

Some hospitals and associations have also recommended that we exclude the paid hours associated with military and jury duty leave from the wage index calculation. They state that, unlike other paid leave categories for which workers are usually paid at their full hourly rates (for example, annual, sick, and holiday), hospitals typically pay employees on military or jury duty only a fraction of their normal pay. The amount that the hospital pays is intended to only supplement the earnings that the employee receives from the government, so that, while performing military or civic duties, the employee can continue to be paid the same salary level as if he or she were still working at the hospital.

The hospitals and associations believe that including the lower pay rates associated with employees' military and jury duty leave unfairly decreases a hospital's average hourly wage and, therefore, its wage index value.

Therefore, we are proposing to exclude from the wage index the paid hours associated with military and jury duty leave, beginning with the FY 2005 wage index. The associated salaries would continue to be reported on Worksheet S-3, Part II, Line 1 of the Medicare cost report.

#### *D. Verification of Wage Data From the Medicare Cost Reports*

The data for the proposed FY 2004 wage index were obtained from Worksheet S-3, Parts II and III of the FY 2000 Medicare cost reports. The data file used to construct the proposed wage index includes FY 2000 data submitted to us as of February 18, 2003. As in past years, we performed an intensive review of the wage data, mostly through the use of edits designed to identify aberrant data.

We asked our fiscal intermediaries to revise or verify data elements that resulted in specific edit failures. Some unresolved data elements are included in the calculation of the proposed FY 2004 wage index, pending their resolution before calculation of the final FY 2004 wage index. We instructed the intermediaries to complete their verification of questionable data elements and to transmit any changes to the wage data no later than April 4, 2003. We believe all unresolved data elements will be resolved by the date the final rule is issued. The revised data will be reflected in the final rule.

Also, as part of our editing process, we removed data for 110 hospitals that failed edits. We identified 72 hospitals with incomplete or inaccurate data resulting in zero or negative, or otherwise aberrant, average hourly wages. Therefore, wage data from these

hospitals were removed from the calculation. We have notified the fiscal intermediaries of these hospitals and will continue to work with the fiscal intermediaries to correct these data whenever possible. As a result, the proposed FY 2004 wage index is calculated based on FY 2000 wage data for 4,593 hospitals.

In constructing the proposed FY 2004 wage index, we include the wage data for facilities that were IPPS hospitals in FY 2000, even for those facilities that have terminated their participation in the program as hospitals or have since been designated as a critical access hospital (CAH), as long as those data do not fail any of our edits for reasonableness. We believe that including the wage data for these hospitals is, in general, appropriate to reflect the economic conditions in the various labor market areas during the relevant past period.

However, we received correspondence suggesting that the wage data for hospitals that have subsequently been redesignated as CAHs should be removed from the wage index calculation because CAHs are unique compared to other short-term, acute care hospitals. CAHs are limited to only 15 acute care beds. An additional 10 beds may be designated as swing-beds, but only 15 beds can be used at one time to serve acute care patients. CAHs tend to be located in isolated, rural areas. We solicit comment on whether we should exclude wage data from such hospitals from the wage index calculation. However, we have included the data for CAHs in the proposed FY 2004 wage index if the CAH was paid under the IPPS during FY 2000.

#### *E. Computation of the Proposed FY 2004 Wage Index*

The method used to compute the proposed FY 2004 wage index follows:

Step 1—As noted above, we based the proposed FY 2004 wage index on wage data reported on the FY 2000 Medicare cost reports. We gathered data from each of the non-Federal, short-term, acute care hospitals for which data were reported on the Worksheet S-3, Parts II and III of the Medicare cost report for the hospital's cost reporting period beginning on or after October 1, 1999 and before October 1, 2000. In addition, we included data from some hospitals that had cost reporting periods beginning before October 1999 and reported a cost reporting period covering all of FY 2000. These data were included because no other data from these hospitals would be available for the cost reporting period described

above, and because particular labor market areas might be affected due to the omission of these hospitals.

However, we generally describe these wage data as FY 2000 data. We note that, if a hospital had more than one cost reporting period beginning during FY 2000 (for example, a hospital had two short cost reporting periods beginning on or after October 1, 1999 and before October 1, 2000), we included wage data from only one of the cost reporting periods, the longer, in the wage index calculation. If there was more than one cost reporting period and the periods were equal in length, we included the wage data from the later period in the wage index calculation. We have removed the wage data of CAHs, after the effective date of the CAH designation, from the calculation of the proposed wage index.

Step 2—Salaries—Beginning with the FY 2003 wage index, the method used to compute a hospital's average hourly wage excludes all GME and CRNA costs.

In calculating a hospital's average salaries plus wage-related costs, we subtracted from Line 1 (total salaries) the GME and CRNA costs reported on lines 2, 4.01, and 6, the Part B salaries reported on Lines 3, 5 and 5.01, home office salaries reported on Line 7, and excluded salaries reported on Lines 8 and 8.01 (that is, direct salaries attributable to SNF services, home health services, and other subprovider components not subject to the IPPS). We also subtracted from Line 1 the salaries for which no hours were reported on Line 4. To determine total salaries plus wage-related costs, we added to the net hospital salaries the costs of contract labor for direct patient care, certain top management, pharmacy, laboratory, and nonteaching physician Part A services (Lines 9, 9.01, 9.02, and 10), home office salaries and wage-related costs reported by the hospital on Lines 11 and 12, and nonexcluded area wage-related costs (Lines 13, 14, and 18).

We note that contract labor and home office salaries for which no corresponding hours are reported were not included. In addition, wage-related costs for nonteaching physician Part A employees (Line 18) are excluded if no corresponding salaries are reported for those employees on Line 4.

Step 3—Hours—With the exception of wage-related costs, for which there are no associated hours, we computed total hours using the same methods as described for salaries in Step 2.

Step 4—For each hospital reporting both total overhead salaries and total overhead hours greater than zero, we then allocated overhead costs to areas of the hospital excluded from the wage