

and wage indices, a low-income patient adjustment, and a rural adjustment (if applicable). The proposed adjustments include the following:

The proposed wage adjustment, calculated as follows: $(.27605 + (.72683 \times \text{FY 2004 Wage Index}))$.

The proposed disproportionate share adjustment, calculated as follows: $(1 + \text{Disproportionate Share Percentage})$ raised to the power of .4838).

The proposed rural adjustment, if applicable, calculated by multiplying payments by 1.1914.

Chart 8 "Projected Impact of Proposed FY 2004 Update" illustrates the aggregate impact of the proposed estimated FY 2004 updated payments among the various classifications of facilities compared to the estimated IRF PPS payment rates applicable for FY 2003.

The first column, Facility Classification, identifies the type of facility. The second column identifies the number of facilities for each classification type, and the third column

lists the number of cases. The fourth column indicates the impact of the proposed budget neutral wage adjustment. The last column reflects the combined changes including the proposed update to the FY 2003 payment rates by proposed 3.3 percent and the proposed budget neutral wage adjustment (including the proposed FY 2004 labor-related share and the proposed FY 2004 wage indices).

CHART 8.—PROJECTED IMPACT OF PROPOSED FY 2004 UPDATE

Facility classification	Number of facilities	Number of cases	Proposed budget neutral wage adjustment	Proposed total change
Total				
	1,024	347,809	0.0%	3.3%
Urban unit	725	206,926	- 0.5	2.8
Rural unit	131	26,507	0.2	3.5
Urban hospital	156	109,691	0.9	4.3
Rural hospital	12	4,685	- 1.3	1.9
Total urban	881	316,617	0.0	3.3
Total rural	143	31,192	0.0	3.2
Urban by Region				
New England	32	15,039	0.1	3.5
Middle Atlantic	133	64,042	- 1.5	1.8
South Atlantic	112	52,980	0.5	3.8
East North Central	171	55,071	- 0.5	2.7
East South Central	41	23,434	0.9	4.2
West North Central	70	18,087	0.6	3.9
West South Central	154	52,346	1.5	4.8
Mountain	56	14,655	1.1	4.4
Pacific	112	20,963	- 0.7	2.6
Rural by Region				
New England	4	829	- 0.2	3.1
Middle Atlantic	10	2,424	- 1.3	1.9
South Atlantic	20	6,192	- 0.8	2.5
East North Central	29	5,152	- 0.5	2.8
East South Central	10	3,590	0.2	3.5
West North Central	22	3,820	1.7	4.9
West South Central	32	7,317	0.6	3.9
Mountain	9	1,042	- 0.3	3.0
Pacific	7	826	- 1.2	2.1

As Chart 8 illustrates, all IRFs are expected to benefit from the proposed 3.3 percent market basket increase that would be applied to FY 2003 IRF PPS payment rates to develop the proposed FY 2004 rates. However, there may be distributional impacts among various IRFs due to the application of the proposed updates to the labor-related share and proposed wage indices in a budget neutral manner.

To summarize, we have proposed that all facilities would receive a 3.3 percent increase in their unadjusted IRF PPS payments. The estimated positive impact among all IRFs reflected in Chart 8 are due to the effect of the proposed update to the IRF market basket index. We also note that, while no changes in the regulations are being proposed, we discuss the potential effects of improved

compliance with the 75 percent rule in section II of this proposed rule.

In accordance with the provisions of Executive Order 12866, this proposed rule was reviewed by the Office of Management and Budget (OMB).

List of Subjects in 42 CFR Part 412

Administrative practice and procedure, Health facilities, Medicare, Puerto Rico, Reporting and recordkeeping requirements.

For the reasons set forth in the preamble, the Centers for Medicare & Medicaid Services proposes to amend 42 CFR chapter IV, part 412, as set forth below:

PART 412—PROSPECTIVE PAYMENT SYSTEMS FOR INPATIENT HOSPITAL SERVICES

1. The authority citation for part 412 continues to read as follows:

Authority: Secs. 1102 and 1871 of the Social Security Act (42 U.S.C. 1302 and 1395hh).

Subpart B—Hospital Services Subject to and Excluded From the Prospective Payment Systems for Inpatient Operating Costs and Inpatient Capital-Related Costs

2. In § 412.20, the following changes are made:

A. Redesignate paragraph (b) as paragraph (b)(1).

B. Add paragraph (b)(2) to read as follows: