

MIDPOINT OF COST REPORTING PERIOD

After	Before	Adjustment factor
10/14/1999	11/15/1999	1.06794
11/14/1999	12/15/1999	1.06447
12/14/1999	01/15/2000	1.06083
01/14/2000	02/15/2000	1.05713
02/14/2000	03/15/2000	1.05335
03/14/2000	04/15/2000	1.04954
04/14/2000	05/15/2000	1.04571
05/14/2000	06/15/2000	1.04186
06/14/2000	07/15/2000	1.03786
07/14/2000	08/15/2000	1.03356
08/14/2000	09/15/2000	1.02898
09/14/2000	10/15/2000	1.02425
10/14/2000	11/15/2000	1.01953
11/14/2000	12/15/2000	1.01482
12/14/2000	01/15/2001	1.01004
01/14/2001	02/15/2001	1.00509
02/14/2001	03/15/2001	1.00000
03/14/2001	04/15/2001	0.99491

For example, the midpoint of a cost reporting period beginning January 1, 2000 and ending December 31, 2000 is June 30, 2000. An adjustment factor of 1.03786 would be applied to the wages of a hospital with such a cost reporting period. In addition, for the data for any cost reporting period that began in FY 2000 and covered a period of less than 360 days or more than 370 days, we annualized the data to reflect a 1-year cost report. Annualization is accomplished by dividing the data by the number of days in the cost report and then multiplying the results by 365.

Step 6—Each hospital was assigned to its appropriate urban or rural labor market area before any reclassifications under section 1886(d)(8)(B) or section 1886(d)(10) of the Act. Within each urban or rural labor market area, we added the total adjusted salaries plus wage-related costs obtained in Step 5 for all hospitals in that area to determine the total adjusted salaries plus wage-related costs for the labor market area.

Step 7—We divided the total adjusted salaries plus wage-related costs obtained under both methods in Step 6 by the sum of the corresponding total hours (from Step 4) for all hospitals in each labor market area to determine an average hourly wage for the area.

Step 8—We added the total adjusted salaries plus wage-related costs obtained in Step 5 for all hospitals in the nation and then divided the sum by the national sum of total hours from Step 4 to arrive at a national average hourly wage. Using the data as described above, the national average hourly wage is \$24.8076.

Step 9—For each urban or rural labor market area, we calculated the hospital wage index value by dividing the area average hourly wage obtained in Step 7

by the national average hourly wage computed in Step 8.

Step 10—Following the process set forth above, we developed a separate Puerto Rico-specific wage index for purposes of adjusting the Puerto Rico standardized amounts. (The national Puerto Rico standardized amount is adjusted by a wage index calculated for all Puerto Rico labor market areas based on the national average hourly wage as described above.) We added the total adjusted salaries plus wage-related costs (as calculated in Step 5) for all hospitals in Puerto Rico and divided the sum by the total hours for Puerto Rico (as calculated in Step 4) to arrive at an overall average hourly wage of \$11.5905 for Puerto Rico. For each labor market area in Puerto Rico, we calculated the Puerto Rico-specific wage index value by dividing the area average hourly wage (as calculated in Step 7) by the overall Puerto Rico average hourly wage.

Step 11—Section 4410 of Public Law 105–33 provides that, for discharges on or after October 1, 1997, the area wage index applicable to any hospital that is located in an urban area of a State may not be less than the area wage index applicable to hospitals located in rural areas in that State. Furthermore, this wage index floor is to be implemented in such a manner as to ensure that aggregate IPPS payments are not greater or less than those that would have been made in the year if this section did not apply. For FY 2004, this change affects 150 hospitals in 49 MSAs. The MSAs affected by this provision are identified by a footnote in Table 4A in the Addendum of this final rule.

Comment: One commenter indicated that there are serious deficiencies in the payment rates to Iowa hospitals under IPPS because of the development and application of the wage index, and, accordingly, CMS must make revisions to the wage index in this final rule. The comment suggested that CMS should: reduce the labor-related portion of the standardized amount to which the wage index is applied; adjust the wage index upward to account for low Medicare payments; or utilize a wage index floor or compress the wage index.

Response: We appreciate the concerns expressed by this commenter about the impact of the wage index upon Iowa's hospitals. We strive each year to ensure the wage index accurately reflects the relative wage differences across labor market areas. Further, the methodology we use to compute the wage index values is the same for all urban and rural hospitals. Therefore, the wage index values we include in the proposed and final rules for Iowa

hospitals reflect the actual wage costs that are reported by these hospitals relative to those reported by hospitals across the nation.

With respect to the commenter's specific recommendations, we address comments related to the labor-related portion of the standardized amounts in section VII. of the preamble of this final rule. With respect to the other recommendations raised, these were not proposed and, therefore, we do not wish to implement them in this final rule. We are willing to explore these and other options in the future and to work with the commenter to address the concerns expressed.

Comment: One commenter indicated that we failed to address the problem associated with the exclusion of indirect patient care contract labor in the proposed rule. The commenter indicated that we recognized this problem in the FY 2002 final rule (67 FR 50022), but failed to carry out our commitment to address it.

Response: We indicated last year it would be necessary to revise the cost report form and instructions in order to collect the data necessary to separately identify the costs and hours associated with the following contracted overhead services: administrative and general; housekeeping; and dietary. In Transmittal Number 10 of the Medicare cost report, we revised Worksheet S–3, Part II to collect contract labor costs associated with these services, effective with cost reporting periods beginning on or after October 1, 2003.

We also indicated our final decision on whether to include contract indirect patient care labor costs in our calculation of the wage index will depend on the outcome of our analyses of the data collected and public comments.

F. Revisions to the Wage Index Based on Hospital Redesignation

1. General

Under section 1886(d)(10) of the Act, the Medicare Geographic Classification Review Board (MGCRB) considers applications by hospitals for geographic reclassification for purposes of payment under the IPPS. Hospitals can elect to reclassify for the wage index or the standardized amount, or both, and as individual hospitals or as rural groups. Generally, hospitals must be proximate to the labor market area to which they are seeking reclassification and must demonstrate characteristics similar to hospitals located in that area. Hospitals must apply for reclassification to the MGCRB. The MGCRB issues its decisions by the end of February for