

CMS'S PROPOSED FY 2004 UPDATE FACTOR TO THE CAPITAL FEDERAL RATE—Continued

Total Proposed Update	0.7
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b. Comparison of CMS and MedPAC Update Recommendation. In the past, MedPAC has included update recommendations for capital PPS in a Report to Congress. In its March 2003 Report to Congress, MedPAC did not make an update recommendation for capital PPS payments. However, in that same report, MedPAC made an update recommendation for hospital inpatient and outpatient services (page 4). MedPAC stated that hospital inpatient and outpatient services should be considered together because they are so closely interrelated. Their recommendation is based on an assessment of whether payments are adequate to cover the costs of efficient providers, an estimate of input price inflation (measured by the market basket index), and an adjustment for technological charges, which is offset by reasonable expectations in productivity gains.

2. Outlier Payment Adjustment Factor

Section 412.312(c) establishes a unified outlier methodology for inpatient operating and inpatient capital-related costs. A single set of thresholds is used to identify outlier cases for both inpatient operating and inpatient capital-related payments. Section 412.308(c)(2) provides that the standard Federal rate for inpatient capital-related costs be reduced by an adjustment factor equal to the estimated proportion of capital-related outlier payments to total inpatient capital-related PPS payments. The outlier thresholds are set so that operating outlier payments are projected to be 5.1 percent of total operating DRG payments.

In the August 1, 2002 IPPS final rule (67 FR 50129), we estimated that outlier payments for capital in FY 2003 would equal 5.31 percent of inpatient capital-related payments based on the FY 2003 Federal rate. Accordingly, we applied an outlier adjustment factor of 0.9469 to the FY 2003 Federal rate. Based on the thresholds as set forth in section II.A.4.c. of this Addendum, we estimate that outlier payments for capital would equal 5.45 percent of inpatient capital-related payments based on the Federal rate in FY 2004. Therefore, we are proposing an outlier adjustment factor of 0.9455 to the Federal rate. Thus, the projected percentage of capital outlier payments to total capital standard payments for FY 2004 is higher than the percentage for FY 2003.

The outlier reduction factors are not built permanently into the rates; that is, they are not applied cumulatively in determining the Federal rate. Therefore, the net proposed

change in the outlier adjustment to the Federal rate for FY 2004 is 0.9985 (0.9455/0.9469). The outlier adjustment decreases the proposed FY 2004 Federal rate by 0.15 percent compared with the FY 2003 outlier adjustment.

3. Budget Neutrality Adjustment Factor for Changes in DRG Classifications and Weights and the Geographic Adjustment Factor

Section 412.308(c)(4)(ii) requires that the Federal rate be adjusted so that aggregate payments for the fiscal year based on the Federal rate after any changes resulting from the annual DRG reclassification and recalibration and changes in the geographic adjustment factor (GAF) are projected to equal aggregate payments that would have been made on the basis of the Federal rate without such changes.

Since we implemented a separate geographic adjustment factor for Puerto Rico, we apply separate budget neutrality adjustments for the national geographic adjustment factor and the Puerto Rico geographic adjustment factor. We apply the same budget neutrality factor for DRG reclassifications and recalibration nationally and for Puerto Rico. Separate adjustments were unnecessary for FY 1998 and earlier since the geographic adjustment factor for Puerto Rico was implemented in FY 1998.

In the past, we used the actuarial capital cost model (described in Appendix B of the August 1, 2001 IPPS final rule (66 FR 40099)) to estimate the aggregate payments that would have been made on the basis of the Federal rate with and without changes in the DRG classifications and weights and in the GAF to compute the adjustment required to maintain budget neutrality for changes in DRG weights and in the GAF. During the transition period, the capital cost model was also used to estimate the regular exception payment adjustment factor. As we explain in section III.A.4. of this Addendum, beginning in FY 2003 an adjustment for regular exception payments is no longer necessary. Therefore, we are no longer using the capital cost model. Instead, we are using historical data based on hospitals' actual cost experiences to determine the exceptions payment adjustment factor for special exceptions payments.

To determine the proposed factors for FY 2004, we compared (separately for the national rate and the Puerto Rico rate) estimated aggregate Federal rate payments based on the FY 2003 DRG relative weights and the FY 2003 GAF to estimated aggregate

Federal rate payments based on the proposed FY 2004 relative weights and the proposed FY 2004 GAF. In the August 1, 2002 IPPS final rule (67 FR 50129) for FY 2003, the budget neutrality adjustment factors were 0.9885 for the national rate and 0.9963 for the Puerto Rico rate. As a result of the revisions to the GAF effective for discharges occurring on or after April 1, 2003 through September 30, 2003, the budget neutrality adjustment factor is 0.9983 for the national rate for discharges occurring on or before April 1, 2003 through September 30, 2003. The budget neutrality adjustment factor for the Puerto Rico rate remained unchanged (0.9963). As we noted above, the rates effective for discharges occurring on or after April 1, 2003 through September 30, 2003 were used in determining the proposed FY 2004 rates. In making the comparison, we set the regular and special exceptions reduction factors to 1.00.

To achieve budget neutrality for the changes in the national GAF, based on calculations using updated data, we are proposing to apply an incremental budget neutrality adjustment of 1.0034 for FY 2004 to the previous cumulative FY 2003 adjustment (0.9883), yielding a proposed cumulative adjustment of 0.9929 through FY 2004. For the Puerto Rico GAF, we are proposing to apply an incremental budget neutrality adjustment of 1.0002 for FY 2004 to the previous cumulative FY 2003 adjustment (0.9963), yielding a proposed cumulative adjustment of 0.9964 through FY 2004. (This is the rounded result of a calculation performed on unrounded numbers.)

We then compared estimated aggregate Federal rate payments based on the FY 2003 DRG relative weights and the FY 2003 GAF to estimated aggregate Federal rate payments based on the proposed FY 2004 DRG relative weights and the proposed FY 2004 GAF. The proposed incremental adjustment for DRG classifications and changes in relative weights is 1.0004 both nationally and for Puerto Rico. The proposed cumulative adjustments for DRG classifications and changes in relative weights and for changes in the GAF through FY 2004 are 0.9920 nationally and 0.9968 for Puerto Rico (this is the rounded result of a calculation performed with unrounded numbers). The following table summarizes the adjustment factors for each fiscal year: