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Centers for Medicare and Medicaid Services

Medicare Program; Prospective Payment System and Consolidated Billing for Skilled Nursing Facilities—Update; Notice

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Centers for Medicare & Medicaid Services

[CMS–1202–N]

Medicare Program; Prospective Payment System and Consolidated Billing for Skilled Nursing Facilities—Update; Notice

AGENCY: Centers for Medicare & Medicaid Services (CMS), HHS.

ACTION: Notice.

SUMMARY: This notice updates the payment rates used under the prospective payment system (PPS) for skilled nursing facilities (SNFs), for fiscal year (FY) 2003, as required by statute. Annual updates to the PPS rates are required by section 1888(e) of the Social Security Act (the Act), as amended by the Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999 (the BBRA), and the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (the BIPA), relating to Medicare payments and consolidated billing for SNFs.

EFFECTIVE DATE: This notice is effective on October 1, 2002.

FOR FURTHER INFORMATION CONTACT: Dana Burley, (410) 786–4547 (for information related to the case-mix classification methodology).

John Davis, (410) 786–0008 (for information related to the Wage Index).

Sheila Lambowitz, (410) 786–7605 (for information related to swing-bed providers).

Bill Ullman, (410) 786–5667 (for information related to level of care determinations, consolidated billing, and general information).

SUPPLEMENTARY INFORMATION: Because of the many terms to which we refer by abbreviation in this notice, we are listing these abbreviations and their corresponding terms in alphabetical order below:

ADL—Activity of Daily Living
AHE—Average Hourly Earnings
ARD—Assessment Reference Date
BBA—Balanced Budget Act of 1997, Pub.L. 105–33
BBRA—Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999, Pub.L. 106–113
BEA—(U.S.) Bureau of Economic Analysis
BIPA—Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000, Pub.L. 106–554
CAH—Critical Access Hospital
CFR—Code of Federal Regulations
CMS—Centers for Medicare & Medicaid Services
CPT—(Physicians') Current Procedural Terminology
DRG—Diagnosis Related Group
FI—Fiscal Intermediary
FR—Federal Register
FY—Fiscal Year
GAO—General Accounting Office
HCPCS—Healthcare Common Procedure Coding System
ICD–9–CM—International Classification of Diseases, Ninth Edition, Clinical Modification
IFC—Interim Final Rule with Comment Period
MDS—Minimum Data Set
MEDPAR—Medicare Provider Analysis and Review File
MIP—Medicare Integrity Program
MSA—Metropolitan Statistical Area
NECMA—New England County Metropolitan Area
OIG—Office of the Inspector General
OMRA—Other Medicare Required Assessment
PCE—Personal Care Expenditures
PPI—Producer Price Index
PPS—Prospective Payment System
PRM—Provider Reimbursement Manual
RAI—Resident Assessment Instrument
RAP—Resident Assessment Protocol
RAVEN—Resident Assessment Validation Entry
RFA—Regulatory Flexibility Act, Pub.L. 96–354
RIA—Regulatory Impact Analysis
RUG—Resource Utilization Groups
SCHIP—State Children's Health Insurance Program
SNF—Skilled Nursing Facility
STM—Staff Time Measure
UMRA—Unfunded Mandates Reform Act, Pub.L. 104–4

I. Background

On July 31, 2001, we published in the **Federal Register** (66 FR 39562) a final rule that set forth updates to the payment rates used under the prospective payment system (PPS) for skilled nursing facilities (SNFs), for fiscal year (FY) 2002. Annual updates to the PPS rates are required by section 1888(e) of the Social Security Act (the Act), as amended by the Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999 (BBRA) and the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA), relating to Medicare payments and consolidated billing for SNFs.

A. Current System for Payment of Skilled Nursing Facility Services Under Part A of the Medicare Program

Section 4432 of the Balanced Budget Act of 1997 (BBA) amended section 1888 of the Act to provide for the implementation of a per diem PPS for SNFs, covering all costs (routine, ancillary, and capital-related) of covered SNF services furnished to beneficiaries under Part A of the Medicare program, effective for cost reporting periods beginning on or after July 1, 1998. In this notice, we are updating the per diem payment rates for SNFs, for FY 2003. Major elements of the SNF PPS include:

- *Rates.* Per diem Federal rates were established for urban and rural areas using allowable costs from FY 1995 cost reports. These rates also included an estimate of the cost of services that, before July 1, 1998, had been paid under Part B but furnished to Medicare beneficiaries in a SNF during a Part A covered stay. The rates were adjusted annually using a SNF market basket index. Rates were case-mix adjusted using a classification system (Resource Utilization Groups, version III (RUG-III)) based on beneficiary assessments (using the Minimum Data Set (MDS) 2.0). The rates were also adjusted by the hospital wage index to account for geographic variation in wages. (In section II.C of this notice, we discuss the wage index adjustment in detail.) A correction notice was published on March 22, 2002 (67 FR 13278) that announced corrections to several of the wage factors. Additionally, as noted in the July 31, 2001 final rule (66 FR 39562), section 101 of the BBRA and sections 311, 312, and 314 of the BIPA also affect the payment rate.
- *Transition.* The SNF PPS included an initial 3-year, phased transition that blended a facility-specific payment rate with the Federal case-mix adjusted rate. For each cost reporting period after a facility migrated to the new system, the facility-specific portion of the blend decreased and the Federal portion increased in 25 percentage point increments. For most facilities, the facility-specific rate was based on allowable costs from FY 1995; however, since the last year of the transition was FY 2001, all facilities were paid at the full Federal rate by the following fiscal year (FY 2002). Therefore, we are no longer including adjustment factors related to facility-specific rates for the coming fiscal year.
- *Coverage.* The establishment of the SNF PPS did not change Medicare's fundamental requirements for SNF coverage; however, because RUG-III classification is based, in part, on the beneficiary's need for skilled nursing care and therapy, we have attempted, where possible, to coordinate claims review procedures with the outputs of beneficiary assessment and RUG–III classifying activities. We discuss this coordination in greater detail in section II.E of this notice.
- *Consolidated Billing.* The SNF PPS includes a consolidated billing provision (described in greater detail in

section IV of this notice) that requires a SNF to submit consolidated Medicare bills for almost all of the services that its residents receive during the course of a covered Part A stay. In addition, this provision places with the SNF the Medicare billing responsibility for physical, occupational, and speech-language therapy that the resident receives during a noncovered stay. The statute excludes a small list of services from the consolidated billing provision (primarily those of physicians and certain other types of practitioners).

• *Application of the SNF PPS to SNF services furnished by swing-bed hospitals.* Section 1883 of the Act permits certain small, rural hospitals to enter into a Medicare swing-bed agreement, under which the hospital can use its beds to provide either acute or SNF care, as needed. Part A currently pays for SNF services furnished by swing-bed hospitals on a cost-related basis. Section 1888(e)(7) of the Act requires the SNF PPS to encompass these services no earlier than cost reporting periods beginning on July 1, 1999, and no later than the end of the SNF PPS transition period described in section 1888(e)(2)(E) of the Act. A more detailed discussion of this provision appears in section V of this notice.

B. Requirements of the Balanced Budget Act of 1997 (BBA) for Updating the Prospective Payment System for Skilled Nursing Facilities

Section 1888(e)(4)(H) of the Act requires that we publish in the **Federal Register:**

1. The unadjusted Federal per diem rates to be applied to days of covered SNF services furnished during the FY.
2. The case-mix classification system to be applied with respect to these services during the FY.
3. The factors to be applied in making the area wage adjustment with respect to these services.

In the July 30, 1999 final rule (64 FR 41670), we indicated that we would announce any changes to the guidelines for Medicare level of care determinations related to modifications in the RUG–III classification structure (see section II.E of this notice).

This notice provides the annual updates to the Federal rates as mandated by the Act.

C. The Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999 (BBRA)

There were several provisions in the BBRA that resulted in adjustments to the SNF PPS. These provisions were described in detail in the final rule that we published in the **Federal Register** on July 31, 2000 (65 FR 46770). In particular, section 101(a) of the BBRA provided for a temporary, 20 percent increase in the per diem adjusted payment rates for 15 specified RUG–III groups (SE3, SE2, SE1, SSC, SSB, SSA, CC2, CC1, CB2, CB1, CA2, CA1, RHC, RMC, and RMB). Under the statute, this temporary increase remains in effect until the later of October 1, 2000, or the implementation of case-mix refinements in the PPS. Section 101(d) included a 4 percent across-the-board increase in the adjusted Federal per diem payment rates each year for FYs 2001 and 2002, exclusive of the 20 percent increase.

We included further information on all of the provisions of the BBRA that affect the SNF PPS in Program Memorandums A–99–53 and A–99–61 (December 1999), and Program Memorandum AB–00–18 (March 2000). In addition, for swing-bed hospitals with more than 49 (but less than 100) beds, section 408 of the BBRA provided for the repeal of certain statutory restrictions on length of stay and aggregate payment for patient days, effective with the end of the SNF PPS transition period described in section 1888(e)(2)(E) of the Act. In the July 31, 2001 final rule (66 FR 39562), we made conforming changes to the regulations at § 413.114(d), effective for services furnished in cost reporting periods beginning on or after July 1, 2002.

D. The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA)

The BIPA also included several provisions that resulted in adjustments to the PPS for SNFs. These provisions were described in detail in the final rule that we published in the **Federal Register** on July 31, 2001 (66 FR 39562), as follows:

• Section 203 of the BIPA exempted critical access hospital (CAH) swing-beds from the SNF PPS; we included further information on this provision in Program Memorandum A–01–09 (January 16, 2001).

• Section 311 of the BIPA eliminated the one percentage point reduction in the SNF market basket that the statutory update formula had previously specified for FY 2001, changed the one percentage point reduction specified for FY 2002 to a 0.5 percentage point reduction, and established an update factor for FY 2003 of market basket minus 0.5 percentage point. This section also required us to conduct a study of alternative case-mix classification systems for the SNF PPS, and to submit a report to the Congress by January 1, 2005.

• Section 312 of the BIPA provided for a temporary 16.66 percent increase in the nursing component of the case-mix adjusted Federal rate for services furnished on or after April 1, 2001, and before October 1, 2002. This section also required the General Accounting Office (GAO) to conduct an audit of SNF nursing staff ratios and submit a report to the Congress on whether the temporary increase in the nursing component should be continued.

• Section 313 of the BIPA repealed the consolidated billing requirement for services (other than physical, occupational, and speech-language therapy) furnished to SNF residents during noncovered stays, effective January 1, 2001.

• Section 314 of the BIPA adjusted the payment rates for all of the rehabilitation RUGs to correct an anomaly under which the existing payment rates for the RHC, RMC, and RMB rehabilitation groups were higher than the rates for some other, more intensive rehabilitation RUGs.

• Section 315 of the BIPA authorized us to establish a geographic reclassification procedure that is specific to SNFs, but only after collecting the data necessary to establish a SNF wage index that is based on wage data from nursing homes.

We included further information on several of these provisions in Program Memorandum A–01–08 (January 16, 2001).

E. Skilled Nursing Facility Prospective Payment—General Overview

The Medicare SNF PPS was implemented for cost reporting periods beginning on or after July 1, 1998. Under the PPS, SNFs are paid through prospective, case-mix adjusted per diem payment rates applicable to all covered SNF services. These payment rates cover all the costs of furnishing covered skilled nursing services (routine, ancillary, and capital-related costs) other than costs associated with approved educational activities. Covered SNF services include post-hospital services for which benefits are provided under Part A and all items and services that, before July 1, 1998, had been paid under Part B (other than physician and certain other services specifically excluded under the BBA) but furnished to Medicare beneficiaries in a SNF during a covered Part A stay. A complete discussion of these provisions appears in the May 12, 1998 interim final rule (63 FR 26252).

1. Payment Provisions—Federal Rate

The PPS uses per diem Federal payment rates based on mean SNF costs in a base year updated for inflation to the first effective period of the PPS. We

developed the Federal payment rates using allowable costs from hospital-based and freestanding SNF cost reports for reporting periods beginning in FY 1995. The data used in developing the Federal rates also incorporated an estimate of the amounts that would be payable under Part B for covered SNF services furnished to individuals during the course of a covered Part A stay in a SNF.

In developing the rates for the initial period, we updated costs to the first effective year of PPS (15-month period beginning July 1, 1998) using a SNF market basket index, and then standardized for the costs of facility differences in case-mix and for geographic variations in wages. Providers that received new provider exemptions from the routine cost limits were excluded from the database used to compute the Federal payment rates, as well as costs related to payments for exceptions to the routine cost limits. In accordance with the formula prescribed in the BBA, we set the Federal rates at a level equal to the weighted mean of freestanding costs plus 50 percent of the difference between the freestanding mean and weighted mean of all SNF costs (hospital-based and freestanding) combined. We computed and applied separately the payment rates for facilities located in urban and rural areas. In addition, we adjusted the portion of the Federal rate attributable to wage-related costs by a wage index.

The Federal rate also incorporates adjustments to account for facility case-mix, using a classification system that accounts for the relative resource utilization of different patient types. This classification system, Resource Utilization Groups, version III (RUG–III), uses beneficiary assessment data from the Minimum Data Set (MDS) completed by SNFs to assign beneficiaries to one of 44 RUG III groups. The May 12, 1998 interim final rule (63 FR 26252) included a complete and detailed description of the RUG–III classification system.

The Federal rates in this notice reflect an update to the rates that we published in the July 31, 2001 **Federal Register** (66 FR 39562) equal to the SNF market basket index minus 0.5 percentage point, as well as the expiration of the temporary 16.66 percent adjustment to the nursing component of the rates enacted in section 312 of the BIPA. According to section 311 of the BIPA, for FY 2003, we are updating the rate by adjusting the current rates by the SNF market basket index minus 0.5 percentage point.

2. Payment Provisions—Initial Transition Period

The SNF PPS included an initial, phased transition from a facility-specific rate (which reflected the individual facility's historical cost experience) to the Federal case-mix adjusted rate. The transition extended through the facility's first three cost reporting periods under the PPS, up to and including the one that began in FY 2001. Accordingly, starting with cost reporting periods beginning in FY 2002, we base payments entirely on the Federal rates and, as mentioned previously in this notice, we no longer include adjustment factors related to facility-specific rates for the coming fiscal year.

F. Skilled Nursing Facility Market Basket Index

Section 1888(e)(5) of the Act requires us to establish a SNF market basket index that reflects changes over time in the prices of an appropriate mix of goods and services included in the covered SNF services. The SNF market basket index is used to update the Federal rates on an annual basis. As mentioned previously in this notice, the final rule published on July 31, 2001 (66 FR 39562) revised and rebased the market basket to reflect 1997 total cost data.

II. Update of Payment Rates Under the Prospective Payment System for Skilled Nursing Facilities

A. Federal Prospective Payment System

This notice sets forth a schedule of Federal prospective payment rates applicable to Medicare Part A SNF services beginning October 1, 2002. The schedule incorporates per diem Federal rates that provide Part A payment for all costs of services furnished to a beneficiary in a SNF during a Medicare-covered stay.

1. Costs and Services Covered by the Federal Rates

The Federal rates apply to all costs (routine, ancillary, and capital-related costs) of covered SNF services other than costs associated with approved educational activities as defined in § 413.85. Under section 1888(e)(2) of the Act, covered SNF services include post-hospital SNF services for which benefits are provided under Part A (the hospital insurance program), as well as all items and services (other than those services excluded by statute) that, before July 1, 1998, were paid under Part B (the supplementary medical insurance program) but furnished to Medicare beneficiaries in a SNF during a Part A covered stay. (These excluded service categories are discussed in greater detail in section V.B.2. of the May 12, 1998 interim final rule (63 FR 26295–97)).

2. Methodology Used for the Calculation of the Federal Rates

The FY 2003 rates reflect an update using the latest market basket index minus 0.5 percentage point. The FY 2003 market basket increase factor is 3.1 percentage points, and subtracting 0.5 percentage point yields an update increase of 2.6 percentage points. For a complete description of the multi-step process, see the May 12, 1998 interim final rule (63 FR 26252). We note that, in accordance with the statute, the 4 percent across-the-board increase in the adjusted Federal per diem payment rates that section 101(d) of the BBRA provided for FYs 2001 and 2002 will expire at the end of FY 2002. Similarly, section 312 of the BIPA provides that the temporary 16.66 percent increase in the nursing component of the case-mix adjusted Federal rate will end effective with services furnished on or after October 1, 2002. Further, several other provisions of the BIPA affect the payment rates for SNFs, as described in the previous section.

We used the SNF market basket index (minus 0.5 percentage point) to adjust each per diem component of the Federal rates forward to reflect cost increases occurring between the midpoint of the Federal fiscal year beginning October 1, 2001, and ending September 30, 2002, and the midpoint of the Federal fiscal year beginning October 1, 2002, and ending September 30, 2003, to which the payment rates apply. The rates are further adjusted by a wage index budget neutrality factor, described later in this section. Tables 1 and 2 reflect the updated components of the unadjusted Federal rates.

TABLE 1.—UNADJUSTED FEDERAL RATE PER DIEM URBAN

Rate component	Nursing—case-mix	Therapy—case-mix	Therapy—non-case-mix	Non-case-mix
Per diem amount	$121.59	$91.58	$12.06	$62.05

TABLE 2.—UNADJUSTED FEDERAL RATE PER DIEM RURAL

Rate component	Nursing—case-mix	Therapy—case-mix	Therapy—non-case-mix	Non-case-mix
Per diem amount	$116.17	$105.61	$12.88	$63.20

B. Case-Mix Refinements

Under the BBA, we must publish the SNF PPS case-mix classification methodology applicable for the next Federal FY before August 1 of each year. For the reasons discussed below, in this notice we continue to utilize the existing case-mix classification methodology that employs the 44-group RUG–III classification system.

As discussed previously in this preamble, section 101(a) of the BBRA provided for a temporary, 20 percent increase in the per diem adjusted payment rates for 15 specified RUG–III groups. This legislation specified that the 20 percent increase would be effective for SNF services furnished on or after April 1, 2000, and would continue until the later of: (1) October 1, 2000, or (2) implementation of a refined case-mix classification system under section 1888(e)(4)(G)(i) of the Act that would better account for medically complex patients.

In the SNF PPS proposed rule for FY 2001 (65 FR 19190, April 10, 2000), we proposed making an extensive, comprehensive set of refinements to the existing case-mix classification system that collectively would have significantly expanded the existing 44-group structure. However, when our subsequent validation analyses indicated that the refinements would afford only a limited degree of improvement in explaining resource utilization relative to the significant increase in complexity that they would entail, we decided not to implement them at that time (see the FY 2001 final rule, 65 FR 46773, July 31, 2000). Nevertheless, since the BBRA provision had demonstrated a Congressional interest in securing refinements to reimburse nursing homes more fairly and accurately for the care of medically complex patients, we continued to conduct research in this area.

The Congress subsequently enacted section 311(e) of the BIPA, which directed us to conduct a study of the different systems for categorizing patients in Medicare SNFs in a manner that accounts for the relative resource utilization of different patient types, and to issue a report with any appropriate recommendations to the Congress by January 1, 2005. The lengthy timeframe for conducting the study, and its broad mandate to consider various classification systems and the full range of patient types, stood in sharp contrast to the BBRA language regarding more incremental refinements to the existing case-mix classification system under section 1888(e)(4)(G)(i) of the Act, and made clear that implementing the latter type of refinements to the existing system in order to better account for medically complex patients need not await the completion of the more comprehensive changes envisioned in the BIPA. Accordingly, we considered the possibility of including such refinements as part of this year's annual update of the SNF payment rates.

However, we determined that while the research gives a sound basis for developing improvements to the SNF PPS, we need additional time to review and analyze the implications. Therefore, we have decided not to implement any case-mix refinements for FY 2003. Our decision to defer implementing any case-mix refinements for the present leaves the current classification system in place. Under the provisions of section 101(a) of the BBRA, this will result in SNFs continuing to receive an estimated $1 billion in temporary add-on payments during FY 2003.

Accordingly, the payment rates set forth in this final rule reflect the continued use of the 44-group RUG–III classification system discussed in the May 12, 1998 interim final rule (63 FR 26252). Consequently, we will also maintain the add-ons to the Federal rates for the specified RUG–III groups required by section 101(a) of the BBRA and subsequently modified by section 314 of the BIPA. The case-mix adjusted payment rates are listed separately for urban and rural SNFs in Tables 3 and 4, with the corresponding case-mix values. These tables do not reflect the add-ons to the specified RUG–III groups provided for in the BBRA, which are applied only after all other adjustments (wage and case-mix) have been made.

Meanwhile, we will continue to explore both short-term and longer-range revisions to our case-mix classification methodology. In July 2001, we awarded a contract to the Urban Institute for performance of research to aid us in making incremental refinements to the case-mix classification system under section 1888(e)(4)(G)(i) of the Act and starting the case-mix study mandated by section 311(e) of the BIPA. The results of the research in which we are currently engaged will be included in the report to the Congress that section 311(e) of the BIPA requires us to submit by January 1, 2005. As we noted in the May 10, 2001 proposed rule (66 FR 23990), this research may also support a longer term goal of developing more integrated approaches for the payment and delivery system for Medicare post acute services generally. This broader, ongoing research project will pursue several avenues in studying various case-mix classification systems. We have encouraging preliminary results from incorporating comorbidities and complications into the classification strategy, and will thoroughly explore and evaluate this and other approaches in our ongoing work.

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Table 3
Case-Mix Adjusted Federal Rates and Associated Indexes
Urban

RUG-III category	Nursing index	Therapy index	Nursing component	Therapy component	Non-case-mix therapy comp.	Non-case-mix component	Total rate
RUC	1.30	2.25	158.07	206.06		62.05	426.18
RUB	0.95	2.25	115.51	206.06		62.05	383.62
RUA	0.78	2.25	94.84	206.06		62.05	362.95
RVC	1.13	1.41	137.40	129.13		62.05	328.58
RVB	1.04	1.41	126.45	129.13		62.05	317.63
RVA	0.81	1.41	98.49	129.13		62.05	289.67
RHC	1.26	0.94	153.20	86.09		62.05	301.34
RHB	1.06	0.94	128.89	86.09		62.05	277.03
RHA	0.87	0.94	105.78	86.09		62.05	253.92
RMC	1.35	0.77	164.15	70.52		62.05	296.72
RMB	1.09	0.77	132.53	70.52		62.05	265.10
RMA	0.96	0.77	116.73	70.52		62.05	249.30
RLB	1.11	0.43	134.96	39.38		62.05	236.39
RLA	0.80	0.43	97.27	39.38		62.05	198.70
SE3	1.70		206.70		12.06	62.05	280.81
SE2	1.39		169.01		12.06	62.05	243.12
SE1	1.17		142.26		12.06	62.05	216.37
SSC	1.13		137.40		12.06	62.05	211.51
SSB	1.05		127.67		12.06	62.05	201.78
SSA	1.01		122.81		12.06	62.05	196.92
CC2	1.12		136.18		12.06	62.05	210.29
CC1	0.99		120.37		12.06	62.05	194.48
CB2	0.91		110.65		12.06	62.05	184.76
CB1	0.84		102.14		12.06	62.05	176.25
CA2	0.83		100.92		12.06	62.05	175.03
CA1	0.75		91.19		12.06	62.05	165.30
IB2	0.69		83.90		12.06	62.05	158.01
IB1	0.67		81.47		12.06	62.05	155.58
IA2	0.57		69.31		12.06	62.05	143.42
IA1	0.53		64.44		12.06	62.05	138.55
BB2	0.68		82.68		12.06	62.05	156.79
BB1	0.65		79.03		12.06	62.05	153.14
BA2	0.56		68.09		12.06	62.05	142.20
BA1	0.48		58.36		12.06	62.05	132.47
PE2	0.79		96.06		12.06	62.05	170.17
PE1	0.77		93.62		12.06	62.05	167.73
PD2	0.72		87.54		12.06	62.05	161.65
PD1	0.70		85.11		12.06	62.05	159.22
PC2	0.65		79.03		12.06	62.05	153.14
PC1	0.64		77.82		12.06	62.05	151.93
PB2	0.51		62.01		12.06	62.05	136.12
PB1	0.50		60.80		12.06	62.05	134.91
PA2	0.49		59.58		12.06	62.05	133.69
PA1	0.46		55.93		12.06	62.05	130.04

Table 4
Case-Mix Adjusted Federal Rates and Associated Indexes
Rural

RUG-III category	Nursing index	Therapy index	Nursing component	Therapy component	Non-case-mix therapy comp.	Non-case-mix component	Total rate
RUC	1.30	2.25	151.02	237.62		63.20	451.84
RUB	0.95	2.25	110.36	237.62		63.20	411.18
RUA	0.78	2.25	90.61	237.62		63.20	391.43
RVC	1.13	1.41	131.27	148.91		63.20	343.38
RVB	1.04	1.41	120.82	148.91		63.20	332.93
RVA	0.81	1.41	94.10	148.91		63.20	306.21
RHC	1.26	0.94	146.37	99.27		63.20	308.84
RHB	1.06	0.94	123.14	99.27		63.20	285.61
RHA	0.87	0.94	101.07	99.27		63.20	263.54
RMC	1.35	0.77	156.83	81.32		63.20	301.35
RMB	1.09	0.77	126.63	81.32		63.20	271.15
RMA	0.96	0.77	111.52	81.32		63.20	256.04
RLB	1.11	0.43	128.95	45.41		63.20	237.56
RLA	0.80	0.43	92.94	45.41		63.20	201.55
SE3	1.70		197.49		12.88	63.20	273.57
SE2	1.39		161.48		12.88	63.20	237.56
SE1	1.17		135.92		12.88	63.20	212.00
SSC	1.13		131.27		12.88	63.20	207.35
SSB	1.05		121.98		12.88	63.20	198.06
SSA	1.01		117.33		12.88	63.20	193.41
CC2	1.12		130.11		12.88	63.20	206.19
CC1	0.99		115.01		12.88	63.20	191.09
CB2	0.91		105.71		12.88	63.20	181.79
CB1	0.84		97.58		12.88	63.20	173.66
CA2	0.83		96.42		12.88	63.20	172.50
CA1	0.75		87.13		12.88	63.20	163.21
IB2	0.69		80.16		12.88	63.20	156.24
IB1	0.67		77.83		12.88	63.20	153.91
IA2	0.57		66.22		12.88	63.20	142.30
IA1	0.53		61.57		12.88	63.20	137.65
BB2	0.68		79.00		12.88	63.20	155.08
BB1	0.65		75.51		12.88	63.20	151.59
BA2	0.56		65.06		12.88	63.20	141.14
BA1	0.48		55.76		12.88	63.20	131.84
PE2	0.79		91.77		12.88	63.20	167.85
PE1	0.77		89.45		12.88	63.20	165.53
PD2	0.72		83.64		12.88	63.20	159.72
PD1	0.70		81.32		12.88	63.20	157.40
PC2	0.65		75.51		12.88	63.20	151.59
PC1	0.64		74.35		12.88	63.20	150.43
PB2	0.51		59.25		12.88	63.20	135.33
PB1	0.50		58.09		12.88	63.20	134.17
PA2	0.49		56.92		12.88	63.20	133.00
PA1	0.46		53.44		12.88	63.20	129.52

C. Wage Index Adjustment to Federal Rates

Section 1888(e)(4)(G)(ii) of the Act requires that we adjust the Federal rates to account for differences in area wage levels, using a wage index that we find appropriate. Since the inception of a PPS for SNFs, we have used hospital wage data in developing a wage index to be applied to SNFs. We are continuing that practice for FY 2003.

The wage index adjustment is applied to the labor-related portion of the Federal rate, which is 76.128 percent of the total rate. This percentage reflects the labor-related relative importance for FY 2003. The labor-related relative importance is calculated from the SNF market basket, and approximates the labor-related portion of the total costs after taking into account historical and projected price changes between the base year and FY 2003. The price proxies that move the different cost categories in the market basket do not necessarily change at the same rate, and the relative importance captures these changes. Accordingly, the relative importance figure more closely reflects the cost share weights for FY 2003 than the base year weights from the SNF market basket.

We calculate the labor-related relative importance for FY 2003 in four steps. First, we compute the FY 2003 price index level for the total market basket and each cost category of the market basket. Second, we calculate a ratio for each cost category by dividing the FY 2003 price index level for that cost category by the total market basket price index level. Third, we determine the FY 2003 relative importance for each cost category by multiplying this ratio by the base year (FY 1997) weight. Finally, we sum the FY 2003 relative importance for each of the labor-related cost categories (wages and salaries, employee benefits, nonmedical professional fees, labor-intensive services, and capital-related expenses) to produce the FY 2003 labor-related relative importance. Tables 5 and 6 show the Federal rates by labor-related and non-labor-related components.

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Table 5
Case-Mix Adjusted Federal Rates for Urban SNFs By Labor and Non-Labor Component

RUG-III category	Total rate	Labor portion	Non-labor portion
RUC	426.18	324.44	101.74
RUB	383.62	292.04	91.58
RUA	362.95	276.31	86.64
RVC	328.58	250.14	78.44
RVB	317.63	241.81	75.82
RVA	289.67	220.52	69.15
RHC	301.34	229.40	71.94
RHB	277.03	210.90	66.13
RHA	253.92	193.30	60.62
RMC	296.72	225.89	70.83
RMB	265.10	201.82	63.28
RMA	249.30	189.79	59.51
RLB	236.39	179.96	56.43
RLA	198.70	151.27	47.43
SE3	280.81	213.78	67.03
SE2	243.12	185.08	58.04
SE1	216.37	164.72	51.65
SSC	211.51	161.02	50.49
SSB	201.78	153.61	48.17
SSA	196.92	149.91	47.01
CC2	210.29	160.09	50.20
CC1	194.48	148.05	46.43
CB2	184.76	140.65	44.11
CB1	176.25	134.18	42.07
CA2	175.03	133.25	41.78
CA1	165.30	125.84	39.46
IB2	158.01	120.29	37.72
IB1	155.58	118.44	37.14
IA2	143.42	109.18	34.24
IA1	138.55	105.48	33.07
BB2	156.79	119.36	37.43
BB1	153.14	116.58	36.56
BA2	142.20	108.25	33.95
BA1	132.47	100.85	31.62
PE2	170.17	129.55	40.62
PE1	167.73	127.69	40.04
PD2	161.65	123.06	38.59
PD1	159.22	121.21	38.01
PC2	153.14	116.58	36.56
PC1	151.93	115.66	36.27
PB2	136.12	103.63	32.49
PB1	134.91	102.70	32.21
PA2	133.69	101.78	31.91
PA1	130.04	99.00	31.04

Table 6
Case-Mix Adjusted Federal Rates for Rural SNFs by Labor and Non-Labor Component

RUG-III category	Total rate	Labor portion	Non-labor portion
RUC	451.84	343.98	107.86
RUB	411.18	313.02	98.16
RUA	391.43	297.99	93.44
RVC	343.38	261.41	81.97
RVB	332.93	253.45	79.48
RVA	306.21	233.11	73.10
RHC	308.84	235.11	73.73
RHB	285.61	217.43	68.18
RHA	263.54	200.63	62.91
RMC	301.35	229.41	71.94
RMB	271.15	206.42	64.73
RMA	256.04	194.92	61.12
RLB	237.56	180.85	56.71
RLA	201.55	153.44	48.11
SE3	273.57	208.26	65.31
SE2	237.56	180.85	56.71
SE1	212.00	161.39	50.61
SSC	207.35	157.85	49.50
SSB	198.06	150.78	47.28
SSA	193.41	147.24	46.17
CC2	206.19	156.97	49.22
CC1	191.09	145.47	45.62
CB2	181.79	138.39	43.40
CB1	173.66	132.20	41.46
CA2	172.50	131.32	41.18
CA1	163.21	124.25	38.96
IB2	156.24	118.94	37.30
IB1	153.91	117.17	36.74
IA2	142.30	108.33	33.97
IA1	137.65	104.79	32.86
BB2	155.08	118.06	37.02
BB1	151.59	115.40	36.19
BA2	141.14	107.45	33.69
BA1	131.84	100.37	31.47
PE2	167.85	127.78	40.07
PE1	165.53	126.01	39.52
PD2	159.72	121.59	38.13
PD1	157.40	119.83	37.57
PC2	151.59	115.40	36.19
PC1	150.43	114.52	35.91
PB2	135.33	103.02	32.31
PB1	134.17	102.14	32.03
PA2	133.00	101.25	31.75
PA1	129.52	98.60	30.92

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Section 1888(e)(4)(G)(ii) of the Act also requires that we apply this wage index in a manner that does not result in aggregate payments that are greater or

lesser than would otherwise be made in the absence of the wage adjustment. In this fifth PPS year (Federal rates effective October 1, 2002), we are applying the most recent wage index using the hospital wage data, and applying an adjustment to fulfill the budget neutrality requirement. This requirement will be met by multiplying each of the components of the unadjusted Federal rates by a factor equal to the ratio of the volume weighted mean wage adjustment factor (using the wage index from the previous year) to the volume weighted mean wage adjustment factor, using the wage index for the FY beginning October 1, 2002. The same volume weights are used in both the numerator and denominator and will be derived from 1997 Medicare Provider Analysis and Review File (MEDPAR) data. The wage adjustment factor used in this calculation is defined as the labor share of the rate component multiplied by the wage index plus the non-labor share. The budget neutrality factor for this year is 0.9997.

The wage index applicable to FY 2003 can be found in Table 7 and Table 8 of this notice.

TABLE 7.—WAGE INDEX FOR URBAN AREAS

Urban area (constituent counties or county equivalents)	Wage index
0040 Abilene, TX	0.7792
Taylor, TX	
0060 Aguadilla, PR	0.4587
Aguada, PR	
Aguadilla, PR	
Moca, PR	
0080 Akron, OH	0.9600
Portage, OH	
Summit, OH	
0120 Albany, GA	1.0594
Dougherty, GA	
Lee, GA	
0160 Albany-Schenectady-Troy, NY	0.8384
Albany, NY	
Montgomery, NY	
Rensselaer, NY	
Saratoga, NY	
Schenectady, NY	
Schoharie, NY	
0200 Albuquerque, NM	0.9315
Bernalillo, NM	
Sandoval, NM	
Valencia, NM	
0220 Alexandria, LA	0.7859
Rapides, LA	
0240 Allentown-Bethlehem-Easton, PA	0.9735
Carbon, PA	
Lehigh, PA	
Northampton, PA	
0280 Altoona, PA	0.9225
Blair, PA	
0320 Amarillo, TX	0.9034

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Potter, TX	
Randall, TX	
0380 Anchorage, AK	1.2358
Anchorage, AK	
0440 Ann Arbor, MI	1.1103
Lenawee, MI	
Livingston, MI	
Washtenaw, MI	
0450 Anniston, AL	0.8044
Calhoun, AL	
0460 Appleton-Oshkosh-Neenah, WI	0.8997
Calumet, WI	
Outagamie, WI	
Winnebago, WI	
0470 Arecibo, PR	.0.4337
Arecibo, PR	
Camuy, PR	
Hatillo, PR	
0480 Asheville, NC	0.9876
Buncombe, NC	
Madison, NC	
0500 Athens, GA	1.0211
Clarke, GA	
Madison, GA	
Oconee, GA	
0520 Atlanta, GA	0.9991
Barrow, GA	
Bartow, GA	
Carroll, GA	
Cherokee, GA	
Clayton, GA	
Cobb, GA	
Coweta, GA	
De Kalb, GA	
Douglas, GA	
Fayette, GA	
Forsyth, GA	
Fulton, GA	
Gwinnett, GA	
Henry, GA	
Newton, GA	
Paulding, GA	
Pickens, GA	
Rockdale, GA	
Spalding, GA	
Walton, GA	
0560 Atlantic City-Cape May, NJ	1.1017
Atlantic City, NJ	
Cape May, NJ	
0580 Auburn-Opelika, AL	0.8325
Lee, AL	
0600 Augusta-Aiken, GA–SC	1.0264
Columbia, GA	
McDuffie, GA	
Richmond, GA	
Aiken, SC	
Edgefield, SC	
0640 Austin-San Marcos, TX	0.9637
Bastrop, TX	
Caldwell, TX	
Hays, TX	
Travis, TX	
Williamson, TX	
0680 Bakersfield, CA	0.9877
Kern, CA	
0720 Baltimore, MD	0.9929
Anne Arundel, MD	
Baltimore, MD	
Baltimore City, MD	

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Carroll, MD	
Harford, MD	
Howard, MD	
Queen Annes, MD	
0733 Bangor, ME	0.9664
Penobscot, ME	
0743 Barnstable-Yarmouth, MA	1.3202
Barnstable, MA	
0760 Baton Rouge, LA	0.8294
Ascension, LA	
East Baton Rouge, LA	
Livingston, LA	
West Baton Rouge, LA	
0840 Beaumont-Port Arthur, TX	0.8324
Hardin, TX	
Jefferson, TX	
Orange, TX	
0860 Bellingham, WA	1.2282
Whatcom, WA	
0870 Benton Harbor, MI	0.8965
Berrien, MI	
0875 Bergen-Passaic, NJ	1.2150
Bergen, NJ	
Passaic, NJ	
0880 Billings, MT	0.9022
Yellowstone, MT	
0920 Biloxi-Gulfport-Pascagoula, MS	0.8757
Hancock, MS	
Harrison, MS	
Jackson, MS	
0960 Binghamton, NY	0.8341
Broome, NY	
Tioga, NY	
1000 Birmingham, AL	0.9222
Blount, AL	
Jefferson, AL	
St. Clair, AL	
Shelby, AL	
1010 Bismarck, ND	0.7972
Burleigh, ND	
Morton, ND	
1020 Bloomington, IN	0.8907
Monroe, IN	
1040 Bloomington-Normal, IL	0.9109
McLean, IL	
1080 Boise City, ID	0.9310
Ada, ID	
Canyon, ID	
1123 Boston-Worcester-Lawrence-Lowell-Brockton, MA–NH	1.1229
Bristol, MA	
Essex, MA	
Middlesex, MA	
Norfolk, MA	
Plymouth, MA	
Suffolk, MA	
Worcester, MA	
Hillsborough, NH	
Merrimack, NH	
Rockingham, NH	
Strafford, NH	
1125 Boulder-Longmont, CO	0.9689
Boulder, CO	
1145 Brazoria, TX	0.8535
Brazoria, TX	
1150 Bremerton, WA	1.0944
Kitsap, WA	
1240 Brownsville-Harlingen-San Benito, TX	0.8880

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Cameron, TX	
1260 Bryan-College Station, TX	0.8821
Brazos, TX	
1280 Buffalo-Niagara Falls, NY	0.9365
Erie, NY	
Niagara, NY	
1303 Burlington, VT	1.0052
Chittenden, VT	
Franklin, VT	
Grand Isle, VT	
1310 Caguas, PR	0.4371
Caguas, PR	
Cayey, PR	
Cidra, PR	
Gurabo, PR	
San Lorenzo, PR	
1320 Canton-Massillon, OH	0.8932
Carroll, OH	
Stark, OH	
1350 Casper, WY	0.9690
Natrona, WY	
1360 Cedar Rapids, IA	0.9056
Linn, IA	
1400 Champaign-Urbana, IL	1.0635
Champaign, IL	
1440 Charleston-North Charleston, SC	0.9235
Berkeley, SC	
Charleston, SC	
Dorchester, SC	
1480 Charleston, WV	0.8898
Kanawha, WV	
Putnam, WV	
1520 Charlotte-Gastonia-Rock Hill, NC–SC	0.9875
Cabarrus, NC	
Gaston, NC	
Lincoln, NC	
Mecklenburg, NC	
Rowan, NC	
Stanly, NC	
Union, NC	
York, SC	
1540 Charlottesville, VA	1.0438
Albemarle, VA	
Charlottesville City, VA	
Fluvanna, VA	
Greene, VA	
1560 Chattanooga, TN–GA	0.8976
Catoosa, GA	
Dade, GA	
Walker, GA	
Hamilton, TN	
Marion, TN	
1580 Cheyenne, WY	0.8628
Laramie, WY	
1600 Chicago, IL	1.1044
Cook, IL	
De Kalb, IL	
Du Page, IL	
Grundy, IL	
Kane, IL	
Kendall, IL	
Lake, IL	
McHenry, IL	
Will, IL	
1620 Chico-Paradise, CA	0.9745
Butte, CA	
1640 Cincinnati, OH–KY–IN	0.9381
Dearborn, IN	
Ohio, IN	
Boone, KY	
Campbell, KY	
Gallatin, KY	
Grant, KY	
Kenton, KY	
Pendleton, KY	
Brown, OH	
Clermont, OH	
Hamilton, OH	
Warren, OH	
1660 Clarksville-Hopkinsville, TN-KY	0.8406
Christian, KY	
Montgomery, TN	
1680 Cleveland-Lorain-Elyria, OH	0.9670
Ashtabula, OH	
Geauga, OH	
Cuyahoga, OH	
Lake, OH	
Lorain, OH	
Medina, OH	
1720 Colorado Springs, CO	0.9916
El Paso, CO	
1740 Columbia, MO	0.8496
Boone, MO	
1760 Columbia, SC	0.9307
Lexington, SC	
Richland, SC	
1800 Columbus, GA–AL	0.8374
Russell, AL	
Chattanoochee, GA	
Harris, GA	
Muscogee, GA	
1840 Columbus, OH	0.9751
Delaware, OH	
Fairfield, OH	
Franklin, OH	
Licking, OH	
Madison, OH	
Pickaway, OH	
1880 Corpus Christi, TX	0.8729
Nueces, TX	
San Patricio, TX	
1890 Corvallis, OR	1.1453
Benton, OR	
1900 Cumberland, MD–WV	0.7847
Allegany, MD	
Mineral, WV	
1920 Dallas, TX	0.9998
Collin, TX	
Dallas, TX	
Denton, TX	
Ellis, TX	
Henderson, TX	
Hunt, TX	
Kaufman, TX	
Rockwall, TX	
1950 Danville, VA	0.8859
Danville City, VA	
Pittsylvania, VA	
1960 Davenport-Moline-Rock Island, IA–IL	0.8835
Scott, IA	
Henry, IL	
Rock Island, IL	
2000 Dayton-Springfield, OH	0.9282
Clark, OH	
Greene, OH	
Miami, OH	
Montgomery, OH	
2020 Daytona Beach, FL	0.9071
Flagler, FL	
Volusia, FL	
2030 Decatur, AL	0.8973
Lawrence, AL	
Morgan, AL	
2040 Decatur, IL	0.8055
Macon, IL	
2080 Denver, CO	1.0601
Adams, CO	
Arapahoe, CO	
Broomfield, CO	
Denver, CO	
Douglas, CO	
Jefferson, CO	
2120 Des Moines, IA	0.8791
Dallas, IA	
Polk, IA	
Warren, IA	
2160 Detroit, MI	1.0448
Lapeer, MI	
Macomb, MI	
Monroe, MI	
Oakland, MI	
St. Clair, MI	
Wayne, MI	
2180 Dothan, AL	0.8137
Dale, AL	
Houston, AL	
2190 Dover, DE	0.9356
Kent, DE	
2200 Dubuque, IA	0.8795
Dubuque, IA	
2240 Duluth-Superior, MN–WI	1.0368
St. Louis, MN	
Douglas, WI	
2281 Dutchess County, NY	1.0684
Dutchess, NY	
2290 Eau Claire, WI	0.8952
Chippewa, WI	
Eau Claire, WI	
2320 El Paso, TX	0.9265
El Paso, TX	
2330 Elkhart-Goshen, IN	0.9722
Elkhart, IN	
2335 Elmira, NY	0.8416
Chemung, NY	
2340 Enid, OK	0.8376
Garfield, OK	
2360 Erie, PA	0.8925
Erie, PA	
2400 Eugene-Springfield, OR	1.0944
Lane, OR	
2440 Evansville-Henderson, IN–KY	0.8177
Posey, IN	
Vanderburgh, IN	
Warrick, IN	
Henderson, KY	
2520 Fargo-Moorhead, ND–MN	0.9684
Clay, MN	
Cass, ND	
2560 Fayetteville, NC	0.8889
Cumberland, NC	
2580 Fayetteville-Springdale-Rogers, AR	0.8100
Benton, AR	
Washington, AR	
2620 Flagstaff, AZ–UT	1.0682
Coconino, AZ	

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Kane, UT	
2640 Flint, MI	1.1135
Genesee, MI	
2650 Florence, AL	0.7792
Colbert, AL	
Lauderdale, AL	
2655 Florence, SC	0.8780
Florence, SC	
2670 Fort Collins-Loveland, CO	1.0066
Larimer, CO	
2680 Ft. Lauderdale, FL	1.0297
Broward, FL	
2700 Fort Myers-Cape Coral, FL	0.9680
Lee, FL	
2710 Fort Pierce-Port St. Lucie, FL	0.9823
Martin, FL	
St. Lucie, FL	
2720 Fort Smith, AR–OK	0.7895
Crawford, AR	
Sebastian, AR	
Sequoyah, OK	
2750 Fort Walton Beach, FL	0.9693
Okaloosa, FL	
2760 Fort Wayne, IN	0.9457
Adams, IN	
Allen, IN	
De Kalb, IN	
Huntington, IN	
Wells, IN	
Whitley, IN	
2800 Forth Worth-Arlington, TX	0.9446
Hood, TX	
Johnson, TX	
Parker, TX	
Tarrant, TX	
2840 Fresno, CA	1.0169
Fresno, CA	
Madera, CA	
2880 Gadsden, AL	0.8505
Etowah, AL	
2900 Gainesville, FL	0.9871
Alachua, FL	
2920 Galveston-Texas City, TX	0.9465
Galveston, TX	
2960 Gary, IN	0.9584
Lake, IN	
Porter, IN	
2975 Glens Falls, NY	0.8281
Warren, NY	
Washington, NY	
2980 Goldsboro, NC	0.8892
Wayne, NC	
2985 Grand Forks, ND–MN	0.8897
Polk, MN	
Grand Forks, ND	
2995 Grand Junction, CO	0.9456
Mesa, CO	
3000 Grand Rapids-Muskegon-Holland, MI	0.9525
Allegan, MI	
Kent, MI	
Muskegon, MI	
Ottawa, MI	
3040 Great Falls, MT	0.8950
Cascade, MT	
3060 Greeley, CO	0.9237
Weld, CO	
3080 Green Bay, WI	0.9502
Brown, WI	
3120 Greensboro-Winston-Salem-High Point, NC	0.9282
Alamance, NC	
Davidson, NC	
Davie, NC	
Forsyth, NC	
Guilford, NC	
Randolph, NC	
Stokes, NC	
Yadkin, NC	
3150 Greenville, NC	0.9100
Pitt, NC	
3160 Greenville-Spartanburg-Anderson, SC	0.9122
Anderson, SC	
Cherokee, SC	
Greenville, SC	
Pickens, SC	
Spartanburg, SC	
3180 Hagerstown, MD	0.9268
Washington, MD	
3200 Hamilton-Middletown, OH	0.9418
Butler, OH	
3240 Harrisburg-Lebanon-Carlisle, PA	0.9223
Cumberland, PA	
Dauphin, PA	
Lebanon, PA	
Perry, PA	
3283 Hartford, CT	1.1549
Hartford, CT	
Litchfield, CT	
Middlesex, CT	
Tolland, CT	
3285 Hattiesburg, MS	0.7659
Forrest, MS	
Lamar, MS	
3290 Hickory-Morganton-Lenoir, NC	0.9028
Alexander, NC	
Burke, NC	
Caldwell, NC	
Catawba, NC	
3320 Honolulu, HI	1.1457
Honolulu, HI	
3350 Houma, LA	0.8317
Lafourche, LA	
Terrebonne, LA	
3360 Houston, TX	0.9892
Chambers, TX	
Fort Bend, TX	
Harris, TX	
Liberty, TX	
Montgomery, TX	
Waller, TX	
3400 Huntington-Ashland, WV–KY–OH	0.9636
Boyd, KY	
Carter, KY	
Greenup, KY	
Lawrence, OH	
Cabell, WV	
Wayne, WV	
3440 Huntsville, AL	0.8903
Limestone, AL	
Madison, AL	
3480 Indianapolis, IN	0.9717
Boone, IN	
Hamilton, IN	
Hancock, IN	
Hendricks, IN	
Johnson, IN	
Madison, IN	
Marion, IN	
Morgan, IN	
Shelby, IN	
3500 Iowa City, IA	0.9587
Johnson, IA	
3520 Jackson, MI	0.9532
Jackson, MI	
3560 Jackson, MS	0.8607
Hinds, MS	
Madison, MS	
Rankin, MS	
3580 Jackson, TN	0.9275
Chester, TN	
Madison, TN	
3600 Jacksonville, FL	0.9381
Clay, FL	
Duval, FL	
Nassau, FL	
St. Johns, FL	
3605 Jacksonville, NC	0.8239
Onslow, NC	
3610 Jamestown, NY	0.7976
Chautaqua, NY	
3620 Janesville-Beloit, WI	0.9849
Rock, WI	
3640 Jersey City, NJ	1.1190
Hudson, NJ	
3660 Johnson City-Kingsport-Bristol, TN–VA	0.8268
Carter, TN	
Hawkins, TN	
Sullivan, TN	
Unicoi, TN	
Washington, TN	
Bristol City, VA	
Scott, VA	
Washington, VA	
3680 Johnstown, PA	0.8329
Cambria, PA	
Somerset, PA	
3700 Jonesboro, AR	0.7749
Craighead, AR	
3710 Joplin, MO	0.8613
Jasper, MO	
Newton, MO	
3720 Kalamazoo-Battle Creek, MI	1.0595
Calhoun, MI	
Kalamazoo, MI	
Van Buren, MI	
3740 Kankakee, IL	0.8122
Kankakee, IL	
3760 Kansas City, KS–MO	0.9736
Johnson, KS	
Leavenworth, KS	
Miami, KS	
Wyandotte, KS	
Cass, MO	
Clay, MO	
Clinton, MO	
Jackson, MO	
Lafayette, MO	
Platte, MO	
Ray, MO	
3800 Kenosha, WI	0.9686
Kenosha, WI	
3810 Killeen-Temple, TX	0.9570

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Coryell, TX	
3840 Knoxville, TN	0.8970
Anderson, TN	
Blount, TN	
Knox, TN	
Loudon, TN	
Sevier, TN	
Union, TN	
3850 Kokomo, IN	0.8971
Howard, IN	
Tipton, IN	
3870 La Crosse, WI–MN	0.9400
Houston, MN	
La Crosse, WI	
3880 Lafayette, LA	0.8452
Acadia, LA	
Lafayette, LA	
St. Landry, LA	
St. Martin, LA	
3920 Lafayette, IN	0.9278
Clinton, IN	
Tippecanoe, IN	
3960 Lake Charles, LA	0.7965
Calcasieu, LA	
3980 Lakeland-Winter Haven, FL	0.9357
Polk, FL	
4000 Lancaster, PA	0.9078
Lancaster, PA	
4040 Lansing-East Lansing, MI	0.9726
Clinton, MI	
Eaton, MI	
Ingham, MI	
4080 Laredo, TX	0.8472
Webb, TX	
4100 Las Cruces, NM	0.8745
Dona Ana, NM	
4120 Las Vegas, NV–AZ	1.1521
Mohave, AZ	
Clark, NV	
Nye, NV	
4150 Lawrence, KS	0.8323
Douglas, KS	
4200 Lawton, OK	0.8315
Comanche, OK	
4243 Lewiston-Auburn, ME	0.9179
Androscoggin, ME	
4280 Lexington, KY	0.8581
Bourbon, KY	
Clark, KY	
Fayette, KY	
Jessamine, KY	
Madison, KY	
Scott, KY	
Woodford, KY	
4320 Lima, OH	0.9483
Allen, OH	
Auglaize, OH	
4360 Lincoln, NE	0.9892
Lancaster, NE	
4400 Little Rock-North Little Rock, AR	0.9097
Faulkner, AR	
Lonoke, AR	
Pulaski, AR	
Saline, AR	
4420 Longview-Marshall, TX	0.8629
Gregg, TX	
Harrison, TX	
Upshur, TX	
4480 Los Angeles-Long Beach, CA	1.2001
Los Angeles, CA	
4520 Louisville, KY–IN	0.9276
Clark, IN	
Floyd, IN	
Harrison, IN	
Scott, IN	
Bullitt, KY	
Jefferson, KY	
Oldham, KY	
4600 Lubbock, TX	0.9646
Lubbock, TX	
4640 Lynchburg, VA	0.9219
Amherst, VA	
Bedford City, VA	
Bedford, VA	
Campbell, VA	
Lynchburg City, VA	
4680 Macon, GA	0.9204
Bibb, GA	
Houston, GA	
Jones, GA	
Peach, GA	
Twiggs, GA	
4720 Madison, WI	1.0467
Dane, WI	
4800 Mansfield, OH	0.8900
Crawford, OH	
Richland, OH	
4840 Mayaguez, PR	0.4914
Anasco, PR	
Cabo Rojo, PR	
Hormigueros, PR	
Mayaguez, PR	
Sabana Grande, PR	
San German, PR	
4880 McAllen-Edinburg-Mission, TX	0.8428
Hidalgo, TX	
4890 Medford-Ashland, OR	1.0498
Jackson, OR	
4900 Melbourne-Titusville-Palm Bay, FL	1.0253
Brevard, Fl	
4920 Memphis, TN–AR–MS	0.8920
Crittenden, AR	
De Soto, MS	
Fayette, TN	
Shelby, TN	
Tipton, TN	
4940 Merced, CA	0.9742
Merced, CA	
5000 Miami, FL	0.9802
Dade, FL	
5015 Middlesex-Somerset-Hunterdon, NJ	1.1213
Hunterdon, NJ	
Middlesex, NJ	
Somerset, NJ	
5080 Milwaukee-Waukesha, WI	0.9893
Milwaukee, WI	
Ozaukee, WI	
Washington, WI	
Waukesha, WI	
5120 Minneapolis-St Paul, MN-WI	1.0903
Anoka, MN	
Carver, MN	
Chisago, MN	
Dakota, MN	
Hennepin, MN	
Isanti, MN	
Ramsey, MN	
Scott, MN	
Sherburne, MN	
Washington, MN	
Wright, MN	
Pierce, WI	
St. Croix, WI	
5140 Missoula, MT	0.9157
Missoula, MT	
5160 Mobile, AL	0.8108
Baldwin, AL	
Mobile, AL	
5170 Modesto, CA	1.0498
Stanislaus, CA	
5190 Monmouth-Ocean, NJ	1.0674
Monmouth, NJ	
Ocean, NJ	
5200 Monroe, LA	0.8137
Ouachita, LA	
5240 Montgomery, AL	0.7734
Autauga, AL	
Elmore, AL	
Montgomery, AL	
5280 Muncie, IN	0.9284
Delaware, IN	
5330 Myrtle Beach, SC	0.8976
Horry, SC	
5345 Naples, FL	0.9754
Collier, FL	
5360 Nashville, TN	0.9578
Cheatham, TN	
Davidson, TN	
Dickson, TN	
Robertson, TN	
Rutherford TN	
Sumner, TN	
Williamson, TN	
Wilson, TN	
5380 Nassau-Suffolk, NY	1.3357
Nassau, NY	
Suffolk, NY	
5483 New Haven-Bridgeport-Stamford-Waterbury-Danbury, CT	1.2408
Fairfield, CT	
New Haven, CT	
5523 New London-Norwich, CT	1.1767
New London, CT	
5560 New Orleans, LA	0.9046
Jefferson, LA	
Orleans, LA	
Plaquemines, LA	
St. Bernard, LA	
St. Charles, LA	
St. James, LA	
St. John The Baptist, LA	
St. Tammany, LA	
5600 New York, NY	1.4414
Bronx, NY	
Kings, NY	
New York, NY	
Putnam, NY	
Queens, NY	
Richmond, NY	
Rockland, NY	
Westchester, NY	
5640 Newark, NJ	1.1381
Essex, NJ	
Morris, NJ	
Sussex, NJ	
Union, NJ	

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Warren, NJ	
5660 Newburgh, NY–PA	1.1387
Orange, NY	
Pike, PA	
5720 Norfolk-Virginia Beach-Newport News, VA–NC	0.8574
Currituck, NC	
Chesapeake City, VA	
Gloucester, VA	
Hampton City, VA	
Isle of Wight, VA	
James City, VA	
Mathews, VA	
Newport News City, VA	
Norfolk City, VA	
Poquoson City, VA	
Portsmouth City, VA	
Suffolk City, VA	
Virginia Beach City VA	
Williamsburg City, VA	
York, VA	
5775 Oakland, CA	1.5072
Alameda, CA	
Contra Costa, CA	
5790 Ocala, FL	0.9402
Marion, FL	
5800 Odessa-Midland, TX	0.9397
Ector, TX	
Midland, TX	
5880 Oklahoma City, OK	0.8900
Canadian, OK	
Cleveland, OK	
Logan, OK	
McClain, OK	
Oklahoma, OK	
Pottawatomie, OK	
5910 Olympia, WA	1.0960
Thurston, WA	
5920 Omaha, NE–IA	0.9978
Pottawattamie, IA	
Cass, NE	
Douglas, NE	
Sarpy, NE	
Washington, NE	
5945 Orange County, CA	1.1474
Orange, CA	
5960 Orlando, FL	0.9640
Lake, FL	
Orange, FL	
Osceola, FL	
Seminole, FL	
5990 Owensboro, KY	0.8344
Daviess, KY	
6015 Panama City, FL	0.8865
Bay, FL	
6020 Parkersburg-Marietta, WV–OH	0.8127
Washington, OH	
Wood, WV	
6080 Pensacola, FL	0.8610
Escambia, FL	
Santa Rosa, FL	
6120 Peoria-Pekin, IL	0.8739
Peoria, IL	
Tazewell, IL	
Woodford, IL	
6160 Philadelphia, PA–NJ	1.0713
Burlington, NJ	
Camden, NJ	
Gloucester, NJ	
Salem, NJ	
Bucks, PA	
Chester, PA	
Delaware, PA	
Montgomery, PA	
Philadelphia, PA	
6200 Phoenix-Mesa, AZ	0.9820
Maricopa, AZ	
Pinal, AZ	
6240 Pine Bluff, AR	0.7962
Jefferson, AR	
6280 Pittsburgh, PA	0.9365
Allegheny, PA	
Beaver, PA	
Butler, PA	
Fayette, PA	
Washington, PA	
Westmoreland, PA	
6323 Pittsfield, MA	1.0235
Berkshire, MA	
6340 Pocatello, ID	0.9372
Bannock, ID	
6360 Ponce, PR	0.5169
Guayanilla, PR	
Juana Diaz, PR	
Penuelas, PR	
Ponce, PR	
Villalba, PR	
Yauco, PR	
6403 Portland, ME	0.9794
Cumberland, ME	
Sagadahoc, ME	
York, ME	
6440 Portland-Vancouver, OR–WA	1.0667
Clackamas, OR	
Columbia, OR	
Multnomah, OR	
Washington, OR	
Yamhill, OR	
Clark, WA	
6483 Providence-Warwick-Pawtucket, RI	1.0854
Bristol, RI	
Kent, RI	
Newport, RI	
Providence, RI	
Washington, RI	
6520 Provo-Orem, UT	0.9984
Utah, UT	
6560 Pueblo, CO	0.8820
Pueblo, CO	
6580 Punta Gorda, FL	0.9218
Charlotte, FL	
6600 Racine, WI	0.9334
Racine, WI	
6640 Raleigh-Durham-Chapel Hill, NC	0.9990
Chatham, NC	
Durham, NC	
Franklin, NC	
Johnston, NC	
Orange, NC	
Wake, NC	
6660 Rapid City, SD	0.8846
Pennington, SD	
6680 Reading, PA	0.9295
Berks, PA	
6690 Redding, CA	1.1135
Shasta, CA	
6720 Reno, NV	1.0648
Washoe, NV	
6740 Richland-Kennewick-Pasco, WA	1.1491
Benton, WA	
Franklin, WA	
6760 Richmond-Petersburg, VA	0.9477
Charles City County, VA	
Chesterfield, VA	
Colonial Heights City, VA	
Dinwiddie, VA	
Goochland, VA	
Hanover, VA	
Henrico, VA	
Hopewell City, VA	
New Kent, VA	
Petersburg City, VA	
Powhatan, VA	
Prince George, VA	
Richmond City, VA	
6780 Riverside-San Bernardino, CA	1.1365
Riverside, CA	
San Bernardino, CA	
6800 Roanoke, VA	0.8614
Botetourt, VA	
Roanoke, VA	
Roanoke City, VA	
Salem City, VA	
6820 Rochester, MN	1.2139
Olmsted, MN	
6840 Rochester, NY	0.9194
Genesee, NY	
Livingston, NY	
Monroe, NY	
Ontario, NY	
Orleans, NY	
Wayne, NY	
6880 Rockford, IL	0.9625
Boone, IL	
Ogle, IL	
Winnebago, IL	
6895 Rocky Mount, NC	0.9228
Edgecombe, NC	
Nash, NC	
6920 Sacramento, CA	1.1500
El Dorado, CA	
Placer, CA	
Sacramento, CA	
A6960 Saginaw-Bay City-Midland, MI	0.9650
Bay, MI	
Midland, MI	
Saginaw, MI	
6980 St. Cloud, MN	0.9700
Benton, MN	
Stearns, MN	
7000 St. Joseph, MO	0.9544
Andrews, MO	
Buchanan, MO	
7040 St. Louis, MO–IL	0.8855
Clinton, IL	
Jersey, IL	
Madison, IL	
Monroe, IL	
St. Clair, IL	
Franklin, MO	
Jefferson, MO	
Lincoln, MO	
St. Charles, MO	
St. Louis, MO	

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
St. Louis City, MO	
Warren, MO	
Sullivan City, MO	
7080 Salem, OR	1.0500
Marion, OR	
Polk, OR	
7120 Salinas, CA	1.4623
Monterey, CA	
7160 Salt Lake City-Ogden, UT	0.9945
Davis, UT	
Salt Lake, UT	
Weber, UT	
7200 San Angelo, TX	0.8374
Tom Green, TX	
7240 San Antonio, TX	0.8753
Bexar, TX	
Comal, TX	
Guadalupe, TX	
Wilson, TX	
7320 San Diego, CA	1.1131
San Diego, CA	
7360 San Francisco, CA	1.4142
Marin, CA	
San Francisco, CA	
San Mateo, CA	
7400 San Jose, CA	1.4145
Santa Clara, CA	
7440 San Juan-Bayamon, PR	0.4741
Aguas Buenas, PR	
Barceloneta, PR	
Bayamon, PR	
Canovanas, PR	
Carolina, PR	
Catano, PR	
Ceiba, PR	
Comerio, PR	
Corozal, PR	
Dorado, PR	
Fajardo, PR	
Florida, PR	
Guaynabo, PR	
Humacao, PR	
Juncos, PR	
Los Piedras, PR	
Loiza, PR	
Luguillo, PR	
Manati, PR	
Morovis, PR	
Naguabo, PR	
Naranjito, PR	
Rio Grande, PR	
San Juan, PR	
Toa Alta, PR	
Toa Baja, PR	
Trujillo Alto, PR	
Vega Alta, PR	
Vega Baja, PR	
Yabucoa, PR	
7460 San Luis Obispo-Atascadero-Paso Robles, CA	1.1271
San Luis Obispo, CA	
7480 Santa Barbara-Santa Maria-Lompoc, CA	1.0481
Santa Barbara, CA	
7485 Santa Cruz-Watsonville, CA	1.3646
Santa Cruz, CA	
7490 Santa Fe, NM	1.0712
Los Alamos, NM	
Santa Fe, NM	
7500 Santa Rosa, CA	1.3046

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Sonoma, CA	
7510 Sarasota-Bradenton, FL	0.9425
Manatee, FL	
Sarasota, FL	
7520 Savannah, GA	0.9376
Bryan, GA	
Chatham, GA	
Effingham, GA	
7560 Scranton-Wilkes-Barre—Hazleton, PA	0.8599
Columbia, PA	
Lackawanna, PA	
Luzerne, PA	
Wyoming, PA	
7600 Seattle-Bellevue-Everett, WA	1.1474
Island, WA	
King, WA	
Snohomish, WA	
7610 Sharon, PA	0.7869
Mercer, PA	
7620 Sheboygan, WI	0.8697
Sheboygan, WI	
7640 Sherman-Denison, TX	0.9255
Grayson, TX	
7680 Shreveport-Bossier City, LA	0.8987
Bossier, LA	
Caddo, LA	
Webster, LA	
7720 Sioux City, IA–NE	0.9046
Woodbury, IA	
Dakota, NE	
7760 Sioux Falls, SD	0.9257
Lincoln, SD	
Minnehaha, SD	
7800 South Bend, IN	0.9802
St. Joseph, IN	
7840 Spokane, WA	1.0852
Spokane, WA	
7880 Springfield, IL	0.8659
Menard, IL	
Sangamon, IL	
7920 Springfield, MO	0.8424
Christian, MO	
Greene, MO	
Webster, MO	
8003 Springfield, MA	1.0927
Hampden, MA	
Hampshire, MA	
8050 State College, PA	0.8941
Centre, PA	
8080 Steubenville-Weirton, OH–WV	0.8804
Jefferson, OH	
Brooke, WV	
Hancock, WV	
8120 Stockton-Lodi, CA	1.0506
San Joaquin, CA	
8140 Sumter, SC	0.8273
Sumter, SC	
8160 Syracuse, NY	0.9714
Cayuga, NY	
Madison, NY	
Onondaga, NY	
Oswego, NY	
8200 Tacoma, WA	1.0940
Pierce, WA	
8240 Tallahassee, FL	0.8504

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Gadsden, FL	
Leon, FL	
8280 Tampa-St. Petersburg-Clearwater, FL	0.9065
Hernando, FL	
Hillsborough, FL	
Pasco, FL	
Pinellas, FL	
8320 Terre Haute, IN	0.8599
Clay, IN	
Vermillion, IN	
Vigo, IN	
8360 Texarkana,AR-Texarkana, TX	0.8088
Miller, AR	
Bowie, TX	
8400 Toledo, OH	0.9810
Fulton, OH	
Lucas, OH	
Wood, OH	
8440 Topeka, KS	0.9199
Shawnee, KS	
8480 Trenton, NJ	1.0432
Mercer, NJ	
8520 Tucson, AZ	0.8911
Pima, AZ	
8560 Tulsa, OK	0.8332
Creek, OK	
Osage, OK	
Rogers, OK	
Tulsa, OK	
Wagoner, OK	
8600 Tuscaloosa, AL	0.8130
Tuscaloosa, AL	
8640 Tyler, TX	0.9521
Smith, TX	
8680 Utica-Rome, NY	0.8465
Herkimer, NY	
Oneida, NY	
8720 Vallejo-Fairfield-Napa, CA	1.3354
Napa, CA	
Solano, CA	
8735 Ventura, CA	1.1096
Ventura, CA	
8750 Victoria, TX	0.8756
Victoria, TX	
8760 Vineland-Millville-Bridgeton, NJ	1.0031
Cumberland, NJ	
8780 Visalia-Tulare-Porterville, CA	0.9418
Tulare, CA	
8800 Waco, TX	0.8073
McLennan, TX	
8840 Washington, DC–MD–VA–WV	1.0851

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
District of Columbia, DC	
Calvert, MD	
Charles, MD	
Frederick, MD	
Montgomery, MD	
Prince Georges, MD	
Alexandria City, VA	
Arlington, VA	
Clarke, VA	
Culpepper, VA	
Fairfax, VA	
Fairfax City, VA	
Falls Church City, VA	
Fauquier, VA	
Fredericksburg City, VA	
King George, VA	
Loudoun, VA	
Manassas City, VA	
Manassas Park City, VA	
Prince William, VA	
Spotsylvania, VA	
Stafford, VA	
Warren, VA	
Berkeley, WV	
Jefferson, WV	
8920 Waterloo-Cedar Falls, IA	0.8069
Black Hawk, IA	
8940 Wausau, WI	0.9782
Marathon, WI	
8960 West Palm Beach-Boca Raton, FL	0.9939
Palm Beach, FL	
9000 Wheeling, OH–WV	0.7670
Belmont, OH	
Marshall, WV	
Ohio, WV	
9040 Wichita, KS	0.9520
Butler, KS	
Harvey, KS	
Sedgwick, KS	
9080 Wichita Falls, TX	0.8498
Archer, TX	
Wichita, TX	
9140 Williamsport, PA	0.8544
Lycoming, PA	
9160 Wilmington-Newark, DE–MD	1.1173
New Castle, DE	
Cecil, MD	
9200 Wilmington, NC	0.9640
New Hanover, NC	
Brunswick, NC	
9260 Yakima, WA	1.0569
Yakima, WA	
9270 Yolo, CA	0.9434
Yolo, CA	
9280 York, PA	0.9026
York, PA	
9320 Youngstown-Warren, OH	0.9358
Columbiana, OH	
Mahoning, OH	
Trumbull, OH	
9340 Yuba City, CA	1.0276
Sutter, CA	
Yuba, CA	
9360 Yuma, AZ	0.8589
Yuma, AZ	

TABLE 8.—WAGE INDEX FOR RURAL AREAS

Rural area	Wage index
Alabama	0.7660
Alaska	1.2293
Arizona	0.8493
Arkansas	0.7666
California	0.9899
Colorado	0.9015
Connecticut	1.2394
Delaware	0.9128
Florida	0.8827
Georgia	0.8230
Guam	0.9611
Hawaii	1.0255
Idaho	0.8747
Illinois	0.8204
Indiana	0.8755
Iowa	0.8315
Kansas	0.7900
Kentucky	0.8079
Louisiana	0.7580
Maine	0.8874
Maryland	0.8946
Massachusetts	1.1288
Michigan	0.9009
Minnesota	0.9151
Mississippi	0.7680
Missouri	0.7881
Montana	0.8481
Nebraska	0.8204
Nevada	0.9577
New Hampshire	0.9839
New Jersey*.	
New Mexico	0.8872
New York	0.8542
North Carolina	0.8669
North Dakota	0.7788
Ohio	0.8613
Oklahoma	0.7590
Oregon	1.0259
Pennsylvania	0.8462
Puerto Rico	0.4356
Rhode Island*.	
South Carolina	0.8607
South Dakota	0.7815
Tennessee	0.7877
Texas	0.7821
Utah	0.9312
Vermont	0.9345
Virginia	0.8504
Virgin Islands	0.7845
Washington	1.0179
West Virginia	0.7975
Wisconsin	0.9162
Wyoming	0.9007

*All counties within the State are classified urban.

D. Updates to the Federal Rates

In accordance with section 1888(e)(4)(E) of the Act and section 311 of the BIPA, the payment rates listed here reflect an update equal to the SNF market basket minus 0.5 percentage points, which equals 2.6 percentage points. We will continue to publish the rates, wage index, and case-mix classification methodology in the **Federal Register** before August 1 preceding the start of each succeeding fiscal year.

E. Relationship of RUG–III Classification System to Existing Skilled Nursing Facility Level-of-Care Criteria

As discussed in § 413.345, we include in each update of the Federal payment rates in the **Federal Register** the designation of those specific RUGs under the classification system that represent the required SNF level of care, as provided in § 409.30. This designation reflects an administrative presumption under the current 44-group RUG–III classification system that beneficiaries who are correctly assigned to one of the upper 26 RUG–III groups in the initial 5-day, Medicare-required assessment are automatically classified as meeting the SNF level of care definition up to that point.

Those beneficiaries assigned to any of the lower 18 groups are not automatically classified as either meeting or not meeting the definition, but instead receive an individual level of care determination using the existing administrative criteria. This presumption recognizes the strong likelihood that beneficiaries assigned to one of the upper 26 groups during the immediate post-hospital period require a covered level of care, which would be significantly less likely for those beneficiaries assigned to one of the lower 18 groups.

In this notice, we are continuing the existing designation of the upper 26 RUG–III groups for purposes of this administrative presumption, consisting of the following RUG–III classifications: all groups within the Ultra High Rehabilitation category; all groups within the Very High Rehabilitation category; all groups within the High Rehabilitation category; all groups within the Medium Rehabilitation category; all groups within the Low Rehabilitation category; all groups within the Extensive Services category; all groups within the Special Care category; and, all groups within the Clinically Complex category.

F. Initial Three-Year Transition Period

As noted previously, the rates that we are announcing in this notice are for the fifth year of the SNF PPS. As a result, the PPS is no longer operating under the initial three-year transition period from facility-specific to Federal rates and, therefore, payment now equals 100 percent of the adjusted Federal per diem rate.

G. Example of Computation of Adjusted PPS Rates and SNF Payment

Using the XYZ SNF described in Table 9, the following shows the adjustments made to the Federal per diem rate to compute the provider's actual per diem PPS payment. XYZ's 12-month cost reporting period begins October 1, 2002. XYZ's total PPS payment would equal $19,460. The Labor and Non-labor columns are derived from Table 5. The 4 percent adjustment to the Federal rates enacted in section 101(d) of the BBRA and the 16.66 percent adjustment to the nursing component of the Federal rates enacted in section 312 of the BIPA are no longer in effect for FY 2003, and, thus, are not reflected in the table. However, the adjustments for certain specified RUG–III groups enacted in section 101(a) of the BBRA (as amended by section 314 of the BIPA) remain in effect, and are reflected in the table.

TABLE 9.—SNF XYZ: LOCATED IN STATE COLLEGE, PA

[Wage Index: 0.8941]

RUG group	Labor	Wage index	Adj. labor	Non-labor	Adj. rate	Percent adjustment	Medicare days	Payment
RVC	$250.14	0.8941	$223.65	$78.44	$302.09	[1] $322.33	14	$4,513
RHA	193.30	0.8941	172.83	60.62	233.45	[1] 249.09	16	3,985
SSC	161.02	0.8941	143.97	50.49	194.46	[2] 233.35	30	7,001
IA2	109.18	0.8941	97.62	34.24	131.86	131.86	30	3,956
Total							90	19,460

[1] Reflects a 6.7 percent adjustment from section 314 of the BIPA.
[2] Reflects a 20 percent adjustment from section 101(a) of the BBRA.

III. The Skilled Nursing Facility Market Basket Index

Section 1888(e)(5)(A) of the Act requires us to establish a SNF market basket index (input price index) that reflects changes over time in the prices of an appropriate mix of goods and services included in the SNF PPS. This notice incorporates the latest available projections of the SNF market basket index. We have developed a SNF market basket index that encompasses the most commonly used cost categories for SNF routine services, ancillary services, and capital-related expenses. In the July 31, 2001 **Federal Register** (66 FR 39562), we included a complete discussion on the rebasing of the SNF market basket to FY 1997. There are 21 separate cost categories and respective price proxies. These cost categories were illustrated in Tables 10.A, 10.B, and Appendix A, along with other relevant information, in the July 31, 2001 **Federal Register**.

Each year, we calculate a revised labor-related share based on the relative importance of labor-related cost categories in the input price index. Table 10 summarizes the updated labor-related share for FY 2003. The forecasted rates of growth used to compute the SNF market basket percentage described in section II.D of this notice are shown in Table 11.

TABLE 10.—FY 2003 LABOR-RELATED SHARE

Cost category	Relative importance	
	FY 2003	FY 2002
Wages and salaries	54.796	54.185
Employee benefits	11.232	10.988
Nonmedical professional fees	2.652	2.667
Labor-intensive services	4.124	4.107
Capital-related	3.324	3.432
Total	76.128	75.379

TABLE 11.—SNF TOTAL COST MARKET BASKET CHANGE FY 1998 THROUGH FY 2004

Fiscal years beginning October 1	Total [1]
Fiscal year:	
1998	2.8
1999	3.0
2000	4.0
2001	4.9
2002	3.6
2003	3.1
2004	3.0

[1] Skilled Nursing Facility Total Cost market Basket.
Source: (Table 10) Standard & Poor's DRI HCC, 2nd QTR.
Source: (Table 11) Global Insights Inc., DRI–WEFA, 2nd Qtr, 2002.
@USAMACRO/MODTREND@CISSIM/TL0502.SIM.
Released by CMS, OACT, National Health Statistics Group.

A. Use of the Skilled Nursing Facility Market Basket Percentage

Section 1888(e)(5)(B) of the Act defines the SNF market basket percentage as the percentage change in the SNF market basket index, as described in the previous section, from the average of the prior fiscal year to the average of the current fiscal year. For the Federal rates established in this notice, the percentage increase in the SNF market basket index is used to compute the update factor occurring between FY 2002 and FY 2003. We used the 2nd quarter 2002 forecasted percentage increases of the FY 1997 rebased SNF market basket index for routine, ancillary, and capital-related expenses, described in the previous section, to compute the update factors. Finally, we no longer compute update factors to adjust a facility-specific portion of the SNF PPS rates, because the three-year transition period from facility-specific to full Federal rates that started with cost reporting periods beginning in July of 1998 has expired.

B. Federal Rate Update Factor

Section 1888(e)(4)(E)(ii)(III) of the Act requires that the update factor used to establish the FY 2003 Federal rates be at a level equal to the market basket percentage change minus 0.5 percentage point. Accordingly, to establish the update factor, we determined the total growth from the average market basket level for the period of October 1, 2001 through September 30, 2002 to the average market basket level for the period of October 1, 2002 through September 30, 2003. Using this process, the update factor for FY 2003 SNF Federal rates is 2.6 percentage points (3.1 percentage points minus 0.5 percentage point).

We used this revised update factor to compute the Federal portion of the SNF PPS rate shown in Tables 1 and 2.

IV. Consolidated Billing

As established by section 4432(b) of the BBA, the consolidated billing requirement places with the SNF the Medicare billing responsibility for virtually all of the services that the SNF's residents receive, except for a small number of services that the statute specifically identifies as being excluded from this provision. Section 103 of the BBRA amended this provision by further excluding a number of individual services, identified by Healthcare Common Procedure Coding System (HCPCS) code, within several broader categories that otherwise remained subject to the provision. Section 313 of the BIPA further amended this provision by repealing its Part B aspect; that is, its applicability to services furnished to a resident during a SNF stay that Medicare does not cover. (However, physical, occupational, and speech-language therapy remain subject to consolidated billing, regardless of whether the resident who receives these services is in a covered Part A stay.) In the final rule that we published in the July 31, 2001 **Federal Register** (66 FR 39562), we revised the consolidated billing regulations to reflect the most recent (the BIPA) amendments. To date, the Congress has enacted no further legislation affecting this provision. Accordingly, we do not include any revisions to the consolidated billing regulations in this notice.

V. Application of the SNF PPS to SNF Services Furnished by Swing-Bed Hospitals

In the July 31, 2001 final rule (66 FR 39562), we announced the conversion of swing-bed hospitals to the SNF PPS, effective with the start of the provider's first cost reporting period beginning on or after July 1, 2002. We selected this date consistent with the statutory provision to integrate swing-bed hospitals into the SNF PPS by the end of the SNF transition period, June 30, 2002.

We note that the necessary training materials and support structures were developed to assist swing-bed hospitals affected by this change. The new 2-page customized Minimum Data Set (MDS) for Swing-Bed Hospitals (SB–MDS) has been approved for use by OMB, and is posted on our web site at *http://www.cms.hhs.gov/providers/snfpps/snfpps_swing-bed.asp.* The MDS data collection and transmission software, RAVEN–SB, was customized to reflect the use of the new 2-page form and is now in use.

Swing-bed hospitals must submit MDS assessments on the same schedule as SNFs (the 5th, 14th, 30th, 60th, and 90th covered day of the admission). Since the average swing-bed length of stay is only 9 days, most swing-bed hospitals will, on the average, only need to complete and transmit one MDS record per stay. The transmission requirements are similar to those used by SNFs, and swing-bed hospitals have been notified of the program requirements for establishing dial-in capability to transmit the SB–MDS records. The swing-bed transmission system was customized to permit direct transmission to the swing-bed data repository, and swing-bed hospitals have a dedicated Help Desk to assist them with transmission and technical support issues.

As part of the implementation effort, we have evaluated MDS policies and procedures applicable to SNFs to ensure their applicability to swing-bed hospitals. In most cases, swing-bed hospitals and SNFs follow the same procedures. However, whenever possible, we streamlined those procedures to reflect the operational needs of the swing-bed hospitals. For example, SNFs are required to transmit their MDS records within 31 days of completion, which allows for completion of Resident Assessment Protocols (RAPs), data editing, and care planning. The system edits developed for the SB–MDS reflect the shorter lengths of stay and the inapplicability of the MDS RAPs and care planning components to swing-bed hospitals, and require transmission within 14 days of completion. Finally, we developed and distributed detailed training materials on MDS preparation, transmission, and claims processing. These materials are posted on our web site and updated regularly as new information becomes available. Swing-bed hospitals may check the SNF PPS web site at *http://www.cms.hhs.gov/providers/snfpps/snfpps_swing-bed.asp* and *http://www.cms.hhs.gov/medlearn/sbmds.asp* to receive the latest information.

VI. Collection of Information Requirements

The current Medicare assessment requirements are based on section 4432(a) of the Balanced Budget Act of 1997 (BBA), which amended section 1888(e) of the Social Security Act (the Act) to mandate implementation of a Medicare prospective payment system for SNFs. This section of the Act requires annual adjustments to the PPS rates based on geographic variation and SNF case-mix, and prescribes the methodology for updating the rates in future years.

The PPS case-mix adjustments are derived from the clinical information collected by providers about Medicare Part A covered beneficiaries during their SNF stays, using the minimum data set (MDS). As a result of a mandate contained in the nursing home reform legislation in the Omnibus Budget Reconciliation Act of 1987 (OBRA '87), a uniform MDS was required as a part of the comprehensive resident assessment for all certified long-term care facilities. The provisions of OBRA '87 require that certified long-term care facilities collect information concerning all residents to support care planning activities. Comprehensive assessments, using the MDS, are required at admission (no later than 14 days following admission), annually, and upon a significant change in a resident's condition. In addition, quarterly reviews of each resident are required. A shorter version of the MDS has been developed for these quarterly assessments.

With implementation of the SNF PPS, providers were required to perform MDS assessments of all beneficiaries in Medicare Part A covered stays on days 5, 14, 30, 60, and 90 of their Medicare covered stays. The assessments required for the SNF PPS are in addition to those required by the OBRA '87, although there is often overlap in the timing of the required assessments so that one assessment may be used to satisfy both the OBRA '87 and SNF PPS requirements. The time required to complete the full version of the MDS is estimated to be 90 minutes. Beginning July 1, 2002, a shorter version of the MDS, the Medicare PPS Assessment Form (MPAF), became available for use to satisfy Medicare assessment requirements. We announced the option of using this shorter version in the **Federal Register** (67 FR 38128, May 31, 2002). Performance of this version of the assessment is estimated to require only 45 minutes of staff time.

When a Medicare SNF PPS assessment is due at the same time as an OBRA-required assessment (for example, a 14-day Medicare SNF PPS assessment combined with an initial admission assessment) providers must meet the more stringent of the two sets of requirements. Thus, the provider must perform an MDS that includes all of the MPAF items plus any additional items required by the clinical assessment, in order to meet both sets of standards. If the OBRA (or State) requirements call for a full MDS, the full MDS may be submitted to satisfy the Medicare SNF PPS requirements. When a full MDS assessment is required to

fulfill the dual requirements of a Medicare SNF PPS and OBRA, completion time is estimated to be 90 minutes.

The total burden of the full MDS, which includes all administrative time, as well as the time actually required by the assessment process, is estimated to be 5,696,218 hours annually. The extent to which the MPAF will be utilized is not known, so time saving associated with its use is not factored into this estimate.

Swing-beds began transitioning into the Medicare SNF PPS on July 1, 2002 and are required to complete a modified version of the MDS, the MDS–SB, which collects only the information needed to calculate the RUG–III classifications for case-mix adjustment. The MDS–SB is the only version of the MDS that is acceptable for use in Medicare SNF PPS swing-bed facilities. There are no OBRA '87 requirements for swing-bed providers. Completion of each MDS–SB assessment is estimated to require 30 minutes. The total burden, including the amount of time required for the actual assessment process as well as administrative time, is estimated to be 132,360 hours per year across all swing-bed providers.

These information collection requirements are currently approved by OMB through December 31, 2002 under OMB numbers 0938–0739 for SNFs and 0938–0872 for swing-bed facilities. We are not proposing any changes to these requirements in this notice.

VII. Regulatory Impact Analysis

We have examined the impacts of this notice as required by Executive Order 12866 (September 1993, Regulatory Planning and Review), the Regulatory Flexibility Act (RFA) (September 16, 1980, Pub. L. 96–354), section 1102(b) of the Social Security Act, (the Act) the Unfunded Mandates Reform Act of 1995 (UMRA, Pub. L. 104–4), and Executive Order 13132.

Executive Order 12866 directs agencies to assess costs and benefits of available regulatory alternatives and, when regulation is necessary, to select regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety effects, distributive impacts, and equity). A regulatory impact analysis (RIA) must be prepared for major rules with economically significant effects ($100 million or more annually). This notice is major, as defined in Title 5, United States Code, section 804(2), because we estimate the impact of the update will be to increase payments to SNFs by approximately $400 million. The update set forth in this notice applies to payments in FY 2003. Accordingly, the analysis that follows describes the impact of this one year only. In accordance with the requirements of the Act, we will publish a notice for each subsequent FY that will provide for an update to the payment rates and include an associated impact analysis.

The UMRA also requires (in section 202) that agencies prepare an assessment of anticipated costs and benefits before developing any rule that may result in an expenditure in any year by State, local, or tribal governments, in the aggregate, or by the private sector, of $110 million or more. This notice will have no consequential effect on State, local, or tribal governments. We believe the private sector cost of this notice falls below these thresholds as well. Because this notice does not impose unfunded mandates, as defined by section 202 of UMRA, we have not prepared an assessment.

Executive Order 13132 (effective November 2, 1999) establishes certain requirements that an agency must meet when it promulgates regulations that impose substantial direct compliance costs on State and local governments, preempt State law, or otherwise have Federalism implications. As stated above, this notice will have no consequential effect on State and local governments.

The RFA requires agencies to analyze options for regulatory relief of small entities. For purposes of the RFA, small entities include small businesses, nonprofit organizations, and governmental agencies. Most SNFs and most other providers and suppliers are small entities, either by virtue of their nonprofit status or by having revenues of $11.5 million or less annually. For purposes of the RFA, all States and tribal governments are not considered to be small entities, nor are intermediaries or carriers. Individuals and States are not included in the definition of a small entity.

This notice updates the SNF PPS rates and wage index published in the July 31, 2001 final rule (66 FR 39562), thereby increasing aggregate payments by an estimated $400 million. Although, as illustrated in Table 12, the simultaneous expiration of several temporary payment increases established under recent legislation results in a net decrease in aggregate Medicare payments in FY 2003, these decreases are not a result of this notice, but rather, are specifically mandated in the legislation. Because Medicare is a relatively minor payer for nursing home care (approximately 9 percent of patient days compared to 65 percent for Medicaid), we do not expect that the 2.6 percent rate increase and wage index update will have a significant impact upon small entities overall. We note that some individual providers may experience larger increases (or even decreases) in payments than others due to changes in payments that result from updating the wage index. However, we do not expect these changes to affect small entities disproportionately. Accordingly, we certify that this notice will not have a significant impact on small entities.

In addition, section 1102(b) of the Act requires us to prepare an RIA if a rule may have a significant impact on the operations of a substantial number of small rural hospitals. This analysis must conform to the provisions of section 604 of the RFA. For purposes of section 1102(b) of the Act, we define a small rural hospital as a hospital that is located outside of a Metropolitan Statistical Area and has fewer than 100 beds. Because the payment rates set forth in this notice also affect rural hospital swing-bed services, we believe that this notice will have an impact on small rural hospitals (this impact is discussed later in this section). However, because this incremental increase in payments for Medicare swing-bed services is relatively minor in comparison to overall rural hospital revenues, this notice will not have a significant impact on the overall operations of these small rural hospitals.

A. Background

Section 1888(e) of the Act establishes the SNF PPS for the payment of Medicare SNF services for cost reporting periods beginning on or after July 1, 1998. This section specifies that the base year cost data to be used for computing the RUG–III payment rates must be from FY 1995 (October 1, 1994, through September 30, 1995.) In accordance with the statute, we also incorporated a number of elements into the SNF PPS, such as case-mix classification methodology, the MDS assessment schedule, a market basket index, a wage index, and the urban and rural distinction used in the development or adjustment of the Federal rates.

This notice sets forth updates of the SNF PPS rates contained in the July 31, 2001 final rule (66 FR 39562). Table 12 presents the projected effects of the changes in the SNF PPS from FY 2002 to FY 2003, as well as statutory changes effective for FY 2002 and FY 2003. In so doing, we estimate the effects of each change by estimating payments while holding all other payment variables constant. We use the best data available,

but we do not attempt to predict behavioral responses to these changes, and we do not make adjustments for future changes in such variables as days or case-mix.

This analysis incorporates the latest estimates of growth in service use and payments under the Medicare SNF benefit, based on the latest available Medicare claims data and MDS 2.0 assessment data from 1999. We note that certain events may combine to limit the scope or accuracy of our impact analysis, because such an analysis is future-oriented and, thus, very susceptible to forecasting errors due to other changes in the forecasted impact time period. Some examples of such possible events are newly legislated general Medicare program funding changes by the Congress, or changes specifically related to SNFs. In addition, changes to the Medicare program may continue to be made as a result of the BBA, the BBRA, the BIPA, or new statutory provisions. Although these changes may not be specific to SNF PPS, the nature of the Medicare program is such that the changes may interact, and the complexity of the interaction of these changes could make it difficult to predict accurately the full scope of the impact upon SNFs.

B. Impact of the Notice

The purpose of this notice is not to initiate significant policy changes with regard to the SNF PPS; rather, it is to provide an update to the rates for FY 2003. As mentioned previously, we have decided not to implement any case-mix refinements for FY 2003. Our decision to defer implementing any case-mix refinements for the present leaves the current classification system in place. Under the provisions of section 101(a) of the BBRA, this will result in SNFs continuing to receive an estimated $1 billion in temporary add-on payments during FY 2003.

In updating the rates for FY 2003, we made a number of standard annual revisions and clarifications mentioned elsewhere in this notice (for example, the update to the wage and market basket indexes used for adjusting the Federal rates). These revisions will increase payments to SNFs by approximately $400 million.

In addition to the update, section 101(d)(1) of the BBRA and section 312 of the BIPA, providing for temporary adjustments to the SNF PPS payment rates, will expire by statute, on October 1, 2002. These temporary adjustments together account for an estimated $1.4 billion dollars per year in payments to the nursing home industry. The expiration of these temporary add-ons results in a net decrease in payments for SNFs in FY 2003.

The aggregate decrease in payments associated with this notice is estimated to be $1 billion. There are three areas of change that produce this net decrease in payment for facilities:

- Section 312 of the BIPA temporarily increases the nursing component of the Federal rates payments by 16.66 percent. This provision results in $900 million in payments per year. The provision expires by statute on October 1, 2002.
- Section 101(d)(1) of the BBRA temporarily increases payments for all RUG–III groups by 4 percent, and prohibits the increases from being built into the base Federal rates. This provision results in $500 million in payments per year. The provision expires by statute on October 1, 2002.
- The annual update in payments from FY 2002 levels to FY 2003 levels, resulting in a $400 million increase in payments per year. The total change in Federal payments includes all of the previously noted changes in addition to the effect of the annual update to the rates and is illustrated in Table 12.

Table 12 only illustrates the impact of the changes on SNFs; it does not apply to swing-bed hospital units. A discussion of the impact on those providers follows.

In developing the impact analysis, we were able to increase significantly the number of facilities included in the data. With the end of the transition period, there is no longer a need to calculate facility-specific rates using 1995 cost report information to estimate current SNF payments. This has allowed us to expand the data base to all SNFs submitting claims in FY 2001 (the latest available data) in estimating the impact of annual updates.

The impacts are shown in Table 12. The breakdown of the various categories of data in the table is as follows:

The first column shows the breakdown of all SNFs by urban or rural status, hospital-based or freestanding status, and census region.

The first row of figures in the first column describes the estimated effects of the various changes on all facilities. The next six rows show the effects on facilities split by hospital-based, freestanding, urban, and rural categories. The next twenty rows show the effects on urban versus rural status by census region. The final four rows show the effects on facilities by ownership type.

The second column in the table shows the number of facilities in the impact database.

The third column shows the projected effect of eliminating the 16.66 percent add-on to the nursing portion of the Federal rate mandated by the BIPA. As expected, this results in a decrease in payments for all facilities; however, as seen in the table, the varying effect results in a distributional impact. In addition, since this increase only applies to the nursing portion of the payment rate, the effect on total expenditures is less than 16.66 percent.

The fourth column of the table shows the effect of the annual update to the wage index. The total impact of this change is zero percent; however, there are distributional effects of the change.

The fifth column of the table shows the effect of all of the changes on the FY 2003 payments. Section 101(d) of the BBRA increases payments for all RUG–III groups by 4 percent and is the same for all types of facilities. This temporary add-on expires October 1, 2002, and is reflected in the total column. This includes all of the previous changes, the expiration of the 4 percent add-on to the Federal rates, and the increase to this year's payment rates by the market basket rate less 0.5 percentage point, or 2.6 percentage points. The market basket increase of 2.6 percentage points is also constant for all providers and, though not shown individually, is included in the total column. It is projected that aggregate payments will decrease by 9.1 percent in total, assuming facilities do not change their care delivery and billing practices in response.

As can be seen from this table, the combined effects of all of the changes vary by specific types of providers and by location. For example, freestanding facilities experience payment decreases, while the decrease for hospital-based and rural providers is less significant.

TABLE 12.—PROJECTED IMPACT OF FY 2003 UPDATE TO THE SNF PPS

	Number of facilities	Eliminate add-on to nursing rates (Percent)	Wage index change (Percent)	Total FY 2003 change* (Percent)
Total	13,944	−7.4	0.0	−8.8
Urban	9,485	−7.5	−0.1	−9.0
Rural	4,459	−7.2	0.5	−8.1
Hospital-based urban	1,049	−7.8	−0.1	−9.3
Freestanding urban	7,885	−7.4	−0.1	−8.9
Hospital-based rural	660	−7.6	0.5	−8.5
Freestanding rural	3,500	−7.1	0.5	−8.0
Urban by region:				
New England	911	−7.6	−0.2	−9.2
Middle Atlantic	1,469	−7.8	−0.8	−9.9
South Atlantic	1,522	−7.3	0.2	−8.5
East North Central	1,823	−7.3	0.0	−8.7
East South Central	410	−7.4	−0.3	−9.1
West North Central	662	−7.5	0.3	−8.6
West South Central	847	−7.4	0.6	−8.2
Mountain	413	−7.2	0.7	−8.0
Pacific	1,422	−7.5	0.0	−8.9
Rural by region:				
New England	129	−7.1	0.4	−8.1
Middle Atlantic	238	−7.4	−0.9	−9.6
South Atlantic	627	−7.1	0.5	−8.0
East North Central	845	−7.1	0.3	−8.2
East South Central	479	−7.2	1.0	−7.7
West North Central	1,045	−7.4	0.8	−8.1
West South Central	605	−7.1	0.8	−7.8
Mountain	303	−7.0	0.5	−7.9
Pacific	188	−6.9	0.4	−7.9
Ownership:				
Government	701	−7.8	−0.1	−9.3
Proprietary	8,839	−7.4	0.0	−8.8
Voluntary	3,514	−7.6	−0.1	−9.1

*Column 5 includes the effects of reducing payments by 4 percent across all providers (resulting from the expiration of section 101(d) of the BBRA, effective October 1, 2002) and shows the effect of the market basket update that increases payment by 2.6 percent across all providers.

D. Impact on Swing-Bed Providers

In the July 31, 2001 final rule (66 FR 39562), we projected payments for swing-bed providers under the SNF PPS by first using the MEDPAR analog to assign 1999 claims records to a RUGIII group, then applying FY 2002 payment rates to calculate annual estimated payments.

For the purpose of this notice, we have used the MEDPAR analog classification, and estimated current SNF PPS reimbursement as if the swing-bed providers were fully phased into the SNF PPS in FY 2002. Then, using the same MEDPAR analog classifications, we applied the FY 2003 changes for a fully phased-in swing-bed population. We estimate that the overall impact on swing-bed facilities will be a decrease in payments of approximately 9 percent, or $22 million.

We anticipate that the actual overall impact of the elimination of the rate add-ons will be approximately equal to the 8.5 percent rate decrease projected for rural hospital-based SNFs.

E. Other Options Considered

As discussed in section II.B of this notice, we determined that while the research on case-mix refinements gives a sound basis for developing case-mix refinements in the SNF PPS, we need additional time to review and analyze the implications. Therefore, we have decided not to implement any case-mix refinements for FY 2003. We are proceeding with our research to evaluate both incremental and long-range comprehensive changes in the case-mix classification system.

Finally, in accordance with the provisions of Executive Order 12866, this notice was reviewed by the Office of Management and Budget.

VIII. Federalism

We have reviewed this notice under the threshold criteria of Executive Order 13132, Federalism, and we have determined that it does not significantly affect the rights, roles, and responsibilities of States.

IX. Waiver of Proposed Rulemaking

We ordinarily publish a proposed notice in the **Federal Register** to provide a period for public comment before the provisions of a notice such as this take effect. We can waive this procedure, however, if we find good cause that a notice and comment period procedure is impracticable, unnecessary, or contrary to the public interest and we incorporate a statement of finding and its reasons in the notice issued.

We believe it is unnecessary to undertake a proposed notice with comment period as the statute requires annual updates to the SNF PPS rates, the methodologies used to update the rates have been previously subject to public comment, and this notice reflects the application of previously established methodologies. Therefore, for good cause, we waive prior notice and comment procedures.

(Catalog of Federal Domestic Assistance Program No. 93.773, Medicare-Hospital Insurance Program; and No. 93.774, Medicare-Supplementary Medical Insurance Program).

Dated: June 14, 2002.

Thomas A. Scully,

Administrator, Centers for Medicare & Medicaid Services.

Dated: July 11, 2002.

Tommy G. Thompson,

Secretary.

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