(d) to the "standard payment conversion factor." We believe that the standard payment conversion factor better describes the standardized payment amount especially in those fiscal years where a budget neutrality adjustment is not made.

Thus, under § 412.624(c)(3)(i), the standard payment conversion factor for FY 2002 of \$11,838.00 reflected the budget neutrality adjustment described in § 412.624(d)(2). Under current revised § 412.624(c)(3)(ii), we updated the FY 2002 standard payment conversion factor (\$11,838.00) to FY 2003 by applying an increase factor (the IRF market basket index) of 3.0 percent, as described in the August 1, 2002 update notice (67 FR 49931). This yielded the FY 2003 standard payment conversion factor of \$12,193.00 that was

published in the August 1, 2002 update notice (67 FR 49931). The FY 2003 standard payment conversion factor will be the basis of the updated FY 2004 standard payment conversion factor that will also reflect the adjustments described below.

C. Proposed Adjustments To Determine the Proposed FY 2004 Standard Payment Conversion Factor

1. IRF Market Basket Index

Section 1886(j)(3)(C) of the Act requires the Secretary to establish an increase factor that reflects changes over time in the prices of an appropriate mix of goods and services included in IRF services paid for under the IRF PPS, which is referred to as the IRF market basket index. Accordingly, in updating the FY 2004 payment rates set forth in this proposed rule, we propose to apply an appropriate increase factor, that is equal to the IRF market basket, to the FY 2003 IRF standardized payment amount.

Beginning with the implementation of the IRF PPS in FY 2002 and with the FY 2003 IRF PPS update, the 1992-based excluded hospital with capital market basket has been used to determine the IRF market basket factor for updating payments to rehabilitation facilities. The 1992-based market basket reflected the distribution of costs in 1992 for Medicare-participating freestanding rehabilitation, long-term care, psychiatric, cancer, and children's hospitals. This information was derived from the 1992 Medicare cost reports. A full discussion of the methodology and data sources used to construct the 1992-based excluded hospital with capital market basket is available in Appendix D of the IRF PPS August 7, 2001 final rule **Federal Register** (66 FR 41427).

In this proposed rule, we propose to revise and rebase the excluded hospital with capital market basket to a 1997 base year. We believe that proposing to use 1997 data, rather than 1992 data, to construct the IRF market basket will allow us to more appropriately estimate increases in the costs of IRF goods and services from year to year.

The operating portion of the 1997-based excluded hospital with capital market basket is derived from the 1997-based excluded hospital market basket. The methodology used to develop the excluded hospital market basket operating portion was described in the August 1, 2002 **Federal Register** (67 FR 50042–50044). In brief, the operating cost category weights in the 1997-based excluded market basket added to 100.0. These weights were determined from the Medicare cost reports, the 1997 Business Expenditure Survey from the