October 1, 1984 and before October 1, 1985, CMS adjusts the target rate percentage used under paragraph (c)(2) of this section. This adjustment is based on a factor actuarially estimated to ensure that the estimated amount of aggregate Medicare payment based on the hospital-specific portion of the transition payment rates is neither greater nor less than 50 percent of the amounts that would have been payable for the inpatient operating costs for those same hospitals for fiscal year 1985 under the Social Security Act as in effect on April 19, 1983.

(e) **DRG adjustment.** The applicable hospital-specific cost per discharge is multiplied by the appropriate DRG weighting factor to determine the hospital-specific base payment amount (target amount) for a particular covered discharge.

(f) **Maintaining budget neutrality.** CMS makes an adjustment to the hospital-specific rate to ensure that changes to the DRG classifications and recalibrations of the DRG relative weights are made in a manner so that aggregate payments to section 1886(d) hospitals are not affected.

§ 412.75 Determination of the hospital-specific rate for inpatient operating costs based on a Federal fiscal year 1987 base period.

(a) **Base-period costs.—(1) General rule.** Except as provided in paragraph (a)(2) of this section, for each hospital, the intermediary determines the hospital’s Medicare part A allowable inpatient operating costs, as described in §412.2(c), for the hospital’s most recent 12-month or longer cost reporting period ending on or after September 30, 1987 and before September 30, 1988.

(2) **Exceptions.** (i) If the hospital’s last cost reporting period ending before September 30, 1988 is for less than 12 months, the base period is the hospital’s most recent 12-month or longer cost reporting period ending before the short period report.

(ii) If the hospital does not have a cost reporting period ending on or after September 30, 1987 and before September 30, 1988 and does have a cost reporting period beginning on or after October 1, 1986 and before October 1, 1987, that cost reporting period is the base period unless the cost reporting period is for less than 12 months. In that case, the base period is the hospital’s most recent 12-month or longer cost reporting period ending before the short cost reporting period.

(b) **Costs on a per discharge basis.** The intermediary determines the hospital’s average base-period operating cost per discharge by dividing the total operating costs by the number of discharges in the base period. For purposes of this section, a transfer as defined in §412.4(b) is considered to be a discharge.

(c) **Case-mix adjustment.** The intermediary divides the average base-period cost per discharge by the hospital’s case-mix index for the base period.

(d) **Updating base-period costs.** For purposes of determining the updated base-period costs for cost reporting periods beginning in Federal fiscal year 1988, the update factor is determined using the methodology set forth in §§412.73(c)(15) and 412.73(c)(16).

(e) **DRG adjustment.** The applicable hospital-specific cost per discharge is multiplied by the appropriate DRG weighting factor to determine the hospital-specific base payment amount (target amount) for a particular covered discharge.

(f) **Notice of hospital-specific rate.** The intermediary furnishes the hospital a notice of its hospital-specific rate, which contains a statement of the hospital’s Medicare part A allowable inpatient operating costs, number of Medicare discharges, and case-mix index adjustment factor used to determine the hospital’s cost per discharge for the Federal fiscal year 1987 base period.

(g) **Right to administrative and judicial review.** An intermediary’s determination of the hospital-specific rate for a hospital is subject to administrative and judicial review. Review is available to a hospital upon receipt of the notice.
§ 412.76 Recovery of excess transition period payment amounts resulting from unlawful claims.

If a hospital's base-year costs, as estimated for purposes of determining the hospital-specific portion, are determined, by criminal conviction or imposition of a civil money penalty or assessment, to include costs that were unlawfully claimed, the hospital's base-period costs are adjusted to remove the effect of the excess costs, and CMS recovers both the excess costs reimbursed for the base period and the additional amounts paid due to the inappropriate increase of the hospital-specific portion of the hospital's transition payment rates.


§ 412.77 Determination of the hospital-specific rate for inpatient operating costs for sole community hospitals based on a Federal fiscal year 1996 base period.

(a) Applicability. (1) This section applies to a hospital that has been designated as a sole community hospital, as described in §412.92. If the 1996 hospital-specific rate exceeds the rate that would otherwise apply, that is, either the Federal rate under §412.64 (or under §412.63 for periods prior to FY 2005) or the hospital-specific rates for either