

TABLE III.—PERCENT CHANGES IN THE FY 1992-BASED AND FY 1997-BASED EXCLUDED HOSPITAL WITH CAPITAL MARKET BASKETS, FYS 1999–2004

Fiscal year (FY)	Percentage change	
	FY 1992-based excluded hospital market basket	Rebased FY 1997-based excluded market basket
1999	2.3	2.7
2000	3.4	3.1
2001	3.9	4.0
2002	2.7	3.6
Average historical	3.1	3.4
2003	3.1	3.7
2004	2.9	3.3
Average forecast	3.0	3.5

In the August 30, 2002, LTCH PPS final rule (67 FR 56016 and 56085–56086), we discussed why we believe the excluded hospital with capital market basket provides a reasonable measure of the price changes facing LTCHs. However, as we discussed in the March 7, 2003, proposed rule (68 FR 11247), we have been researching the feasibility of developing a market basket specific to LTCH services. This research has included analyzing data sources for cost category weights, specifically the Medicare cost reports, and investigating other data sources on cost, expenditure, and price information specific to LTCHs. Based on this research, we did not propose to develop a market basket specific to LTCH services.

As we stated in the March 7, 2003, proposed rule (68 FR 11247), our analysis of the Medicare cost reports indicates that the distribution of costs among major cost report categories (wages, pharmaceuticals, capital) for LTCHs is not substantially different from the 1997-based excluded hospital with capital market basket. Data on other major cost categories (benefits, blood, contract labor) that we would like to analyze were excluded by many LTCHs in their Medicare cost reports. An analysis based on only the data available to us for these cost categories presented a potential problem since no other major cost category weight would be based on LTCH data.

Furthermore, as we discussed in the March 7, 2003, proposed rule (68 FR 11247), we conducted a sensitivity analysis of annual percent changes in the market basket when the weights for wages, pharmaceuticals, and capital in LTCHs were substituted into the excluded hospital with capital market basket. Other cost categories were recalibrated using ratios available from the IPPS market basket. On average between FY 1995 and FY 2002, the

excluded hospital with capital market basket shows increases at nearly the same average annual rate (2.9 percent) as the market basket with LTCH weights for wages, pharmaceuticals, and capital (2.8 percent). This difference is less than the 0.25 percentage point criterion that determines whether a forecast error adjustment is warranted under the IPPS update framework.

We believe that an excluded hospital with capital market basket adequately reflects the price changes facing LTCHs. In the March 7, 2003, proposed rule, we stated that we would continue to solicit comments about issues particular to LTCHs that should be considered in relation to the FY 1997-based excluded hospital with capital market basket and to encourage suggestions for additional data sources that may be available.

As we noted above, we received no comments on the proposed revising and rebasing of the LTCH PPS market basket. Accordingly, in this final rule, we are adopting the FY 1997-based excluded hospital with capital market basket as the LTCH PPS market basket for application beginning with the 2004 LTCH PPS rate year.

b. LTCH Market Basket Increase for the 2004 LTCH Rate Year

As we discussed in the March 7, 2003, proposed rule (68 FR 11247), for LTCHs paid under the LTCH PPS, we proposed that the 2004 rate year update would apply to discharges occurring from July 1, 2003, through June 30, 2004. Because we are changing the timeframe of the LTCH PPS standard Federal rate annual update, as we discuss in section IV. of this preamble, we needed to calculate an update factor that will reflect this change in the update cycle. Presently, the current rate cycle is October 1, 2002, through September 30, 2003. This means that the FY 2003 standard Federal rate (\$34,956.15; see the August

30, 2002, final rule (67 FR 56033)) was determined based on the market basket increase through September 30, 2003. As we explained in the March 7, 2003, proposed rule (68 FR 11247), since we proposed to change the rate update cycle and, therefore, update the standard Federal rate 3 months early (that is, July 1, 2003, instead of October 1, 2003), we needed to propose an adjustment to the projected full (12-month) market basket increase to eliminate the projected increase for the 3-month overlapping period (July 1, 2003, through September 30, 2003).

Thus, we need to account for the fact that the FY 2003 standard Federal rate of \$34,956.15 already includes an update for the 3-month period from July 1, 2003, through September 30, 2003. In the absence of this proposed change, as we discussed in the March 7, 2003, proposed rule (68 FR 11247–11248), the update for FY 2004 would have been calculated using the estimated increase between FY 2003 and FY 2004. For the proposed update for the proposed 2004 LTCH PPS rate year, we calculated the estimated increase between FY 2003 and the proposed 2004 LTCH PPS rate year. As we discussed in that same proposed rule, based on the fourth quarter 2002 forecast of the proposed revised and rebased FY 1997-based excluded hospital with capital market basket, we determined that the projected market basket increase for the 3-month period of July 1, 2003, through September 30, 2003, would be 0.8 percentage points. The projected market basket increase for this 3-month period (0.8 percent) was already included in the FY 2003 standard Federal rate and, therefore, needed to be deducted from the projected market basket increase for the 12-month period of July 1, 2003, through June 30, 2004 (3.3 percent), in order to account for the proposed change in the update cycle. Therefore,