

LTCH PPS by no later than June 1 of each year (proposed revised § 412.535).

In the March 7, 2003, proposed rule, we also proposed to amend § 412.503 to include a definition of "LTCH PPS rate year". A "LTCH PPS rate year" would mean the 12-month period of July 1 through June 30. In the proposed rule, we stated that we would use this period for those calculations related to updating the Federal rate for payments under the LTCH PPS. We also stated that the determination of the proposed fixed-loss threshold for outlier payment calculations, under § 412.525(a), would also be calculated based on the LTCH PPS rate year. (Section VII.C. of this final rule includes a more detailed discussion of our outlier policy.)

Proposing a change for the annual Federal rate update period for the LTCH PPS also necessitated a proposed recalculation of the excluded hospital market basket with capital estimate for the proposed forthcoming payment year, July 1, 2003, through June 30, 2004. In the August 30, 2002, final rule, we established a Federal rate of \$34,956 that was computed based on the excluded hospital with capital market basket calculated for the 12-month Federal fiscal year of October 1, 2002, through September 30, 2003. As already noted, we proposed to change the Federal rate update for the LTCH PPS from the Federal fiscal year to a 12-month LTCH PPS rate year of July 1 through June 30, and the proposed rates in the March 7, 2003, proposed rule were based on this period. Because the Federal rate of \$34,956 was originally computed based on a 12-month year, but in actuality will only be used for 9 months, if the proposed change in the LTCH PPS rate update year was finalized, we proposed, in the March 7, 2003, proposed rule, to make a budget neutral adjustment to the market basket update taking this 3-month differential into account in setting the Federal rate for July 1, 2003, through June 30, 2004. In addition, we proposed that the change in the 2004 LTCH PPS rate year would be budget neutral. In section VII.B.1 of this final rule, we describe this adjustment in greater detail.

In the March 7, 2003, proposed rule, we proposed to update the LTCH PPS wage index that adjusts for differences in area wages under § 412.525(c) using the FY 1999 IPPS wage data because these are the best available wage data (as discussed in section VII.C. of this preamble).

We also stated that we were proposing to recalculate the budget neutrality offset to account for the effect of the transition period and the policy allowing LTCHs to elect 100 percent

Federal rate payments rather than the transition blend.

We also proposed an updated fixed-loss amount for determining outlier payments based on the updated proposed Federal rate (as discussed in section VII. of this preamble).

In section IV.C. of the March 7, 2003, proposed rule, we stated that we did not propose an update to the LTC-DRG classifications or relative weights at this time. Currently, the LTC-DRG patient classifications used by the LTCH PPS for FY 2003 are based directly on the same version of DRGs used by the IPPS, that is, GROUPE 20.0. Therefore, we did not propose any change to the timing of the annual update of the LTC-DRG classifications and relative weights. They will remain linked to the annual adjustments of the acute care hospital inpatient DRG system, which are based on the annual revisions to the ICD-9-CM codes, effective each October 1. Table 3 of the Addendum to the August 30, 2002, final rule (67 FR 56076-56084), which were reprinted as Table 3 of the Addendum to the March 7, 2003, proposed rule, contains the LTC-DRG classifications and relative weights that we proposed to continue to apply to discharges occurring during the period of July 1, 2003, through September 30, 2003. As an aid in calculating payment under the short-stay outlier policy, under § 412.529, we also are including, in column 3 of Table 3, the proposed five-sixths average length of stay that will be applied to each LTC-DRG in determining whether the LTCH stay is a short-stay outlier. The average length of stay for each DRG based on the FY 2001 MedPAR data, which were used for the FY 2003 LTCH PPS final rule, are still the best available complete LTCH discharge data available at this time.

The revised LTC-DRG classifications and relative weights for discharges occurring from October 1, 2003, through September 30, 2004, for payments under the LTCH PPS during that period would continue to be updated on a Federal fiscal year cycle as is the case for the acute care hospital inpatient DRG system. The FY 2004 DRGs and relative weights for the IPPS had not yet been proposed by the time the March 7, 2003, proposed rule was published and we were unable to propose updated LTC-DRGs and relative weights (which would be based on the proposed updated acute care hospital inpatient DRGs). Thus, we proposed that the LTC-DRG classifications and relative weights would be presented for public comment in the proposed rule for the IPPS and finalized in the IPPS final rule, with an effective date of October 1, 2003.

The proposed change in the LTCH PPS rate year for the LTCH PPS from October 1 through September 30 to July 1 through June 30 means that, although the Federal rate calculations in the August 30, 2002, final rule were based on a 12-month year, only 9 months will elapse before the July 1, 2003, update. In the March 7, 2003, proposed rule, we proposed to make a prospective adjustment to the market basket update to take into account this 3-month differential in setting the rates for July 1, 2003, through June 30, 2004.

Specifically, we explained that the proposed updates for the proposed 2004 LTCH PPS rate year would be affected as follows:

- The proposed update to the standard Federal rate calculated in accordance with § 412.523(c)(3) would be adjusted to account for updating the standard Federal rate on July 1, 2003, instead of October 1, 2003.

- The fixed-loss amount for determining high-cost outlier payments under § 412.525(a) would also be updated based on the Federal rate effective for July 1, 2003, through June 30, 2004.

In section VI.B.1 of the March 7, 2003, proposed rule, we discussed the proposed computational adjustments resulting from our proposed establishment of a LTCH PPS rate year beginning July 1, 2003, through June 30, 2004.

In the March 7, 2003, proposed rule, we stated that several provisions of the LTCH PPS would not be affected by the change in the annual rate update year for the LTCH PPS from October 1 to July 1 because these policies are not based on any of the Federal rate calculations for the LTCH PPS. Specifically, the following provisions would not be affected:

- The transition blends provided for under § 412.533(a) will not be affected because they are linked to the start of each LTCH's cost reporting period, rather than to the start of the Federal fiscal year. (LTCHs being paid under the transition blend methodology will receive those blends for the entire 5-year transition period, unless they elect payments based on 100 percent of the Federal rate.) For instance, for cost reporting periods that began on or after October 1, 2002, and before October 1, 2003, the total payment for a LTCH is 80 percent of the amount that will be calculated under the reasonable cost-based payment system for that specific LTCH and 20 percent of the Federal prospective payment amount. For cost reporting periods beginning on or after October 1, 2003, and before October 1, 2004, the total payment for a LTCH is