

standardized amounts “for area differences in hospital wage levels by a factor (established by the Secretary) reflecting the relative hospital wage level in the geographic area of the hospital compared to the national average hospital wage level.” In accordance with the broad discretion conferred under the Act, we currently define hospital labor market areas based on the definitions of Metropolitan Statistical Areas (MSAs), Primary MSAs (PMSAs), and New England County Metropolitan Areas (NECMAs) issued by the Office of Management and Budget (OMB). OMB also designates Consolidated MSAs (CMSAs). A CMSA is a metropolitan area with a population of one million or more, comprising two or more PMSAs (identified by their separate economic and social character). For purposes of the hospital wage index, we use the PMSAs rather than CMSAs because they allow a more precise breakdown of labor costs. If a metropolitan area is not designated as part of a PMSA, we use the applicable MSA. For purposes of the IPPS wage index, rural areas are counties outside a designated MSA, PMSA, or NECMA. For purposes of the wage index, we combine all of the rural counties in a State to calculate a rural wage index for that State.

We note that, effective April 1, 1990, the term Metropolitan Area (MA) replaced the term MSA (which had been used since June 30, 1983) to describe the set of metropolitan areas consisting of MSAs, PMSAs, and CMSAs. The terminology was changed by OMB in the March 30, 1990 **Federal Register** to distinguish between the individual metropolitan areas known as MSAs and the set of all metropolitan areas (MSAs, PMSAs, and CMSAs) (55 FR 12154). For purposes of the IPPS, we continue to refer to these areas as MSAs.

Under section 1886(d)(8)(B) of the Act, hospitals in certain rural counties adjacent to one or more MSAs are considered to be located in one of the adjacent MSAs if certain standards are met. Under section 1886(d)(10) of the Act, the Medicare Geographic Classification Review Board (MGCRB) considers applications from hospitals for geographic reclassification from a rural area to a MSA, from one rural area to another rural area, or from one MSA to another MSA for purposes of payment under the IPPS.

On June 6, 2003, the Office of Management and Budget (OMB) issued OMB Bulletin No. 03–04, announcing revised definitions of Metropolitan Statistical Areas and new definitions of Micropolitan Statistical Areas and Combined Statistical Areas. A copy of

the bulletin may be obtained at the following Internet address: <http://www.whitehouse.gov/omb/bulletins/b03–04.html>. According to OMB, “(t)his bulletin provides the definitions of all Metropolitan Statistical Areas, Metropolitan Divisions, Micropolitan Statistical Areas, Combined Statistical Areas, and New England City and Town Areas in the United States and Puerto Rico based on the standards published on December 27, 2000, in the **Federal Register** (65 FR 82228–82238) and Census 2000 data.”

In the proposed rule, we stated that we would evaluate the new area designations and their possible effects on the Medicare hospital wage index. In addition, we proposed that the earliest usage of these new definitions would be the FY 2005 wage index.

The new definitions recognize 49 new Metropolitan Statistical Areas and 565 new Micropolitan Statistical Areas, as well as extensively revising the construct of many of the existing Metropolitan Areas. For example, according to OMB’s previous definition of the Asheville, NC MSA, this Metropolitan Statistical Area was comprised of Buncombe and Madison counties. When we apply the new definitions, Asheville’s Metropolitan Statistical Area includes both Buncombe and Madison counties, as well as Henderson and Haywood counties. An example of a Micropolitan Statistical Area is that of Elizabeth City, NC which includes Camden, Pasquotank, and Perquimans counties. These were non-Metropolitan Statistical Area counties in previous OMB definitions.

In order to implement these changes for the IPPS, it is necessary to identify the new area designation for each county and hospital in the country. Because this process will have to be extensively reviewed and verified, we are unable to undertake it before publication of this final rule. In addition, because we wish to engage in notice and comment rulemaking, prior to adopting these changes, it would be impractical to have done so prior to this final rule. (We note that the OMB Bulletin was issued during the comment period and we did not receive any comments regarding whether the new definitions should be applied to the FY 2004 wage index or objecting to our proposed policy of implementing the changes in FY 2005 at the earliest.)

Finally, geographic reclassification decisions for FY 2004 have already been made based on the previous Metropolitan Statistical Area definitions. These decisions would have to be individually reevaluated if we

were to adopt the new OMB definitions for FY 2004. This would not be possible to accomplish while complying with the requirement of section 1886(d)(6) of the Act to publish this annual IPPS update final rule by August 1. For these reasons, at this time, we are not applying these new definitions to the FY 2004 wage index.

Comment: Several commenters recommended that when CMS does implement OMB’s new definitions, it should adopt the new 49 MSAs as outlined in the OMB Bulletin. However, the commenters mentioned that the adoption of the MSAs for FY 2004 would be premature, given the magnitude of the policy change. One commenter encouraged CMS to issue a rule or to elaborate on plans for the new Metropolitan and Micropolitan Statistical Area definition changes as soon as possible to allow time for impact analysis, as well as public comments and input. One commenter raised concerns with respect to the criteria that OMB used to define the new MSAs.

Response: We indicated in the proposed IPPS rule that we would need to assess these new definitions before adopting them. In order to implement such a change, it will be necessary to identify the new area designation for each county and hospital in the country, requiring extensive review and verification. We will undertake this analysis as soon as possible. We intend to move very deliberately and expeditiously regarding these potentially vast changes. Any changes would be made through notice and comment rulemaking. Therefore, we are not addressing technical comments relating to the new MSAs in this document.

Beginning October 1, 1993, section 1886(d)(3)(E) of the Act requires that we update the wage index annually. Furthermore, this section provides that the Secretary base the update on a survey of wages and wage-related costs of short-term, acute care hospitals. The survey should measure, to the extent feasible, the earnings and paid hours of employment by occupational category, and must exclude the wages and wage-related costs incurred in furnishing skilled nursing services. This provision also requires us to make any updates or adjustments to the wage index in a manner that ensures that aggregate payments to hospitals are not affected by the change in the wage index. This adjustment is discussed in section II.4.a. of the Addendum to this final rule.

As discussed below in section III.F. of this preamble, we also take into account the geographic reclassification of