

1992 base year to a FY 1997 base year would be consistent with the rebasing of both the hospital inpatient market basket used under the IPPS and the excluded hospital market basket used to update the target amounts under the reasonable cost-based payment system for FY 2003, as discussed in the August 1, 2002, IPPS final rule (67 FR 50032–50047). We received no comments on the proposed revising and rebasing of the LTCH PPS market basket. Therefore, in this final rule, we are adopting the FY 1997-based excluded hospital with capital market basket as the LTCH PPS market basket beginning with the 2004 LTCH PPS rate year. Below we are providing a discussion of the development of the FY 1997-based excluded hospital with capital market basket, as we presented in the March 7, 2003, proposed rule (68 FR 11245–11247).

The operating portion of the FY 1997-based excluded hospital with capital market basket that we are using under the LTCH PPS beginning with the 2004 LTCH PPS rate year is derived from the FY 1997-based excluded hospital market basket used under the reasonable cost-based payment system. The methodology we used to develop the operating portion of the market basket under the LTCH PPS is the same methodology used to revise and rebase the excluded hospital market basket used under the reasonable cost-based payment system, which is described in greater detail in the August 1, 2002, IPPS final rule (67 FR 50042–50044). In

brief, the operating cost category weights in the FY 1997-based excluded market basket add up to 100.0. These weights were determined based on FY 1997 Medicare cost report data, the 1997 Business Expenditure Survey, and the 1997 Annual Input-Output data from the Bureau of the Census. In determining the FY 1997-based market basket, as we discussed in the March 7, 2003, proposed rule (68 FR 11245–11247), we also revised the market basket by making the same two methodological revisions that we established when we revised and rebased the hospital inpatient market basket and the excluded hospital market basket in the August 1, 2002, IPPS final rule—(1) Changing the wage and benefit price proxies to use the Employment Cost Index (ECI) wage and benefit data for hospital workers; and (2) adding a cost category for blood and blood products.

When we add the weight for capital costs to the excluded hospital market basket, the sum of the operating and capital weights must still equal 100.0. Based on data from FY 1997 Medicare cost reports for excluded hospitals, the capital cost weight is 8.968 percent. Because capital costs account for 8.968 percent of total costs for excluded hospitals in FY 1997, operating costs must, therefore, account for 91.032 percent (100 percent minus 8.968 percent). Each operating cost category weight in the FY 1997-based excluded hospital market basket from the August 1, 2002, IPPS final rule (67 FR 50442–

50444) was multiplied by 0.91032 to determine its weight in the FY 1997-based excluded hospital with capital market basket.

As we discussed in the March 7, 2003, proposed rule (68 FR 11245–11247), the aggregate capital component of the FY 1997-based excluded hospital market basket (8.968 percent) was determined from the same set of Medicare cost reports used to derive the operating component. The detailed capital cost categories of depreciation, interest, and other capital expenses were also determined using those Medicare cost reports. We needed to determine two sets of weights for the capital portion of the proposed revised and rebased market basket. The first set of weights identifies the proportion of capital expenditures attributable to each capital cost category; the second set represents relative vintage weights for depreciation and interest. The vintage weights identify the proportion of capital expenditures that is attributable to each year over the useful life of capital assets within a cost category (*see* 67 FR 50046–50047, August 1, 2002, for a discussion of how vintage weights are determined).

The cost categories, price proxies, and base-year FY 1992 and FY 1997 weights for the excluded hospital with capital market basket used under the LTCH PPS beginning with the 2004 LTCH PPS rate year are presented below in Table I. The vintage weights for the FY 1997-based excluded hospital with capital market basket are presented below in Table II.

TABLE I.— EXCLUDED HOSPITAL WITH CAPITAL INPUT PRICE INDEX (FY 1992-BASED AND FY 1997-BASED) STRUCTURE AND WEIGHTS

Cost category	Price/wage variable	Weights (%) Base-Year FY 1992 ^{1,2}	Weights (%) Base-Year FY 1997 ^{1,2}
Total .....	.....	100.000	100.000
Compensation .....	.....	57.935	57.579
Wages and Salaries	ECI—Wages and Salaries, Civilian Hospital Workers	47.417	47.335
Employee Benefits	ECI—Benefits, Civilian Hospital Workers to Capture Total Costs	10.519	10.244
Professional fees	ECI—Compensation: Professional & Technical	1.908	4.423
Utilities .....	.....	1.524	1.180
Electricity	PPI—Commercial Electric Power	0.916	0.726
Fuel Oil, Coal, etc	PPI—Commercial Natural Gas	0.365	0.248
Water and Sewerage	CPI—U—Water & Sewerage Maintenance	0.243	0.206
Professional Liability	CMS—Professional Liability Insurance Premiums Index	0.983	0.733
All Other Products and .....	.....	28.571	27.117
All Other Products .....	.....	22.027	17.914
Pharmaceuticals	PPI—Ethical (Prescription) Drugs	2.791	6.318
Food: Direct Purchase	PPI—Processed Foods and Feeds	2.155	1.122
Food: Contract	CPI—U—Food Away from Home	0.998	1.043
Chemicals	PPI—Industrial Chemicals	3.413	2.133
Blood and Blood	PPI—Blood and Blood Derivatives, Human Use .....	.....	0.748
Medical Instruments	PPI—Medical Instruments & Equipment	2.868	1.795
Photographic Supplies	PPI—Photographic Supplies	0.364	0.167
Rubber and Plastics	PPI—Rubber & Plastic Products	4.423	1.366
Paper Products	PPI—Converted Paper and Paperboard Products	1.984	1.110
Apparel	PPI—Apparel	0.809	0.478
Machinery and	PPI—Machinery & Equipment	0.193	0.852