

exception of New England, which would experience a 0.8 percent decrease.

We note that the wage data used for the proposed wage index are based upon the data available as of March 2003 and, therefore, do not reflect revision requests received and processed by the fiscal intermediaries after that date. To the extent these requests are granted by hospitals' fiscal intermediaries, these revisions will be reflected in the final rule. In addition, we continue to verify the accuracy of the data for hospitals with extraordinary changes in their data from the prior year.

The following chart compares the shifts in wage index values for labor market areas for FY 2004 relative to FY 2003. This chart demonstrates the impact of the changes for the proposed FY 2004 wage index, including updating to FY 2000 wage data. The majority of labor market areas (331) would experience less than a 5-percent change. A total of 13 labor market areas would experience an increase of more than 5 percent and less than 10 percent. Two areas would experience an increase greater than 10 percent. A total of 24 areas would experience decreases of more than 5 percent and less than 10 percent. Finally, 3 areas would experience declines of 10 percent or more.

| Percentage change in area wage index values | Number of labor market areas | |
|---|------------------------------|---------|
| | FY 2003 | FY 2004 |
| Increase more than 10 percent | 3 | 2 |
| Increase more than 5 percent and less than 10 percent | 11 | 13 |
| Increase or decrease less than 5 percent | 343 | 331 |
| Decrease more than 5 percent and less than 10 percent | 15 | 24 |
| Decrease more than 10 percent | 1 | 3 |

Among urban hospitals, 45 would experience an increase of between 5 and 10 percent and 8 more than 10 percent. A total of 64 rural hospitals would experience increases greater than 5 percent, but none would experience greater than 10-percent increases. On the negative side, 109 urban hospitals would experience decreases in their wage index values of at least 5 percent but less than 10 percent. Nine urban hospitals and one rural hospital would experience decreases in their wage index values greater than 10 percent. There are 25 rural hospitals that would experience decreases in their wage index values of greater than 5 percent but less than 10 percent. The following chart shows the projected impact for urban and rural hospitals.

| Percentage change in area wage index values | Number of hospitals | |
|---|---------------------|-------|
| | Urban | Rural |
| Increase more than 10 percent | 8 | 0 |
| Increase more than 5 percent and less than 10 percent | 45 | 64 |

| Percentage change in area wage index values | Number of hospitals | |
|---|---------------------|-------|
| | Urban | Rural |
| Increase or decrease less than 5 percent | 2,436 | 1,714 |
| Decrease more than 5 percent and less than 10 percent | 109 | 25 |
| Decrease more than 10 percent | 9 | 1 |

F. Combined Impact of Proposed DRG and Wage Index Changes, Including Budget Neutrality Adjustment (Column 6)

The impact of the DRG reclassifications and recalibration on aggregate payments is required by section 1886(d)(4)(C)(iii) of the Act to be budget neutral. In addition, section 1886(d)(3)(E) of the Act specifies that any updates or adjustments to the wage index are to be budget neutral. As noted in the Addendum to this proposed rule, we compared simulated aggregate payments using the FY 2003 DRG relative weights and wage index to simulated aggregate payments using the proposed FY 2004 DRG relative weights and blended wage index. In addition, we are required to ensure that any add-on payments for new technology under section 1886(d)(5)(K) of the Act are budget neutral. As discussed in section II.E. of the preamble of this proposed rule, we are proposing to maintain the new technology status of Xigris™ (approved in last year's final rule at 67 FR 50013). We estimate the proposed total add-on payments for this new technology for FY 2004 would be \$50 million.

We computed a proposed wage and recalibration budget neutrality factor of 1.003133. The 0.0 percent impact for all hospitals demonstrates that these proposed changes, in combination with the proposed budget neutrality factor, are budget neutral. In Table I, the combined overall impacts of the effects of both the proposed DRG reclassifications and recalibration and the proposed updated wage index are shown in column 6. The proposed changes in this column are the sum of the proposed changes in columns 3, 4, and 5, combined with the budget neutrality factor and the wage index floor for urban areas required by section 4410 of Pub. L. 105–33 to be budget neutral. There also may be some variation of plus or minus 0.1 percentage point due to rounding.

G. Impact of MGCRB Reclassifications (Column 7)

Our impact analysis to this point has assumed hospitals are paid on the basis of their actual geographic location (with the exception of ongoing policies that provide that certain hospitals receive payments on bases other than where they are geographically located, such as hospitals in rural counties that are deemed urban under section 1886(d)(8)(B) of the Act). The changes in column 7 reflect the per case payment impact of moving from this baseline to a simulation incorporating the MGCRB decisions for FY 2004. These decisions affect hospitals' standardized amount and wage index area assignments.

By February 28 of each year, the MGCRB makes reclassification determinations that

will be effective for the next fiscal year, which begins on October 1. The MGCRB may approve a hospital's reclassification request for the purpose of using another area's standardized amount, wage index value, or both. The proposed FY 2004 wage index values incorporate all of the MGCRB's reclassification decisions for FY 2004. The wage index values also reflect any decisions made by the CMS Administrator through the appeals and review process as of February 28, 2003. Additional changes that result from the Administrator's review of MGCRB decisions or a request by a hospital to withdraw its application will be reflected in the final rule for FY 2004.

The overall effect of geographic reclassification is required by section 1886(d)(8)(D) of the Act to be budget neutral. Therefore, we applied an adjustment of 1.003133 to ensure that the effects of reclassification are budget neutral. (See section II.A.4.b. of the Addendum to this proposed rule.)

As a group, rural hospitals benefit from geographic reclassification. Their payments would rise 2.6 percent in column 7. Payments to urban hospitals would decline 0.4 percent. Hospitals in other urban areas would experience an overall decrease in payments of 0.2 percent, while large urban hospitals would lose 0.4 percent. Among urban hospital groups (that is, bed size, census division, and special payment status), payments generally would decline.

A positive impact is evident among most of the rural hospital groups. The smallest increases among the rural census divisions are 0.4 and 1.5 percent for the Puerto Rico and Mountain regions, respectively. The largest increases are in the rural South Atlantic and West South Central regions. These regions would experience increases of 2.9 and 3.7 percent, respectively.

Among all the hospitals that were reclassified for FY 2004 (including hospitals that received wage index reclassifications in FY 2002 or FY 2003 that extend for 3 years), the MGCRB changes are estimated to provide a 4.3 percent increase in payments. Urban hospitals reclassified for FY 2004 are expected to receive an increase of 4.0 percent, while rural reclassified hospitals are expected to benefit from the MGCRB changes with a 4.6 percent increase in payments. Overall, among hospitals that were reclassified for purposes of the standardized amount only, a payment increase of 3.9 percent is expected, while those reclassified for purposes of the wage index only show a 4.3 percent increase in payments. Payments to urban and rural hospitals that did not reclassify are expected to decrease slightly due to the MGCRB changes, decreasing by 0.6 percent for urban hospitals and 0.5 percent for rural hospitals.

H. All Changes (Column 8)

Column 8 compares our estimate of payments per case, incorporating all changes reflected in this proposed rule for FY 2004 (including statutory changes), to our estimate of payments per case in FY 2003. This column includes all of the proposed policy changes. Because the reclassifications shown in column 7 do not reflect FY 2003