
(a) General rule. CMS determines the Puerto Rico adjusted DRG prospective payment rate for inpatient operating costs for each inpatient hospital discharge occurring in Federal fiscal year 1988 for a prospective payment hospital. These rates are determined as described in paragraphs (b) through (i) of this section.

(b) Determining target amounts. For each hospital subject to the prospective payment system for inpatient operating costs, CMS determines the Medicare target amount, as described in §413.40(c) of this chapter, for the hospital’s cost reporting period beginning in fiscal year 1987. Revisions in the target amounts made subsequent to establishment of the standardized amounts under paragraph (d) of this section do not affect the standardized amounts.

(c) Updating the target amounts for fiscal year 1988. CMS updates each target amount determined under paragraph (b) of this section for fiscal year 1988 by prorating the applicable percentage increase (as defined in §412.63(f) of this chapter) for fiscal year 1988 to the midpoint of fiscal year 1988 (April 1, 1988).

(d) Standardizing amounts. CMS standardizes the amount updated under paragraph (c) of this section for each hospital by—

(1) Adjusting for variations in case mix among hospitals;
(2) Excluding an estimate of indirect medical education costs;
(3) Adjusting for area variations in hospital wage levels; and
(4) Excluding an estimate of the payments for hospitals that serve a disproportionate share of low-income patients.

(e) Computing urban and rural averages. CMS computes separate discharge-weighted averages of the standardized amounts determined under paragraph (d) of this section for urban and rural hospitals in Puerto Rico.

(f) Geographic classification. (1) For purposes of this paragraph (e) of this section, the following definitions apply:

(i) The term urban area means a Metropolitan Statistical Area (MSA), as defined by the Executive Office of Management and Budget.
(ii) The term large urban area means an MSA with a population of more than 1,000,000.
(iii) The term rural area means any area outside an urban area.

(2) A hospital classified as rural is deemed to be urban and receives the urban Puerto Rico payment amount if the county in which it is located meets the following criteria:

(i) At least 95 percent of the perimeter of the rural county is contiguous with urban counties.
(ii) The county was reclassified from an urban area to a rural area after


(a) General rule. (1) CMS determines the Puerto Rico adjusted prospective payment rate for inpatient operating costs for each inpatient hospital discharge occurring in Federal fiscal years 1989 through 2003 that involves inpatient hospital services of a hospital in Puerto Rico subject to the prospective payment system for which payment may be made under Medicare Part A.

(2) The rate is determined for hospitals located in large urban, other urban, or rural areas within Puerto Rico, as described in paragraphs (b) through (e) of this section.

(b) Geographic classifications. (1) For purposes of this section, the definitions set forth in §412.208(f)(1) apply.

(2) For discharges occurring on or after October 1, 1988, a hospital located in a rural county adjacent to one or more urban areas is deemed to be located in an urban area and receives the Federal payment amount for the urban area to which the greatest number of workers in the county commute if the rural county would otherwise be considered part of an urban area, under the standards for designating MSAs if the commuting rates used in determining outlying counties were determined on the basis of the aggregate number of resident workers who commute to (and, if applicable under the standards, from) the central county or central counties of all adjacent MSAs. These EOMB standards are set forth in the notice of final standards for classification of MSAs published in the Federal Register on January 3, 1980 (45 FR 956), and available from CMS, East High Rise Building, Room 132, 6325 Security Boulevard, Baltimore, Maryland 21207.

(3) For discharges occurring on or after October 1, 1988, for hospitals that consist of two or more separately located inpatient hospital facilities, the national adjusted prospective payment rate for inpatient operating costs is based on the geographic location of the hospital at which the discharge occurs.

(c) Updating previous standardized amounts. CMS computes separate average standardized amounts for hospitals in large urban, other urban, and rural areas.