In accordance with the provisions of Executive Order 12866, this notice was reviewed by the Office of Management and Budget (OMB).

**Authority:** Section 1886 (j) of the Social Security Act (42 U.S.C. 1395ww(j)) (Catalog of Federal Domestic Assistance Program No. 93.773, Medicare—Hospital Insurance Program; and No. 93.774, Medicare—Supplementary Medical Insurance Program)

Dated: June 24, 2004.

**Mark B. McClellan,**

*Administrator, Centers for Medicare & Medicaid Services.*

Approved: July 27, 2004.

**Tommy G. Thompson,**

*Secretary.*

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## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### Centers for Medicare & Medicaid Services

**[CMS–1249–N]**

**RIN 0938–AM46**

## 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) 2005, 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), the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (the BIPA), and the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the MMA), relating to Medicare payments and consolidated billing for SNFs.

**EFFECTIVE DATE:** This notice is effective on October 1, 2004.

**FOR FURTHER INFORMATION CONTACT:** John Davis, (410) 786–0008 (for information related to the Wage Index, and to swing-bed providers). Ellen Gay, (410) 786–4528 (for information related to the case-mix classification methodology). Jeanette Kranacs, (410) 786–9385 (for information related to the development of the payment rates). 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
AIDS Acquired Immune Deficiency Syndrome
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
FQHC Federally Qualified Health Center
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
MMA Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Pub.L. 108–173
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
RHC Rural Health Clinic
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 August 4, 2003, we published in the **Federal Register** (68 FR 46036) 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) 2004. (We subsequently published a correction notice (68 FR 55882, September 29, 2003) with respect to those payment rate updates.) 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), the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA), and the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) 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 2005. 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 greater detail.) A correction notice was published on October 10, 2003 (68 FR 58756) that announced a wage index for a particular MSA that had been inadvertently omitted from the September 29, 2003 correction notice

(68 FR 55882). Additionally, as noted in the August 4, 2003 final rule (68 FR 46036), section 101 of the BBRA and sections 311, 312, and 314 of the BIPA also affect the payment rate. Further, as explained in section I.E of this update notice, the Congress has subsequently enacted additional legislation, in section 511 of the MMA, that also affects 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. The last year of the transition was FY 2001. All facilities have been paid at the full Federal rate since the following fiscal year (FY 2002). Therefore, as discussed in section I.F.2 of this notice, we no longer include 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), which remain separately billable to Part B when furnished to a SNF's Part A resident. As discussed in section IV. of this notice, section 410 of the MMA contains a provision that affects the applicability of the consolidated billing requirement to certain practitioner and other services furnished to SNF residents by rural health clinics (RHCs) and Federally Qualified Health Centers (FQHCs).

*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. For critical access hospitals (CAHs), Part A pays on a reasonable cost basis for SNF services furnished under a swing-bed agreement. However, in accordance with section 1888(e)(7) of the Act, these services furnished by non-CAH rural hospitals are paid under the SNF PPS, effective with cost reporting periods beginning on or after July 1, 2002. 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, to reflect section 408 of the BBRA.

*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. GAO issued this report (GAO–03–176) in November 2002.

• 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 fourteen rehabilitation RUGs (RUC, RUB, RUA, RVC, RVB, RVA, RHC, RHB, RHA, RMC, RMB, RMA, RLB, and RLA), in order to correct an anomaly under which the existing payment rates for three particular rehabilitation RUGs—RHC, RMC, and RMB—were higher than the rates for some other, more intensive rehabilitation RUGs. Under the BIPA adjustment, the temporary increase that section 101(a) of the BBRA had applied to the RHC, RMC, and RMB rehabilitation RUGs was revised from 20 percent to 6.7 percent, and the BIPA adjustment also applied this temporary 6.7 percent increase to each of the other eleven rehabilitation RUGs as well.

• 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. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA)*

On December 8, 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) was signed into law. This legislation introduces a new provision that results in a further adjustment to the PPS for SNFs. Specifically, section 511 of the MMA amends paragraph (12) of section 1888(e) of the Act to provide for a temporary 128 percent increase in the PPS per diem payment for any SNF resident with Acquired Immune Deficiency Syndrome (AIDS), effective with services furnished on or after October 1, 2004. Like the temporary add-on payments created by section 101(a) of the BBRA (as amended by section 314 of the BIPA), this special AIDS add-on remains in effect until the implementation of case-mix refinements in the SNF PPS. The law further provides that the 128 percent increase in payment under the AIDS add-on is ''* * * determined without regard to any increase'' under section 101 of the BBRA (as amended by section 314 of the BIPA). As explained in the MMA Conference report, this means that if a resident qualifies for the temporary 128 percent increase in payment under the special AIDS add-on, ''the BBRA temporary RUG add-on does not apply in this case. * * *'' (H.R. Conf. Rep. No. 108–391 at 662). The AIDS add-on is also discussed in Transmittal #160 (Change Request #3291), issued on April 30, 2004, which is available online at *http://www.cms.hhs.gov/manuals/transmittals/comm_date_dsc.asp.*

Implementation of this provision results in a significant increase in payment. For example, using 2002 data we identified 773 SNF residents with a principal diagnosis code of 042. The average payment per day for these residents was approximately $261, including any applicable add-ons from Section (312) of the BIPA, Section (314) of the BIPA, and Section (101) of the BBRA. For FY2005, an urban facility with a resident with AIDS in the SSA RUG would have a case-mix adjusted payment of almost $216 (*see* Table 4) before the application of the section 511 MMA adjustment. After an increase of 128 percent, this urban facility would receive a case-mix adjusted payment of approximately $492.

In addition, section 410 of the MMA contains a provision that affects the consolidated billing requirement, which we discuss in section IV. of this notice.

*F. 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 the PPS (the 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.

Further, in accordance with section 1888(e)(4)(E)(ii)(IV) of the Act, the Federal rates in this notice reflect an update to the rates that we published in the August 4, 2003 final rule for FY 2004 (68 FR 46036) and the associated correction notice (68 FR 55882, September 29, 2003), equal to the full change in the SNF market basket index. A more detailed discussion of the SNF market basket index and related issues appears in sections I.G and III. of this notice.

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 indicated in section II.F of this notice, we no longer include adjustment factors related to facility-specific rates for the coming fiscal year.

*G. Use of the 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. The final rule published on July 31, 2001 (66 FR 39562) revised and rebased the market basket to reflect 1997 total cost data.

In addition, as explained in the FY 2004 final rule (68 FR 46058) and in section III.B of this notice, the annual update of the payment rates includes, as appropriate, an adjustment to account for market basket forecast error. This adjustment takes into account the forecast error from the most recently available fiscal year for which there is final data, and is applied whenever the difference between the forecasted and actual change in the market basket exceeds a 0.25 percentage point threshold. For FY 2003 (the most recently available fiscal year for which there is final data), the estimated increase in the market basket index was 3.1 percentage points, while the actual increase was 3.3 percentage points, resulting in only a 0.2 percentage point underforecast. Accordingly, as the difference between the estimated and actual amounts of change does not exceed the 0.25 percentage point threshold, the payment rates for FY 2005 do not include a forecast error adjustment. Table 1 below shows the forecasted and actual market basket amounts for FY 2003.

**Table 1 - FY 2003 Forecast Error Correction for CMS SNF Market Basket**

| Index | Forecasted FY 2003 Increase* | Actual FY 2003 Increase** | FY 2003 Forecast Error Correction*** |
|---|---|---|---|
| SNF | 3.1 | 3.3 | 0.0 |

*Published in July 31, 2002 Federal Register; based on second quarter 2002 Global Insight/DRI-WEFA forecast.
**Based on the fourth quarter 2003 Global Insight/DRI-WEFA forecast.
***The FY 2003 forecast error correction will be applied to the FY 2005 PPS update. Any forecast error less than 0.25 percentage points is not reflected in the update.

## 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, 2004. 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 2005 rates reflect an update using the full amount of the latest market basket index. The FY 2005 market basket increase factor is 2.8 percent. 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 section 101(a) of the BBRA and section 314 of the BIPA, the existing, temporary increase in the per diem adjusted payment rates of 20 percent for certain specified RUGs (and 6.7 percent for certain others) remains in effect until the implementation of case-mix refinements. This is also the case for the temporary 128 percent increase in the per diem adjusted payment rates for SNF residents with AIDS, enacted by section 511 of the MMA. As discussed elsewhere in this notice, while we are proceeding with our ongoing research in this area, we are not implementing case-mix refinements at the present time.

We used the SNF market basket 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, 2003, and ending September 30, 2004, and the midpoint of the Federal fiscal year beginning October 1, 2004, and ending September 30, 2005, to which the payment rates apply. In accordance with section 1888(e)(4)(E)(ii)(IV) of the Act, the payment rates for FY 2005 are updated by a factor equal to the full market basket index percentage increase. The rates are further adjusted by a wage index budget neutrality factor, described later in this section. Tables 2 and 3 reflect the updated components of the unadjusted Federal rates for FY 2005.

**Table 2**
**FY 2005 Unadjusted Federal Rate Per Diem**
**Urban**

| Rate Component | Nursing - Case-Mix | Therapy - Case-Mix | Therapy - Non-Case-mix | Non-Case-Mix |
|---|---|---|---|---|
| Per Diem Amount | $133.29 | $100.40 | $13.22 | $68.03 |

**Table 3**
**FY 2005 Unadjusted Federal Rate Per Diem**
**Rural**

| Rate Component | Nursing - Case-Mix | Therapy - Case-Mix | Therapy-Non-Case-Mix | Non-Case-Mix |
|---|---|---|---|---|
| Per Diem Amount | $127.34 | $115.78 | $14.12 | $69.29 |

*B. Case-Mix Refinements*

Under the BBA, each update of the SNF PPS payment rates must include the case-mix classification methodology applicable for the coming Federal fiscal year. As noted in the following discussion, we are proceeding with our ongoing research regarding possible refinements in the existing case-mix classification system, but we are not implementing the refinements in this notice. Therefore, we continue at present to utilize the existing case-mix classification system that employs the 44 RUG–III groups.

As discussed previously in this notice, 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 published July 31, 2000 (65 FR 46773)). Nevertheless, since the BBRA provision had demonstrated a Congressional interest in improving the ability of the payment system to account for the care furnished to medically complex patients in SNFs, 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 extended timeframe for conducting the study, and the broad mandate in the BIPA 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. This underscored the fact 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 again considered the possibility of including these refinements as part of the following year's annual update of the SNF payment rates.

However, in the July 31, 2002 update notice (67 FR 49801), we determined that the research was not sufficiently advanced to implement any case-mix refinements at that time, thus leaving the current classification system in place. This also left in place the temporary add-on payments enacted in section 101(a) of the BBRA. Moreover, while we have continued with our ongoing research regarding possible refinements in the existing case-mix classification system, this research has not yet provided the basis for proceeding with those refinements. Accordingly, we are not implementing case-mix refinements in this notice.

As a result, the payment rates set forth in this notice reflect the continued use of the 44-group RUG–III classification system discussed in the May 12, 1998 interim final rule (63 FR 26252). We are also maintaining 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 4 and 5, with the corresponding case-mix values. These tables do not reflect the temporary add-on to the specified RUG–III groups provided in the BBRA, or the new AIDS add-on enacted by section 511 of the MMA, which are applied only after all other adjustments (wage and case-mix) are made.

Meanwhile, we 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 to perform 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 to begin the case-mix study mandated by section 311(e) of the BIPA. The results of our current research 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 in general. This broader, ongoing research project will pursue several avenues in studying various case-mix classification systems. Our preliminary research has focused on incorporating comorbidities and complications into the classification strategy, and we will thoroughly explore and evaluate this approach and other approaches (including procedures that might account more accurately for ancillary services) in our ongoing work.

In addition, we note that certain questions have arisen recently in connection with a particular aspect of a previous discussion of the case-mix classification system, which appeared in the preamble to the FY 2000 SNF PPS final rule (64 FR 41660–61, July 30, 1999). Specifically, that portion of the preamble discussed the coverage of rehabilitation therapy services (that is, physical, occupational, and speech-language therapy) under the SNF PPS. This discussion noted the longstanding requirement for such therapy services to be furnished under ''an active written treatment regimen established by the physician. * * *'' We further indicated that while Medicare allows the professional therapist to begin providing services based on that plan prior to obtaining the physician's signature on the plan,

> * * * a physician signature must be obtained before the facility bills Medicare for payment for the rehabilitation therapy services provided to the beneficiary based on the plan of treatment he or she has approved. In this way, the facility can be sure that the level of therapy for which it bills Medicare is the level the physician deems to be medically necessary.

In view of the questions that have arisen recently regarding that portion of the preamble discussion, we would like to take this opportunity to clarify the requirement for physician verification as it relates to rehabilitation therapy services provided to a beneficiary during a covered Part A SNF stay that is being paid under the SNF PPS. Under section 1814(a)(2)(B) of the Act and the implementing regulations at 42 CFR 424.20, the physician must certify (and periodically recertify) that a beneficiary requires daily skilled nursing or rehabilitation services which, as a practical matter, can only be provided in the SNF on an inpatient basis (OMB approval number 0938–0454 with a current expiration date of June 30, 2006). However, beyond this overall statement as to the beneficiary's need for a SNF level of care, the law and regulations do not require, as a prerequisite for Part A coverage of rehabilitation therapy under the SNF benefit, the completion of a further physician certification, specifically with reference to the therapy plan of treatment.

Accordingly, notwithstanding the statement in the preamble to the 1999 final rule, as the Part A SNF benefit requires rehabilitation therapy to be furnished according to an active written treatment regimen established and certified by the physician, it is not necessary for a SNF to obtain a separate physician signature on the therapy treatment plan itself prior to billing Part A for the therapy services. We wish to note explicitly that the foregoing discussion applies specifically to coverage of rehabilitation therapy in the context of the Part A SNF benefit, and does not address plan of care requirements under the separate Part B therapy benefits, which are subject to their own set of coverage requirements.

Table 4
CASE-MIX ADJUSTED FEDERAL RATES AND ASSOCIATED INDEXES
URBAN

| RUG-III Category | Nursing Index | Therapy Index | Nursing Compo-nent | Therapy Compo-nent | Non-case Mix Therapy Comp | Non-case Mix Compo-nent | Total Rate |
|---|---|---|---|---|---|---|---|
| RUC | 1.30 | 2.25 | 173.28 | 225.90 | | 68.03 | 467.21 |
| RUB | 0.95 | 2.25 | 126.63 | 225.90 | | 68.03 | 420.56 |
| RUA | 0.78 | 2.25 | 103.97 | 225.90 | | 68.03 | 397.90 |
| RVC | 1.13 | 1.41 | 150.62 | 141.56 | | 68.03 | 360.21 |
| RVB | 1.04 | 1.41 | 138.62 | 141.56 | | 68.03 | 348.21 |
| RVA | 0.81 | 1.41 | 107.96 | 141.56 | | 68.03 | 317.55 |
| RHC | 1.26 | 0.94 | 167.95 | 94.38 | | 68.03 | 330.36 |
| RHB | 1.06 | 0.94 | 141.29 | 94.38 | | 68.03 | 303.70 |
| RHA | 0.87 | 0.94 | 115.96 | 94.38 | | 68.03 | 278.37 |
| RMC | 1.35 | 0.77 | 179.94 | 77.31 | | 68.03 | 325.28 |
| RMB | 1.09 | 0.77 | 145.29 | 77.31 | | 68.03 | 290.63 |
| RMA | 0.96 | 0.77 | 127.96 | 77.31 | | 68.03 | 273.30 |
| RLB | 1.11 | 0.43 | 147.95 | 43.17 | | 68.03 | 259.15 |
| RLA | 0.80 | 0.43 | 106.63 | 43.17 | | 68.03 | 217.83 |
| SE3 | 1.70 | | 226.59 | | 13.22 | 68.03 | 307.84 |
| SE2 | 1.39 | | 185.27 | | 13.22 | 68.03 | 266.52 |
| SE1 | 1.17 | | 155.95 | | 13.22 | 68.03 | 237.20 |
| SSC | 1.13 | | 150.62 | | 13.22 | 68.03 | 231.87 |
| SSB | 1.05 | | 139.95 | | 13.22 | 68.03 | 221.20 |
| SSA | 1.01 | | 134.62 | | 13.22 | 68.03 | 215.87 |
| CC2 | 1.12 | | 149.28 | | 13.22 | 68.03 | 230.53 |
| CC1 | 0.99 | | 131.96 | | 13.22 | 68.03 | 213.21 |
| CB2 | 0.91 | | 121.29 | | 13.22 | 68.03 | 202.54 |
| CB1 | 0.84 | | 111.96 | | 13.22 | 68.03 | 193.21 |
| CA2 | 0.83 | | 110.63 | | 13.22 | 68.03 | 191.88 |
| CA1 | 0.75 | | 99.97 | | 13.22 | 68.03 | 181.22 |
| IB2 | 0.69 | | 91.97 | | 13.22 | 68.03 | 173.22 |
| IB1 | 0.67 | | 89.30 | | 13.22 | 68.03 | 170.55 |
| IA2 | 0.57 | | 75.98 | | 13.22 | 68.03 | 157.23 |
| IA1 | 0.53 | | 70.64 | | 13.22 | 68.03 | 151.89 |
| BB2 | 0.68 | | 90.64 | | 13.22 | 68.03 | 171.89 |
| BB1 | 0.65 | | 86.64 | | 13.22 | 68.03 | 167.89 |
| BA2 | 0.56 | | 74.64 | | 13.22 | 68.03 | 155.89 |
| BA1 | 0.48 | | 63.98 | | 13.22 | 68.03 | 145.23 |
| PE2 | 0.79 | | 105.30 | | 13.22 | 68.03 | 186.55 |
| PE1 | 0.77 | | 102.63 | | 13.22 | 68.03 | 183.88 |
| PD2 | 0.72 | | 95.97 | | 13.22 | 68.03 | 177.22 |
| PD1 | 0.70 | | 93.30 | | 13.22 | 68.03 | 174.55 |
| PC2 | 0.65 | | 86.64 | | 13.22 | 68.03 | 167.89 |
| PC1 | 0.64 | | 85.31 | | 13.22 | 68.03 | 166.56 |
| PB2 | 0.51 | | 67.98 | | 13.22 | 68.03 | 149.23 |
| PB1 | 0.50 | | 66.65 | | 13.22 | 68.03 | 147.90 |

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|---|---|---|---|---|---|---|---|
| PA2 | 0.49 | | 65.31 | | 13.22 | 68.03 | 146.56 |
| PA1 | 0.46 | | 61.31 | | 13.22 | 68.03 | 142.56 |

**Table 5**
**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 | 165.54 | 260.51 | | 69.29 | 495.34 |
| RUB | 0.95 | 2.25 | 120.97 | 260.51 | | 69.29 | 450.77 |
| RUA | 0.78 | 2.25 | 99.33 | 260.51 | | 69.29 | 429.13 |
| RVC | 1.13 | 1.41 | 143.89 | 163.25 | | 69.29 | 376.43 |
| RVB | 1.04 | 1.41 | 132.43 | 163.25 | | 69.29 | 364.97 |
| RVA | 0.81 | 1.41 | 103.15 | 163.25 | | 69.29 | 335.69 |
| RHC | 1.26 | 0.94 | 160.45 | 108.83 | | 69.29 | 338.57 |
| RHB | 1.06 | 0.94 | 134.98 | 108.83 | | 69.29 | 313.10 |
| RHA | 0.87 | 0.94 | 110.79 | 108.83 | | 69.29 | 288.91 |
| RMC | 1.35 | 0.77 | 171.91 | 89.15 | | 69.29 | 330.35 |
| RMB | 1.09 | 0.77 | 138.80 | 89.15 | | 69.29 | 297.24 |
| RMA | 0.96 | 0.77 | 122.25 | 89.15 | | 69.29 | 280.69 |
| RLB | 1.11 | 0.43 | 141.35 | 49.79 | | 69.29 | 260.43 |
| RLA | 0.80 | 0.43 | 101.87 | 49.79 | | 69.29 | 220.95 |
| SE3 | 1.70 | | 216.48 | | 14.12 | 69.29 | 299.89 |
| SE2 | 1.39 | | 177.00 | | 14.12 | 69.29 | 260.41 |
| SE1 | 1.17 | | 148.99 | | 14.12 | 69.29 | 232.40 |
| SSC | 1.13 | | 143.89 | | 14.12 | 69.29 | 227.30 |
| SSB | 1.05 | | 133.71 | | 14.12 | 69.29 | 217.12 |
| SSA | 1.01 | | 128.61 | | 14.12 | 69.29 | 212.02 |
| CC2 | 1.12 | | 142.62 | | 14.12 | 69.29 | 226.03 |
| CC1 | 0.99 | | 126.07 | | 14.12 | 69.29 | 209.48 |
| CB2 | 0.91 | | 115.88 | | 14.12 | 69.29 | 199.29 |
| CB1 | 0.84 | | 106.97 | | 14.12 | 69.29 | 190.38 |
| CA2 | 0.83 | | 105.69 | | 14.12 | 69.29 | 189.10 |
| CA1 | 0.75 | | 95.51 | | 14.12 | 69.29 | 178.92 |
| IB2 | 0.69 | | 87.86 | | 14.12 | 69.29 | 171.27 |
| IB1 | 0.67 | | 85.32 | | 14.12 | 69.29 | 168.73 |
| IA2 | 0.57 | | 72.58 | | 14.12 | 69.29 | 155.99 |
| IA1 | 0.53 | | 67.49 | | 14.12 | 69.29 | 150.90 |

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|---|---|---|---|---|---|---|
| BB2 | 0.68 | 86.59 | 14.12 | 69.29 | 170.00 |
| BB1 | 0.65 | 82.77 | 14.12 | 69.29 | 166.18 |
| BA2 | 0.56 | 71.31 | 14.12 | 69.29 | 154.72 |
| BA1 | 0.48 | 61.12 | 14.12 | 69.29 | 144.53 |
| PE2 | 0.79 | 100.60 | 14.12 | 69.29 | 184.01 |
| PE1 | 0.77 | 98.05 | 14.12 | 69.29 | 181.46 |
| PD2 | 0.72 | 91.68 | 14.12 | 69.29 | 175.09 |
| PD1 | 0.70 | 89.14 | 14.12 | 69.29 | 172.55 |
| PC2 | 0.65 | 82.77 | 14.12 | 69.29 | 166.18 |
| PC1 | 0.64 | 81.50 | 14.12 | 69.29 | 164.91 |
| PB2 | 0.51 | 64.94 | 14.12 | 69.29 | 148.35 |
| PB1 | 0.50 | 63.67 | 14.12 | 69.29 | 147.08 |
| PA2 | 0.49 | 62.40 | 14.12 | 69.29 | 145.81 |
| PA1 | 0.46 | 58.58 | 14.12 | 69.29 | 141.99 |

*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 2005.

The wage index adjustment is applied to the labor-related portion of the Federal rate, which is 76.222 percent of the total rate. This percentage reflects the labor-related relative importance for FY 2005. The labor-related relative importance for FY 2004 was 76.372 as shown in Table 11. The decrease in the labor share benefits rural areas. 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 2005. 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 2005 than the base year weights from the SNF market basket.

We calculate the labor-related relative importance for FY 2005 in four steps. First, we compute the FY 2005 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 2005 price index level for that cost category by the total market basket price index level. Third, we determine the FY 2005 relative importance for each cost category by multiplying this ratio by the base year (FY 1997) weight. Finally, we sum the FY 2005 relative importance for each of the labor-related cost categories (wages and salaries, employee benefits, nonmedical professional fees, labor-intensive services, and a portion of capital-related expenses) to produce the FY 2005 labor-related relative importance. Tables 6 and 7 show the Federal rates by labor-related and non-labor-related components.

## Table 6
## 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 | 467.21 | 356.12 | 111.09 |
| RUB | 420.56 | 320.56 | .100.00 |
| RUA | 397.90 | 303.29 | 94.61 |
| RVC | 360.21 | 274.56 | 85.65 |
| RVB | 348.21 | 265.41 | 82.80 |
| RVA | 317.55 | 242.04 | 75.51 |
| RHC | 330.36 | 251.81 | 78.55 |
| RHB | 303.70 | 231.49 | 72.21 |
| RHA | 278.37 | 212.18 | 66.19 |
| RMC | 325.28 | 247.93 | 77.35 |
| RMB | 290.63 | 221.52 | 69.11 |
| RMA | 273.30 | 208.31 | 64.99 |
| RLB | 259.15 | 197.53 | 61.62 |
| RLA | 217.83 | 166.03 | 51.80 |
| SE3 | 307.84 | 234.64 | 73.20 |
| SE2 | 266.52 | 203.15 | 63.37 |
| SE1 | 237.20 | 180.80 | 56.40 |
| SSC | 231.87 | 176.74 | 55.13 |
| SSB | 221.20 | 168.60 | 52.60 |
| SSA | 215.87 | 164.54 | 51.33 |
| CC2 | 230.53 | 175.71 | 54.82 |
| CC1 | 213.21 | 162.51 | 50.70 |
| CB2 | 202.54 | 154.38 | 48.16 |
| CB1 | 193.21 | 147.27 | 45.94 |
| CA2 | 191.88 | 146.25 | 45.63 |
| CA1 | 181.22 | 138.13 | 43.09 |
| IB2 | 173.22 | 132.03 | 41.19 |
| IB1 | 170.55 | 130.00 | 40.55 |
| IA2 | 157.23 | 119.84 | 37.39 |
| IA1 | 151.89 | 115.77 | 36.12 |
| BB2 | 171.89 | 131.02 | 40.87 |
| BB1 | 167.89 | 127.97 | 39.92 |
| BA2 | 155.89 | 118.82 | 37.07 |
| BA1 | 145.23 | 110.70 | 34.53 |
| PE2 | 186.55 | 142.19 | 44.36 |
| PE1 | 183.88 | 140.16 | 43.72 |
| PD2 | 177.22 | 135.08 | 42.14 |
| PD1 | 174.55 | 133.05 | 41.50 |
| PC2 | 167.89 | 127.97 | 39.92 |

| | | | |
|---|---|---|---|
| PC1 | 166.56 | 126.96 | 39.60 |
| PB2 | 149.23 | 113.75 | 35.48 |
| PB1 | 147.90 | 112.73 | 35.17 |
| PA2 | 146.56 | 111.71 | 34.85 |
| PA1 | 142.56 | 108.66 | 33.90 |

**Table 7**
**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 | 495.34 | 377.56 | 117.78 |
| RUB | 450.77 | 343.59 | 107.18 |
| RUA | 429.13 | 327.09 | 102.04 |
| RVC | 376.43 | 286.92 | 89.51 |
| RVB | 364.97 | 278.19 | 86.78 |
| RVA | 335.69 | 255.87 | 79.82 |
| RHC | 338.57 | 258.06 | 80.51 |
| RHB | 313.10 | 238.65 | 74.45 |
| RHA | 288.91 | 220.21 | 68.70 |
| RMC | 330.35 | 251.80 | 78.55 |
| RMB | 297.24 | 226.56 | 70.68 |
| RMA | 280.69 | 213.95 | 66.74 |
| RLB | 260.43 | 198.50 | 61.93 |
| RLA | 220.95 | 168.41 | 52.54 |
| SE3 | 299.89 | 228.58 | 71.31 |
| SE2 | 260.41 | 198.49 | 61.92 |
| SE1 | 232.40 | 177.14 | 55.26 |
| SSC | 227.30 | 173.25 | 54.05 |
| SSB | 217.12 | 165.49 | 51.63 |
| SSA | 212.02 | 161.61 | 50.41 |
| CC2 | 226.03 | 172.28 | 53.75 |
| CC1 | 209.48 | 159.67 | 49.81 |
| CB2 | 199.29 | 151.90 | 47.39 |
| CB1 | 190.38 | 145.11 | 45.27 |
| CA2 | 189.10 | 144.14 | 44.96 |
| CA1 | 178.92 | 136.38 | 42.54 |
| IB2 | 171.27 | 130.55 | 40.72 |
| IB1 | 168.73 | 128.61 | 40.12 |
| IA2 | 155.99 | 118.90 | 37.09 |
| IA1 | 150.90 | 115.02 | 35.88 |
| BB2 | 170.00 | 129.58 | 40.42 |
| BB1 | 166.18 | 126.67 | 39.51 |
| BA2 | 154.72 | 117.93 | 36.79 |

| | | | |
|---|---|---|---|
| BA1 | 144.53 | 110.16 | 34.37 |
| PE2 | 184.01 | 140.26 | 43.75 |
| PE1 | 181.46 | 138.31 | 43.15 |
| PD2 | 175.09 | 133.46 | 41.63 |
| PD1 | 172.55 | 131.52 | 41.03 |
| PC2 | 166.18 | 126.67 | 39.51 |
| PC1 | 164.91 | 125.70 | 39.21 |
| PB2 | 148.35 | 113.08 | 35.27 |
| PB1 | 147.08 | 112.11 | 34.97 |
| PA2 | 145.81 | 111.14 | 34.67 |
| PA1 | 141.99 | 108.23 | 33.76 |

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 seventh PPS year (Federal rates effective October 1, 2004), 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, 2004. 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 1.0011.

The wage index applicable to FY 2005 can be found in Table 8 and Table 9 of this notice. We note that section 1886(d)(3)(E) of the Act (as amended by section 304(c)(2) of the BIPA) directs the Secretary to construct an occupational mix adjustment for the hospital area wage index, for application beginning October 1, 2004. However, the occupational mix adjustment outlined in section 1886(d)(3)(E) of the Act applies only to the inpatient hospital PPS, which utilizes a diagnosis-related group (DRG) payment system. While we are updating the wage index to reflect the latest hospital wage data, we have never included any adjustment for occupational mix in the SNF PPS, and we are not doing so now.

We continue to believe that the hospital wage data represent the best measure of wages and wage-related costs paid in the SNF setting. However, the occupational mix adjustment utilized by the hospital inpatient PPS serves specifically to define the occupational categories more clearly in a hospital setting. The collection of the occupational wage data also excludes any wage data related to SNFs; therefore, we believe that using the updated wage data exclusive of the occupational mix adjustment continues to be appropriate for SNF payments.

We also note that we are not adopting in this notice any of the changes discussed in Office of Management and Budget (OMB) Bulletin No. 03–04 (June 6, 2003), which announced revised definitions for Metropolitan Statistical Areas, and the creation of Micropolitan Statistical Areas and Combined Statistical Areas. A copy of that bulletin may be obtained at the following Internet address: *http://www.whitehouse.gov/omb/bulletins/b03–04.html*.

The proposed rule for the FY 2005 payment rates under the inpatient hospital PPS (69 FR 28249, May 18, 2004) discusses some of the problems and concerns associated with using these new definitions. We believe it is appropriate to wait until the public comments on that proposed rule have been submitted and analyzed before we consider proposing any new labor market definitions in the SNF context. Further, since the use of new definitions may have a significant impact on the SNF wage index and SNF payments, we believe that the nursing home industry and other interested parties should have sufficient time and opportunity to provide comment before we reach any conclusions on whether adopting these new definitions would produce an ''appropriate'' wage index for the SNF PPS under section 1888(e)(4)(G)(ii) of the Act. Accordingly, we plan to publish in a proposed rule any changes that we consider for new labor market definitions, in order to provide the public with an opportunity to comment on the possible use of these new labor market definitions in the SNF context. Until then, interested parties who would like to provide input on this issue are invited to do so by contacting either John Davis or Jeanette Kranacs (please refer to the section entitled, **FOR FURTHER INFORMATION CONTACT** at the beginning of this document).

**Table 8 - Wage Index for Urban Areas**

| MSA | Urban Area (Constituent Counties or County Equivalents) | Wage Index |
|---|---|---|
| 0040 | Abilene, TX<br>Taylor, TX | 0.8009 |
| 0060 | Aguadilla, PR<br>Aguada, PR<br>Aguadilla, PR<br>Moca, PR | 0.4294 |
| 0080 | Akron, OH<br>Portage, OH<br>Summit, OH | 0.9055 |
| 0120 | Albany, GA<br>Dougherty, GA<br>Lee, GA | 1.1266 |
| 0160 | Albany-Schenectady-Troy, NY<br>Albany, NY<br>Montgomery, NY<br>Rensselaer, NY<br>Saratoga, NY<br>Schenectady, NY<br>Schoharie, NY | 0.8570 |
| 0200 | Albuquerque, NM<br>Bernalillo, NM<br>Sandoval, NM<br>Valencia, NM | 1.0485 |
| 0220 | Alexandria, LA<br>Rapides, LA | 0.8171 |
| 0240 | Allentown-Bethlehem-Easton, PA<br>Carbon, PA<br>Lehigh, PA<br>Northampton, PA | 0.9536 |
| 0280 | Altoona, PA<br>Blair, PA | 0.8462 |

| | | |
|---|---|---|
| 0320 | Amarillo, TX<br>Potter, TX<br>Randall, TX | 0.9178 |
| 0380 | Anchorage, AK<br>Anchorage, AK | 1.2109 |
| 0440 | Ann Arbor, MI<br>Lenawee, MI<br>Livingston, MI<br>Washtenaw, MI | 1.0817 |
| 0450 | Anniston,AL<br>Calhoun, AL | 0.7881 |
| 0460 | Appleton-Oshkosh-Neenah, WI<br>Calumet, WI<br>Outagamie, WI<br>Winnebago, WI | 0.9115 |
| 0470 | Arecibo, PR<br>Arecibo, PR<br>Camuy, PR<br>Hatillo, PR | 0.3757 |
| 0480 | Asheville, NC<br>Buncombe, NC<br>Madison, NC | 0.9502 |
| 0500 | Athens, GA<br>Clarke, GA<br>Madison, GA<br>Oconee, GA | 1.0203 |
| 0520 | Atlanta, GA<br>Barrow, GA<br>Bartow, GA<br>Carroll, GA<br>Cherokee, GA<br>Clayton, GA<br>Cobb, GA<br>Coweta, GA<br>De Kalb, GA<br>Douglas, GA<br>Fayette, GA<br>Forsyth, GA<br>Fulton, GA<br>Gwinnett, GA<br>Henry, GA<br>Newton, GA<br>Paulding, GA<br>Pickens, GA<br>Rockdale, GA<br>Spalding, GA<br>Walton, GA | 0.9971 |

| | | |
|---|---|---|
| 0560 | Atlantic City-Cape May, NJ<br>Atlantic City, NJ<br>Cape May, NJ | 1.0907 |
| 0580 | Auburn-Opelika, AL<br>Lee, AL | 0.8215 |
| 0600 | Augusta-Aiken, GA-SC<br>Columbia, GA<br>McDuffie, GA<br>Richmond, GA<br>Aiken, SC<br>Edgefield, SC | 0.9208 |
| 0640 | Austin-San Marcos, TX<br>Bastrop, TX<br>Caldwell, TX<br>Hays, TX<br>Travis, TX<br>Williamson, TX | 0.9596 |
| 0680 | Bakersfield, CA<br>Kern, CA | 1.0036 |
| 0720 | Baltimore, MD<br>Anne Arundel, MD<br>Baltimore, MD<br>Baltimore City, MD<br>Carroll, MD<br>Harford, MD<br>Howard, MD<br>Queen Annes, MD | 0.9908 |
| 0733 | Bangor, ME<br>Penobscot, ME | 0.9955 |
| 0743 | Barnstable-Yarmouth, MA<br>Barnstable, MA | 1.2335 |
| 0760 | Baton Rouge, LA<br>Ascension, LA<br>East Baton Rouge<br>Livingston, LA<br>West Baton Rouge, LA | 0.8354 |
| 0840 | Beaumont-Port Arthur, TX<br>Hardin, TX<br>Jefferson, TX<br>Orange, TX | 0.8616 |
| 0860 | Bellingham, WA<br>Whatcom, WA | 1.1643 |
| 0870 | Benton Harbor, MI<br>Berrien, MI | 0.8847 |
| 0875 | Bergen-Passaic, NJ<br>Bergen, NJ<br>Passaic, NJ | 1.1967 |

| | | |
|---|---|---|
| 0880 | Billings, MT<br>Yellowstone, MT | 0.8961 |
| 0920 | Biloxi-Gulfport-Pascagoula, MS<br>Hancock, MS<br>Harrison, MS<br>Jackson, MS | 0.8649 |
| 0960 | Binghamton, NY<br>Broome, NY<br>Tioga, NY | 0.8447 |
| 1000 | Birmingham, AL<br>Blount, AL<br>Jefferson, AL<br>St. Clair, AL<br>Shelby, AL | 0.9199 |
| 1010 | Bismarck, ND<br>Burleigh, ND<br>Morton, ND | 0.7505 |
| 1020 | Bloomington, IN<br>Monroe, IN | 0.8588 |
| 1040 | Bloomington-Normal, IL<br>McLean, IL | 0.9111 |
| 1080 | Boise City, ID<br>Ada, ID<br>Canyon, ID | 0.9352 |
| 1123 | Boston-Worcester-Lawrence-Lowell-Brockton, MA-NH<br>Bristol, MA<br>Essex, MA<br>Middlesex, MA<br>Norfolk, MA<br>Plymouth, MA<br>Suffolk, MA<br>Worcester, MA<br>Hillsborough, NH<br>Merrimack, NH<br>Rockingham, NH<br>Strafford, NH | 1.1291 |
| 1125 | Boulder-Longmont, CO<br>Boulder, CO | 1.0046 |
| 1145 | Brazoria, TX<br>Brazoria, TX | 0.8525 |
| 1150 | Bremerton, WA<br>Kitsap, WA | 1.0614 |
| 1240 | Brownsville-Harlingen-San Benito, TX<br>Cameron, TX | 1.0125 |
| 1260 | Bryan-College Station, TX<br>Brazos, TX | 0.9219 |

| | | |
|---|---|---|
| 1280 | Buffalo-Niagara Falls, NY<br>Erie, NY<br>Niagara, NY | 0.9339 |
| 1303 | Burlington, VT<br>Chittenden, VT<br>Franklin, VT<br>Grand Isle, VT | 0.9322 |
| 1310 | Caguas, PR<br>Caguas, PR<br>Cayey, PR<br>Cidra, PR<br>Gurabo, PR<br>San Lorenzo, PR | 0.4061 |
| 1320 | Canton-Massillon, OH<br>Carroll, OH<br>Stark, OH | 0.8895 |
| 1350 | Casper, WY<br>Natrona, WY | 0.9244 |
| 1360 | Cedar Rapids, IA<br>Linn, IA | 0.8975 |
| 1400 | Champaign-Urbana, IL<br>Champaign, IL | 0.9527 |
| 1440 | Charleston-North Charleston, SC<br>Berkeley, SC<br>Charleston, SC<br>Dorchester, SC | 0.9420 |
| 1480 | Charleston, WV<br>Kanawha, WV<br>Putnam, WV | 0.8876 |
| 1520 | Charlotte-Gastonia-Rock Hill, NC-SC<br>Cabarrus, NC<br>Gaston, NC<br>Lincoln, NC<br>Mecklenburg, NC<br>Rowan, NC<br>Stanly, NC<br>Union, NC<br>York, SC | 0.9712 |
| 1540 | Charlottesville, VA<br>Albemarle, VA<br>Charlottesville City, VA<br>Fluvanna, VA<br>Greene, VA | 1.0295 |

| | | |
|---|---|---|
| 1560 | Chattanooga, TN-GA<br>Catoosa, GA<br>Dade, GA<br>Walker, GA<br>Hamilton, TN<br>Marion, TN | 0.9207 |
| 1580 | Cheyenne, WY<br>Laramie, WY | 0.8980 |
| 1600 | Chicago, IL<br>Cook, IL<br>De Kalb, IL<br>Du Page, IL<br>Grundy, IL<br>Kane, IL<br>Kendall, IL<br>Lake, IL<br>McHenry, IL<br>Will, IL | 1.0852 |
| 1620 | Chico-Paradise, CA<br>Butte, CA | 1.0543 |
| 1640 | Cincinnati, OH-KY-IN<br>Dearborn, IN<br>Ohio, IN<br>Boone, KY<br>Campbell, KY<br>Gallatin, KY<br>Grant, KY<br>Kenton, KY<br>Pendleton, KY<br>Brown, OH<br>Clermont, OH<br>Hamilton, OH<br>Warren, OH | 0.9595 |
| 1660 | Clarksville-Hopkinsville, TN-KY<br>Christian, KY<br>Montgomery, TN | 0.8022 |
| 1680 | Cleveland-Lorain-Elyria, OH<br>Ashtabula, OH<br>Geauga, OH<br>Cuyahoga, OH<br>Lake, OH<br>Lorain, OH<br>Medina, OH | 0.9626 |
| 1720 | Colorado Springs, CO<br>El Paso, CO | 0.9793 |
| 1740 | Columbia MO<br>Boone, MO | 0.8396 |

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| 1760 | Columbia, SC<br>Lexington, SC<br>Richland, SC | 0.9450 |
| 1800 | Columbus, GA-AL<br>Russell,AL<br>Chattanoochee, GA<br>Harris, GA<br>Muscogee, GA | 0.8690 |
| 1840 | Columbus, OH<br>Delaware, OH<br>Fairfield, OH<br>Franklin, OH<br>Licking, OH<br>Madison, OH<br>Pickaway, OH | 0.9753 |
| 1880 | Corpus Christi, TX<br>Nueces, TX<br>San Patricio, TX | 0.8647 |
| 1890 | Corvallis, OR<br>Benton, OR | 1.0545 |
| 1900 | Cumberland, MD-WV<br>Allegany MD<br>Mineral WV | 0.8662 |
| 1920 | Dallas, TX<br>Collin, TX<br>Dallas, TX<br>Denton, TX<br>Ellis, TX<br>Henderson, TX<br>Hunt, TX<br>Kaufman, TX<br>Rockwall, TX | 1.0049 |
| 1950 | Danville, VA<br>Danville City, VA<br>Pittsylvania, VA | 0.8643 |
| 1960 | Davenport-Moline-Rock Island, IA-IL<br>Scott, IA<br>Henry, IL<br>Rock Island, IL | 0.8774 |
| 2000 | Dayton-Springfield, OH<br>Clark, OH<br>Greene, OH<br>Miami, OH<br>Montgomery, OH | 0.9232 |
| 2020 | Daytona Beach, FL<br>Flagler, FL<br>Volusia, FL | 0.8900 |

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| 2030 | Decatur, AL<br>Lawrence, AL<br>Morgan, AL | 0.8894 |
| 2040 | Decatur, IL<br>Macon, IL | 0.8122 |
| 2080 | Denver, CO<br>Adams, CO<br>Arapahoe, CO<br>Broomfield, CO<br>Denver, CO<br>Douglas, CO<br>Jefferson, CO | 1.0905 |
| 2120 | Des Moines, IA<br>Dallas, IA<br>Polk, IA<br>Warren, IA | 0.9267 |
| 2160 | Detroit, MI<br>Lapeer, MI<br>Macomb, MI<br>Monroe, MI<br>Oakland, MI<br>St. Clair, MI<br>Wayne, MI | 1.0227 |
| 2180 | Dothan, AL<br>Dale, AL<br>Houston, AL | 0.7597 |
| 2190 | Dover, DE<br>Kent, DE | 0.9825 |
| 2200 | Dubuque, IA<br>Dubuque, IA | 0.8748 |
| 2240 | Duluth-Superior, MN-WI<br>St. Louis, MN<br>Douglas, WI | 1.0356 |
| 2281 | Dutchess County, NY<br>Dutchess, NY | 1.1658 |
| 2290 | Eau Claire, WI<br>Chippewa, WI<br>Eau Claire, WI | 0.9139 |
| 2320 | El Paso, TX<br>El Paso, TX | 0.9065 |
| 2330 | Elkhart-Goshen, IN<br>Elkhart, IN | 0.9279 |
| 2335 | Elmira, NY<br>Chemung, NY | 0.8445 |
| 2340 | Enid, OK<br>Garfield, OK | 0.9001 |
| 2360 | Erie, PA<br>Erie, PA | 0.8699 |

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| 2400 | Eugene-Springfield, OR<br>Lane, OR | 1.0940 |
| 2440 | Evansville-Henderson, IN-KY<br>Posey, IN<br>Vanderburgh, IN<br>Warrick, IN<br>Henderson, KY | 0.8395 |
| 2520 | Fargo-Moorhead, ND-MN<br>Clay, MN<br>Cass, ND | 0.9115 |
| 2560 | Fayetteville, NC<br>Cumberland, NC | 0.9363 |
| 2580 | Fayetteville-Springdale-Rogers, AR<br>Benton, AR<br>Washington, AR | 0.8637 |
| 2620 | Flagstaff, AZ-UT<br>Coconino, AZ<br>Kane, UT | 1.0611 |
| 2640 | Flint, MI<br>Genesee, MI | 1.1178 |
| 2650 | Florence, AL<br>Colbert, AL<br>Lauderdale, AL | 0.7883 |
| 2655 | Florence, SC<br>Florence, SC | 0.8961 |
| 2670 | Fort Collins-Loveland, CO<br>Larimer, CO | 1.0219 |
| 2680 | Ft. Lauderdale, FL<br>Broward, FL | 1.0165 |
| 2700 | Fort Myers-Cape Coral, FL<br>Lee, FL | 0.9372 |
| 2710 | Fort Pierce-Port St. Lucie, FL<br>Martin, FL<br>St. Lucie, FL | 1.0046 |
| 2720 | Fort Smith, AR-OK<br>Crawford, AR<br>Sebastian, AR<br>Sequoyah, OK | 0.8303 |
| 2750 | Fort Walton Beach, FL<br>Okaloosa, FL | 0.8786 |
| 2760 | Fort Wayne, IN<br>Adams, IN<br>Allen, IN<br>De Kalb, IN<br>Huntington, IN<br>Wells, IN<br>Whitley, IN | 0.9737 |

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| 2800 | Forth Worth-Arlington, TX<br>Hood, TX<br>Johnson, TX<br>Parker, TX<br>Tarrant, TX | 0.9538 |
| 2840 | Fresno, CA<br>Fresno, CA<br>Madera, CA | 1.0408 |
| 2880 | Gadsden, AL<br>Etowah, AL | 0.8049 |
| 2900 | Gainesville, FL<br>Alachua, FL | 0.9459 |
| 2920 | Galveston-Texas City, TX<br>Galveston, TX | 0.9403 |
| 2960 | Gary, IN<br>Lake, IN<br>Porter, IN | 0.9343 |
| 2975 | Glens Falls, NY<br>Warren, NY<br>Washington, NY | 0.8467 |
| 2980 | Goldsboro, NC<br>Wayne, NC | 0.8779 |
| 2985 | Grand Forks, ND-MN<br>Polk, MN<br>Grand Forks, ND | 0.9092 |
| 2995 | Grand Junction, CO<br>Mesa, CO | 0.9900 |
| 3000 | Grand Rapids-Muskegon-Holland, MI<br>Allegan, MI<br>Kent, MI<br>Muskegon, MI<br>Ottawa, MI | 0.9520 |
| 3040 | Great Falls, MT<br>Cascade, MT | 0.8810 |
| 3060 | Greeley, CO<br>Weld, CO | 0.9444 |
| 3080 | Green Bay, WI<br>Brown, WI | 0.9586 |
| 3120 | Greensboro-Winston-Salem-High Point, NC<br>Alamance, NC<br>Davidson, NC<br>Davie, NC<br>Forsyth, NC<br>Guilford, NC<br>Randolph, NC<br>Stokes, NC<br>Yadkin, NC | 0.9312 |

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| 3150 | Greenville, NC<br>Pitt, NC | 0.9183 |
| 3160 | Greenville-Spartanburg-Anderson, SC<br>Anderson, SC<br>Cherokee, SC<br>Greenville, SC<br>Pickens, SC<br>Spartanburg, SC | 0.9400 |
| 3180 | Hagerstown, MD<br>Washington, MD | 0.9940 |
| 3200 | Hamilton-Middletown, OH<br>Butler, OH | 0.9066 |
| 3240 | Harrisburg-Lebanon-Carlisle, PA<br>Cumberland, PA<br>Dauphin, PA<br>Lebanon, PA<br>Perry, PA | 0.9286 |
| 3283 | Hartford, CT<br>Hartford, CT<br>Litchfield, CT<br>Middlesex, CT<br>Tolland, CT | 1.1068 |
| 3285 | Hattiesburg, MS<br>Forrest, MS<br>Lamar, MS | 0.7362 |
| 3290 | Hickory-Morganton-Lenoir, NC<br>Alexander, NC<br>Burke, NC<br>Caldwell, NC<br>Catawba, NC | 0.9502 |
| 3320 | Honolulu, HI<br>Honolulu, HI | 1.1014 |
| 3350 | Houma, LA<br>Lafourche, LA<br>Terrebonne, LA | 0.7721 |
| 3360 | Houston, TX<br>Chambers, TX<br>Fort Bend, TX<br>Harris, TX<br>Liberty, TX<br>Montgomery, TX<br>Waller, TX | 1.0117 |

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| 3400 | Huntington-Ashland, WV-KY-OH<br>Boyd, KY<br>Carter, KY<br>Greenup, KY<br>Lawrence, OH<br>Cabell, WV<br>Wayne, WV | 0.9565 |
| 3440 | Huntsville, AL<br>Limestone, AL<br>Madison, AL | 0.8851 |
| 3480 | Indianapolis, IN<br>Boone, IN<br>Hamilton, IN<br>Hancock, IN<br>Hendricks, IN<br>Johnson, IN<br>Madison, IN<br>Marion, IN<br>Morgan, IN<br>Shelby, IN | 1.0039 |
| 3500 | Iowa City, IA<br>Johnson, IA | 0.9655 |
| 3520 | Jackson, MI<br>Jackson, MI | 0.9146 |
| 3560 | Jackson, MS<br>Hinds, MS<br>Madison, MS<br>Rankin, MS | 0.8406 |
| 3580 | Jackson, TN<br>Chester, TN<br>Madison, TN | 0.8900 |
| 3600 | Jacksonville, FL<br>Clay, FL<br>Duval, FL<br>Nassau, FL<br>St. Johns, FL | 0.9548 |
| 3605 | Jacksonville, NC<br>Onslow, NC | 0.8402 |
| 3610 | Jamestown, NY<br>Chautaqua, NY | 0.7589 |
| 3620 | Janesville-Beloit, WI<br>Rock, WI | 0.9583 |
| 3640 | Jersey City, NJ<br>Hudson, NJ | 1.0923 |

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| 3660 | Johnson City-Kingsport-Bristol, TN-VA<br>Carter, TN<br>Hawkins, TN<br>Sullivan, TN<br>Unicoi, TN<br>Washington, TN<br>Bristol City, VA<br>Scott, VA<br>Washington, VA | 0.8203 |
| 3680 | Johnstown, PA<br>Cambria, PA<br>Somerset, PA | 0.7981 |
| 3700 | Jonesboro, AR<br>Craighead, AR | 0.7934 |
| 3710 | Joplin, MO<br>Jasper, MO<br>Newton, MO | 0.8721 |
| 3720 | Kalamazoo-Battlecreek, MI<br>Calhoun, MI<br>Kalamazoo, MI<br>Van Buren, MI | 1.0350 |
| 3740 | Kankakee, IL<br>Kankakee, IL | 1.0603 |
| 3760 | Kansas City, KS-MO<br>Johnson, KS<br>Leavenworth, KS<br>Miami, KS<br>Wyandotte, KS<br>Cass, MO<br>Clay, MO<br>Clinton, MO<br>Jackson, MO<br>Lafayette, MO<br>Platte, MO<br>Ray, MO | 0.9642 |
| 3800 | Kenosha, WI<br>Kenosha, WI | 0.9772 |
| 3810 | Killeen-Temple, TX<br>Bell, TX<br>Coryell, TX | 0.9242 |
| 3840 | Knoxville, TN<br>Anderson, TN<br>Blount, TN<br>Knox, TN<br>Loudon, TN<br>Sevier, TN<br>Union, TN | 0.8509 |

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|---|---|---|
| 3850 | Kokomo, IN<br>Howard, IN<br>Tipton, IN | 0.8986 |
| 3870 | La Crosse, WI-MN<br>Houston, MN<br>La Crosse, WI | 0.9290 |
| 3880 | Lafayette, LA<br>Acadia, LA<br>Lafayette, LA<br>St. Landry, LA<br>St. Martin, LA | 0.8105 |
| 3920 | Lafayette, IN<br>Clinton, IN<br>Tippecanoe, IN | 0.9068 |
| 3960 | Lake Charles, LA<br>Calcasieu, LA | 0.7959 |
| 3980 | Lakeland-Winter Haven, FL<br>Polk, FL | 0.8931 |
| 4000 | Lancaster, PA<br>Lancaster, PA | 0.9883 |
| 4040 | Lansing-East Lansing, MI<br>Clinton, MI<br>Eaton, MI<br>Ingham, MI | 0.9659 |
| 4080 | Laredo, TX<br>Webb, TX | 0.8747 |
| 4100 | Las Cruces, NM<br>Dona Ana, NM | 0.8784 |
| 4120 | Las Vegas, NV-AZ<br>Mohave, AZ<br>Clark, NV<br>Nye, NV | 1.1121 |
| 4150 | Lawrence, KS<br>Douglas, KS | 0.8644 |
| 4200 | Lawton, OK<br>Comanche, OK | 0.8212 |
| 4243 | Lewiston-Auburn, ME<br>Androscoggin, ME | 0.9562 |
| 4280 | Lexington, KY<br>Bourbon, KY<br>Clark, KY<br>Fayette, KY<br>Jessamine, KY<br>Madison, KY<br>Scott, KY<br>Woodford, KY | 0.8053 |

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| 4320 | Lima, OH<br>Allen, OH<br>Auglaize, OH | 0.9258 |
| 4360 | Lincoln, NE<br>Lancaster, NE | 1.0208 |
| 4400 | Little Rock-North Little, AR<br>Faulkner, AR<br>Lonoke, AR<br>Pulaski, AR<br>Saline, AR | 0.8827 |
| 4420 | Longview-Marshall, TX<br>Gregg, TX<br>Harrison, TX<br>Upshur, TX | 0.8739 |
| 4480 | Los Angeles-Long Beach, CA<br>Los Angeles, CA | 1.1732 |
| 4520 | Louisville, KY-IN<br>Clark, IN<br>Floyd, IN<br>Harrison, IN<br>Scott, IN<br>Bullitt, KY<br>Jefferson, KY<br>Oldham, KY | 0.9163 |
| 4600 | Lubbock, TX<br>Lubbock, TX | 0.8777 |
| 4640 | Lynchburg, VA<br>Amherst, VA<br>Bedford City, VA<br>Bedford, VA<br>Campbell, VA<br>Lynchburg City, VA | 0.9018 |
| 4680 | Macon, GA<br>Bibb, GA<br>Houston, GA<br>Jones, GA<br>Peach, GA<br>Twiggs, GA | 0.9596 |
| 4720 | Madison, WI<br>Dane, WI | 1.0395 |
| 4800 | Mansfield, OH<br>Crawford, OH<br>Richland, OH | 0.9105 |

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| 4840 | Mayaguez, PR<br>Anasco, PR<br>Cabo Rojo, PR<br>Hormigueros, PR<br>Mayaguez, PR<br>Sabana Grande, PR<br>San German, PR | 0.4769 |
| 4880 | McAllen-Edinburg-Mission, TX<br>Hidalgo, TX | 0.8602 |
| 4890 | Medford-Ashland, OR<br>Jackson, OR | 1.0534 |
| 4900 | Melbourne-Titusville-Palm Bay, FL<br>Brevard, FL | 0.9633 |
| 4920 | Memphis, TN-AR-MS<br>Crittenden, AR<br>De Soto, MS<br>Fayette, TN<br>Shelby, TN<br>Tipton, TN | 0.9234 |
| 4940 | Merced, CA<br>Merced, CA | 1.0576 |
| 5000 | Miami, FL<br>Dade, FL | 1.0026 |
| 5015 | Middlesex-Somerset-Hunterdon, NJ<br>Hunterdon, NJ<br>Middlesex, NJ<br>Somerset, NJ | 1.1360 |
| 5080 | Milwaukee-Waukesha, WI<br>Milwaukee, WI<br>Ozaukee, WI<br>Washington, WI<br>Waukesha, WI | 1.0076 |
| 5120 | Minneapolis-St. Paul, MN-WI<br>Anoka, MN<br>Carver, MN<br>Chisago, MN<br>Dakota, MN<br>Hennepin, MN<br>Isanti, MN<br>Ramsey, MN<br>Scott, MN<br>Sherburne, MN<br>Washington, MN<br>Wright, MN<br>Pierce, WI<br>St. Croix, WI | 1.1067 |
| 5140 | Missoula, MT<br>Missoula, MT | 0.9618 |

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|---|---|---|
| 5160 | Mobile, AL<br>Baldwin, AL<br>Mobile, AL | 0.7933 |
| 5170 | Modesto, CA<br>Stanislaus, CA | 1.1966 |
| 5190 | Monmouth-Ocean, NJ<br>Monmouth, NJ<br>Ocean, NJ | 1.0889 |
| 5200 | Monroe, LA<br>Ouachita, LA | 0.7913 |
| 5240 | Montgomery, AL<br>Autauga, AL<br>Elmore, AL<br>Montgomery, AL | 0.8300 |
| 5280 | Muncie, IN<br>Delaware, IN | 0.8580 |
| 5330 | Myrtle Beach, SC<br>Horry, SC | 0.9022 |
| 5345 | Naples, FL<br>Collier, FL | 1.0596 |
| 5360 | Nashville, TN<br>Cheatham, TN<br>Davidson, TN<br>Dickson, TN<br>Robertson, TN<br>Rutherford, TN<br>Sumner, TN<br>Williamson, TN<br>Wilson, TN | 1.0108 |
| 5380 | Nassau-Suffolk, NY<br>Nassau, NY<br>Suffolk, NY | 1.2921 |
| 5483 | New Haven-Bridgeport-Stamford-Waterbury-Danbury, CT<br>Fairfield, CT<br>New Haven, CT | 1.2254 |
| 5523 | New London-Norwich, CT<br>New London, CT | 1.1596 |
| 5560 | New Orleans, LA<br>Jefferson, LA<br>Orleans, LA<br>Plaquemines, LA<br>St. Bernard, LA<br>St. Charles, LA<br>St. James, LA<br>St. John The Baptist, LA<br>St. Tammany, LA | 0.9103 |

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| 5600 | New York, NY<br>Bronx, NY<br>Kings, NY<br>New York, NY<br>Putnam, NY<br>Queens, NY<br>Richmond, NY<br>Rockland, NY<br>Westchester, NY | 1.3588 |
| 5640 | Newark, NJ<br>Essex, NJ<br>Morris, NJ<br>Sussex, NJ<br>Union, NJ<br>Warren, NJ | 1.1625 |
| 5660 | Newburgh, NY-PA<br>Orange, NY<br>Pike, PA | 1.1171 |
| 5720 | Norfolk-Virginia Beach-Newport News, VA-NC<br>Currituck, NC<br>Chesapeake City, VA<br>Gloucester, VA<br>Hampton City, VA<br>Isle of Wight, VA<br>James City, VA<br>Mathews, VA<br>Newport News City, VA<br>Norfolk City, VA<br>Poquoson City,VA<br>Portsmouth City, VA<br>Suffolk City, VA<br>Virginia Beach City, VA<br>Williamsburg City, VA<br>York, VA | 0.8895 |
| 5775 | Oakland, CA<br>Alameda, CA<br>Contra Costa, CA | 1.5221 |
| 5790 | Ocala, FL<br>Marion, FL | 0.9153 |
| 5800 | Odessa-Midland, TX<br>Ector, TX<br>Midland, TX | 0.9632 |

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|---|---|---|
| 5880 | Oklahoma City, OK<br>Canadian, OK<br>Cleveland, OK<br>Logan, OK<br>McClain, OK<br>Oklahoma, OK<br>Pottawatomie, OK | 0.8966 |
| 5910 | Olympia, WA<br>Thurston, WA | 1.1007 |
| 5920 | Omaha, NE-IA<br>Pottawattamie, IA<br>Cass, NE<br>Douglas, NE<br>Sarpy, NE<br>Washington, NE | 0.9754 |
| 5945 | Orange County, CA<br>Orange, CA | 1.1612 |
| 5960 | Orlando, FL<br>Lake, FL<br>Orange, FL<br>Osceola, FL<br>Seminole, FL | 0.9742 |
| 5990 | Owensboro, KY<br>Daviess, KY | 0.8434 |
| 6015 | Panama City, FL<br>Bay, FL | 0.8124 |
| 6020 | Parkersburg-Marietta, WV-OH<br>Washington, OH<br>Wood, WV | 0.8288 |
| 6080 | Pensacola, FL<br>Escambia, FL<br>Santa Rosa, FL | 0.8306 |
| 6120 | Peoria-Pekin, IL<br>Peoria, IL<br>Tazewell, IL<br>Woodford, IL | 0.8886 |
| 6160 | Philadelphia, PA-NJ<br>Burlington, NJ<br>Camden, NJ<br>Gloucester, NJ<br>Salem, NJ<br>Bucks, PA<br>Chester, PA<br>Delaware, PA<br>Montgomery, PA<br>Philadelphia, PA | 1.0824 |

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| 6200 | Phoenix-Mesa, AZ<br>Maricopa, AZ<br>Pinal, AZ | 0.9982 |
| 6240 | Pine Bluff, AR<br>Jefferson, AR | 0.8673 |
| 6280 | Pittsburgh, PA<br>Allegheny, PA<br>Beaver, PA<br>Butler, PA<br>Fayette, PA<br>Washington, PA<br>Westmoreland, PA | 0.8756 |
| 6323 | Pittsfield, MA<br>Berkshire, MA | 1.0439 |
| 6340 | Pocatello, ID<br>Bannock, ID | 0.9602 |
| 6360 | Ponce, PR<br>Guáyanilla, PR<br>Juana Diaz, PR<br>Penuelas, PR<br>Ponce, PR<br>Villalba, PR<br>Yauco, PR | 0.4954 |
| 6403 | Portland, ME<br>Cumberland, ME<br>Sagadahoc, ME<br>York, ME | 1.0112 |
| 6440 | Portland-Vancouver, OR-WA<br>Clackamas, OR<br>Columbia, OR<br>Multnomah, OR<br>Washington, OR<br>Yamhill, OR<br>Clark, WA | 1.1403 |
| 6483 | Providence-Warwick-Pawtucket, RI<br>Bristol, RI<br>Kent, RI<br>Newport, RI<br>Providence, RI<br>Washington, RI | 1.1062 |
| 6520 | Provo-Orem, UT<br>Utah, UT | 0.9613 |
| 6560 | Pueblo, CO<br>Pueblo, CO | 0.8752 |
| 6580 | Punta Gorda, FL<br>Charlotte, FL | 0.9441 |
| 6600 | Racine, WI<br>Racine, WI | 0.9045 |

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| 6640 | Raleigh-Durham-Chapel Hill, NC<br>Chatham, NC<br>Durham, NC<br>Franklin, NC<br>Johnston, NC<br>Orange, NC<br>Wake, NC | 1.0258 |
| 6660 | Rapid City, SD<br>Pennington, SD | 0.8912 |
| 6680 | Reading, PA<br>Berks, PA | 0.9216 |
| 6690 | Redding, CA<br>Shasta, CA | 1.1835 |
| 6720 | Reno, NV<br>Washoe, NV | 1.0456 |
| 6740 | Richland-Kennewick-Pasco, WA<br>Benton, WA<br>Franklin, WA | 1.0520 |
| 6760 | Richmond-Petersburg, VA<br>Charles City County, VA<br>Chesterfield, VA<br>Colonial Heights City, VA<br>Dinwiddie, VA<br>Goochland, VA<br>Hanover, VA<br>Henrico, VA<br>Hopewell City, VA<br>New Kent, VA<br>Petersburg City, VA<br>Powhatan, VA<br>Prince George, VA<br>Richmond City, VA | 0.9398 |
| 6780 | Riverside-San Bernardino, CA<br>Riverside, CA<br>San Bernardino, CA | 1.0975 |
| 6800 | Roanoke, VA<br>Botetourt, VA<br>Roanoke, VA<br>Roanoke City, VA<br>Salem City, VA | 0.8429 |
| 6820 | Rochester, MN<br>Olmsted, MN | 1.1504 |

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| 6840 | Rochester, NY<br>Genesee, NY<br>Livingston, NY<br>Monroe, NY<br>Ontario, NY<br>Orleans, NY<br>Wayne, NY | 0.9196 |
| 6880 | Rockford, IL<br>Boone, IL<br>Ogle, IL<br>Winnebago, IL | 0.9626 |
| 6895 | Rocky Mount, NC<br>Edgecombe, NC<br>Nash, NC | 0.8998 |
| 6920 | Sacramento, CA<br>El Dorado, CA<br>Placer, CA<br>Sacramento, CA | 1.1849 |
| 6960 | Saginaw-Bay City-Midland, MI<br>Bay, MI<br>Midland, MI<br>Saginaw, MI | 0.9696 |
| 6980 | St. Cloud, MN<br>Benton, MN<br>Stearns, MN | 1.0215 |
| 7000 | St. Joseph, MO<br>Andrews, MO<br>Buchanan, MO | 1.0013 |
| 7040 | St. Louis, MO-IL<br>Clinton, IL<br>Jersey, IL<br>Madison, IL<br>Monroe, IL<br>St. Clair, IL<br>Franklin, MO<br>Jefferson, MO<br>Lincoln, MO<br>St. Charles, MO<br>St. Louis, MO<br>St. Louis City, MO<br>Warren, MO<br>Sullivan City, MO | 0.9081 |
| 7080 | Salem, OR<br>Marion, OR<br>Polk, OR | 1.0557 |
| 7120 | Salinas, CA<br>Monterey, CA | 1.3823 |

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| 7160 | Salt Lake City-Ogden, UT<br>Davis, UT<br>Salt Lake, UT<br>Weber, UT | 0.9487 |
| 7200 | San Angelo, TX<br>Tom Green, TX | 0.8168 |
| 7240 | San Antonio, TX<br>Bexar, TX<br>Comal, TX<br>Guadalupe, TX<br>Wilson, TX | 0.9023 |
| 7320 | San Diego, CA<br>San Diego, CA | 1.1267 |
| 7360 | San Francisco, CA<br>Marin, CA<br>San Francisco, CA<br>San Mateo, CA | 1.4712 |
| 7400 | San Jose, CA<br>Santa Clara, CA | 1.4744 |

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|---|---|---|
| 7440 | San Juan-Bayamon, PR<br>Aguas Buenas, PR<br>Barceloneta, PR<br>Bayamon, PR<br>Canovanas, PR<br>Carolina, PR<br>Catano, PR<br>Ceiba, PR<br>Comerio, PR<br>Corozal, PR<br>Dorado, PR<br>Fajardo, PR<br>Florida, PR<br>Guaynabo, PR<br>Humacao, PR<br>Juncos, PR<br>Los Piedras, PR<br>Loiza, PR<br>Luguillo, PR<br>Manati, PR<br>Morovis, PR<br>Naguabo, PR<br>Naranjito, PR<br>Rio Grande, PR<br>San Juan, PR<br>Toa Alta, PR<br>Toa Baja, PR<br>Trujillo Alto, PR<br>Vega Alta, PR<br>Vega Baja, PR<br>Yabucoa, PR | 0.4802 |
| 7460 | San Luis Obispo-Atascadero-Paso Robles, CA<br>San Luis Obispo, CA | 1.1118 |
| 7480 | Santa Barbara-Santa Maria-Lompoc, CA<br>Santa Barbara, CA | 1.0771 |
| 7485 | Santa Cruz-Watsonville, CA<br>Santa Cruz, CA | 1.4780 |
| 7490 | Santa Fe, NM<br>Los Alamos, NM<br>Santa Fe, NM | 1.0590 |
| 7500 | Santa Rosa, CA<br>Sonoma, CA | 1.2962 |
| 7510 | Sarasota-Bradenton, FL<br>Manatee, FL<br>Sarasota, FL | 0.9630 |

| | | |
|---|---|---|
| 7520 | Savannah, GA<br>Bryan, GA<br>Chatham, GA<br>Effingham, GA | 0.9460 |
| 7560 | Scranton--Wilkes-Barre--Hazleton, PA<br>Columbia, PA<br>Lackawanna, PA<br>Luzerne, PA<br>Wyoming, PA | 0.8523 |
| 7600 | Seattle-Bellevue-Everett, WA<br>Island, WA<br>King, WA<br>Snohomish, WA | 1.1479 |
| 7610 | Sharon, PA<br>Mercer, PA | 0.7881 |
| 7620 | Sheboygan, WI<br>Sheboygan, WI | 0.8949 |
| 7640 | Sherman-Denison, TX<br>Grayson, TX | 0.9617 |
| 7680 | Shreveport-Bossier City, LA<br>Bossier, LA<br>Caddo, LA<br>Webster, LA | 0.9112 |
| 7720 | Sioux City, IA-NE<br>Woodbury, IA<br>Dakota, NE | 0.9094 |
| 7760 | Sioux Falls, SD<br>Lincoln, SD<br>Minnehaha, SD | 0.9441 |
| 7800 | South Bend, IN<br>St. Joseph, IN | 0.9447 |
| 7840 | Spokane, WA<br>Spokane, WA | 1.0661 |
| 7880 | Springfield, IL<br>Menard, IL<br>Sangamon, IL | 0.8738 |
| 7920 | Springfield, MO<br>Christian, MO<br>Greene, MO<br>Webster, MO | 0.8597 |
| 8003 | Springfield, MA<br>Hampden, MA<br>Hampshire, MA | 1.0174 |
| 8050 | State College, PA<br>Centre, PA | 0.8462 |

| | | |
|---|---|---|
| 8080 | Steubenville-Weirton, OH-WV<br>Jefferson, OH<br>Brooke, WV<br>Hancock, WV | 0.8281 |
| 8120 | Stockton-Lodi, CA<br>San Joaquin, CA | 1.0564 |
| 8140 | Sumter, SC<br>Sumter, SC | 0.8520 |
| 8160 | Syracuse, NY<br>Cayuga, NY<br>Madison, NY<br>Onondaga, NY<br>Oswego, NY | 0.9394 |
| 8200 | Tacoma, WA<br>Pierce, WA | 1.1078 |
| 8240 | Tallahassee, FL<br>Gadsden, FL<br>Leon, FL | 0.8656 |
| 8280 | Tampa-St. Petersburg-Clearwater, FL<br>Hernando, FL<br>Hillsborough, FL<br>Pasco, FL<br>Pinellas, FL | 0.9024 |
| 8320 | Terre Haute, IN<br>Clay, IN<br>Vermillion, IN<br>Vigo, IN | 0.8582 |
| 8360 | Texarkana, AR-Texarkana, TX<br>Miller, AR<br>Bowie, TX | 0.8414 |
| 8400 | Toledo, OH<br>Fulton, OH<br>Lucas, OH<br>Wood, OH | 0.9525 |
| 8440 | Topeka, KS<br>Shawnee, KS | 0.8904 |
| 8480 | Trenton, NJ<br>Mercer, NJ | 1.0276 |
| 8520 | Tucson, AZ<br>Pima, AZ | 0.8926 |
| 8560 | Tulsa, OK<br>Creek, OK<br>Osage, OK<br>Rogers, OK<br>Tulsa, OK<br>Wagoner, OK | 0.8729 |
| 8600 | Tuscaloosa, AL<br>Tuscaloosa, AL | 0.8440 |

| | | |
|---|---|---|
| 8640 | Tyler, TX<br>Smith, TX | 0.9502 |
| 8680 | Utica-Rome, NY<br>Herkimer, NY<br>Oneida, NY | 0.8295 |
| 8720 | Vallejo-Fairfield-Napa, CA<br>Napa, CA<br>Solano, CA | 1.3517 |
| 8735 | Ventura, CA<br>Ventura, CA | 1.1105 |
| 8750 | Victoria, TX<br>Victoria, TX | 0.8469 |
| 8760 | Vineland-Millville-Bridgeton, NJ<br>Cumberland, NJ | 1.0573 |
| 8780 | Visalia-Tulare-Porterville, CA<br>Tulare, CA | 0.9964 |
| 8800 | Waco, TX<br>McLennan, TX | 0.8146 |
| 8840 | Washington, DC-MD-VA-WV<br>District of Columbia, DC<br>Calvert, MD<br>Charles, MD<br>Frederick, MD<br>Montgomery, MD<br>Prince Georges, MD<br>Alexandria City, VA<br>Arlington, VA<br>Clarke, VA<br>Culpepper, VA<br>Fairfax, VA<br>Fairfax City, VA<br>Falls Church City, VA<br>Fauquier, VA<br>Fredericksburg City, VA<br>King George, VA<br>Loudoun, VA<br>Manassas City, VA<br>Manassas Park City, VA<br>Prince William, VA<br>Spotsylvania, VA<br>Stafford, VA<br>Warren, VA<br>Berkeley, WV<br>Jefferson, WV | 1.0971 |
| 8920 | Waterloo-Cedar Falls, IA<br>Black Hawk, IA | 0.8633 |
| 8940 | Wausau, WI<br>Marathon, WI | 0.9570 |

| | | |
|---|---|---|
| 8960 | West Palm Beach-Boca Raton, FL<br>Palm Beach, FL | 1.0059 |
| 9000 | Wheeling, OH-WV<br>Belmont, OH<br>Marshall, WV<br>Ohio, WV | 0.7449 |
| 9040 | Wichita, KS<br>Butler, KS<br>Harvey, KS<br>Sedgwick, KS | 0.9473 |
| 9080 | Wichita Falls, TX<br>Archer, TX<br>Wichita, TX | 0.8395 |
| 9140 | Williamsport, PA<br>Lycoming, PA | 0.8486 |
| 9160 | Wilmington-Newark, DE-MD<br>New Castle, DE<br>Cecil, MD | 1.1121 |
| 9200 | Wilmington, NC<br>New Hanover, NC<br>Brunswick, NC | 0.9237 |
| 9260 | Yakima, WA<br>Yakima, WA | 1.0323 |
| 9270 | Yolo, CA<br>Yolo, CA | 0.9378 |
| 9280 | York, PA<br>York, PA | 0.9150 |
| 9320 | Youngstown-Warren, OH<br>Columbiana, OH<br>Mahoning, OH<br>Trumbull, OH | 0.9518 |
| 9340 | Yuba City, CA<br>Sutter, CA<br>Yuba, CA | 1.0364 |
| 9360 | Yuma, AZ<br>Yuma, AZ | 0.8871 |

**TABLE 9 — Wage Index for Rural Areas**

| Nonurban Area | Wage Index |
|---|---|
| Alabama | 0.7637 |
| Alaska | 1.1637 |
| Arizona | 0.9140 |
| Arkansas | 0.7704 |
| California | 1.0297 |
| Colorado | 0.9368 |
| Connecticut | 1.1586 |
| Delaware | 0.9504 |
| Florida | 0.8789 |
| Georgia | 0.8247 |
| Guam | 0.9611 |
| Hawaii | 1.0522 |
| Idaho | 0.8826 |
| Illinois | 0.8341 |
| Indiana | 0.8736 |
| Iowa | 0.8550 |
| Kansas | 0.8088 |
| Kentucky | 0.7844 |
| Louisiana | 0.7291 |
| Maine | 0.9039 |
| Maryland | 0.9179 |
| Massachusetts | 1.0217 |
| Michigan | 0.8741 |
| Minnesota | 0.9339 |
| Mississippi | 0.7583 |
| Missouri | 0.7829 |
| Montana | 0.8701 |

| | |
|---|---|
| Nebraska | 0.9035 |
| Nevada | 0.9833 |
| New Hampshire | 0.9940 |
| New Jersey 1/ | ..... |
| New Mexico | 0.8529 |
| New York | 0.8403 |
| North Carolina | 0.8501 |
| North Dakota | 0.7743 |
| Ohio | 0.8760 |
| Oklahoma | 0.7537 |
| Oregon | 1.0050 |
| Pennsylvania | 0.8348 |
| Puerto Rico | 0.4047 |
| Rhode Island 1/ | ..... |
| South Carolina | 0.8640 |
| South Dakota | 0.8393 |
| Tennessee | 0.7876 |
| Texas | 0.7910 |
| Utah | 0.8843 |
| Vermont | 0.9375 |
| Virginia | 0.8480 |
| Virgin Islands | 0.7457 |
| Washington | 1.0072 |
| West Virginia | 0.8084 |
| Wisconsin | 0.9498 |
| Wyoming | 0.9182 |

1/ 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 full SNF market basket, which equals 2.8 percentage points. We will continue to disseminate the rates, wage index, and case-mix classification methodology through 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.

A beneficiary assigned to any of the lower 18 groups is not automatically classified as either meeting or not meeting the definition, but instead receives 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 previously discussed in sections I.A and I.F.2 of this notice, the PPS is no longer operating under the initial three-year transition period from facility-specific to Federal rates. 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 10, 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, 2004. XYZ's total PPS payment would equal $25,161. The Labor and Non-labor columns are derived from Table 6. In addition, 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 Table 10.

**Table 10**

**SNF XYZ: Located in State College, PA**
**Wage Index: 0.8482**

| RUG Group | Labor | Wage index | Adj. labor | Non-Labor | Adj. rate | Percent adjustment | Medi-care Days | Pay-ment |
|---|---|---|---|---|---|---|---|---|
| RVC | $274.56 | 0.8482 | $232.88 | $85.65 | $318.53 | $339.87* | 14 | $ 4,758 |
| RHA | $212.18 | 0.8482 | $179.97 | $66.19 | $246.16 | $262.65* | 16 | $ 4,202 |
| CC2 | $175.71 | 0.8482 | $149.04 | $54.82 | $203.86 | $464.80** | 10 | $ 4,648 |
| SSC | $176.74 | 0.8482 | $149.91 | $55.13 | $205.04 | $246.05*** | 30 | $ 7,382 |
| IA2 | $119.84 | 0.8482 | $101.65 | $37.39 | $139.04 | $139.04 | 30 | $ 4,171 |
| | | | | | | Total | 100 | $25,161 |

*Reflects a 6.7 percent adjustment from section 314 of the BIPA.

**Reflects a 128 percent adjustment from section 511 of the MMA. Section 101(a) of the BBRA no longer applies because of the MMA section 511 adjustment.

## III. The Skilled Nursing Facility Market Basket Index

Section 1888(e)(5)(A) of the Act requires us to establish an 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. Accordingly, we have developed an 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 11 summarizes the updated labor-related share for FY 2005.

Table 11 – FY 2005 Labor-Related Share

| | Relative importance, labor-related, **FY 2004** (97 index) | Relative importance, labor-related, **FY 2005** (97 index) |
|---|---|---|
| Wages and salaries | 55.115 | 54.720 |
| Employee benefits | 11.304 | 11.595 |
| Nonmedical professional fees | 2.651 | 2.688 |
| Labor-intensive services | 4.130 | 4.125 |
| Capital-related | 3.172 | 3.094 |
| Total | 76.372 | 76.222 |

*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 2004 and FY 2005. We used the Global Insight, Inc. (formerly DRI-WEFA), 2nd quarter 2004 forecasted percentage increase in the FY 1997-based SNF market basket index for routine, ancillary, and capital-related expenses, described in the previous section, to compute the update factor. 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. Market Basket Forecast Error Adjustment*

As discussed in the June 10, 2003, supplemental proposed rule (68 FR 34768) and finalized in the August 4, 2003, final rule (68 FR 46067), the regulations at 42 CFR 413.337(d)(2) provide for an adjustment to account for market basket forecast error. The initial adjustment applied to the update of the FY 2003 rate that occurred in FY 2004, and took into account the cumulative forecast error for the period from FY 2000 through FY 2002. Subsequent adjustments in succeeding FYs take into account the forecast error from the most recently available fiscal year for which there is final data, and are applied whenever the difference between the forecasted and actual change in the market basket exceeds a 0.25 percentage point threshold. As discussed previously in section I.G of this notice, as the difference between the estimated and actual amounts of increase in the market basket index for FY 2003 (the most recently available fiscal year for which there is final data) did not exceed the 0.25 percentage point threshold, the payment rates for FY 2005 do not include a forecast error adjustment.

*C. Federal Rate Update Factor*

Section 1888(e)(4)(E)(ii)(IV) of the Act requires that the update factor used to establish the FY 2005 Federal rates be at a level equal to the full market basket percentage change. Accordingly, to establish the update factor, we determined the total growth from the average market basket level for the period of October 1, 2003 through September 30, 2004 to the average market basket level for the period of October 1, 2004 through September 30, 2005. Using this process, the market basket update factor for FY 2005 SNF Federal rates is 2.8 percentage points. We used this revised update factor to compute the Federal portion of the SNF PPS rate shown in Tables 2 and 3.

**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 an 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.)

Among the services that sections 1888(e)(2)(A)(ii) through (iii) of the Act exclude from the consolidated billing requirement are those of physicians and certain other specified types of medical practitioners, which remain separately billable to Part B when furnished to an SNF's Part A resident. Since the statute does not exclude the services of rural health clinics (RHCs) or Federally Qualified Health Centers (FQHCs), we have always regarded those specified types of practitioner services, when furnished to an SNF's Part A resident by an RHC or FQHC, as being a part of RHC or FQHC services (which are subject to consolidated billing). However, section 410 of the MMA amended section 1888(e)(2)(A)(iv) of the Act to specify that when an RHC or FQHC furnishes the services of a physician, or another type of service that section 1888(e)(2)(A)(ii) of the Act identifies as being excluded from SNF consolidated billing, those services do not become subject to consolidated billing merely by virtue of being furnished under the auspices of the RHC or FQHC. In effect, this amendment enables such services to retain their separate identity as excluded ''practitioner'' services in this context, rather than being treated as bundled ''RHC'' or ''FQHC'' services. As such, these services would remain separately billable to Part B when furnished to a resident of the SNF during a covered Part A stay. The MMA specifies that this provision becomes effective with services furnished on or after January 1, 2005. In accordance with added section 1888(e)(2)(A)(iv) of the Act, this provision applies to the following excluded service categories,

as identified in section 1888(e)(2)(A)(ii) of the Act:

- Physician services.
- Services of physician assistants working under a physician's supervision.
- Services of nurse practitioners and clinical nurse specialists working in collaboration with a physician.
- Certified nurse-midwife services.
- Qualified psychologist services.
- Certified registered nurse anesthetist services.
- Home dialysis supplies and equipment, self-care home dialysis support services, and institutional dialysis services and supplies as described in section 1861(s)(2)(F) of the Act.
- Erythropoietin (EPO) for certain dialysis patients as described in section 1861(s)(2)(O) of the Act, subject to methods and standards established by the Secretary in regulations for its safe and effective use (see §§ 405.2163(g) and (h)).

Further, we note that the amendment enacted in section 410 of the MMA does not affect the applicability of the consolidated billing requirement to any physical, occupational, or speech-language therapy services furnished by RHCs and FQHCs. As specified in section 1888(e)(2)(A)(ii) of the Act, such services are *always* subject to SNF consolidated billing, even when performed by a type of practitioner whose services would otherwise be excluded from this provision.

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

In accordance with section 1888(e)(7) of the Act (as amended by section 203 of the BIPA), Part A pays critical access hospitals (CAHs) on a reasonable cost basis for SNF services furnished under a swing-bed agreement. However, as noted previously in section I.A of this notice, the services furnished by non-CAH rural hospitals are paid under the SNF PPS. In the July 31, 2001 final rule (66 FR 39562), we announced the conversion of swing-bed rural 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 rural hospitals into the SNF PPS by the end of the SNF transition period, June 30, 2002.

As of June 30, 2003, all swing-bed rural hospitals have come under the SNF PPS. Therefore, all rates and wage indexes outlined in earlier sections of this notice for SNF PPS also apply to all swing-bed rural hospitals. A complete discussion of assessment schedules, the MDS and the transmission software, Raven-SB for Swing Beds can be found in the July 31, 2001 final rule (66 FR 39562). The latest changes in the MDS for swing-bed rural hospitals are listed on our SNF PPS Web site, *http://www.cms.hhs.gov/providers/snfpps/default.asp.*

## VI. Collection of Information Requirements

This document does not impose information collection and recordkeeping requirements. Consequently, it need not be reviewed by the Office of Management and Budget under the authority of the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*).

## VII. Regulatory Impact Analysis

### *A. Overall Impact*

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 (as amended by Executive Order 13258, which merely assigns responsibility of duties) directs agencies to assess all costs and benefits of available regulatory alternatives and, if 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 in any 1 year). This notice is major, as defined in Title 5, United States Code, section 804(2), because we estimate the impact of the standard update will be to increase payments to SNFs by approximately $440 million.

The update set forth in this notice applies to payments in FY 2005. 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 RFA requires agencies to analyze options for regulatory relief of small businesses. For purposes of the RFA, small entities include small businesses, nonprofit organizations, and government agencies. Most SNFs and most other providers and suppliers are small entities, either by their nonprofit status or by having revenues of $11.5 million or less in any 1 year. For purposes of the RFA, approximately 53 percent of SNFs are considered small businesses according to the Small Business Administration's latest size standards with total revenues of $11.5 million or less in any 1 year (for further information, see 65 FR 69432, November 17, 2000). Individuals and States are not included in the definition of a small entity. In addition, approximately 29 percent of SNFs are nonprofit organizations.

This notice updates the SNF PPS rates published in the August 4, 2003 final rule (68 FR 46036) and the associated correction notice (68 FR 55882, September 29, 2003), thereby increasing aggregate payments by an estimated $440 million. As indicated in Table 12, the effect on facilities will be an aggregate positive impact of 2.8 percent. We note that some individual providers may experience larger increases in payments than others due to the distributional impact of the FY 2005 wage indices and the degree of Medicare utilization. While this notice is considered major, its overall impact is extremely small; that is, less than 3 percent of total SNF revenues from all payor sources. As the overall impact is positive on the industry as a whole, and on small entities specifically, it is not necessary to consider regulatory alternatives.

In addition, section 1102(b) of the Act requires us to prepare a regulatory impact analysis 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 a positive fiscal impact on small rural hospitals. 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.

Section 202 of the Unfunded Mandates Reform Act of 1995 also requires that agencies assess anticipated costs and benefits before issuing any

rule that may result in an expenditure in any 1 year by State, local, or tribal governments, in the aggregate, or by the private sector, of $110 million or more. This notice will increase payments to SNFs by 2.8 percent, but will have no other substantial effect on State, local, or tribal governments. Again, we believe that the aggregate impact of this notice is positive, and does not meet the significance thresholds for determining added costs under the Unfunded Mandates Reform Act.

Executive Order 13132 establishes certain requirements that an agency must meet when it promulgates regulations that impose substantial direct requirement costs on State and local governments, preempts State law, or otherwise has Federalism implications. As stated above, this notice will have no substantial effect on State and local governments.

*B. Anticipated Effects*

This notice sets forth updates of the SNF PPS rates contained in the August 4, 2003 final rule (68 FR 46036) and the associated correction notice (68 FR 55882, September 29, 2003). The impact analysis of this notice represents the projected effects of the changes in the SNF PPS from FY 2004 to FY 2005. We estimate the effects 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 from 2002. 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, the MMA, or new statutory provisions. Although these changes may not be specific to the 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.

In accordance with section 1888(e)(4)(E) of the Act, the payment rates for FY 2005 are updated by a factor equal to the full market basket index percentage increase to determine the payment rates for FY 2005. We note that in accordance with section 101(a) of the BBRA and section 314 of the BIPA, the existing, temporary increase in the per diem adjusted payment rates of 20 percent for certain specified RUGs (and 6.7 percent for certain others) remains in effect until the implementation of case-mix refinements in the SNF PPS. Similarly, the special AIDS add-on established by section 511 of the MMA remains in effect until the implementation of case-mix refinements. In updating the rates for FY 2005, 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 indices used for adjusting the Federal rates). These revisions will increase payments to SNFs by approximately $440 million.

The impacts are shown in Table 12. The breakdown of the various categories of data in the table 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 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 fourth column of the table shows the effect of all of the changes on the FY 2005 payments. The market basket increase of 2.8 percentage points is constant for all providers and, though not shown individually, is included in the total column. It is projected that aggregate payments will increase by 2.8 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.

**Table 12**
**Projected Impact of FY 2005 Update to the SNF PPS**

| | Number of facilities | Wage Index Change | Total FY 2005 change |
|---|---|---|---|
| Total | 15,252 | 0.0% | 2.8% |
| Urban | 10,016 | 0.0% | 2.8% |
| Rural | 5,236 | 0.0% | 2.8% |
| Hospital based urban | 984 | 0.1% | 2.9% |
| Freestanding urban | 8,466 | 0.0% | 2.8% |
| Hospital based rural | 640 | 0.1% | 2.9% |
| Freestanding rural | 3,708 | 0.0% | 2.8% |
| Urban by region | | | |
| New England | 913 | -0.6% | 2.2% |
| Middle Atlantic | 1,526 | -0.7% | 2.1% |
| South Atlantic | 1,610 | 0.3% | 3.1% |
| East North Central | 1,943 | 0.2% | 3.0% |
| East South Central | 456 | 0.0% | 2.8% |
| West North Central | 691 | 0.4% | 3.2% |
| West South Central | 965 | 0.8% | 3.6% |
| Mountain | 432 | -0.4% | 2.4% |
| Pacific | 1,473 | 0.4% | 3.2% |
| Rural by region | | | |
| New England | 149 | 0.1% | 2.9% |
| Middle Atlantic | 254 | -0.4% | 2.4% |
| South Atlantic | 715 | -0.2% | 2.6% |
| East North Central | 948 | 0.1% | 2.9% |
| East South Central | 595 | -0.4% | 2.4% |
| West North Central | 1,220 | 0.5% | 3.3% |
| West South Central | 817 | 0.4% | 3.2% |
| Mountain | 330 | -0.2% | 2.6% |
| Pacific | 208 | 0.0% | 2.8% |
| Ownership | | | |
| Government | 712 | 0.0% | 2.8% |
| Proprietary | 9,457 | 0.0% | 2.8% |
| Voluntary | 3,605 | 0.0% | 2.8% |

*C. Alternatives Considered*

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 of the statute prescribes a detailed formula for calculating payment rates under the SNF PPS, and does not provide for the use of any alternative methodology. It 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. Further, section 1888(e)(4)(H) of the Act specifically requires us to disseminate the payment rates for each new fiscal year through the **Federal Register**, and to do so before the August 1 that precedes the start of the new fiscal year. Accordingly, we are not pursuing alternatives with respect to the payment methodology. Further, as discussed previously in section II.B of this notice, we are not implementing case-mix refinements at the present time, but instead are proceeding with our ongoing research in this area.

*D. Conclusion*

This notice does not initiate any policy changes with regard to the SNF PPS; rather, it simply provides an update to the rates for FY 2005. Therefore, for the reasons set forth in the preceding discussion, we are not preparing analyses for either the RFA or section 1102(b) of the Act, because we have determined that this notice will not have a significant economic impact on a substantial number of small entities or a significant impact on the operations of a substantial number of small rural hospitals.

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

## VIII. Waiver of Proposed Rulemaking

We ordinarily publish a notice of proposed rulemaking 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 notice and comment procedure is impracticable, unnecessary, or contrary to the public interest and incorporate a statement of the finding and the reasons for it into the notice issued.

We believe it is unnecessary to undertake notice-and-comment rulemaking in this instance, 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 initiates no policy changes with regard to the SNF PPS but simply reflects the application of previously established methodologies. Therefore, we find good cause to waive 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 24, 2004.

**Mark B. McClellan,**

*Administrator, Centers for Medicare & Medicaid Services.*

Dated: July 27, 2004.

**Tommy G. Thompson,**

*Secretary.*

[FR Doc. 04–17443 Filed 7–29–04; 8:45 am]

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## DEPARTMENT OF HEALTH AND HUMAN SERVICES

### Centers for Medicare & Medicaid Services

**[CMS–4068–N]**

### Medicare Program; Open Public Meeting Regarding the Development of the Model Guidelines for Categories and Classes of Drugs

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

**ACTION:** Notice of meeting.

**SUMMARY:** This notice announces a public meeting to provide pharmaceutical benefit managers and other interested parties, an opportunity to provide individual comments on the Model Guidelines for Classes and Categories of Drugs (Model Guidelines) developed by the United States Pharmacopeia (USP). Interested parties include beneficiaries, advocacy groups, managed care organizations, trade and professional associations, prescription drug plans, healthcare practitioners, providers, pharmaceutical manufacturers, and others. USP is a nongovernmental organization, as set forth under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA). The MMA provides for the development of Model Guidelines by USP in consultation with pharmaceutical benefit managers and other interested parties.

**DATES:** The meeting is scheduled for August 27, 2004, from 9 a.m. until 4 p.m. e.d.t. This meeting is open to the public.

**ADDRESSES:** The meeting will be held in Baltimore, MD at the Wyndham Baltimore-Inner Harbor, 101 West Fayette Street. Phone: 410–752–1100. The meeting will be organized by the United States Pharmacopeia with support from its meeting coordinator, Conferon Inc.

**FOR FURTHER INFORMATION CONTACT:** Kelly Coates, United States Pharmacopeia at 12601 Twinbrook Parkway, Rockville, MD 20852, *conferences@usp.org*, (301) 816–8130.

**SUPPLEMENTARY INFORMATION:**

## I. Background

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) (Pub. L. 108–173, enacted on December 8, 2003) establishes a new prescription drug benefit under Part D of the Medicare Program through competing prescription drug plans. The Secretary will approve or disapprove prescription drug plans based on various requirements in the statute, including the requirements specified in section 1860D–11(e)(2)(D)(i) and (ii) of the MMA. One of the requirements is that the Secretary does not find that the design of the plan and its benefits are likely to discourage enrollment by certain Part D eligible individuals. The Secretary may not find that the design of categories and classes within a formulary discourages enrollment if the categories and classes are consistent with Model Guidelines established by United States Pharmacopeia (USP).

In an effort to establish these guidelines, MMA requires the Secretary to request USP to develop, in consultation with pharmaceutical benefit managers and other interested parties, a list of categories and classes (Model Guidelines) that may be used by prescription drug plans and to revise the classification from time to time to reflect changes in therapeutic uses of covered Part D drugs and additions of new covered Part D drugs. At the request of the Secretary and as specified in section 1860D–4(b)(3)(C)(ii) of the MMA, USP is in the process of developing the Model Guidelines that may be used by prescription drug plans and is seeking comments on the draft Model Guidelines.

## II. Provisions of the Notice

The purpose of this meeting is to provide information on the draft of the Model Guidelines for Classes and Categories of Drugs to be used in Part D plan formularies and to allow for public comment.

*Meeting Format:* USP Staff and the USP Medicare Model Guideline Expert Committee (Expert Committee) will present a draft of the Model Guidelines and the approach and methodology of establishing the Model Guidelines. Interested persons may present data, information, or views orally or in writing, on issues directly related to the Model Guidelines.