

PPS rate year, we proposed a standard Federal rate of \$35,726.64. Since the proposed standard Federal rate has already been adjusted for differences in case-mix, wages, cost-of-living, and high-cost outlier payments, we did not propose any additional adjustments in the proposed standard Federal rate for these factors.

In this final rule, we are establishing a standard Federal rate of \$35,726.18 for the 2004 LTCH PPS rate year. Since the 2004 LTCH PPS rate year standard Federal rate has already been adjusted for differences in case-mix, wages, cost-of-living, and high-cost outlier payments, we did not make any additional adjustments in the standard Federal rate for these factors.

#### *C. Calculation of LTCH Prospective Payments for the 2004 LTCH PPS Rate Year*

The basic methodology for determining prospective payment rates for LTCH inpatient operating and capital-related costs is set forth in § 412.515 through § 412.532. In accordance with § 412.515, we assign appropriate weighting factors to each LTC-DRG to reflect the estimated relative cost of hospital resources used for discharges within that group as compared to discharges classified within other groups. The amount of the prospective payment is based on the standard Federal rate, established under § 412.523, and adjusted for the LTC-DRG relative weights, differences in area wage levels, cost-of-living in Alaska and

Hawaii, high-cost outliers, and other special payment provisions (short-stay outliers under § 412.529 and interrupted stays under § 412.531). In accordance with § 412.533, during the 5-year transition period, payment is based on the applicable transition blend percentage of the adjusted Federal rate and the reasonable cost-based payment rate unless the LTCH makes a one-time election to receive payment based on 100 percent of the Federal rate. A LTCH defined as “new” under § 412.23(e)(4) is paid based on 100 percent of the Federal rate with no blended transition payments (§ 412.533(d)). As discussed in the August 30, 2002, final rule and in accordance with § 412.533(a), the applicable transition blends are as follows:

Cost reporting periods beginning on or after	Federal rate percentage	Reasonable cost-based payment rate percentage
October 1, 2002 .....	20	80
October 1, 2003 .....	40	60
October 1, 2004 .....	60	40
October 1, 2005 .....	80	20
October 1, 2006 .....	100	0

Accordingly, for cost reporting periods that begin during FY 2003 (that is, on or after October 1, 2002, and before September 30, 2003), blended payments under the transition methodology are based on 80 percent of the LTCH's reasonable cost-based payment rate and 20 percent of the adjusted Federal rate. For cost reporting periods that begin during FY 2004 (that is, on or after October 1, 2003, and before September 30, 2004), blended payments under the transition methodology will be based on 60 percent of the LTCH's reasonable cost-based principles rate and 40 percent of the adjusted Federal rate.

#### 1. Adjustment for Area Wage Levels

Under the authority of section 307(b) of Public Law 106–554, we established an adjustment to account for differences in LTCH area wage levels under § 412.525(c) using the labor-related share estimated by the excluded hospital market basket with capital and wage indices that were computed using wage data from inpatient acute care hospitals without regard to reclassification under section 1886(d)(8) or section 1886(d)(10) of the Act. Furthermore, as we discussed in the August 30, 2002, final rule (67 FR 56015–56019), we established a 5-year transition to the full wage adjustment. For cost reporting periods beginning on

or after October 1, 2002, and before September 30, 2003 (FY 2003), the applicable LTCH wage index value is one-fifth of the full FY 2002 acute care hospital inpatient wage index data, without taking into account geographic reclassification under section 1886(d)(8) and section 1886(d)(10) of the Act.

In that same final rule (67 FR 56018), we stated that we would continue to reevaluate LTCH data as they become available and would propose to adjust the phase-in if subsequent data support a change. As we stated in the March 7, 2003, proposed rule (68 FR 11249), because the LTCH PPS was only recently implemented, sufficient new data have not been generated that would enable us to conduct a comprehensive reevaluation of the appropriateness of adjusting the phase-in. However, we reviewed the most recent data available and did not find any evidence to support a change in the 5-year phase-in of the wage index. Therefore, in the March 7, 2003, proposed rule, we did not propose to adjust the phase-in of the wage index adjustment at this time.

*Comment:* One commenter requested that we reconsider accelerating the phase-in of the wage index adjustment.

*Response:* As we stated above, because the LTCH PPS was only recently implemented, sufficient new data have not been generated that would enable us to conduct a comprehensive

reevaluation of the appropriateness of adjusting the phase-in. For this final rule, we reviewed the most recent data available again and still did not find any evidence to support a change in the 5-year phase-in of the wage index. Therefore, in this final rule, we are not revising the phase-in of the wage index adjustment.

In addition, as we discussed in the March 7, 2003, proposed rule (68 FR 11249), the 5-year phase-in of the wage index would not be affected by the proposed establishment of a LTCH PPS rate year of July 1 to June 30. Instead, the 5-year phase-in of the wage index established in the August 30, 2002 final rule (67 FR 56018) will continue to follow the Federal fiscal year. That is, for cost reporting periods beginning on or after October 1, 2003, and before September 30, 2004 (FY 2004; the second year of the phase-in), the applicable LTCH wage index will be two-fifths of the applicable LTCH PPS index values discussed below. However, as we stated in that same proposed rule, we will reevaluate LTCH data as they become available and propose to adjust the phase-in if subsequent data support a change.

As we noted above, we have not found any evidence to support a change in the 5-year phase-in of the wage index adjustment at this time. Therefore, we are not adopting the commenter's