

conversion factor (\$12,193.00) to determine the proposed 2004 standard payment conversion factor.

2. Proposed Area Wage Adjustment

Section 1886(j)(6) of the Act requires the Secretary to adjust the proportion (as estimated by the Secretary from time to time) of rehabilitation facilities' costs that are attributable to wages and wage-related costs for area differences in wage levels by a factor (established by the Secretary) reflecting the relative hospital wage level in a geographic area of a rehabilitation facility compared to the national average wage level for such facilities. The statute requires the Secretary to update this wage index adjustment at least every 36 months. The Secretary is required to update this adjustment on the basis of information available to the Secretary (and updated as appropriate) of the wages and wage-related costs incurred in furnishing rehabilitation services. Any adjustments or updates made under section 1886(j)(6) of the Act shall be made in a budget neutral manner.

3. Updated Wage Data

For the FY 2004 IRF PPS rates proposed in this proposed rule, we are updating the IRF wage index. In implementing the FY 2002 and FY 2003

IRF PPS, we used FY 1997 acute care hospital wage data to develop the IRF wage indices. We believe that the FY 1999 acute care hospital data are the best available because they are currently the most recent complete final data. Accordingly, we are proposing to update from the FY 1997 acute care hospital wage data to the FY 1999 acute care hospital wage data to develop the proposed wage indices contained in this proposed rule. Tables 3A and 3B contain the proposed FY 2004 wage indices for urban and rural areas respectively.

4. Proposed Updated Labor-Related Share

In implementing the FY 2002 and FY 2003 IRF PPS, we used the 1992 market basket data to determine the labor-related share (72.395 percent). As stated above, we are proposing to update the 1992 market basket data to 1997. Doing so allows us to propose to use the 1997-based excluded hospital market basket with capital costs to determine the FY 2004 labor-related share.

We propose to calculate the FY 2004 labor-related share as the sum of the weights for those cost categories contained in the proposed 1997-based excluded hospital with capital market basket that are influenced by local labor

markets. These cost categories include wages and salaries, employee benefits, professional fees, labor-intensive services and a 46 percent share of capital-related expenses. The proposed labor-related share for FY 2004 is the sum of the FY 2004 relative importance of each labor-related cost category, and reflects the different rates of price change for these cost categories between the base year (FY 1997) and FY 2004. The proposed sum of the relative importance for FY 2004 for operating costs (wages and salaries, employee benefits, professional fees, and labor-intensive services) is 69.163 percent, as shown in Chart 6 "FY 2004 Labor-Related Share Relative Importance." The portion of capital that is influenced by local labor markets is estimated to be 46 percent. Because the relative importance of capital is 7.653 percent of the 1997-based excluded hospital with capital market basket in FY 2004, we take 46 percent of 7.653 percent to determine the labor-related share of capital for FY 2004. The result is 3.520 percent, which we then add to the 69.163 percent calculated for operating costs to determine the total labor-related relative importance for FY 2004. The resulting labor-related share that we propose to use for IRFs in FY 2004 is 72.683 percent.

CHART 6.—PROPOSED FY 2004 LABOR-RELATED SHARE RELATIVE IMPORTANCE

| Cost category | Relative importance 1992-based market basket FY 2004 | Relative importance proposed 1997-based market basket FY 2004 |
|--|--|--|
| Wages and salaries | 50.625 | 49.032 |
| Employee benefits | 11.903 | 11.050 |
| Professional fees | 2.055 | 4.523 |
| Postage | 0.252 | |
| All other labor intensive services | 5.242 | 4.558 |
| Subtotal | 70.077 | 69.163 |
| Labor-related share of capital costs | 3.394 | 3.520 |
| Total | 73.471 | 72.683 |

Chart 6 above shows that rebasing the excluded hospital with capital market basket lowers the increase in labor share that we are proposing to use in FY 2004 relative to what it would have been had we not rebased the excluded hospital with capital market basket. The proposed labor-related share for FY 2004 of 72.683 percent reflects an increase of 0.29 percent from the FY 2003 labor-related share of 72.395 percent. If we did not rebase the excluded hospital with capital market basket, the labor-related share would have increased from 72.395 percent for

FY 2003 to 73.471 percent for FY 2004 by approximately 1.1 percent, rather than the proposed increase of 0.29 percent. As we previously stated, we are proposing a labor-related share of 72.683 percent for the FY 2004 IRF PPS payment rates set forth in the proposed rule.

5. Proposed Budget Neutral Wage Adjustment Update Methodology

As stated above, for FY 2004, we are proposing to update the FY 2003 IRF wage indices by using FY 1999 acute care hospital wage data and update the

labor-related share by using the 1997 market basket data. Since any adjustment or updates to the IRF wage index made under section 1886(j)(6) of the Act shall be made in a budget neutral manner as required by statute, we are proposing to amend the regulation at § 412.624(e)(1) to reflect this requirement. We are also proposing to determine a budget neutral wage adjustment factor based on an adjustment or update to the wage data to apply to the standard payment conversion factor.