

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Health Care Financing Administration

[HCFA-1056-N]

RIN 0938-AJ65

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

AGENCY: Health Care Financing Administration (HCFA), HHS.

ACTION: Notice.

SUMMARY: This notice sets forth the updates required in section 1888(e) of the Social Security Act (the Act), as added by section 4432 of the Balanced Budget Act of 1997, related to Medicare payments and consolidated billing for skilled nursing facilities.

EFFECTIVE DATE: This notice is effective October 1, 1999. This notice is a major rule as defined in Title 5, United States Code, section 804(2). Pursuant to 5 U.S.C. section 801(a)(1)(A), we are submitting a report to the Congress on this notice on July 30, 1999.

FOR FURTHER INFORMATION CONTACT:

Dana Burley, (410) 786-4547 (for information related to the case-mix classification methodology).

John Davis, (410) 786-0008 (for information related to the Federal Rates).

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Laurence Wilson, (410) 786-4603 (for general information).

SUPPLEMENTARY INFORMATION:

I. Background

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) (Pub. L. 105-33) mandated the implementation of a per diem prospective payment system (PPS) for skilled nursing facilities (SNFs), covering all costs (routine, ancillary, and capital) 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. Major elements of the system 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 SNF residents during a Part A covered stay. Rates are case-mix adjusted using a resident classification system (Resource Utilization Groups, version III (RUG-III)) based on resident assessments (using the Minimum Data Set (MDS) 2.0). In addition, the Federal rates are adjusted by the hospital wage index to account for geographic variation in wages. Finally, the rates will be adjusted annually using an SNF market basket index.

- **Transition:** The SNF PPS includes a 3-year transition that blends a facility-specific payment rate with the Federal case-mix adjusted rate. The blend that is used changes each cost reporting period after a facility migrates to the new system. For most facilities, the facility-specific rate is based on allowable costs from FY 1995.

- **Coverage:** The PPS statute did not change Medicare's fundamental requirements for SNF coverage. However, because RUG-III classification is based, in part, on the resident's need for skilled nursing care and therapy, we have attempted where possible to coordinate claims review procedures with the outputs of resident assessment and RUG-III classifying activities. For example, we believe that an initial Medicare-required (5-day) assessment, properly completed, that places the resident in one of the upper 26 RUG-III classifications provides the basis for us to assume that the resident needed a covered level of SNF care upon admission and at least up until the assessment reference date for the initial Medicare-required assessment. We will, however, continue to make individual review determinations for claims of individuals who classify in the lower 18 RUG-III categories.

- **Consolidated Billing:** The statute includes a billing provision that requires an SNF to submit consolidated Medicare bills for its residents for virtually all services that are covered under either Part A or Part B. The statute excludes a small list of services (primarily those of physicians and certain other types of practitioners). A related statutory provision requires SNFs to use HCFA Common Procedure Coding System (HCPCS) coding on all Part B bills, and specifies that they are to be paid an amount determined in accordance with the otherwise applicable Part B fee schedule for the particular item or service.

- **Effective Date:** The PPS is effective for cost reporting periods beginning on

or after July 1, 1998. The law provides that the consolidated billing and coding requirements are effective for services and items furnished on or after July 1, 1998.

An interim final rule implementing the SNF PPS was published in the **Federal Register** on May 12, 1998 (63 FR 26252) and the comment period was initially scheduled to close on July 13, 1998. A follow-up notice (63 FR 37498, July 13, 1998) extended the public comment period for an additional 60 days, and a second notice (63 FR 65561, November 27, 1998) reopened the comment period for another 30 days. In addition, a correction notice was published (63 FR 53301, October 5, 1998) that made a number of minor technical and editorial corrections to the interim final rule. We also published a final rule found elsewhere in this **Federal Register** document that addressed comments on the May 12, 1998 interim final rule. We have also issued several Program Memorandums on claims processing and billing under the SNF PPS that are available on the SNF PPS home page at the HCFA website on the Internet, at the following location: <www.hcfa.gov/medicare/snfpps.htm>

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

As described above, 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 fiscal year.

2. The case-mix classification system to be applied with respect to these services during the fiscal year.

3. The factors to be applied in making the area wage adjustment with respect to these services. In addition, in the interim final rule (May 12, 1998, 63 FR 26252), we indicated that we would announce any changes to the Medicare coverage guidelines or the RUG-III classifications.

This notice updates the rates as mandated by the Social Security Act (the Act).

C. Skilled Nursing Facility Prospective Payment—General Overview

As described above, the Medicare SNF PPS was implemented for cost reporting periods beginning on or after July 1, 1998. Under the PPS, SNFs are paid through per diem prospective case-mix adjusted payment rates applicable to all covered SNF services. These payment rates cover all the costs of

furnishing covered skilled nursing services (that is, routine, ancillary, and capital-related costs) other than costs associated with approved educational activities. Covered SNF services include posthospital SNF 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 SNF residents during a Part A covered stay. (For a complete discussion of these provisions see the May 12, 1998 interim final rule (63 FR 26252).)

1. Payment Provisions—Federal Rate

The statute sets forth a fairly prescriptive methodology for calculating the amount of payment under SNF PPS. The PPS utilizes 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 fiscal year 1995. The data used in developing the Federal rates also incorporate an estimate of the amounts that would be payable under Part B for covered SNF services to individuals who were residents of a facility and receiving Part A covered services. In developing the rates for the initial period, we updated costs to the first effective year of PPS (15-month period beginning July 1, 1998) using a SNF market basket index, and standardized for 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. In addition, costs related to payments for exceptions to the routine cost limits were excluded from the database used to compute the Federal rates. 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 compute and apply separately payment rates for facilities located in urban and rural areas.

The Federal rate also incorporates adjustments to account for facility case-mix using a resident classification system that accounts for the relative resource utilization of different patient types. This classification system, RUG-III, utilizes resident assessment data (from the Minimum Data Set or MDS)

completed by SNFs to assign residents into one of 44 groups. The May 12, 1998 interim final rule (63 FR 26252) has a complete and detailed description of the RUG-III classification system.

In addition, we adjust the portion of the Federal rate attributable to wage related costs by a wage index.

For the initial period of PPS, the rates were published in the May 12, 1998 interim final rule (63 FR 26252). The Federal rates reflected in this notice updates those rates by a factor equal to the SNF market basket index amounts minus 1 percentage point. Pursuant to section 1888(e)(4)(E)(ii) of the Act, for fiscal years 2001 and 2002, we will inflate the rates each year in the same way, by increasing the current rates by the SNF market basket change minus 1 percentage point. For subsequent fiscal years, we will increase the rates by the applicable SNF market basket change.

2. Payment Provisions—Transition Period

Beginning with a provider's first cost reporting period beginning on or after July 1, 1998, there is a transition period covering three cost reporting periods. During the transition phase, SNFs receive a payment rate comprising a blend between the Federal rate and a facility-specific rate based on each facility's fiscal year 1995 cost report. Under section 1888(e)(2)(E)(ii) of the Act, SNFs that received their first payment from Medicare on or after October 1, 1995 receive payment according to the Federal rates only.

For SNFs subject to transition, the composition of the blended rate varies depending on the year of transition. For the first cost reporting period beginning on or after July 1, 1998, we make payment based on 75 percent of the facility-specific rate and 25 percent of the Federal rate. In the next cost reporting period, the rate consists of 50 percent of the facility-specific rate and 50 percent of the Federal rate. In the following cost reporting period, the rate consists of 25 percent of the facility-specific rate and 75 percent of the Federal rate. For all subsequent cost reporting periods, we base payments entirely on the Federal rates.

3. Payment Provisions—Facility-Specific Rate

For most facilities, we compute the facility-specific payment rate utilized for the transition using the allowable costs of SNF services for cost reporting periods beginning in fiscal year 1995 (cost reporting periods beginning on or after October 1, 1994 and before October 1, 1995). Included in the facility-specific per diem rate for most facilities is an

estimate of the amount that would be payable under Part B for covered SNF services furnished during fiscal year 1995 to individuals who were residents of the facility and receiving Part A covered services under section 1888(e)(3)(A). The facility-specific rate, in contrast to the Federal rates, includes amounts paid to SNFs for exceptions to the routine cost limits. In addition, we also take into account "new provider" exemptions from the routine cost limits but only to the extent that routine costs do not exceed 150 percent of the routine cost limit.

We update the facility-specific rate for each cost reporting after fiscal year 1995 to the first cost reporting period beginning on or after July 1, 1998 (the initial period of the PPS) by a factor equal to the SNF market basket percentage increase minus 1 percentage point. For fiscal years 1998 and 1999, we updated this rate by a factor equal to the SNF market basket increase minus 1 percentage point, and each subsequent year, we update it by the applicable SNF market basket increase.

II. Prospective Payment System for Skilled Nursing Facilities

A. This notice sets forth a schedule of Federal prospective payment rates applicable to Medicare Part A SNF services beginning October 1, 1999. This schedule incorporates per diem Federal rates designed to provide payment for all costs of services furnished to a Medicare resident of an SNF.

1. Cost and Services Covered by the Federal Rates

The Federal rates apply to all costs (that is, routine, ancillary, and capital related costs) of covered skilled nursing services other than costs associated with operating approved educational activities as defined in 42 CFR 413.85. Under section 1888(e)(2) of the Act, covered SNF services include posthospital SNF services for which benefits are provided under Part A (the hospital insurance program) and all items and services (other than services excluded by statute) for which, before July 1, 1998, payment may be made under Part B (the supplementary medical insurance program) and that are furnished to SNF residents 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 26252).)

2. Methodology Used for the Calculation of the Federal Rates

The methodology to compute the Federal rates has not changed, except as we published in the final rule found

elsewhere in this **Federal Register** document, we have adjusted the unadjusted nursing case-mix component of the urban and rural Federal rates by +\$0.32 and +\$0.24, respectively. In addition, we adjusted the unadjusted non-case-mix by \$0.25 for urban and \$0.21 for rural. Additionally, as required by the Act, the data are updated using the latest market basket percentage

minus 1 percentage point. For a complete listing of the multistep process, see the May 12, 1998 interim final rule (63 FR 26252).

The SNF market basket is used to adjust each per diem amount forward to reflect cost increases occurring between the midpoint of the cost reporting period represented in the data and the midpoint of the period beginning

October 1, 1999 and ending September 30, 2000 to which the payment rates apply. In accordance with section 1888(e)(4)(B) of the Act, the cost data are updated between the cost reporting period and the current period by a factor equivalent to the annual market basket index percentage minus 1 percentage point.

TABLE 1.—UNADJUSTED FEDERAL RATE PER DIEM URBAN

Rate component	Nursing—case-mix	Therapy—case-mix	Therapy—non-case mix	Non-case-mix
Per Diem Amount	\$111.89	\$84.25	\$11.12	\$57.20

TABLE 2.—UNADJUSTED FEDERAL RATE PER DIEM RURAL

Rate component	Nursing—case-mix	Therapy—case-mix	Therapy—non-case-mix	Non-case-mix
Per Diem Amount	\$107.12	\$97.33	\$11.88	\$58.25

B. Case-Mix Adjustment

As required by the Act, any changes to the case-mix classification system to be applied with respect to services furnished for SNF Medicare SNF PPS residents must be published each August for the succeeding year. At this time, we are not making any changes or refinements to the case-mix or RUG-III classification system. The RUG-III

classification system is discussed in the May 12, 1998 interim final rule (63 FR 26252) and describes in detail the design and implementation of the case-mix and RUG-III classification system and assessment schedule for SNFs to submit MDSs.

Application of the case-mix indices as described in the May 12, 1998 interim final rule (63 FR 26252) to the updated per diem Federal rates presented in

Tables 1 and 2 above, results in 44 separate RUG-III classification groups. The case-mix adjusted payment rates are listed separately for urban and rural SNFs (44 each) in Tables 3 and 4 below with the corresponding case-mix index values. The rates are listed in total and by component. The application of the wage index, described later in this section, is the final adjustment applied to the Federal rates.]

TABLE 3.—CASE-MIX ADJUSTED FEDERAL RATES AND ASSOCIATED INDICES URBAN

RUG III category	Nursing index	Therapy index	Nursing component	Therapy component	Therapy non-case-mix component	Non-case-mix component	Total rate
RUC	1.30	2.25	\$145.46	\$189.56	.....	57.20	392.22
RUB	0.95	2.25	106.30	189.56	.....	57.20	353.06
RUA	0.78	2.25	87.27	189.56	.....	57.20	334.03
RVC	1.13	1.41	126.44	118.79	.....	57.20	302.43
RVB	1.04	1.41	116.37	118.79	.....	57.20	292.36
RVA	0.81	1.41	90.63	118.79	.....	57.20	266.62
RHC	1.26	0.94	140.98	79.20	.....	57.20	277.38
RHB	1.06	0.94	118.60	79.20	.....	57.20	255.00
RHA	0.87	0.94	97.34	79.20	.....	57.20	233.74
RMC	1.35	0.77	151.05	64.87	.....	57.20	273.12
RMB	1.09	0.77	121.96	64.87	.....	57.20	244.03
RMA	0.96	0.77	107.41	64.87	.....	57.20	229.48
RLB	1.11	0.43	124.20	36.23	.....	57.20	217.63
RLA	0.80	0.43	89.51	36.23	.....	57.20	182.94
SE3	1.70	.....	190.21	.....	11.12	57.20	258.53
SE2	1.39	.....	155.53	.....	11.12	57.20	223.85
SE1	1.17	.....	130.91	.....	11.12	57.20	199.23
SSC	1.13	.....	126.44	.....	11.12	57.20	194.76
SSB	1.05	.....	117.48	.....	11.12	57.20	185.80
SSA	1.01	.....	113.01	.....	11.12	57.20	181.33
CC2	1.12	.....	125.32	.....	11.12	57.20	193.64
CC1	0.99	.....	110.77	.....	11.12	57.20	179.09
CB2	0.91	.....	101.82	.....	11.12	57.20	170.14
CB1	0.84	.....	93.99	.....	11.12	57.20	162.31
CA2	0.83	.....	92.87	.....	11.12	57.20	161.19
CA1	0.75	.....	83.92	.....	11.12	57.20	152.24
IB2	0.69	.....	77.20	.....	11.12	57.20	145.52
IB1	0.67	.....	74.97	.....	11.12	57.20	143.29

TABLE 3.—CASE-MIX ADJUSTED FEDERAL RATES AND ASSOCIATED INDICES URBAN—Continued

RUG III category	Nursing index	Therapy index	Nursing component	Therapy component	Therapy non-case-mix component	Non-case-mix component	Total rate
IA2	0.57	.....	63.78	.....	11.12	57.20	132.10
IA1	0.53	.....	59.30	.....	11.12	57.20	127.62
BB2	0.68	.....	76.09	.....	11.12	57.20	144.41
BB1	0.65	.....	72.73	.....	11.12	57.20	141.05
BA2	0.56	.....	62.66	.....	11.12	57.20	130.98
BA1	0.48	.....	53.71	.....	11.12	57.20	122.03
PE2	0.79	.....	88.39	.....	11.12	57.20	156.71
PE1	0.77	.....	86.16	.....	11.12	57.20	154.48
PD2	0.72	.....	80.56	.....	11.12	57.20	148.88
PD1	0.70	.....	78.32	.....	11.12	57.20	146.64
PC2	0.65	.....	72.73	.....	11.12	57.20	141.05
PC1	0.64	.....	71.61	.....	11.12	57.20	139.93
PB2	0.51	.....	57.06	.....	11.12	57.20	125.38
PB1	0.50	.....	55.95	.....	11.12	57.20	124.27
PA2	0.49	.....	54.83	.....	11.12	57.20	123.15
PA1	0.46	.....	51.47	.....	11.12	57.20	119.79

TABLE 4.—CASE-MIX ADJUSTED FEDERAL RATES AND ASSOCIATED INDICES RURAL

RUG III category	Nursing index	Therapy index	Nursing component	Therapy component	Therapy non-case-mix component	Non-case-mix component	Total rate
RUC	1.30	2.25	\$139.26	\$218.99	.....	\$58.25	\$416.50
RUB	0.95	2.25	101.76	218.99	.....	58.25	379.00
RUA	0.78	2.25	83.55	218.99	.....	58.25	360.79
RVC	1.13	1.41	121.05	137.24	.....	58.25	316.54
RVB	1.04	1.41	111.40	137.24	.....	58.25	306.89
RVA	0.81	1.41	86.77	137.24	.....	58.25	282.26
RHC	1.26	0.94	134.97	91.49	.....	58.25	284.71
RHB	1.06	0.94	113.55	91.49	.....	58.25	263.29
RHA	0.87	0.94	93.19	91.49	.....	58.25	243.93
RMC	1.35	0.77	144.61	74.94	.....	58.25	277.80
RMB	1.09	0.77	116.76	74.94	.....	58.25	249.95
RMA	0.96	0.77	102.84	74.94	.....	58.25	236.03
RLB	1.11	0.43	118.90	41.85	.....	58.25	219.00
RLA	0.80	0.43	85.70	41.85	.....	58.25	185.80
SE3	1.70	.....	182.10	.....	11.88	58.25	252.23
SE2	1.39	.....	148.90	.....	11.88	58.25	219.03
SE1	1.17	.....	125.33	.....	11.88	58.25	195.46
SSC	1.13	.....	121.05	.....	11.88	58.25	191.18
SSB	1.05	.....	112.48	.....	11.88	58.25	182.61
SSA	1.01	.....	108.19	.....	11.88	58.25	178.32
CC2	1.12	.....	119.97	.....	11.88	58.25	190.10
CC1	0.99	.....	106.05	.....	11.88	58.25	176.18
CB2	0.91	.....	97.48	.....	11.88	58.25	167.61
CB1	0.84	.....	89.98	.....	11.88	58.25	160.11
CA2	0.83	.....	88.91	.....	11.88	58.25	159.04
CA1	0.75	.....	80.34	.....	11.88	58.25	150.47
IB2	0.69	.....	73.91	.....	11.88	58.25	144.04
IB1	0.67	.....	71.77	.....	11.88	58.25	141.90
IA2	0.57	.....	61.06	.....	11.88	58.25	131.19
IA1	0.53	.....	56.77	.....	11.88	58.25	126.90
BB2	0.68	.....	72.84	.....	11.88	58.25	142.97
BB1	0.65	.....	69.63	.....	11.88	58.25	139.76
BA2	0.56	.....	59.99	.....	11.88	58.25	130.12
BA1	0.48	.....	51.42	.....	11.88	58.25	121.55
PE2	0.79	.....	84.62	.....	11.88	58.25	154.75
PE1	0.77	.....	82.48	.....	11.88	58.25	152.61
PD2	0.72	.....	77.13	.....	11.88	58.25	147.26
PD1	0.70	.....	74.98	.....	11.88	58.25	145.11
PC2	0.65	.....	69.63	.....	11.88	58.25	139.76
PC1	0.64	.....	68.56	.....	11.88	58.25	138.69
PB2	0.51	.....	54.63	.....	11.88	58.25	124.76
PB1	0.50	.....	53.56	.....	11.88	58.25	123.69
PA2	0.49	.....	52.49	.....	11.88	58.25	122.62
PA1	0.46	.....	49.48	.....	11.88	58.25	119.41

C. Wage Index Adjustment to Federal Rates

Section 1888(e)(4)(G)(ii) of the Act requires that we provide for adjustments to the Federal rates to account for differences in area wage levels using "an appropriate" wage index as determined by the Secretary. In addition, as discussed in the final rule found elsewhere is this **Federal Register** document, it is our intent to evaluate a wage index based on SNF data once it becomes available. The SNF wage data are currently being collected and evaluated to determine if we can utilize them in the future. Once a wage index based on SNF data is developed, we will publish it for comment. However, in the interim, the BBA as well as many commenters urged us to incorporate the latest wage data available. We continue to believe that until a wage index based on SNF wage data is collected and analyzed, the hospital wage index wage data provide the best available measure of comparable wages that should be paid by SNFs. We believe, since hospitals and SNFs compete in the same labor market area, that the use of the hospital wage data results in an appropriate adjustment to the labor portion of the costs based on an appropriate wage index as required under section 1888(e) of the Act.

For rates effective with this rule, we are using wage index values that are based on hospital wage data from cost reporting periods beginning in fiscal year 1996—the most recent hospital wage data available. Accordingly, the wage index values used in this rule are based on the same wage data as used to compute the FY 2000 wage index values for the hospital inpatient PPS.

The computation of the wage index is identical to past years, and a detailed discussion can be found in the **Federal Register** published on May 12, 1998 (63 FR 26252).

The SNF wage index values are based on the Metropolitan Statistical Area (MSA) designations in effect as of June 30, 1999. For purposes of computing SNF wage index values, we are not taking into account changes in geographic reclassifications for certain rural hospitals required under section 1886(d)(8)(B) of the Act or geographic reclassifications based on decisions of the Medicare Geographic Classification Review Board or the Secretary under section 1886(d)(8)–(10) of the Act. Accordingly, we continue to believe that the MSA (or non-MSA) designation provides the best method for determining the wage index values used for SNF payments, and physical location of hospitals is an appropriate basis upon which to construct the wage index.

Table 5 at the end of this section presents the wage indices applicable to urban and rural areas for use in making geographic adjustments to the Federal rates. The wage index adjustment is applied to the labor-related portion of the Federal rate, which is 77.545 percent of the total rate. The schedule of Federal rates below shows the Federal rates by labor-related and non-labor-related components. Instructions and an example related to the application of the wage index to the case-mix adjusted rates are provided following the table.

As discussed above and in the interim final rule, until appropriate wage index based on SNF data is available, HCFA will use the latest available hospital wage index data in making annual

updates to the payment rates. In making these annual updates, section 1888(e)(4)(G)(ii) of the Act requires that the application of this wage index be made in a manner that does not result in aggregate payments that are greater or less than would otherwise be made in the absence of the wage adjustment. For the initial period of the SNF PPS, the adjustment required by this section was accounted for through the standardization of the per diem Federal rate components. By means of standardization, each rate component was adjusted for wage index and case-mix differences so that aggregate payments were unaffected by the presence of these payment adjusters. In this second PPS year (Federal rates effective October 1, 1999), we are updating the wage index applicable to SNF payments using the most recent hospital wage data and applying an adjustment to fulfill the budget neutrality requirement. This requirement will be met by multiplying each of the per diem rate components by the ratio of the volume weighted mean wage adjustment factor (using the wage index from the initial year) to the volume weighted mean wage adjustment factor, using the wage index for the fiscal year beginning October 1, 1999. 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 FY 2000 is 0.9981 which is multiplied by each of the Federal rate components.

TABLE 5.—CASE-MIX ADJUSTED FEDERAL RATES FOR URBAN SNFS BY LABOR AND NON-LABOR COMPONENT

RUGs III category	Labor-related	Non-labor-related	Total federal rate
RUC	\$304.15	\$ 88.07	\$392.22
RUB	273.78	79.28	353.06
RUA	259.02	75.01	334.03
RVC	234.52	67.91	302.43
RVB	226.71	65.65	292.36
RVA	206.75	59.87	266.62
RHC	215.09	62.29	277.38
RHB	197.74	57.26	255.00
RHA	181.25	52.49	233.74
RMC	211.79	61.33	273.12
RMB	189.23	54.80	244.03
RMA	177.95	51.53	229.48
RLB	168.76	48.87	217.63
RLA	141.86	41.08	182.94
SE3	200.48	58.05	258.53
SE2	173.58	50.27	223.85
SE1	154.49	44.74	199.23
SSC	151.03	43.73	194.76
SSB	144.08	41.72	185.80

TABLE 5.—CASE-MIX ADJUSTED FEDERAL RATES FOR URBAN SNFs BY LABOR AND NON-LABOR COMPONENT—
Continued

RUGs III category	Labor-re- lated	Non-labor- related	Total federal rate
SSA	140.61	40.72	181.33
CC2	150.16	43.48	193.64
CC1	138.88	40.21	179.09
CB2	131.94	38.20	170.14
CB1	125.86	36.45	162.31
CA2	124.99	36.20	161.19
CA1	118.05	34.19	152.24
IB2	112.84	32.68	145.52
IB1	111.11	32.18	143.29
IA2	102.44	29.66	132.10
IA1	98.96	28.66	127.62
BB2	111.98	32.43	144.41
BB1	109.38	31.67	141.05
BA2	101.57	29.41	130.98
BA1	94.63	27.40	122.03
PE2	121.52	35.19	156.71
PE1	119.79	34.69	154.48
PD2	115.45	33.43	148.88
PD1	113.71	32.93	146.64
PC2	109.38	31.67	141.05
PC1	108.51	31.42	139.93
PB2	97.23	28.15	125.38
PB1	96.37	27.90	124.27
PA2	95.50	27.65	123.15
PA1	92.89	26.90	119.79

TABLE 6.—CASE-MIX ADJUSTED FEDERAL RATES FOR RURAL SNFs BY LABOR AND NON-LABOR COMPONENT

RUGs III category	Labor-re- lated	Non-Labor related	Total federal rate
RUC	\$322.97	\$93.53	\$416.50
RUB	293.90	85.10	379.00
RUA	279.77	81.02	360.79
RVC	245.46	71.08	316.54
RVB	237.98	68.91	306.89
RVA	218.88	63.38	282.26
RHC	220.78	63.93	284.71
RHB	204.17	59.12	263.29
RHA	188.38	54.55	242.93
RMC	215.42	62.38	277.80
RMB	193.82	56.13	249.95
RMA	183.03	53.00	236.03
RLB	169.82	49.18	219.00
RLA	144.08	41.72	185.80
SE3	195.59	56.64	252.23
SE2	169.85	49.18	219.03
SE1	151.57	43.89	195.46
SSC	148.25	42.93	191.18
SSB	141.60	41.01	182.61
SSA	138.28	40.04	178.32
CC2	147.41	42.69	190.10
CC1	136.62	39.56	176.18
CB2	129.97	37.64	167.61
CB1	124.16	35.95	160.11
CA2	123.33	35.71	159.04
CA1	116.68	33.79	150.47
IB2	111.70	32.34	144.04
IB1	110.04	31.86	141.90
IA2	101.73	29.46	131.19
IA1	98.40	28.50	126.90
BB2	110.87	32.10	142.97
BB1	108.38	31.38	139.76
BA2	100.90	29.22	130.12
BA1	94.26	27.29	121.55
PE2	120.00	34.75	154.75
PE1	118.34	34.27	152.61
PD2	114.19	33.07	147.26
PD1	112.53	32.58	145.11

TABLE 6.—CASE-MIX ADJUSTED FEDERAL RATES FOR RURAL SNFs BY LABOR AND NON-LABOR COMPONENT—
Continued

RUGs III category	Labor-related	Non-Labor related	Total federal rate
PC2	108.38	31.38	139.76
PC1	107.55	31.14	138.69
PB2	96.75	28.01	124.76
PB1	95.92	27.77	123.69
PA2	95.09	27.53	122.62
PA1	92.60	26.81	119.41

For any RUG-III group, to compute a wage-adjusted Federal payment rate, the labor-related portion of the payment rate is multiplied by the SNF's appropriate wage index factor listed in Table 7. The product of that calculation is added to the corresponding non-labor-related component. The resulting amount is the Federal rate applicable to a patient in that RUG-III group for that SNF. See the example below.

XYZ SNF is located in State College, Pennsylvania. The per diem Federal rate applicable to an Ultra High Rehabilitation 'A' patient (RUA) is calculated using the rates listed in Table 5 and the wage index factor found in Table 7. Accordingly, the computation of the adjusted per diem rate is made as follows:
 $(259.02 \times 0.9138) + 75.01 = \311.70 per diem

This Federal rate will be applicable to all patients in the RUA category for the XYZ SNF (effective October 1, 1999 through September 30, 2000).

D. Updates to the Federal Rates

In accordance with section 1888(e)(4)(H) of the Act, the payment rates here have been updated by the SNF market basket minus 1 percentage point, which equals 2.1 percent. For each succeeding fiscal year, we will publish the rates in the **Federal Register** before August 1 of the year preceding the affected Federal fiscal year.

For the current fiscal year (FY 2000) through 2002, section 1888(e)(4)(ii) of the Act requires the rates to be increased by a factor equal to the SNF market index change minus 1 percentage point. In addition, for subsequent fiscal years this section requires the rates to be increased by the applicable SNF market basket index increase.

TABLE 7.—WAGE INDEX FOR URBAN AREAS

Urban area (constituent counties or county equivalents)	Wage index
0040 Abilene, TX	0.8179
Taylor, TX	
0060 Aguadilla, PR	0.3814

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Aguada, PR	
Aguadilla, PR	
Moca, PR	
0080 Akron, OH	1.0163
Portage, OH	
Summit, OH	
0120 Albany, GA	1.0372
Dougherty, GA	
Lee, GA	
0160 Albany-Schenectady-Troy, NY	0.8754
Albany, NY	
Montgomery, NY	
Rensselaer, NY	
Saratoga, NY	
Schenectady, NY	
Schoharie, NY	
0200 Albuquerque, NM	0.8499
Bernalillo, NM	
Sandoval, NM	
Valencia, NM	
0220 Alexandria, LA	0.7869
Rapides, LA	
0240 Allentown-Bethlehem-Easton, PA	1.0227
Carbon, PA	
Lehigh, PA	
Northampton, PA	
0280 Altoona, PA	0.9342
Blair, PA	
0320 Amarillo, TX	0.8381
Potter, TX	
Randall, TX	
0380 Anchorage, AK	1.2859
Anchorage, AK	
0440 Ann Arbor, MI	1.1483
Lenawee, MI	
Livingston, MI	
Washtenaw, MI	
0450 Anniston, AL	0.8462
Calhoun, AL	
0460 Appleton-Oshkosh-Neenah, WI	0.8913
Calumet, WI	
Outagamie, WI	
Winnebago, WI	
0470 Arecibo, PR	0.4815
Arecibo, PR	
Camuy, PR	
Hatillo, PR	
0480 Asheville, NC	0.8884
Buncombe, NC	
Madison, NC	
0500 Athens, GA	0.9704
Clarke, GA	

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Madison, GA	
Oconee, GA	
0520 Atlanta, GA	1.0050
Barrow, GA	
Bartow, GA	
Carroll, GA	
Cherokee, GA	
Clayton, GA	
Cobb, GA	
Coweta, GA	
De Kalb, GA	
Douglas, GA	
Fayette, GA	
Forsyth, GA	
Fulton, GA	
Gwinnett, GA	
Henry, GA	
Newton, GA	
Paulding, GA	
Pickens, GA	
Rockdale, GA	
Spalding, GA	
Walton, GA	
0560 Atlantic City-Cape May, NJ	1.1310
Atlantic City, NJ	
Cape May, NJ	
0580 Auburn-Opelika, AL	0.7748
Lee, AL	
0600 Augusta-Aiken, GA-SC	0.9013
Columbia, GA	
McDuffie, GA	
Richmond, GA	
Aiken, SC	
Edgefield, SC	
0640 Austin-San Marcos, TX	0.9081
Bastrop, TX	
Caldwell, TX	
Hays, TX	
Travis, TX	
Williamson, TX	
0680 Bakersfield, CA	0.9618
Kern, CA	
0720 Baltimore, MD	0.9891
Anne Arundel, MD	
Baltimore, MD	
Baltimore City, MD	
Carroll, MD	
Harford, MD	
Howard, MD	
Queen Annes, MD	
0733 Bangor, ME	0.9609
Penobscot, ME	
0743 Barnstable-Yarmouth, MA ...	1.3302
Barnstable, MA	
0760 Baton Rouge, LA	0.8707

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Ascension, LA	
East Baton Rouge, LA	
Livingston, LA	
West Baton Rouge, LA	
084 Beaumont-Port Arthur, TX	0.8624
Hardin, TX	
Jefferson, TX	
Orange, TX	
0860 Bellingham, WA	1.1394
Whatcom, WA	
0870 Benton Harbor, MI	0.8457
Berrien, MI	
0875 Bergen-Passaic, NJ	1.2028
Bergen, NJ	
Passaic, NJ	
0880 Billings, MT	1.0038
Yellowstone, MT	
0920 Biloxi-Gulfport-Pascagoula, MS	0.7868
Hancock, MS	
Harrison, MS	
Jackson, MS	
0960 Binghamton, NY	0.8750
Broome, NY	
Tioga, NY	
1000 Birmingham, AL	0.8994
Blount, AL	
Jefferson, AL	
St Clair, AL	
Shelby, AL	
1010 Bismarck, ND	0.7759
Burleigh, ND	
Morton, ND	
1020 Bloomington, IN	0.8593
Monroe, IN	
1040 Bloomington-Normal, IL	0.8993
McLean, IL	
1080 Boise City, ID	0.9060
Ada, ID	
Canyon, ID	
1123 Boston-Worcester-Lawrence-Lowell-Brockton, MA-NH ..	1.1358
Bristol, MA	
Essex, MA	
Middlesex, MA	
Norfolk, MA	
Plymouth, MA	
Suffolk, MA	
Worcester, MA	
Hillsborough, NH	
Merrimack, NH	
Rockingham, NH	
Strafford, NH	
1125 Boulder-Longmont, CO	0.9944
Boulder, CO	
1145 Brazoria, TX	0.8516
Brazoria, TX	
1150 Bremerton, WA	1.1011
Kitsap, WA	
1240 Brownsville-Harlingen-San Benito, TX	0.9212
Cameron, TX	
1260 Bryan-College Station, TX ..	0.8501
Brazos, TX	
1280 Buffalo-Niagara Falls, NY ...	0.9604
Erie, NY	
Niagara, NY	
1303 Burlington, VT	1.0558
Chittenden, VT	
Franklin, VT	

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
1Grand Isle, VT	
1310 Caguas, PR	0.4561
Caguas, PR	
Cayey, PR	
Cidra, PR	
Gurabo, PR	
San Lorenzo, PR	
1320 Canton-Massillon, OH	0.8771
Carroll, OH	
Stark, OH	
1350 Casper, WY	0.9199
Natrona, WY	
1360 Cedar Rapids, IA	0.9018
Linn, IA	
1400 Champaign-Urbana, IL	0.9163
Champaign, IL	
1440 Charleston-North Charleston, SC	0.8988
Berkeley, SC	
Charleston, SC	
Dorchester, SC	
1480 Charleston, WV	0.9095
Kanawha, WV	
Putnam, WV	
1520 Charlotte-Gastonia-Rock Hill, NC-SC	0.9433
Cabarrus, NC	
Gaston, NC	
Lincoln, NC	
Mecklenburg, NC	
Rowan, NC	
Stanly, NC	
Union, NC	
York, SC	
1540 Charlottesville, VA	1.0573
Albemarle, VA	
Charlottesville City, VA	
Fluvanna, VA	
Greene, VA	
1560 Chattanooga, TN-GA	0.9731
Catoosa, GA	
Dade, GA	
Walker, GA	
Hamilton, TN	
Marion, TN	
1580 Cheyenne, WY	0.8176
Laramie, WY	
1600 Chicago, IL	1.0872
Cook, IL	
De Kalb, IL	
Du Page, IL	
Grundy, IL	
Kane, IL	
Kendall, IL	
Lake, IL	
McHenry, IL	
Will, IL	
1620 Chico-Paradise, CA	1.0390
Butte, CA	
1640 Cincinnati, OH-KY-IN	0.9418
Dearborn, IN	
Ohio, IN	
Boone, KY	
Campbell, KY	
Gallatin, KY	
Grant, KY	
Kenton, KY	
Pendleton, KY	
Brown, OH	
Clermont, OH	

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Hamilton, OH	
Warren, OH	
1660 Clarksville-Hopkinsville, TN-KY	0.8090
Christian, KY	
Montgomery, TN	
1680 Cleveland-Lorain-Elyria, OH	0.9688
Ashtabula, OH	
Geauga, OH	
Cuyahoga, OH	
Lake, OH	
Lorain, OH	
Medina, OH	
1720 Colorado Springs, CO	0.9218
El Paso, CO	
1740 Columbia, MO	0.8904
Boone, MO	
1760 Columbia, SC	0.9357
Lexington, SC	
Richland, SC	
1800 Columbus, GA-AL	0.8510
Russell, AL	
Chattahoochee, GA	
Harris, GA	
Muscogee, GA	
1840 Columbus, OH	0.9907
Delaware, OH	
Fairfield, OH	
Franklin, OH	
Licking, OH	
Madison, OH	
Pickaway, OH	
1880 Corpus Christi, TX	0.8702
Nueces, TX	
San Patricio, TX	
1890 Corvallis, OR	1.1087
Benton, OR	
1900 Cumberland, MD-WV	0.8801
Allegany, MD	
Mineral, WV	
1920 Dallas, TX	0.9606
Collin, TX	
Dallas, TX	
Denton, TX	
Ellis, TX	
Henderson, TX	
Hunt, TX	
Kaufman, TX	
Rockwall, TX	
1950 Danville, VA	0.9061
Danville City, VA	
Pittsylvania, VA	
1960 Davenport-Moline-Rock Island, IA-IL	0.8706
Scott, IA	
Henry, IL	
Rock Island, IL	
2000 Dayton-Springfield, OH	0.9460
Clark, OH	
Greene, OH	
Miami, OH	
Montgomery, OH	
2020 Daytona Beach, FL	0.8987
Flagler, FL	
Volusia, FL	
2030 Decatur, AL	0.8679
Lawrence, AL	
Morgan, AL	
2040 Decatur, IL	0.8321
Macon, IL	

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
2080 Denver, CO	1.0189
Adams, CO	
Arapahoe, CO	
Denver, CO	
Douglas, CO	
Jefferson, CO	
2120 Des Moines, IA	0.8754
Dallas, IA	
Polk, IA	
Warren, IA	
2160 Detroit, MI	1.0421
Lapeer, MI	
Macomb, MI	
Monroe, MI	
Oakland, MI	
St Clair, MI	
Wayne, MI	
2180 Dothan, AL	0.7798
Dale, AL	
Houston, AL	
2190 Dover, DE	0.9335
Kent, DE	
2200 Dubuque, IA	0.8520
Dubuque, IA	
2240 Duluth-Superior, MN-WI	1.0165
St Louis, MN	
Douglas, WI	
2281 Dutchess County, NY	1.0552
Dutchess, NY	
2290 Eau Claire, WI	0.8957
Chippewa, WI	
Eau Claire, WI	
2320 El Paso, TX	0.8947
El Paso, TX	
2330 Elkhart-Goshen, IN	0.9379
Elkhart, IN	
2335 Elmira, NY	0.8533
Chemung, NY	
2340 Enid, OK	0.7953
Garfield, OK	
2360 Erie, PA	0.9023
Erie, PA	
2400 Eugene-Springfield, OR	1.0603
Lane, OR	
2440 Evansville-Henderson, IN-KY	0.8303
Posey, IN	
Vanderburgh, IN	
Warrick, IN	
Henderson, KY	
2520 Fargo-Moorhead, ND-MN ..	0.8620
Clay, MN	
Cass, ND	
2560 Fayetteville, NC	0.8494
Cumberland, NC	
2580 Fayetteville-Springdale-Rogers, AR	0.7773
Benton, AR	
Washington, AR	
2620 Flagstaff, AZ-UT	1.0348
Coconino, AZ	
Kane, UT	
2640 Flint, MI	1.1020
Genesee, MI	
2650 Florence, AL	0.7927
Colbert, AL	
Lauderdale, AL	
2655 Florence, SC	0.8618
Florence, SC	
2670 Fort Collins-Loveland, CO ..	1.0302

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Larimer, CO	
2680 Ft Lauderdale, FL	1.0172
Broward, FL	
2700 Fort Myers-Cape Coral, FL	0.8951
Lee, FL	
2710 Fort Pierce-Port St Lucie, FL	0.9998
Martin, FL	
St Lucie, FL	
2720 Fort Smith, AR-OK	0.7844
Crawford, AR	
Sebastian, AR	
Sequoyah, OK	
2750 Fort Walton Beach, FL	0.8713
Okaloosa, FL	
2760 Fort Wayne, IN	0.9096
Adams, IN	
Allen, IN	
De Kalb, IN	
Huntington, IN	
Wells, IN	
Whitley, IN	
2800 Forth Worth-Arlington, TX ...	0.9835
Hood, TX	
Johnson, TX	
Parker, TX	
Tarrant, TX	
2840 Fresno, CA	1.0262
Fresno, CA	
Madera, CA	
2880 Gadsden, AL	0.8688
Etowah, AL	
2900 Gainesville, FL	1.0102
Alachua, FL	
2920 Galveston-Texas City, TX ...	0.9732
Galveston, TX	
2960 Gary, IN	0.9390
Lake, IN	
Porter, IN	
2975 Glens Falls, NY	0.8606
Warren, NY	
Washington, NY	
2980 Goldsboro, NC	0.8333
Wayne, NC	
2985 Grand Forks, ND-MN	0.9097
Polk, MN	
Grand Forks, ND	
2995 Grand Junction, CO	0.9188
Mesa, CO	
3000 Grand Rapids-Muskegon	
Holland, MI	1.0135
Allegan, MI	
Kent, MI	
Muskegon, MI	
Ottawa, MI	
3040 Great Falls, MT	1.0459
Cascade, MT	
3060 Greeley, CO	0.9722
Weld, CO	
3080 Green Bay, WI	0.9132
Brown, WI	
3120 Greensboro-Winston-Salem-High Point, NC	0.9037
Alamance, NC	
Davidson, NC	
Davie, NC	
Forsyth, NC	
Guilford, NC	
Randolph, NC	
Stokes, NC	

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Yadkin, NC	
3150 Greenville, NC	0.9500
Pitt, NC	
3160 Greenville-Spartanburg-Anderson, SC	0.9188
Anderson, SC	
Cherokee, SC	
Greenville, SC	
Pickens, SC	
Spartanburg, SC	
3180 Hagerstown, MD	0.8842
Washington, MD	
3200 Hamilton-Middletown, OH ...	0.8946
Butler, OH	
3240 Harrisburg-Lebanon-Carlisle, PA	0.9917
Cumberland, PA	
Dauphin, PA	
Lebanon, PA	
Perry, PA	
3283 Hartford, CT	1.1715
Hartford, CT	
Litchfield, CT	
Middlesex, CT	
Tolland, CT	
3285 Hattiesburg, MS	0.7634
Forrest, MS	
Lamar, MS	
3290 Hickory-Morganton-Lenoir, NC	0.9112
Alexander, NC	
Burke, NC	
Caldwell, NC	
Catawba, NC	
3320 Honolulu, HI	1.1475
Honolulu, HI	
3350 Houma, LA	0.7837
Lafourche, LA	
Terrebonne, LA	
3360 Houston, TX	0.9387
Chambers, TX	
Fort Bend, TX	
Harris, TX	
Liberty, TX	
Montgomery, TX	
Waller, TX	
3400 Huntington-Ashland, WV-KY-OH	0.9757
Boyd, KY	
Carter, KY	
Greenup, KY	
Lawrence, OH	
Cabell, WV	
Wayne, WV	
3440 Huntsville, AL	0.8822
Limestone, AL	
Madison, AL	
3480 Indianapolis, IN	0.9792
Boone, IN	
Hamilton, IN	
Hancock, IN	
Hendricks, IN	
Johnson, IN	
Madison, IN	
Marion, IN	
Morgan, IN	
Shelby, IN	
3500 Iowa City, IA	0.9607
Johnson, IA	
3520 Jackson, MI	0.8840

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued		TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued		TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued	
Urban area (constituent counties or county equivalents)	Wage index	Urban area (constituent counties or county equivalents)	Wage index	Urban area (constituent counties or county equivalents)	Wage index
Jackson, MI		Howard, IN		Oldham, KY	
3560 Jackson, MS	0.8387	Tipton, IN		4600 Lubbock, TX	0.8411
Hinds, MS		3870 La Crosse, WI-MN	0.8933	Lubbock, TX	
Madison, MS		Houston, MN		4640 Lynchburg, VA	0.8814
Rankin, MS		La Crosse, WI		Amherst, VA	
3580 Jackson, TN	0.8600	3880 Lafayette, LA	0.8339	Bedford City, VA	
Chester, TN		Acadia, LA		Bedford, VA	
Madison, TN		Lafayette, LA		Campbell, VA	
3600 Jacksonville, FL	0.8957	St Landry, LA		Lynchburg City, VA	
Clay, FL		St Martin, LA		4680 Macon, GA	0.8530
Duval, FL		3920 Lafayette, IN	0.8809	Bibb, GA	
Nassau, FL		Clinton, IN		Houston, GA	
St Johns, FL		Tippecanoe, IN		Jones, GA	
3605 Jacksonville, NC	0.7852	3960 Lake Charles, LA	0.7966	Peach, GA	
Onslow, NC		Calcasieu, LA		Twiggs, GA	
3610 Jamestown, NY	0.7857	3980 Lakeland-Winter Haven, FL	0.8816	4720 Madison, WI	0.9729
Chautauqua, NY		Polk, FL		Dane, WI	
3620 Janesville-Beloit, WI	0.9656	4000 Lancaster, PA	0.9255	4800 Mansfield, OH	0.8475
Rock, WI		Lancaster, PA		Crawford, OH	
3640 Jersey City, NJ	1.1674	4040 Lansing-East Lansing, MI ...	0.9977	Richland, OH	
Hudson, NJ		Clinton, MI		4840 Mayaguez, PR	0.4674
3660 Johnson City-Kingsport-		Eaton, MI		Anasco, PR	
Bristol, TN-VA	0.8853	Ingham, MI		Cabo Rojo, PR	
Carter, TN		4080 Laredo, TX	0.8323	Hormigueros, PR	
Hawkins, TN		Webb, TX		Mayaguez, PR	
Sullivan, TN		4100 Las Cruces, NM	0.8590	Sabana Grande, PR	
Unicoi, TN		Dona Ana, NM		San German, PR	
Washington, TN		4120 Las Vegas, NV-AZ	1.1258	4880 McAllen-Edinburg-Mission,	
Bristol City, VA		Mohave, AZ		TX	0.8120
Scott, VA		Clark, NV		Hidalgo, TX	
Washington, VA		Nye, NV		4890 Medford-Ashland, OR	1.0492
3680 Johnstown, PA	0.8640	4150 Lawrence, KS	0.8222	Jackson, OR	
Cambria, PA		Douglas, KS		4900 Melbourne-Titusville-Palm	
Somerset, PA		4200 Lawton, OK	0.9532	Bay, FL	0.9296
3700 Jonesboro, AR	0.7231	Comanche, OK		Brevard, FL	
Craighead, AR		4243 Lewiston-Auburn, ME	0.8899	4920 Memphis, TN-AR-MS	0.8244
3710 Joplin, MO	0.7678	Androscoggin, ME		Crittenden, AR	
Jasper, MO		4280 Lexington, KY	0.8531	De Soto, MS	
Newton, MO		Bourbon, KY		Fayette, TN	
3720 Kalamazoo-Battlecreek, MI	0.9981	Clark, KY		Shelby, TN	
Calhoun, MI		Fayette, KY		Tipton, TN	
Kalamazoo, MI		Jessamine, KY		4940 Merced, CA	1.0277
Van Buren, MI		Madison, KY		Merced, CA	
3740 Kankakee, IL	0.8598	Scott, KY		5000 Miami, FL	1.0233
Kankakee, IL		Woodford, KY		Dade, FL	
3760 Kansas City, KS-MO	0.9322	4320 Lima, OH	0.8905	5015 Middlesex-Somerset-	
Johnson, KS		Allen, OH		Hunterdon, NJ	1.1122
Leavenworth, KS		Auglaize, OH		Hunterdon, NJ	
Miami, KS		4360 Lincoln, NE	0.9670	Middlesex, NJ	
Wyandotte, KS		Lancaster, NE		Somerset, NJ	
Cass, MO		4400 Little Rock-North Little		5080 Milwaukee-Waukesha, WI ..	0.9845
Clay, MO		Rock, AR	0.8614	Milwaukee, WI	
Clinton, MO		Faulkner, AR		Ozaukee, WI	
Jackson, MO		Lonoke, AR		Washington, WI	
Lafayette, MO		Pulaski, AR		Waukesha, WI	
Platte, MO		Saline, AR		5120 Minneapolis-St Paul, MN-	
Ray, MO		4420 Longview-Marshall, TX	0.8738	WI	1.0929
3800 Kenosha, WI	0.9033	Gregg, TX		Anoka, MN	
Kenosha, WI		Harrison, TX		Carver, MN	
3810 Killeen-Temple, TX	0.9932	Upshur, TX		Chisago, MN	
Bell, TX		4480 Los Angeles-Long Beach,		Dakota, MN	
Coryell, TX		CA	1.2051	Hennepin, MN	
3840 Knoxville, TN	0.9199	Los Angeles, CA		Isanti, MN	
Anderson, TN		4520 Louisville, KY-IN	0.9381	Ramsey, MN	
Blount, TN		Clark, IN		Scott, MN	
Knox, TN		Floyd, IN		Sherburne, MN	
Loudon, TN		Harrison, IN		Washington, MN	
Sevier, TN		Scott, IN		Wright, MN	
Union, TN		Bullitt, KY		Pierce, WI	
3850 Kokomo, IN	0.8918	Jefferson, KY		St Croix, WI	

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
5140 Missoula, MT	0.9085
Missoula, MT	
5160 Mobile, AL	0.8267
Baldwin, AL	
Mobile, AL	
5170 Modesto, CA	1.0111
Stanislaus, CA	
5190 Monmouth-Ocean, NJ	1.1258
Monmouth, NJ	
Ocean, NJ	
5200 Monroe, LA	0.8221
Ouachita, LA	
5240 Montgomery, AL	0.7703
Autauga, AL	
Elmore, AL	
Montgomery, AL	
5280 Muncie, IN	1.0834
Delaware, IN	
5330 Myrtle Beach, SC	0.8529
Horry, SC	
5345 Naples, FL	0.9839
Collier, FL	
5360 Nashville, TN	0.9449
Cheatham, TN	
Davidson, TN	
Dickson, TN	
Robertson, TN	
Rutherford TN	
Sumner, TN	
Williamson, TN	
Wilson, TN	
5380 Nassau-Suffolk, NY	1.4074
Nassau, NY	
Suffolk, NY	
5483 New Haven-Bridgeport-Stamford-Waterbury-Danbury, CT	1.2356
Fairfield, CT	
New Haven, CT	
5523 New London-Norwich, CT ...	1.2428
New London, CT	
5560 New Orleans, LA	0.9089
Jefferson, LA	
Orleans, LA	
Plaquemines, LA	
St. Bernard, LA	
St. Charles, LA	
St. James, LA	
St. John The Baptist, LA	
St. Tammany, LA	
5600 New York, NY	1.4517
Bronx, NY	
Kings, NY	
New York, NY	
Putnam, NY	
Queens, NY	
Richmond, NY	
Rockland, NY	
Westchester, NY	
5640 Newark, NJ	1.1646
Essex, NJ	
Morris, NJ	
Sussex, NJ	
Union, NJ	
Warren, NJ	
5660 Newburgh, NY-PA	1.0908
Orange, NY	
Pike, PA	
5720 Norfolk-Virginia Beach-Newport News, VA-NC	0.8440

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Currituck, NC	
Chesapeake City, VA	
Gloucester, VA	
Hampton City, VA	
Isle of Wight, VA	
James City, VA	
Mathews, VA	
Newport News City, VA	
Norfolk City, VA	
Poquoson City, VA	
Portsmouth City, VA	
Suffolk City, VA	
Virginia Beach City VA	
Williamsburg City, VA	
York, VA	
5775 Oakland, CA	1.5058
Alameda, CA	
Contra Costa, CA	
5790 Ocala, FL	0.9615
Marion, FL	
5800 Odessa-Midland, TX	0.8873
Ector, TX	
Midland, TX	
5880 Oklahoma City, OK	0.8587
Canadian, OK	
Cleveland, OK	
Logan, OK	
McClain, OK	
Oklahoma, OK	
Pottawatomie, OK	
5910 Olympia, WA	1.0932
Thurston, WA	
5920 Omaha, NE-IA	1.0455
Pottawattamie, IA	
Cass, NE	
Douglas, NE	
Sarpy, NE	
Washington, NE	
5945 Orange County, CA	1.1590
Orange, CA	
5960 Orlando, FL	0.9795
Lake, FL	
Orange, FL	
Osceola, FL	
Seminole, FL	
5990 Owensboro, KY	0.8104
Daviess, KY	
6015 Panama City, FL	0.9169
Bay, FL	
6020 Parkersburg-Marietta, WV-OH	0.8414
Washington, OH	
Wood, WV	
6080 Pensacola, FL	0.8442
Escambia, FL	
Santa Rosa, FL	
6120 Peoria-Pekin, IL	0.8349
Peoria, IL	
Tazewell, IL	
Woodford, IL	
6160 Philadelphia, PA-NJ	1.1160
Burlington, NJ	
Camden, NJ	
Gloucester, NJ	
Salem, NJ	
Bucks, PA	
Chester, PA	
Delaware, PA	
Montgomery, PA	
Philadelphia, PA	

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
6200 Phoenix-Mesa, AZ	0.9464
Maricopa, AZ	
Pinal, AZ	
6240 Pine Bluff, AR	0.7697
Jefferson, AR	
6280 Pittsburgh, PA	0.9634
Allegheny, PA	
Beaver, PA	
Butler, PA	
Fayette, PA	
Washington, PA	
Westmoreland, PA	
6323 Pittsfield, MA	1.0255
Berkshire, MA	
6340 Pocatello, ID	0.8973
Bannock, ID	
6360 Ponce, PR	0.4971
Guayanilla, PR	
Juana Diaz, PR	
Penuelas, PR	
Ponce, PR	
Villalba, PR	
Yauco, PR	
6403 Portland, ME	0.9475
Cumberland, ME	
Sagadahoc, ME	
York, ME	
6440 Portland-Vancouver, OR-WA	1.0974
Clackamas, OR	
Columbia, OR	
Multnomah, OR	
Washington, OR	
Yamhill, OR	
Clark, WA	
6483 Providence-Warwick-Pawtucket, RI	1.0690
Bristol, RI	
Kent, RI	
Newport, RI	
Providence, RI	
Washington, RI	
6520 Provo-Orem, UT	0.9818
Utah, UT	
6560 Pueblo, CO	0.8853
Pueblo, CO	
6580 Punta Gorda, FL	0.9508
Charlotte, FL	
6600 Racine, WI	0.9216
Racine, WI	
6640 Raleigh-Durham-Chapel Hill, NC	0.9544
Chatham, NC	
Durham, NC	
Franklin, NC	
Johnston, NC	
Orange, NC	
Wake, NC	
6660 Rapid City, SD	0.8363
Pennington, SD	
6680 Reading, PA	0.9436
Berks, PA	
6690 Redding, CA	1.1263
Shasta, CA	
6720 Reno, NV	1.0655
Washoe, NV	
6740 Richland-Kennewick-Pasco, WA	1.1224
Benton, WA	
Franklin, WA	

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued		TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued		TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued	
Urban area (constituent counties or county equivalents)	Wage index	Urban area (constituent counties or county equivalents)	Wage index	Urban area (constituent counties or county equivalents)	Wage index
6760 Richmond-Petersburg, VA .. Charles City County, VA Chesterfield, VA Colonial Heights City, VA Dinwiddie, VA Goochland, VA Hanover, VA Henrico, VA Hopewell City, VA New Kent, VA Petersburg City, VA Powhatan, VA Prince George, VA Richmond City, VA	0.9545	Polk, OR 7120 Salinas, CA Monterey, CA 7160 Salt Lake City-Ogden, UT ... Davis, UT Salt Lake, UT Weber, UT 7200 San Angelo, TX Tom Green, TX 7240 San Antonio, TX Bexar, TX Comal, TX Guadalupe, TX Wilson, TX 7320 San Diego, CA San Diego, CA 7360 San Francisco, CA Marin, CA San Francisco, CA San Mateo, CA 7400 San Jose, CA Santa Clara, CA 7440 San Juan-Bayamon, PR Aguas Buenas, PR Barceloneta, PR Bayamon, PR Canovanas, PR Carolina, PR Catano, PR Ceiba, PR Comerio, PR Corozal, PR Dorado, PR Fajardo, PR Florida, PR Guaynabo, PR Humacao, PR Juncos, PR Los Piedras, PR Loiza, PR Luguillo, PR Manati, PR Morovis, PR Naguabo, PR Naranjito, PR Rio Grande, PR San Juan, PR Toa Alta, PR Toa Baja, PR Trujillo Alto, PR Vega Alta, PR Vega Baja, PR Yabucoa, PR 7460 San Luis Obispo- Atascadero-Paso Robles, CA San Luis Obispo, CA 7480 Santa Barbara-Santa Maria- Lompoc, CA Santa Barbara, CA 7485 Santa Cruz-Watsonville, CA Santa Cruz, CA 7490 Santa Fe, NM Los Alamos, NM Santa Fe, NM 7500 Santa Rosa, CA Sonoma, CA 7510 Sarasota-Bradenton, FL Manatee, FL Sarasota, FL 7520 Savannah, GA	1.4710 0.9854 0.7845 0.8318 1.1930 1.4001 1.3608 0.4657 0.8783 0.8735 1.2284 0.9287 0.9421 0.8943 0.9052 1.0819 1.3927 1.0437 1.3000 0.9905 0.9949	Bryan, GA Chatham, GA Effingham, GA 7560 Scranton-Wilkes-Barre-Ha- zleton, PA Columbia, PA Lackawanna, PA Luzerne, PA Wyoming, PA 7600 Seattle-Bellevue-Everett, WA Island, WA King, WA Snohomish, WA 7610 Sharon, PA Mercer, PA 7620 Sheboygan, WI Sheboygan, WI 7640 Sherman-Denison, TX Grayson, TX 7680 Shreveport-Bossier City, LA Bossier, LA Caddo, LA Webster, LA 7720 Sioux City, IA-NE Woodbury, IA Dakota, NE 7760 Sioux Falls, SD Lincoln, SD Minnehaha, SD 7800 South Bend, IN St Joseph, IN 7840 Spokane, WA Spokane, WA 7880 Springfield, IL Menard, IL Sangamon, IL 7920 Springfield, MO Christian, MO Greene, MO Webster, MO 8003 Springfield, MA Hampden, MA Hampshire, MA 8050 State College, PA Centre, PA 8080 Steubenville-Weirton, OH- WV Jefferson, OH Brooke, WV Hancock, WV 8120 Stockton-Lodi, CA San Joaquin, CA 8140 Sumter, SC Sumter, SC 8160 Syracuse, NY Cayuga, NY Madison, NY Onondaga, NY Oswego, NY 8200 Tacoma, WA Pierce, WA 8240 Tallahassee, FL Gadsden, FL Leon, FL 8280 Tampa-St Petersburg-Clear- water, FL Hernando, FL Hillsborough, FL Pasco, FL	0.8372 1.1290 0.8283 0.8202 0.9329 0.9049 0.8549 0.8776 0.9793 1.0799 0.8684 0.7991 1.0677 0.9138 0.8614 1.0518 0.8238 0.9412 1.1478 0.8484 0.9044

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Pinellas, FL	
8320 Terre Haute, IN	0.8570
Clay, IN	
Vermillion, IN	
Vigo, IN	
8360 Texarkana, AR-Texarkana, TX	0.8135
Miller, AR	
Bowie, TX	
8400 Toledo, OH	0.9815
Fulton, OH	
Lucas, OH	
Wood, OH	
8440 Topeka, KS	0.9326
Shawnee, KS	
8480 Trenton, NJ	1.0102
Mercer, NJ	
8520 Tucson, AZ	0.8742
Pima, AZ	
8560 Tulsa, OK	0.8086
Creek, OK	
Osage, OK	
Rogers, OK	
Tulsa, OK	
Wagoner, OK	
8600 Tuscaloosa, AL	0.8064
Tuscaloosa, AL	
8640 Tyler, TX	0.9369
Smith, TX	
8680 Utica-Rome, NY	0.8298
Herkimer, NY	
Oneida, NY	
8720 Vallejo-Fairfield-Napa, CA	1.3345
Napa, CA	
Solano, CA	
8735 Ventura, CA	1.1454
Ventura, CA	
8750 Victoria, TX	0.8378
Victoria, TX	
8760 Vineland-Millville-Bridgeton, NJ	1.0517
Cumberland, NJ	
8780 Visalia-Tulare-Porterville, CA	1.0411
Tulare, CA	
8800 Waco, TX	0.8075
McLennan, TX	
8840 Washington, DC-MD-VA-WV	1.1053
District of Columbia, DC	
Calvert, MD	
Charles, MD	
Frederick, MD	
Montgomery, MD	
Prince Georges, MD	
Alexandria City, VA	
Arlington, VA	
Clarke, VA	
Culpepper, VA	
Fairfax, VA	
Fairfax City, VA	
Falls Church City, VA	
Fauquier, VA	
Fredericksburg City, VA	
King George, VA	
Loudoun, VA	
Manassas City, VA	
Manassas Park City, VA	
Prince William, VA	
Spotsylvania, VA	
Stafford, VA	

TABLE 7.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Warren, VA	
Berkeley, WV	
Jefferson, WV	
8920 Waterloo-Cedar Falls, IA	0.8517
Black Hawk, IA	
8940 Wausau, WI	0.9445
Marathon, WI	
8960 West Palm Beach-Boca Raton, FL	1.0012
Palm Beach, FL	
9000 Wheeling, OH-WV	0.7644
Belmont, OH	
Marshall, WV	
Ohio, WV	
9040 Wichita, KS	0.9421
Butler, KS	
Harvey, KS	
Sedgwick, KS	
9080 Wichita Falls, TX	0.7652
Archer, TX	
Wichita, TX	
9140 Williamsport, PA	0.8449
Lycoming, PA	
9160 Wilmington-Newark, DE-MD	1.1274
New Castle, DE	
Cecil, MD	
9200 Wilmington, NC	0.9707
New Hanover, NC	
Brunswick, NC	
9260 Yakima, WA	1.0332
Yakima, WA	
9270 Yolo, CA	0.9719
Yolo, CA	
9280 York, PA	0.9309
York, PA	
9320 Youngstown-Warren, OH	0.9996
Columbiana, OH	
Mahoning, OH	
Trumbull, OH	
9340 Yuba City, CA	1.0662
Sutter, CA	
Yuba, CA	
9360 Yuma, AZ	0.9924
Yuma, AZ	

TABLE 7.—WAGE INDEX FOR RURAL AREAS

Nonurban area	Wage index
Alabama	0.7390
Alaska	1.2057
Arizona	0.8544
Arkansas	0.7236
California	0.9951
Colorado	0.8813
Connecticut	1.2413
Delaware	0.9166
Florida	0.8986
Georgia	0.8094
Guam	0.7268
Hawaii	1.0726
Idaho	0.8651
Illinois	0.8047
Indiana	0.8396
Iowa	0.7926
Kansas	0.7460
Kentucky	0.8043

TABLE 7.—WAGE INDEX FOR RURAL AREAS—Continued

Nonurban area	Wage index
Louisiana	0.7381
Maine	0.8639
Maryland	0.8631
Massachusetts	1.1369
Michigan	0.8815
Minnesota	0.8669
Mississippi	0.7306
Missouri	0.7723
Montana	0.8395
Nebraska	0.8007
Nevada	0.9097
New Hampshire	0.9905
New Jersey ¹ .	
New Mexico	0.8378
New York	0.8636
North Carolina	0.8290
North Dakota	0.7647
Ohio	0.8649
Oklahoma	0.7255
Oregon	0.9867
Pennsylvania	0.8524
Puerto Rico	0.4249
Rhode Island ¹ .	
South Carolina	0.8264
South Dakota	0.7576
Tennessee	0.7650
Texas	0.7471
Utah	0.8906
Vermont	0.9407
Virginia	0.7904
Virgin Islands	0.6389
Washington	1.0446
West Virginia	0.8068
Wisconsin	0.8759
Wyoming	0.8859

¹ All counties within the State are classified urban.

E. Relationship of RUG-III Classification System to Existing Skilled Nursing Facility

Level-of-Care Criteria

In the May 12, 1998 interim final rule (63 FR 26252), we described how the RUG-III classification system will make coverage determinations easier and more consistent. In the final rule as published elsewhere in this **Federal Register** document, we clarified how residents are classified and the determinations of coverage. A complete discussion of coverage and classification of patients is discussed in the final rule. We are not making any changes to the classifications or coverage in this notice.

However, regulations at 42 CFR 413.345 provide that the information included in each update of the Federal payment rates in the **Federal Register** shall include the designation of those specific RUGs under the resident classification system that represent the required SNF level of care, as provided in § 409.30. Accordingly, we hereby designate the upper 26 RUG-III groups for this purpose.

III. Three-Year Transition Period

Under sections 1888(e)(1) and (2) of the Act, during a facility's first three cost reporting periods that begin on or after July 1, 1998 (transition period), the facility's PPS rate will be equal to the sum of a percentage of an adjusted facility-specific per diem rate and a percentage of the adjusted Federal per diem rate. After the transition period, the PPS rate will equal the adjusted Federal per diem rate. The transition period payment method will not apply to SNFs that first received Medicare payments (interim or otherwise) on or after October 1, 1995 under present or previous ownership; these facilities will be paid based on 100 percent of the Federal rate.

The facility-specific per diem rate is the sum of the facility's total allowable Part A Medicare costs and an estimate of the amounts that would be payable under Part B for covered SNF services for cost reporting periods beginning in fiscal year 1995 (base year). The base year cost report used to compute the facility-specific per diem rate in the transition period may be settled (either tentative or final) or as submitted for Medicare payment purposes. Under section 1888(e)(3) of the Act, any adjustments to the base year cost report made as a result of settlement or other action by the fiscal intermediary, including cost limit exceptions and exemptions, or results of an appeal will result in a revision to the facility-specific per diem rate. The instructions for calculating the facility-specific per diem rate are described in detail in the May 12, 1998 interim final rule (63 FR 26252). For providers that received payment under the RUG-III demonstration during a cost reporting period that began in calendar year 1997, we will determine their facility-specific

per diem rate using the methodology described below. It is possible that some providers participated in the demonstration but did not have a cost reporting period that began in calendar year 1997. For those providers, we will determine their facility-specific per diem rate by using the calculations outlined in the May 12, 1998 **Federal Register** interim final rule (63 FR 26252, Section III, (A)1.(a), (b), or (c)). As with the facility-specific per diem applicable to other providers, the allowable costs will be subject to change based on the settlement of the cost report used to determine the total payment under the demonstration. In addition, we derive a special market basket inflation factor to adjust the 1997 costs to the midpoint of the rate setting period (July 1, 1998 to September 30, 1999).

Step 1. Determine the aggregate payment during the cost reporting period that began in calendar year 1997—RUG-III payment plus routine capital costs plus ancillary costs (other than occupational therapy, physical therapy, and speech pathology).

Step 2. Divide the amount in Step 1. by the applicable total inpatient days for the cost reporting period.

Step 3. Adjust the amount in Step 2. by 1.031532 (inflation factor)—Do not use 8.C. The amount in Step 3. is the facility-specific rate that is applicable for the facility's first cost reporting period beginning after July 1, 1998. A separate calculation for Part B services is not required.

Computation of the Skilled Nursing Facility Prospective Payment System Rate During the Transition

For the first three cost reporting periods beginning on or after July 1, 1998 (transition period), an SNF's payment under the PPS is the sum of a percentage of the facility-specific per

diem rate and a percentage of the Federal per diem rate. Under section 1888(e)(2)(C) of the Act, for the first cost reporting period in the transition period, the SNF payment will be the sum of 75 percent of the facility-specific per diem rate and 25 percent of the Federal per diem rate. For the second cost reporting period, the SNF payment will be the sum of 50 percent of the facility-specific per diem rate and 50 percent of the Federal per diem rate. For the third cost reporting period, the SNF payment will be the sum of 25 percent of the facility-specific per diem rate and 75 percent of the Federal per diem rate. For all subsequent cost reporting periods beginning after the transition period, the SNF payment will be equal to 100 percent of the Federal per diem rate. See the example below.

Example of Computation of Adjusted PPS Rates and SNF Payment

Using the XYZ SNF described in this section, the following shows the adjustments made to the facility-specific per diem rate and the Federal per diem rate to compute the provider's actual per diem PPS payment in the transition period. XYZ's 12-month cost reporting period begins October 1, 1999. (This is the provider's second cost reporting period under the transition).

Step 1

Compute:
 Facility-specific per diem rate—\$570.00
 Market Basket Adjustment (Table 8.C) × 1.09929
 Adjusted facility-specific rate—\$626.60

Step 2

Compute Federal per diem rate:
 SNF XYZ from above is located in State College, PA with a wage index of 0.9138.

RUG group	Labor portion*	Wage index	Adjusted labor	Nonlabor portion*	Adjusted rate	Medicare days	Payment
RVC	\$234.52	0.9138	\$214.30	\$67.41	\$282.21	50	\$14,111
RHC	215.09	0.9138	196.55	62.29	258.84	100	25,884
Total						150	39,995

*From Table 5.

Step 3

Apply transition period percentages:
 Facility-specific per diem rate \$626.60 × 150 days = \$93,990
 Times transition percentage (50 percent)—.50
 Actual facility-specific PPS payment—\$46,995
 Federal PPS payment—\$39,995

Times transition percentage (50 percent)—.50

Actual Federal PPS payment—\$19,998

Step 4

Compute total PPS payment:
 XYZ's total PPS payment (\$46,995 + \$19,998) \$66,993

IV. The Skilled Nursing Facility Market Basket Index

Section 1888(e)(5)(A) of the Act requires the Secretary 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. Accordingly, as described below, we have developed a SNF market basket

index that encompasses the most commonly used cost categories for SNF routine services, ancillary services, and capital-related expenses. In the May 12, 1998 **Federal Register** (63 FR 26252), we indicated that we were rebasing the SNF market basket based on fiscal year 1992. A complete discussion on the rebasing can be found in the May 12, 1998 **Federal Register** (63 FR 26252).

Each year we calculate a revised labor-related share based on the relative importance of labor-related cost categories in the input price index. There are 21 separate cost categories and respective price proxies. These cost categories were illustrated in Table 4.A, 4.B, and the appendix found in the May 12, 1998 **Federal Register** (63 FR 26252). Table 8.A below summarizes the updated 1992-based labor-related share.

TABLE 8.—A REVISED 1992-BASED LABOR-RELATED SHARE

Cost category	1992-Based market basket weight
Wages and Salaries	56.647
Employee Benefits	12.321
Nonmedical Professional Fees	1.959
Labor-intensive Services	3.738
Capital-related	2.880
Total	77.545

The forecasted rates of growth used to compute the projected SNF market basket percentages, described in the next section, are shown below in Table 8.B.

TABLE 8.B.—SKILLED NURSING FACILITY TOTAL COST MARKET BASKET, FORECASTED CHANGE, 1997—2001

Fiscal years beginning October 1	Skilled nursing facility total cost market basket
October 1996, FY 1997	2.4
October 1997, FY 1998	2.8
October 1998, FY 1999	2.8
October 1999, FY 2000	2.9
October 2000, FY 2001	2.7
Forecasted Average: 1997–2001	2.7

Source: Standard & Poor's DRI HCC, 1st QTR, 1999:@USSIM/TREND25YR0299 @CISSIM/CONTROL991.
Released by HCFA, OACT, National Health Statistics Group.

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, described in the previous section, from the midpoint of the prior fiscal year (or period) to the midpoint of the fiscal year (or other period) involved. The facility-specific portion and Federal portion of the SNF PPS rates effective with this rule are based on cost reporting periods beginning in Federal fiscal year 1995 (base year). The percentage increases in the SNF market basket index will be used to compute the update factors to reflect cost increases occurring between the cost reporting periods represented in the base year and the midpoint of the fiscal year (or other period). We used the Standard & Poor's DRI CC, 1st quarter 1999 historical and forecasted percentage increases of the revised and rebased SNF market basket index for routine, ancillary, and capital-related expenses, described in the previous section, to compute the update factors. The update factors, as described below,

will be used to adjust the base year costs for computing the facility-specific portion and Federal portion of the SNF PPS rates.

A. Facility-Specific Rate Update Factor

Under section 1888(e)(3)(D)(i) of the Act, for the facility-specific portion of the SNF PPS rate, we will update a facility's base year costs up to the period beginning October 1, 1999 and ending September 30, 2000 by the SNF market basket percentage, minus 1 percentage point. We took the following steps to develop the 12-month cost reporting period facility-specific rate update factors shown in Table 8.C.

For the facility rate, we developed factors to inflate data from cost reporting periods beginning October 1, 1994 through September 30, 1995 to the period of October 1, 1999 through September 30, 2000. The years through FY 1999 were inflated at a rate of market basket minus 1 percentage point, while FY 2000 was inflated at the full market basket rate of increase.

1. We first determined the total growth from the midpoint of each 12-month cost reporting period that began during the period from October 1, 1994 through September 30, 1995 to the midpoint of FY 2000.

2. From this total growth we determined the average annual growth rate for each time span.

3. We subtracted 1 percentage point from each average annual growth rate.

4. These reduced average annual growth rates were converted to cumulative growth rates, using each original time span less 1 year at the reduced growth rate and with full market basket for the final year. (For example, if the time span were for 9 years, we would inflate at the market basket minus 1 percentage point annual rate for 8 years and at annual market basket rate for 1 additional year).

TABLE 8.C.—UPDATE FACTORS¹ FOR FACILITY-SPECIFIC PORTION OF THE SNF PPS RATES—ADJUST TO 12-MONTH COST REPORTING PERIODS BEGINNING ON OR AFTER OCTOBER 1, 1999 AND BEFORE OCTOBER 1, 2000 FROM COST REPORTING PERIODS BEGINNING IN FY 1995 (BASE YEAR)

If 12-month cost reporting period in initial period begins	Adjust from 12-month cost reporting period in base year that begins	Using update factor of
October 1, 1999	October 1, 1994	1.09929
November 1, 1999	November 1, 1994	1.09745
December 1, 1999	December 1, 1994	1.09553
January 1, 2000	January 1, 1995	1.09378
February 1, 2000	February 1, 1995	1.09221
March 1, 2000	March 1, 1995	1.09082
April 1, 2000	April 1, 1995	1.08937
May 1, 2000	May 1, 1995	1.08788
June 1, 2000	June 1, 1995	1.08634
July 1, 2000	July 1, 1995	1.08486
August 1, 2000	August 1, 1995	1.08344

TABLE 8.C.—UPDATE FACTORS¹ FOR FACILITY-SPECIFIC PORTION OF THE SNF PPS RATES—ADJUST TO 12-MONTH COST REPORTING PERIODS BEGINNING ON OR AFTER OCTOBER 1, 1999 AND BEFORE OCTOBER 1, 2000 FROM COST REPORTING PERIODS BEGINNING IN FY 1995 (BASE YEAR)—Continued

If 12-month cost reporting period in initial period begins	Adjust from 12-month cost reporting period in base year that begins	Using update factor of
September 1, 2000	September 1, 1995	1.08209

¹ Source: Standard & Poor's DRI, 1st Qtr 1999; @USSIM/TREND25YR0299@CISSIM/CONTROL991.

SNFs may have cost reporting periods that are fewer than 12 months in duration (short period). This may occur, for example, when a provider enters the Medicare program after its selected fiscal year has already begun or when a provider experiences a change of ownership before the end of the cost reporting period. Since short periods affect a small number of providers, relative to the total number of SNFs, and the facility-specific portion of the SNF PPS rate is subject to a transition period, we do not believe consideration of computing a "short period specific"

update factor is warranted. Accordingly, we will apply the following rules to short periods.

1. Short Period in Base Year

First, select the later short period in the base year for the affected provider. Second, if necessary, adjust the beginning or end of the short period as follows. Short periods may not necessarily begin on the first of the month or end on the last day of the month. In order to simplify the process of determining the short period update factor, if the short period begins before the 16th of the month, it will be

adjusted to a beginning date of the 1st of that month. If the short period begins on or after the 16th of the month, it will be adjusted to the beginning of the next month. Also, if the short period ends before the 16th of the month, it will be adjusted to the end of the preceding month, or, if the short period ends on or after the 16th of the month, it will be adjusted to the end of that month. Third, determine the midpoint of the short period. Fourth, use the following midpoint guidelines to determine which 12-month update factor to use from Table 8.C.

If the midpoint of short period falls between	Use factor for this 12-month period
March 16, 1995–April 15, 1995	October 1994–September 1995.
April 16, 1995–May 15, 1995	November 1994–October 1995.
May 16, 1995–June 15, 1995	December 1994–November 1995.
June 16, 1995–July 15, 1995	January 1995–December 1995.
July 16, 1995–August 15, 1995	February 1995–January 1996.
August 16, 1995–September 15, 1995	March 1995–February 1996.
September 16, 1995–October 15, 1995	April 1995–March 1996.
October 16, 1995–November 15, 1995	May 1995–April 1996.
November 16, 1995–December 15, 1995	June 1995–May 1996.
December 16, 1995–January 15, 1996	July 1995–June 1996.
January 16, 1996–February 15, 1996	August 1995–July 1996.
February 16, 1996–March 15, 1996	September 1995–August 1996.

2. Short Period Between Base Year and Initial Period

A provider may experience a change of ownership or may receive proper approval to change its cost reporting period between the base year cost reporting period and the initial period. If this occurs, the base year cost reporting period may begin on a date that is different from that of the initial period. In these instances, use the beginning date of the initial period to determine the 12-month factor that corresponds to the beginning date of the "adjusted to period" in Table 8.C.

B. Federal Rate Update Factor

To update each facility's costs up to the common period, we—

1. Determined the total growth from the average market basket level for the period of July 1, 1998 through September 30, 1999 to the average market basket level for the period of

October 1, 1999 through September 30, 2000.

2. Calculated the rate of growth between the midpoints of the two periods.

3. Calculated the annual average rate of growth for #2.

4. Subtracted 1 percentage point from this annual average rate of growth.

5. Using the annual average minus 1 percentage point rate of growth, determined the cumulative growth between the midpoints of the two periods specified above.

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

V. Regulatory Impact Analysis

We have examined the impacts of this rule as required by Executive Order 12866 and the Regulatory Flexibility Act (RFA) (Pub. L. 96-354). Executive Order 12866 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 annually). This notice is a major rule as defined in Title 5, United States Code, section 804(2) because we estimate its impact will be to increase the payments to SNFs by approximately \$120 million in FY 2000. The update set forth in this notice applies to payments in FY 2000. Accordingly, the analysis that follows describes the impact of this 1 year only. In accordance with the requirements of Social Security Act, we will publish a notice for each subsequent fiscal year 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 entities. The BBA did not allow options to implementing a SNF PPS. For purposes of the RFA, small entities include small businesses, nonprofit organizations, and governmental agencies. Most SNFs and most other providers and suppliers are small entities, either by nonprofit status or by having revenues of \$5 million or less annually. For purposes of the RFA, all States and tribal governments are not considered to be small entities, nor are intermediaries or carriers. Individuals and States are not included in the definition of small entity. The policies contained in this notice update the SNF PPS rates by increasing the payment rates published in the May 12, 1998 interim final rule, but will not have a significant effect upon small entities.

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 50 beds. We are not preparing a rural impact statement since we have determined, and the Secretary certifies, that this notice will not have a significant economic impact on the operations of a substantial number of 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 annual expenditure by State, local, or tribal governments, in the aggregate, or by the private sector, of \$100 million. We believe that this notice will not mandate expenditures in that amount.

This notice updates the SNF PPS rates contained in the interim final rule, titled "Prospective Payment System and Consolidated Billing for Skilled Nursing Facilities," published on May 12, 1998 (63 FR 26251). The following table presents the projected effects of the policy changes in the SNF PPS interim final rule, as well as statutory changes effective for FY 2000, on various skilled nursing facility categories. We estimate the effects of each policy change by estimating payments while holding all other payment variables constant. We use the best data available, but we do not attempt to predict behavioral responses to our policy changes, and we

do not make adjustments for future changes in such variables as days or case mix.

The data used for this analysis are the same data used to create the FY 1999 rates that were stipulated in our interim final rule published on May 12, 1998 (63 FR 26251). The final data set used in developing those rates was used here to estimate the effects of changing only one payment variable at a time. We would prefer to use more recent data in calculating the FY 2000 impact. However, it should be recalled that SNF PPS was phased-in instead of being implemented simultaneously in all SNFs nationwide. Consequently, we only have a partial database of SNF PPS claims and other data at the present time. Due to the phased-in manner in which SNFs came into the PPS, we believe that extrapolation of the current partial database of SNF PPS claims and other data as the basis of the methodology to calculate the FY 2000 impact would produce less accurate results than the method we are using.

Next year we anticipate having a full year of SNF PPS claims and other data and, under ordinary circumstances, we would be able to show the impact of the annual update for SNFs across the various RUG-III case-mix groups and associated payments. However, we also anticipate that certain events may combine that may 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. Examples of such events may be newly legislated general Medicare program funding changes by the Congress, or changes specifically related to SNFs. In addition, changes to the Medicare program will continue to be made as a result of the Balanced Budget Act of 1997. Although these changes may not be specific to SNF PPS, due to the nature of the Medicare program the changes may interact, and the complexity of the interaction of these changes could make it very difficult to accurately predict the full scope of the impact upon SNFs.

While the discussion above acknowledges the difficulties we anticipate encountering, we also want to state that our first and foremost concern has always been and will continue to be the effect of policy changes on beneficiaries' access to affordable quality health care. For example, if research indicates that refinements are necessary to the case mix classification system and the PPS rates, we will make the changes that ensure that the rates properly account for the intensity of

resources involved in furnishing quality patient care. As discussed earlier, we are funding substantial research to examine the potential for refinements to the case mix methodology, including an examination of medication therapy, medically complex patients, and other non-therapy ancillary services.

In addition to the above research efforts, we are proactively monitoring the impact of the Balanced Budget Act of 1997 to ensure that beneficiary access to quality SNF services is not compromised. That monitoring includes the gathering of extensive objective information using various sources from across the nation to help us determine how access to care and quality of care may be impacted by the rates, and what specific corrective actions may be necessary. As we accumulate data and learn more about the effects of the new payment system, we will report the results.

As stated previously in this preamble, the aggregate increase in payments associated with this update is estimated to be \$120 million. There are four areas of change that produce this increase for facilities.

- The effect of the Federal transition, which results in most facilities being paid at 50 percent the Federal rate and 50 percent the facility-specific rate instead of the current 25 percent Federal rate and 75 percent facility-specific rate.
- The effect of the methodological change to the Federal rates described in the final rule to be published elsewhere in this **Federal Register** document. This resulted in increases of \$.32 and \$.24 to the unadjusted urban and rural case-mix component of the Federal rates, respectively, and a \$.25 and \$.21 to the unadjusted urban and rural non-case-mix component of the Federal rates, respectively.
- The effect of changes to the wage index used in this year's rates as compared to last year's rates. This is budget neutral in total but may affect individual facilities in either direction.
- The total change in payments from FY 1999 levels to FY 2000 levels. This includes all the previous changes in addition to the effect of the update to the rates.

As can be seen from the table below, some of these areas result in increased aggregate payments and others tend to lower them. The four areas of change are as follows:

The first row of the table includes the effects on all facilities. The next six rows show the effects on facilities split by hospital-based or freestanding and urban or rural. The rest of the table shows the effects on urban or rural status by census region.

The first column in the table shows the number of facilities in the database. The second column shows the effect of the transition to the Federal rates. This change has an overall effect of lowering payments by 1.4 percent with most of the lowering coming from hospital-based facilities. There are a few regions that have increased payments due to this provision but most have lower payments with the largest effect being in the West South Central region for both urban and rural facilities.

The next column shows the effect of the rate increase associated with the methodological change to the Federal

rates referred to above. As seen in the table, the add-on increases payments by 0.2 percent on average and is fairly constant for all types of facilities and their location. This consistency should be expected since the add-on is a constant amount for each provider.

The next column shows the effect of the changes in the wage index in this year's rates. Since these changes were made budget-neutral, the total effect is no change. However, there is variation based on type of facility and location. Urban facilities have their payments reduced, although some regions do show slight increases. However, rural

facilities have their payments increased with the largest effect in the West North Central region.

The final column of the table shows the effect of all the changes on the FY 2000 payments. This includes all the previous changes and the update to this year's rates of market basket minus 1 percentage point as required by law. Therefore, it is assumed that payments will increase by 0.9 percent in total if there are no behavioral changes by the facilities. As can be seen from this table, the effects on specific types of providers and by location differ by much larger amounts.

	Number of facilities	Transition to federal rates (percent)	Add-on to federal rates (percent)	Change in wage index (percent)	Total FY 2000 change** (percent)
Total	9037	-1.4	0.2	0.0	0.9
Total urban	6300	-1.4	0.2	-0.3	0.6
Total rural	2737	-1.1	0.1	1.3	2.4
Hospital-based urban	683	-6.1	0.1	-0.2	-4.2
Freestanding urban	5617	-0.5	0.2	-0.3	1.5
Hospital-based rural	533	-4.6	0.1	0.9	-1.6
Freestanding rural	2204	-0.3	0.1	1.4	3.3
Urban by region:					
New England	630	3.3	0.2	-1.2	4.4
Middle Atlantic	877	1.9	0.2	0.1	4.4
South Atlantic	959	-3.0	0.1	0.4	-0.5
East North Central	1232	-0.2	0.2	-0.2	1.9
East South Central	212	-2.4	0.2	0.5	0.3
West North Central	469	-1.6	0.2	0.4	1.1
West South Central	519	-6.3	0.1	-0.5	-4.7
Mountain	303	-4.6	0.1	0.2	-2.3
Pacific	1070	-2.9	0.1	-0.3	-1.1
Rural by region:					
New England	88	2.2	0.1	1.1	5.6
Middle Atlantic	144	1.2	0.1	0.9	4.4
South Atlantic	373	-1.5	0.1	1.4	2.1
East North Central	561	-0.0	0.1	1.3	3.5
East South Central	255	-2.3	0.1	1.6	1.4
West North Central	581	-0.4	0.1	2.8	4.6
West South Central	354	-4.4	0.1	1.0	-1.3
Mountain	204	-1.9	0.1	2.1	2.4
Pacific	151	-0.2	0.1	0.6	2.6

** The effects of the various changes are not additive.

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

Authority: Section 1888(e) of the Social Security Act (42 U.S.C. 1395yy (e)).

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

Dated: June 17, 1999.

Nancy-Ann Min DeParle,
Administrator, Health Care Financing Administration.

Approved: July 19, 1999.

Donna E. Shalala,
Secretary.

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