

of payment under Medicare HH PPS is a national standardized 60-day episode rate. As set forth in 42 CFR 484.220, we adjust the national standardized 60-day episode rate by case mix and wage index based on the site of service for the beneficiary. The FY 2004 HH PPS rates use the same case-mix methodology and application of the wage index adjustment to the labor portion of the HH PPS rates as set forth in the July 3, 2000 final rule. We multiply the national 60-day episode rate by the patient's applicable case-mix weight. We divide the case-mix adjusted amount into a labor and non-labor portion. We multiply the labor portion by the applicable wage index based on the site of service of the beneficiary. The labor portion of the rate continues to be .77668 and the non-labor portion of the rate continues to be .22332. We add the wage-adjusted portion to the non-labor portion yielding the case-mix and wage-adjusted 60-day episode rate subject to applicable adjustments.

For FY 2004, we use again the design and case-mix methodology described in section III.G of the HH PPS July 3, 2000 final rule (65 FR 41192 through 41203). For FY 2004, we base the wage index adjustment to the labor portion of the PPS rates on the most recent pre-floor and pre-reclassified hospital wage index available at the time of publication of this notice, which is discussed in section III.C of this notice with comment period.

As discussed in the July 3, 2000 HH PPS final rule, for episodes with four or fewer visits, Medicare pays the national per-visit amount by discipline, referred to as a LUPA. We update the national per-visit amounts by discipline annually by the applicable home health market basket. We adjust the national per-visit amount by the appropriate wage index based on the site of service for the beneficiary as set forth in § 484.230. We adjust the labor portion of the updated national per-visit amounts by discipline used to calculate the LUPA by the most recent pre-floor and pre-reclassified hospital wage index available at the time of publication of this notice, as

discussed in section III.C of this notice with comment period.

Medicare pays the 60-day case-mix and wage-adjusted episode payment on a split percentage payment approach. The split percentage payment approach includes an initial percentage payment and a final percentage payment as set forth in § 484.205(b)(1) and (b)(2). We may base the initial percentage payment on the submission of a request for anticipated payment and the final percentage payment on the submission of the claim for the episode, as discussed in regulations in § 409.43. The claim for the episode that the HHA submits for the final percentage payment determines the total payment amount for the episode and whether we make an applicable adjustment to the 60-day case-mix and wage-adjusted episode payment. The end date of the 60-day episode as reported on the claim determines the rate level at which Medicare will pay the claim for the fiscal period.

In summary, we may adjust the 60-day case-mix and wage adjusted episode payment based on the information submitted on the claim to reflect the following:

- A low utilization payment provided on a per-visit basis as set forth in § 484.205(c) and § 484.230.
- A partial episode payment adjustment as set forth in § 484.205(d) and § 484.235.
- A significant change in condition adjustment as set forth in § 484.205(e) and § 484.237.
- An outlier payment as set forth in § 484.205(f) and § 484.240.

This notice with comment period reflects the updated FY 2004 rates that are effective October 1, 2003.

B. Structure and Methodology for FY 2004 Market Basket

On July 1, 1996, we published a notice with comment period (61 FR 34349) in the **Federal Register** that fully explained the structure and methodology of the current home health market basket. The home health market basket captures the "pure price" change

between payment years associated with providing home health services. In column 1 of Table 1, we have provided the 1993-based cost category components. In column 2 of Table 1, the weights in the home health market basket represent the average cost structure for freestanding HHAs for a base year, currently 1993. The weights are derived using Medicare Cost Reports for freestanding HHAs, augmented with additional information from the U.S. Department of Commerce, Bureau of Economic Analysis' Input-Output Tables. In column 3 of Table 1, the proxies used in the home health market basket are selected for their representativeness in tracking pure price changes and are generally publicly available price series from the U.S. Bureau of Labor Statistics. In column 4 of Table 1, the home health market basket percent change, or update, for FY 2004 is calculated as the weighted average of these specific price proxy changes. We feel that the home health market basket accurately reflects the price changes facing HHAs in providing an efficient level of care.

Market baskets are periodically rebased and revised to a more current base year. To this end, we have been monitoring the most recently available data (for proposes of this analysis, we used 1999 data) on the distribution of costs in providing home health services and the appropriateness of our price proxies. Though this work is still very preliminary, the distribution of costs through 1999 does not appear to be dramatically different than the distribution of costs in the 1993 base year. We will continue to monitor these data, particularly data for the periods after prospective payment began, to determine the most appropriate time to rebase and revise the home health market basket. In Table 1 below, we set forth the 1993-based cost categories, weights, price proxies, and FY 2004 updates for the market basket forecast. In Table 2 below, we have provided a comparison of the FY 2003 and FY 2004 updates to the home health market basket.

TABLE 1.—1993-BASED COST CATEGORIES, WEIGHTS, PRICE PROXIES, AND FY 2004 UPDATES

Cost category	1993-based market basket weight	Price proxy	FY 2004 update (percent)
Total	100.000	3.3
Compensation, including allocated Contract Services' labor	77.668	3.6
Wages and salaries, including allocated contract services' labor	64.226	HHA Occupational Wage Index	3.4
Employee benefits, including allocated contract services' labor	13.442	HHA Occupational Benefits Index	4.7
Operations & Maintenance	0.832	CPI-U Fuel & Other Utilities	0.5
Administrative & General, including allocated contract services' non-labor ...	9.569	2.7
Telephone	0.725	CPI-U Telephone	0.6