

reclassifications, the impacts of FY 2004 reclassifications only affect the impacts from FY 2003 to FY 2004 if the reclassification impacts for any group of hospitals are different in FY 2004 compared to FY 2003.

Column 8 includes the effects of the 3.5 percent update to the standardized amounts and the hospital-specific rates for MDHs and SCHs. It also reflects the 0.4 percentage point difference between the projected outlier payments in FY 2003 (5.1 percent of total DRG payments) and the current estimate of the percentage of actual outlier payments in FY 2003 (5.5 percent), as described in the introduction to this Appendix and the Addendum to this proposed rule. As a result, payments are projected to be 0.4 percent higher in FY 2003 than originally estimated, resulting in a 0.4 percent smaller increase than would otherwise occur.

Section 213 of Public Law 106-554 provides that all SCHs may receive payment on the basis of their costs per case during their cost reporting period that began during 1996. For FY 2004, eligible SCHs receive 100 percent of their 1996 hospital-specific rate. The impact of this provision is modeled in column 8 as well.

The proposed expansion of the postacute care transfer policy also reduces payments by paying for discharges to postacute care in 19 additional DRGs as transfers. Because FY 2003 payments reflect full DRG payments for all cases in these 19 DRGs, there is a negative impact due to the proposed expansion of this policy compared to FY 2003. The net effect of this proposed policy, as displayed in column 2, is also seen in the lower overall percent change shown in column 8 comparing FY 2004 simulated payments per case to FY 2003 payments.

Another influence on the overall change reflected in this column is the requirement of section 402(b) of Public Law 108-7 that all hospitals receive the large urban standardized amount for all discharges occurring on or after April 1, 2003, and before October 1, 2003. For discharges occurring on or after October 1, 2003, the Federal rate will again be calculated based on separate average standardized amounts for hospitals in large urban areas and for hospitals in other areas. The effect is to reduce the percent increase reflected in the "all changes" column.

There might also be interactive effects among the various factors comprising the payment system that we are not able to isolate. For these reasons, the values in column 8 may not equal the sum of the changes described above.

The overall change in payments per case for hospitals in FY 2004 would increase by 2.5 percent. Hospitals in urban areas would experience a 2.5 percent increase in payments per case compared to FY 2003. Hospitals in rural areas, meanwhile, would experience a 3.1 percent payment increase. Hospitals in large urban areas would experience a 2.6 percent increase in payments.

Among urban census divisions, the largest payment increase was 3.5 percent in the Mountain region. Hospitals in the urban East South Central region and in Puerto Rico would experience an overall increase of 3.1 percent and 2.9 percent, respectively. The smallest increase would occur in the Middle Atlantic, with an increase of 1.7 percent. These below average increases are primarily due to the inflated outlier payments for some of these hospitals during FY 2003 compared to FY 2004. Among rural regions, the only

hospital category that would experience overall payment decreases is Puerto Rico, where payments would decrease by 0.2 percent, largely due to the updated wage data. In the West North Central region, payments are projected to increase by 3.8 percent. West South Central and Pacific regions also would benefit, both with 3.5 percent increases.

Among special categories of rural hospitals, those hospitals receiving payment under the hospital-specific methodology (SCHs, MDHs, and SCH/RRCs) would experience payment increases of 3.9 percent, 3.3 percent, and 3.3 percent, respectively. This outcome is primarily related to the fact that, for hospitals receiving payments under the hospital-specific methodology, there are no outlier payments. Therefore, these hospitals would not experience negative payment impacts from the decline in outlier payments from FY 2003 to FY 2004 as would hospitals paid based on the national standardized amounts.

Hospitals that were reclassified for FY 2004 are estimated to receive a 3.0 percent increase in payments. Urban hospitals reclassified for FY 2004 are anticipated to receive an increase of 2.7 percent, while rural reclassified hospitals are expected to benefit from reclassification with a 3.2 percent increase in payments. Overall, among hospitals reclassified for purposes of the standardized amount, a payment increase of 5.8 percent is expected, while those hospitals reclassified for purposes of the wage index only would show an expected 2.4 percent increase in payments. Those hospitals located in rural counties but deemed to be urban under section 1886(d)(8)(B) of the Act are expected to receive an increase in payments of 1.8 percent.

TABLE II.—IMPACT ANALYSIS OF PROPOSED CHANGES FOR FY 2004 OPERATING PROSPECTIVE PAYMENT SYSTEM  
[Payments per case]

	Number of hospitals	Average FY 2003 payment per case <sup>1</sup>	Average FY 2004 payment per case <sup>1</sup>	All FY 2004 changes
	(1)	(2)	(3)	(4)
By Geographic Location:				
All hospitals .....	4,087	7,423	7,612	2.5
Urban hospitals .....	2,582	7,890	8,084	2.5
Large urban areas (populations over 1 million) .....	1,493	8,368	8,586	2.6
Other urban areas (populations of 1 million or fewer) .....	1,089	7,257	7,418	2.2
Rural hospitals .....	1,505	5,393	5,558	3.1
Bed Size (Urban):				
0-99 beds .....	626	5,479	5,625	2.7
100-199 beds .....	916	6,658	6,829	2.6
200-299 beds .....	507	7,610	7,788	2.3
300-499 beds .....	377	8,445	8,660	2.5
500 or more beds .....	156	10,027	10,261	2.3
Bed Size (Rural):				
0-49 beds .....	690	4,468	4,620	3.4
50-99 beds .....	477	5,037	5,204	3.3
100-149 beds .....	202	5,430	5,582	2.8
150-199 beds .....	70	5,780	5,937	2.7
200 or more beds .....	66	6,792	6,993	3.0
Urban by Region:				
New England .....	134	8,326	8,555	2.7
Middle Atlantic .....	394	8,916	9,064	1.7
South Atlantic .....	372	7,454	7,640	2.5
East North Central .....	429	7,416	7,604	2.5
East South Central .....	155	7,156	7,376	3.1