

unchanged (0.9963). As we noted above, the capital rates effective for discharges occurring on or after April 1, 2003 through September 30, 2003 were used in determining the FY 2004 capital rates. In making the comparison, we set the regular and special exceptions reduction factors to 1.00.

To achieve budget neutrality for the changes in the national GAF, based on calculations using updated data, we are applying an incremental budget neutrality

adjustment of 1.0051 for FY 2004 to the previous cumulative FY 2003 adjustment (0.9883), yielding a cumulative adjustment of 0.9933 through FY 2004. For the Puerto Rico GAF, we are applying an incremental budget neutrality adjustment of 1.0002 for FY 2004 to the previous cumulative FY 2003 adjustment (0.9963), yielding a cumulative adjustment of 0.9965 through FY 2004.

We then compared estimated aggregate capital Federal rate payments based on the FY 2003 DRG relative weights and the FY

2003 GAF to estimated aggregate capital Federal rate payments based on the FY 2004 DRG relative weights and the FY 2004 GAF. The incremental adjustment for DRG classifications and changes in relative weights is 1.0008 both nationally and for Puerto Rico. The cumulative adjustments for DRG classifications and changes in relative weights and for changes in the GAF through FY 2004 are 0.9941 nationally and 0.9973 for Puerto Rico. The following table summarizes the adjustment factors for each fiscal year:

BUDGET NEUTRALITY ADJUSTMENT FOR DRG RECLASSIFICATIONS AND RECALIBRATION AND THE GEOGRAPHIC ADJUSTMENT FACTORS

| Fiscal year | National | | | | Puerto Rico | | | |
|-------------------------|------------------------------|---|----------------------|------------|------------------------------|--|----------------------|----------------------|
| | Incremental adjustment | | | Cumulative | Incremental adjustment | | | Cumulative |
| | Geographic adjustment factor | DRG reclassifications and recalibration | Combined | | Geographic adjustment factor | DRG Re-classifications and Recalibration | Combined | |
| 1992 | — | — | 1.00000 | — | — | — | — | — |
| 1993 | — | — | 0.99800 | 0.99800 | — | — | — | — |
| 1994 | — | — | 1.00531 | 1.00330 | — | — | — | — |
| 1995 | — | — | 0.99980 | 1.00310 | — | — | — | — |
| 1996 | — | — | 0.99940 | 1.00250 | — | — | — | — |
| 1997 | — | — | 0.99873 | 1.00123 | — | — | — | — |
| 1998 | — | — | 0.99892 | 1.00015 | — | — | — | 1.00000 |
| 1999 | 0.99944 | 1.00335 | 1.00279 | 1.00294 | 0.99898 | 1.00335 | 1.00233 | 1.00233 |
| 2000 | 0.99857 | 0.99991 | 0.99848 | 1.00142 | 0.99910 | 0.99991 | 0.99901 | 1.00134 |
| 2001 ¹ | 0.99782 | 1.00009 | 0.99791 | 0.99933 | 1.00365 | 1.00009 | 1.00374 | 1.00508 |
| 2001 ² | ³ 0.99771 | ³ 1.00009 | ³ 0.99780 | 0.99922 | ³ 1.00365 | ³ 1.00009 | ³ 1.00374 | 1.00508 |
| 2002 | ⁴ 0.99666 | ⁴ 0.99668 | ⁴ 0.99335 | 0.99268 | ⁴ 0.98991 | ⁴ 0.99668 | ⁴ 0.99662 | 0.99164 |
| 2003 ⁵ | 0.99915 | 0.99662 | 0.99577 | 0.98848 | 1.00809 | 0.99662 | 1.00468 | 0.99628 |
| 2003 ⁶ | ⁷ 0.99896 | ⁷ 0.99662 | ⁷ 0.99558 | 0.98830 | ⁷ 1.00809 | ⁷ 0.99662 | ⁷ 1.00468 | ⁷ 0.99628 |
| 2004 | ⁸ 1.00510 | 1.00081 | ⁸ 1.00591 | 0.99414 | ⁸ 1.00023 | ⁸ 1.00081 | ⁸ 1.00104 | 0.99731 |

¹ Factors effective for the first half of FY 2001 (October 2000 through March 2001).

² Factors effective for the second half of FY 2001 (April 2001 through September 2001).

³ Incremental factors are applied to FY 2000 cumulative factors.

⁴ Incremental factors are applied to the cumulative factors for the first half of FY 2001.

⁵ Factors effective for the first half of FY 2003 (October 2002 through March 2003).

⁶ Factors effective for the second half of FY 2003 (April 2003 through September 2003).

⁷ Incremental factors are applied to FY 2002 cumulative factors.

⁸ Incremental factors are applied to the cumulative factors for the second half of FY 2003.

The methodology used to determine the recalibration and geographic (DRG/GAF) budget neutrality adjustment factor for FY 2004 is similar to that used in establishing budget neutrality adjustments under the PPS for operating costs. One difference is that, under the operating PPS, the budget neutrality adjustments for the effect of geographic reclassifications are determined separately from the effects of other changes in the hospital wage index and the DRG relative weights. Under the capital PPS, there is a single DRG/GAF budget neutrality adjustment factor (the national capital rate and the Puerto Rico capital rate are determined separately) for changes in the GAF (including geographic reclassification) and the DRG relative weights. In addition, there is no adjustment for the effects that geographic reclassification has on the other payment parameters, such as the payments for serving low-income patients, indirect medical education payments, or the large urban add-on payments.

In the August 1, 2002 IPPS final rule (67 FR 50129), we calculated a GAF/DRG budget

neutrality factor of 0.9957 for FY 2003. As we noted above, as a result of the revisions to the GAF effective for discharges occurring on or after April 1, 2003 through September 30, 2003 published in the **Federal Register** on April 25, 2003 (68 FR 22272), we calculated a GAF/DRG budget neutrality factor of 0.9956 for discharges occurring on or after April 1, 2003 through September 30, 2003. Furthermore, as noted above, the capital rates effective for discharges occurring on or after April 1, 2003 through September 30, 2003 were used in determining the FY 2004 capital rates.

In the May 19, 2003 proposed rule (68 FR 27241), for FY 2004 we calculated a GAF/DRG budget neutrality factor of 1.0038. For this final rule, based on updated data, we are establishing a GAF/DRG budget neutrality factor of 1.0059 for FY 2004. The GAF/DRG budget neutrality factors are built permanently into the capital rates; that is, they are applied cumulatively in determining the capital Federal rate. This follows from the requirement that estimated aggregate payments each year be no more or less than

they would have been in the absence of the annual DRG reclassification and recalibration and changes in the GAF. The incremental change in the adjustment from FY 2003 to FY 2004 is 1.0059. The cumulative change in the capital Federal rate due to this adjustment is 0.9941 (the product of the incremental factors for FY 1993, FY 1994, FY 1995, FY 1996, FY 1997, FY 1998, FY 1999, FY 2000, FY 2001, FY 2002, FY 2003, and the incremental factor for FY 2004: $0.9980 \times 1.0053 \times 0.9998 \times 0.9994 \times 0.9987 \times 0.9989 \times 1.0028 \times 0.9985 \times 0.9979 \times 0.9934 \times 0.9956 \times 1.0059 = 0.9941$).

This factor accounts for DRG reclassifications and recalibration and for changes in the GAF. It also incorporates the effects on the GAF of FY 2004 geographic reclassification decisions made by the MGRB compared to FY 2003 decisions. However, it does not account for changes in payments due to changes in the DSH and IME adjustment factors or in the large urban add-on.