

BUDGET NEUTRALITY ADJUSTMENT FOR DRG RECLASSIFICATIONS AND RECALIBRATION AND THE GEOGRAPHIC ADJUSTMENT FACTORS

Fiscal year	National				Puerto Rico			
	Incremental adjustment			Cumulative	Incremental adjustment			Cumulative
	Geo-graphic adjustment factor	DRG re-classifications and recalibration	Combined		Geo-graphic adjustment factor	DRG re-classifications and recalibration	Combined	
1992				1.00000				
1993			0.99800	0.99800				
1994			1.00531	1.00330				
1995			0.99980	1.00310				
1996			0.99940	1.00250				
1997			0.99873	1.00123				
1998			0.99892	1.00015				1.00000
1999	0.99944	1.00335	1.00279	1.00294	0.99898	1.00335	1.00233	1.00233
2000	0.99857	0.99991	0.99848	1.00142	0.99910	0.99991	0.99901	1.00134
2001 ¹	0.99782	1.00009	0.99791	0.99933	1.00365	1.00009	1.00374	1.00508
2001 ²	³ 0.99771	³ 1.00009	³ 0.99780	0.99922	³ 1.00365	³ 1.00009	³ 1.00374	1.00508
2002	⁴ 0.99666	⁴ 0.99668	⁴ 0.99335	0.99268	⁴ 0.98991	⁴ 0.99668	⁴ 0.99662	0.99164
2003 ⁵	0.99915	0.99662	0.99577	0.98848	1.00809	0.99662	1.00468	0.99628
2003 ⁶	⁷ 0.99896	⁷ 0.99662	⁷ 0.99558	0.98830	⁷ 1.00809	⁷ 0.99662	⁷ 1.00468	0.99628
2004	⁸ 1.00341	⁸ 1.00036	⁸ 1.00376	0.99202	⁸ 1.00015	⁸ 1.00036	⁸ 1.00051	0.99679

¹ Factors effective for the first half of FY 2001 (October 2000 through March 2001).

² Factors effective for the second half of FY 2001 (April 2001 through September 2001).

³ Incremental factors are applied to FY 2000 cumulative factors.

⁴ Incremental factors are applied to the cumulative factors for the first half of FY 2001.

⁵ Factors effective for the first half of FY 2003 (October 2002 through March 2003).

⁶ Factors effective for the second half of FY 2003 (April 2003 through September 2003).

⁷ Incremental factors are applied to FY 2002 cumulative factors.

⁸ Incremental factors are applied to the cumulative factors for the second half of FY 2003.

The methodology used to determine the proposed recalibration and geographic (DRG/GAF) budget neutrality adjustment factor for FY 2004 is similar to that used in establishing budget neutrality adjustments under the PPS for operating costs. One difference is that, under the operating PPS, the budget neutrality adjustments for the effect of geographic reclassifications are determined separately from the effects of other changes in the hospital wage index and the DRG relative weights. Under the capital PPS, there is a single DRG/GAF budget neutrality adjustment factor (the national rate and the Puerto Rico rate are determined separately) for changes in the GAF (including geographic reclassification) and the DRG relative weights. In addition, there is no adjustment for the effects that geographic reclassification has on the other payment parameters, such as the payments for serving low-income patients, indirect medical education payments, or the large urban add-on payments.

In the August 1, 2002 IPPS final rule (67 FR 50129), we calculated a GAF/DRG budget neutrality factor of 0.9957 for FY 2003. As we noted above, as a result of the revisions to the GAF effective for discharges occurring on or after April 1, 2003 through September 30, 2003, we calculated a GAF/DRG budget neutrality factor of 0.9956 for discharges occurring on or after April 1, 2003 through September 30, 2003. Furthermore, 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. For FY 2004, we are proposing a GAF/DRG budget neutrality factor of 1.00038. The GAF/DRG budget neutrality factors are

built permanently into the rates; that is, they are applied cumulatively in determining the Federal rate. This follows from the requirement that estimated aggregate payments each year be no more or less than they would have been in the absence of the annual DRG reclassification and recalibration and changes in the GAF. The proposed incremental change in the adjustment from FY 2003 to FY 2004 is 1.00038. The proposed cumulative change in the rate due to this adjustment is 0.9920 (the product of the incremental factors for FY 1993, FY 1994, FY 1995, FY 1996, FY 1997, FY 1998, FY 1999, FY 2000, FY 2001, FY 2002, FY 2003, and the proposed incremental factor for FY 2004: $0.9980 \times 1.0053 \times 0.9998 \times 0.9994 \times 0.9987 \times 0.9989 \times 1.0028 \times 0.9985 \times 0.9979 \times 0.9934 \times 0.9956 \times 1.00038 = 0.9920$).

This proposed factor accounts for DRG reclassifications and recalibration and for changes in the GAF. It also incorporates the effects on the GAF of FY 2004 geographic reclassification decisions made by the MGCRB compared to FY 2003 decisions. However, it does not account for changes in payments due to changes in the DSH and IME adjustment factors or in the large urban add-on.

4. Exceptions Payment Adjustment Factor

Section 412.308(c)(3) requires that the standard capital Federal rate be reduced by an adjustment factor equal to the estimated proportion of additional payments for both regular exceptions and special exceptions under § 412.348 relative to total capital PPS payments. In estimating the proportion of regular exception payments to total capital PPS payments during the transition period,

we used the actuarial capital cost model originally developed for determining budget neutrality (described in Appendix B of the August 1, 2001 IPPS final rule (66 FR 40099)) to determine the exceptions payment adjustment factor, which was applied to both the Federal and hospital-specific rates.

An adjustment for regular exception payments is no longer necessary in determining the FY 2004 capital Federal rate because, in accordance with § 412.348(b), regular exception payments were only made for cost reporting periods beginning on or after October 1, 1991 and before October 1, 2001. Accordingly, as we explained in the August 1, 2001 IPPS final rule (66 FR 39949), in FY 2003 and subsequent fiscal years, no payments will be made under the regular exceptions provision. However, in accordance with § 412.308(c), we still need to compute a budget neutrality adjustment for special exception payments under § 412.348(g). We describe our methodology for determining the special exceptions adjustment used in calculating the proposed FY 2004 capital Federal rate below.

Under the special exceptions provision specified at § 412.348(g)(1), eligible hospitals include SCHs, urban hospitals with at least 100 beds that have a disproportionate share percentage of at least 20.2 percent or qualify for DSH payments under § 412.106(c)(2), and hospitals with a combined Medicare and Medicaid inpatient utilization of at least 70 percent. An eligible hospital may receive special exceptions payments if it meets (1) a project need requirement as described at § 412.348(g)(2), which, in the case of certain urban hospitals, includes an excess capacity test as described at § 412.348(g)(4); (2) an age