

The aggregate capital component of the 1997-based excluded hospital market basket (8.968 percent) was determined from the same set of Medicare cost reports used to derive the operating component. The detailed capital cost categories of depreciation, interest, and other capital expenses were also determined using the Medicare cost reports. Two sets of weights for the capital portion of the revised and rebased market basket

needed to be determined. The first set of weights identifies the proportion of capital expenditures attributable to each capital cost category, while the second set represents relative vintage weights for depreciation and interest. The vintage weights identify the proportion of capital expenditures that is attributable to each year over the useful life of capital assets within a cost category (see the hospital inpatient prospective payment final rule

published in the **Federal Register** on August 1, 2002 (67 FR 50045 through 50047), for a discussion of how vintage weights are determined).

The cost categories, price proxies, and base-year FY 1992 and proposed FY 1997 weights for the excluded hospital with capital market basket are presented in Table 2 below. The vintage weights for the proposed 1997-based excluded hospital with capital market basket is presented in Table 2(A) below.

TABLE 2.—PROPOSED EXCLUDED HOSPITAL WITH CAPITAL INPUT PRICE INDEX (FY 1992 AND PROPOSED FY 1997) STRUCTURE AND WEIGHTS

Cost category	Price wage variable	Weights (%) base-year 1992	Proposed weights (%) base-year 1997
TOTAL .....		100.000	100.000
Compensation .....		57.935	57.579
Wages and Salaries .....	ECI—Wages and Salaries, Civilian Hospital Workers .....	47.417	47.355
Employee Benefits .....	ECI—Benefits, Civilian Hospital Workers to capture total costs (operating and capital), In order to capture total costs (operating and capital), HCFA Occupational Benefit Proxy.	10.519	10.244
Professional fees: Non-Medical .....	ECI—Compensation: Prof. & Technical .....	1.908	4.423
Utilities .....		1.524	1.180
Electricity .....	WPI—Commercial Electric Power .....	0.916	0.726
Fuel Oil, Coal, etc. ....	WPI—Commercial Natural Gas .....	0.365	0.248
Water and Sewerage .....	CPI—U—Water & Sewage .....	0.243	0.206
Professional Liability Insurance .....	HCFA—Professional Liability Premiums .....	0.983	0.733
All Other Products and Services ..		28.571	27.117
All Other Products .....		22.027	17.914
Pharmaceuticals .....	WPI—Prescription Drugs .....	2.791	6.318
Food: Direct Purchase .....	WPI—Processed Foods .....	2.155	1.122
Food: Contract Service .....	CPI—U—Food Away from Home .....	0.998	1.043
Chemicals .....	WPI—Industrial Chemicals .....	3.413	2.133
Blood and Blood Products .....	WPI—Blood and Derivatives .....		0.748
Medical Instruments .....	WPI—Med. Inst. & Equipment .....	2.868	1.795
Photographic Supplies .....	WPI—Photo Supplies .....	0.364	0.167
Rubber and Plastics .....	WPI—Rubber & Plastic Products .....	4.423	1.366
Paper Products .....	WPI—Convert. Paper and Paperboard .....	1.984	1.110
Apparel .....	WPI—Apparel .....	0.809	0.478
Machinery and Equipment .....	WPI—Machinery & Equipment .....	0.193	0.852
Miscellaneous Products .....	WPI—Finished Goods excluding Food and Energy .....	2.029	0.783
All Other Services .....		6.544	9.203
Telephone .....	CPI—U—Telephone Services .....	0.574	0.348
Postage .....	CPI—U—Postage .....	0.268	0.702
All Other: Labor .....	ECI—Compensation: Service Workers .....	4.945	4.453
All Other: Non-Labor Intensive ..	CPI—U—All Items (Urban) .....	0.757	3.700
Capital-Related Costs .....		9.080	8.968
Depreciation .....		5.611	5.586
Fixed Assets .....	Boeckh-Institutional Construction: 23 Year Useful Life .....	3.570	3.503
	Life Y_y_YYF e. ....		
Movable Equipment .....	WPI—Machinery & Equipment: 11 Year Useful life .....	2.041	2.083
Interest Costs .....		3.212	2.682
Non-profit .....	Avg. Yield Municipal Bonds: 23 Year Useful Life .....	2.730	2.280
For-profit .....	Avg. Yield AAA Bonds: 23 Year Useful Life .....	0.482	0.402
Other Capital Related Costs ..	CPI—U—Residential Rent .....	0.257	0.699

**Note:** The operating cost category weights in the proposed excluded hospital market basket add to 100.0. When we add an additional set of cost category weights (total capital weight = 8.968 percent) to this original group, the sum of the weights in the new index must still add to 100.0. Because capital costs account for 8.968 percent of the market basket, then operating costs account for 91.032 percent. Each weight in the proposed 1997-based excluded hospital market basket was multiplied by 0.91032 to determine its weight in the proposed 1997-based excluded hospital with capital market basket.

**Note:** Weights may not sum to 100.0 due to rounding.