

Bureau of the Census, and the 1997 Annual Input-Output data from the Bureau of Economic Analysis. In using the 1997 data, we made two methodological revisions to the 1997-based excluded hospital market basket: (1) Changing the wage and benefit price proxies to use the Employment Cost Index (ECI) wage and benefit data for hospital workers, and (2) adding a cost category for blood and blood products.

Previously we used a combination of several ECIs, a great part of which are listed in the 1992-based index such as the hospital, professional, and technical workers ECIs. However, the ECI for hospital workers better represents the movement of hospital wages, salaries, and benefits and it is more reflective of current labor market conditions. For the 1992-based market baskets we were unable to find an adequate data source for the blood cost category. For the 1997-based excluded hospital market basket, we were able to obtain this data from Medicare cost reports. As discussed in the IPPS August 1, 2002 final rule (67 FR 50035), BIPA required that we adequately reflect the price of blood and blood products in the hospital market basket when it was

rebased and revised, which was done for the FY 2003 IPPS payment rates.

We believe this revision is also appropriate for the excluded hospital with capital market basket because it results in a more precise measure of the cost category for blood and blood products.

When we add the weight for capital costs to the excluded hospital market basket, the sum of the operating and capital weights must still equal 100.0. Because capital costs account for 8.968 percent of total costs for excluded hospitals in 1997, it holds that operating costs must account for 91.032 percent. Each operating cost category weight from the August 1, 2002 **Federal Register** (67 FR 50442–50444) was rebased to the 1997-based excluded hospital market basket by multiplying by 0.91032 to determine its weight in the 1997-based excluded hospital with capital market basket.

The aggregate capital component of the 1997-based excluded hospital market basket (8.968 percent) was determined from the same set of Medicare cost reports used to derive the operating component. The detailed capital cost categories of depreciation, interest, and other capital expenses

were also determined using the Medicare cost reports. As explained below, two sets of weights for the capital portion of the revised and rebased market basket needed to be determined. The first set of weights identifies the proportion of capital expenditures attributable to each capital cost category, while the second set represents relative vintage weights for depreciation and interest. The vintage weights identify the proportion of capital expenditures that is attributable to each year over the useful life of capital assets within a cost category (see IPPS final rule published in the August 1, 2002 **Federal Register** (67 FR 50046–50047)) for a discussion of how vintage weights are determined).

The cost categories, price proxies, and base-year FY 1992 and proposed FY 1997 weights for the excluded hospital with capital market basket are presented in Chart 3 “Excluded Hospital With Capital Input Price Index (FY 1992 and Proposed FY 1997) Structure and Weights.” Chart 4 “Proposed Excluded Hospital with Capital Input Price Index (FY 1997) Vintage Weights” presents the vintage weights for the proposed 1997-based excluded hospital with capital market basket.

CHART 3.—EXCLUDED HOSPITAL WITH CAPITAL INPUT PRICE INDEX<sup>1 2</sup> (FY 1992 AND PROPOSED FY 1997) STRUCTURE AND WEIGHTS

Cost category	Price wage variable	Weights (%) base-year 1992	Proposed weights (%) base-year 1997
TOTAL .....	.....	100.000	100.000
Compensation .....	.....	57.935	57.579
Wages and Salaries .....	ECI—Wages and Salaries, Civilian Hospital Workers .....	47.417	47.335
Employee Benefits .....	ECI—Benefits, Civilian Hospital Workers to capture total costs (operating and capital), In order to capture total costs (operating and capital), HCFA Occupational Benefit Proxy.	10.519	10.244
Professional fees: Non-Medical .....	ECI—Compensation: Prof. & Technical Technical .....	1.908	4.423
Utilities .....	.....	1.524	1.180
Electricity .....	WPI—Commercial Electric Power .....	0.916	0.726
Fuel Oil, Coal, etc. ....	WPI—Commercial Natural Gas .....	0.365	0.248
Water and Sewerage .....	CPI—U—Water & Sewage .....	0.243	0.206
Professional Liability .....	HCFA—Professional Liability Premiums .....	0.983	0.733
All Other Products and Services .....	.....	28.571	27.117
All Other Products .....	.....	22.027	17.914
Pharmaceuticals .....	WPI—Prescription Drugs .....	2.791	6.318
Food: Direct Purchase .....	WPI—Processed Foods .....	2.155	1.122
Food: Contract Service .....	CPI—U—Food Away from Home .....	0.998	1.043
Chemicals .....	WPI—Industrial Chemicals .....	3.413	2.133
Blood and Blood Products .....	WPI—Blood and Derivatives .....	.....	0.748
Medical Instruments .....	WPI—Med. Inst. & Equipment .....	2.868	1.795
Photographic Supplies .....	WPI—Photo Supplies .....	0.364	0.167
Rubber and Plastics .....	WPI—Rubber & Plastic Products .....	4.423	1.366
Paper Products .....	WPI—Convert. Paper and Paperboard .....	1.984	1.110
Apparel .....	WPI—Apparel .....	0.809	0.478
Machinery and Equipment .....	WPI—Machinery & Equipment .....	0.193	0.852
Miscellaneous Products .....	WPI—Finished Goods excluding Food and Energy .....	2.029	0.783
All Other Services .....	.....	6.544	9.203
Telephone .....	CPI—U—Telephone Services .....	0.574	0.348
Postage .....	CPI—U—Postage .....	0.268	0.702
All Other: Labor .....	ECI—Compensation: Service Workers .....	4.945	4.453
All Other: Non-Labor Intensive .....	CPI—U—All Items (Urban) .....	0.757	3.700