

August 1, 2002 IPPS final rule (67 FR 50131). This increase is primarily due to a refined analysis of more recent data.

The exceptions reduction factors are not built permanently into the capital rates; that is, the factors are not applied cumulatively in determining the capital Federal rate. Therefore, the net change in the exceptions adjustment factor used in determining the FY 2004 capital Federal rate is 0.9995/0.9970, or 1.0025.

5. Capital Standard Federal Rate for FY 2004

In the August 1, 2002 IPPS final rule (67 FR 50131) we established a capital Federal rate of \$407.01 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 August 25, 2003 in the **Federal Register** (68 FR 22272), we have established a capital Federal rate of \$406.93 for discharges occurring on or after April 1, 2003 through September 30, 2003. 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 this final rule, we are establishing a capital Federal rate of \$415.47 for FY 2004. The capital Federal rate for FY 2004 was calculated as follows:

- The FY 2004 update factor is 1.0070; that is, the update is 0.70 percent.
- The FY 2004 budget neutrality adjustment factor that is applied to the capital standard Federal payment rate for changes in the DRG relative weights and in the GAF is 1.0059.
- The FY 2004 outlier adjustment factor is 0.9521.
- The FY 2004 (special) exceptions payment adjustment factor is 0.9995.

Since the capital Federal rate has already been adjusted for differences in case-mix, wages, cost-of-living, indirect medical education costs, and payments to hospitals serving a disproportionate share of low-income patients, we are making no additional adjustments in the capital standard Federal rate for these factors, other than the budget

neutrality factor for changes in the DRG relative weights and the GAF.

We are providing a chart that shows how each of the factors and adjustments for FY 2004 affected the computation of the FY 2004 capital Federal rate in comparison to the FY 2003 capital Federal rate. The FY 2004 update factor has the effect of increasing the capital Federal rate by 0.70 percent compared to the FY 2003 capital Federal rate, while the GAF/DRG budget neutrality factor has the effect of increasing the capital Federal rate by 0.59 percent. The FY 2004 outlier adjustment factor has the effect of increasing the capital Federal rate by 0.55 percent compared to the FY 2003 capital Federal rate. The FY 2004 exceptions payment adjustment factor has the effect of increasing the capital Federal rate by 0.25 percent compared to the capital FY 2003. The combined effect of all the changes is to increase the capital Federal rate by 2.10 percent compared to the FY 2003 capital Federal rate.

COMPARISON OF FACTORS AND ADJUSTMENTS: FY 2003 CAPITAL FEDERAL RATE AND FY 2004 CAPITAL FEDERAL RATE

	FY 2003	FY 2004	Change	Percent change
Update factor ¹	1.0110	1.0070	1.0070	0.70
GAF/DRG Adjustment Factor ¹	0.9957	1.0059	1.0059	0.59
Outlier Adjustment Factor ²	0.9469	0.9521	1.0055	0.55
Exceptions Adjustment Factor ²	0.9970	0.9995	1.0025	0.25
Capital Federal Rate	\$406.93	\$415.47	³ 1.0210	³ 2.10

¹ The update factor and the GAF/DRG budget neutrality factors are built permanently into the capital rates. Thus, for example, the incremental change from FY 2003 to FY 2004 resulting from the application of the 1.0059 GAF/DRG budget neutrality factor for FY 2004 is 1.0059.

² The outlier reduction factor and the exceptions adjustment factor are not built permanently into the capital rates; that is, these factors are not applied cumulatively in determining the capital rates. Thus, for example, the net change resulting from the application of the FY 2004 outlier adjustment factor is 0.9521/0.9469, or 1.0055.

³ The percent change in factors and adjustments may not sum due to rounding.

We are also providing a chart that shows how the final FY 2004 capital Federal rate

differs from the proposed FY 2004 capital Federal rate.

COMPARISON OF FACTORS AND ADJUSTMENTS: FY 2004 PROPOSED CAPITAL FEDERAL RATE AND FY 2004 FINAL CAPITAL FEDERAL RATE

	Proposed FY 2004	Final FY 2004	Change	Percent change
Update factor	1.0070	1.0070	1.0000	0.00
GAF/DRG Adjustment Factor	1.0038	1.0059	1.0021	0.21
Outlier Adjustment Factor	0.9455	0.9521	1.0070	0.70
Exceptions Adjustment Factor	0.9995	0.9995	1.0000	0.00
Capital Federal Rate	\$411.72	\$415.47	1.0091	0.91

6. Special Capital Rate for Puerto Rico Hospitals

As explained at the beginning of section II.D. of this Addendum, hospitals in Puerto Rico are paid based on 50 percent of the Puerto Rico capital rate and 50 percent of the capital Federal rate. The Puerto Rico capital rate is derived from the costs of Puerto Rico hospitals only, while the capital Federal rate is derived from the costs of all acute care hospitals participating in the PPS (including Puerto Rico). To adjust hospitals' capital payments for geographic variations in capital costs, we apply a GAF to both portions of the blended capital rate. The GAF is calculated

using the operating PPS wage index and varies, depending on the MSA or rural area in which the hospital is located. We use the Puerto Rico wage index to determine the GAF for the Puerto Rico part of the capital-blended rate and the national wage index to determine the GAF for the national part of the blended capital rate.

Because we implemented a separate GAF for Puerto Rico in FY 1998, we also apply separate budget neutrality adjustments for the national GAF and for the Puerto Rico GAF. However, we apply the same budget neutrality factor for DRG reclassifications and recalibration nationally and for Puerto Rico.

As we stated in section III.A.4. of this Addendum, for Puerto Rico the GAF budget neutrality factor is 1.0002, while the DRG adjustment is 1.0008, for a combined cumulative adjustment of 0.9973.

In computing the payment for a particular Puerto Rico hospital, the Puerto Rico portion of the capital rate (50 percent) is multiplied by the Puerto Rico-specific GAF for the MSA in which the hospital is located, and the national portion of the capital rate (50 percent) is multiplied by the national GAF for the MSA in which the hospital is located (which is computed from national data for all hospitals in the United States and Puerto