DEPARTMENT OF HEALTH AND HUMAN SERVICES

Centers for Medicare & Medicaid Services

42 CFR Part 413

[CMS–1545–P]

RIN 0938–AO64

Medicare Program; Prospective Payment System and Consolidated Billing for Skilled Nursing Facilities for FY 2008

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

ACTION: Proposed rule.

SUMMARY: This proposed rule would update the payment rates used under the prospective payment system (PPS) for skilled nursing facilities (SNFs), for fiscal year (FY) 2008. In addition, this proposed rule would revise and rebase the SNF market basket, and would modify the threshold for the adjustment to account for market basket forecast error.

DATES: To be assured consideration, comments must be received at one of the addresses provided below, no later than 5 p.m. on June 29, 2007.

ADDRESSES: In commenting, please refer to file code CMS–1545–P. Because of staff and resource limitations, we cannot accept comments by facsimile (FAX) transmission.

You may submit comments in one of four ways (no duplicates, please):

1. *Electronically.* You may submit electronic comments on specific issues in this regulation to *http:// www.cms.hhs.gov/eRulemaking.* Click on the link "Submit electronic comments on CMS regulations with an open comment period." (Attachments should be in Microsoft Word, WordPerfect, or Excel; however, we prefer Microsoft Word.)

2. *By regular mail.* You may mail written comments (one original and two copies) to the following address ONLY: Centers for Medicare & Medicaid Services, Department of Health and Human Services, Attention: CMS–1545–P, P.O. Box 8016, Baltimore, MD 21244–8016.

Please allow sufficient time for mailed comments to be received before the close of the comment period.

3. *By express or overnight mail.* You may send written comments (one original and two copies) to the following address ONLY: Centers for Medicare & Medicaid Services, Department of Health and Human Services, Attention: CMS–1545–P, Mail Stop C4–26–05,

7500 Security Boulevard, Baltimore, MD 21244–1850.

4. *By hand or courier.* If you prefer, you may deliver (by hand or courier) your written comments (one original and two copies) before the close of the comment period to one of the following addresses. If you intend to deliver your comments to the Baltimore address, please call telephone number (410) 786–9994 in advance to schedule your arrival with one of our staff members. Room 445–G, Hubert H. Humphrey Building, 200 Independence Avenue, SW., Washington, DC 20201; or 7500 Security Boulevard, Baltimore, MD 21244–1850.

(Because access to the interior of the HHH Building is not readily available to persons without Federal Government identification, commenters are encouraged to leave their comments in the CMS drop slots located in the main lobby of the building. A stamp-in clock is available for persons wishing to retain a proof of filing by stamping in and retaining an extra copy of the comments being filed.)

Comments mailed to the addresses indicated as appropriate for hand or courier delivery may be delayed and received after the comment period.

For information on viewing public comments, see the beginning of the **SUPPLEMENTARY INFORMATION** section.

FOR FURTHER INFORMATION CONTACT: Ellen Berry, (410) 786–4528 (for information related to the case-mix classification methodology). Mollie Knight, (410) 786–7948 (for information related to the SNF market basket and labor-related share). Jeanette Kranacs, (410) 786–9385 (for information related to the development of the payment rates). Bill Ullman, (410) 786–5667 (for information related to level of care determinations, consolidated billing, and general information).

SUPPLEMENTARY INFORMATION:

Submitting Comments: We welcome comments from the public on all issues set forth in this rule to assist us in fully considering issues and developing policies. You can assist us by referencing the file code CMS–1545–P and the specific "issue identifier" that precedes the section on which you choose to comment.

Inspection of Public Comments: All comments received before the close of the comment period are available for viewing by the public, including any personally identifiable or confidential business information that is included in a comment. We post all comments received before the close of the comment period on the following Web site as soon as possible after they have

been received: *http://www.cms.hhs.gov/ eRulemaking.* Click on the link "Electronic Comments on CMS Regulations" on that Web site to view public comments.

Comments received timely will also be available for public inspection as they are received, generally beginning approximately 3 weeks after publication of a document, at the headquarters of the Centers for Medicare & Medicaid Services, 7500 Security Boulevard, Baltimore, Maryland 21244, Monday through Friday of each week from 8:30 a.m. to 4 p.m. To schedule an appointment to view public comments, phone 1–800–743–3951.

To assist readers in referencing sections contained in this document, we are providing the following Table of Contents.

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Abbreviations

In addition, because of the many terms to which we refer by abbreviation in this proposed rule, we are listing these abbreviations and their corresponding terms in alphabetical order below:

ADL Activity of Daily Living
AIDS Acquired Immune Deficiency Syndrome
ARD Assessment Reference Date
BBA Balanced Budget Act of 1997, Pub. L. 105–33
BBRA Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999, Pub. L. 106–113
BIPA Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000, Pub. L. 106–554
BLS Bureau of Labor Statistics
CAH Critical Access Hospital
CBSA Core-Based Statistical Area
CFR Code of Federal Regulations
CMS Centers for Medicare & Medicaid Services
CPT (Physicians') Current Procedural Terminology
DRA Deficit Reduction Act of 2005, Pub. L. 109–171
DRG Diagnosis Related Group
ECI Employment Cost Index
FI Fiscal Intermediary
FQHC Federally Qualified Health Center
FR Federal Register
FY Fiscal Year
GAO Government Accountability Office
HCPCS Healthcare Common Procedure Coding System
HIT Health Information Technology
ICD–9–CM International Classification of Diseases, Ninth Edition, Clinical Modification
IFC Interim Final Rule with Comment Period
MDS Minimum Data Set
MEDPAC Medicare Payment Advisory Commission

MEDPAR Medicare Provider Analysis and Review File
MMA Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Pub. L. 108–173
MSA Metropolitan Statistical Area
NAICS North American Industrial Classification System
OIG Office of the Inspector General
OMB Office of Management and Budget
OMRA Other Medicare Required Assessment
PPI Producer Price Index
PPS Prospective Payment System
RAI Resident Assessment Instrument
RAP Resident Assessment Protocol
RAVEN Resident Assessment Validation Entry
RFA Regulatory Flexibility Act, Pub. L. 96–354
RHC Rural Health Clinic
RIA Regulatory Impact Analysis
RUG–III Resource Utilization Groups, Version III
RUG–53 Refined 53-Group RUG–III Case-Mix Classification System
SCHIP State Children's Health Insurance Program
SIC Standard Industrial Classification System
SNF Skilled Nursing Facility
STM Staff Time Measurement
UMRA Unfunded Mandates Reform Act, Public Law 104–4

I. Background

[If you choose to comment on issues in this section, please include the caption "BACKGROUND" at the beginning of your comments.]

Annual updates to the prospective payment system (PPS) rates for skilled nursing facilities (SNFs) are required by section 1888(e) of the Social Security Act (the Act), as added by section 4432 of the Balanced Budget Act of 1997 (BBA), and amended by the Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999 (BBRA), the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA), and the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) relating to Medicare payments and consolidated billing for SNFs. Our most recent annual update occurred in an update notice (71 FR 43158, July 31, 2006) that set forth updates to the SNF PPS payment rates for fiscal year (FY) 2007. We subsequently published a correction notice (71 FR 57519, September 29, 2006) with respect to those payment rate updates.

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

Section 4432 of the Balanced Budget Act of 1997 (BBA) amended section 1888 of the Act to provide for the implementation of a per diem PPS for SNFs, covering all costs (routine, ancillary, and capital-related) of covered SNF services furnished to beneficiaries under Part A of the Medicare program, effective for cost reporting periods beginning on or after July 1, 1998. In this proposed rule, we propose to update the per diem payment rates for SNFs for FY 2008. Major elements of the SNF PPS include:

• *Rates.* As discussed in section I.F.1 of this proposed rule, we established per diem Federal rates for urban and rural areas using allowable costs from FY 1995 cost reports. These rates also included an estimate of the cost of services that, before July 1, 1998, had been paid under Part B but furnished to Medicare beneficiaries in a SNF during a Part A covered stay. We adjust the rates annually using a SNF market basket index, and we adjust them by the hospital inpatient wage index to account for geographic variation in wages. We also apply a case-mix adjustment to account for the relative resource utilization of different patient types. This adjustment utilizes a refined, 53-group version of the Resource Utilization Groups, version III (RUG–III) case-mix classification system, based on information obtained from the required resident assessments using the Minimum Data Set (MDS) 2.0. Additionally, as noted in the August 4, 2005 final rule (70 FR 45028), the payment rates at various times have also reflected specific legislative provisions, including section 101 of the BBRA, sections 311, 312, and 314 of the BIPA, and section 511 of the MMA.

• *Transition.* Under sections 1888(e)(1)(A) and (e)(11) of the Act, the SNF PPS included an initial, three-phase transition that blended a facility-specific rate (reflecting the individual facility's historical cost experience) with the Federal case-mix adjusted rate. The transition extended through the facility's first three cost reporting periods under the PPS, up to and including the one that began in FY 2001. Thus, the SNF PPS is no longer operating under the transition, as all facilities have been paid at the full Federal rate effective with cost reporting periods beginning in FY 2002. As we now base payments entirely on the adjusted Federal per diem rates, we no longer include adjustment factors

related to facility-specific rates for the coming fiscal year.

• *Coverage.* The establishment of the SNF PPS did not change Medicare's fundamental requirements for SNF coverage. However, because the RUG–III classification is based, in part, on the beneficiary's need for skilled nursing care and therapy, we have attempted, where possible, to coordinate claims review procedures with the output of beneficiary assessment and RUG–III classifying activities. This approach includes an administrative presumption that utilizes a beneficiary's initial classification in one of the upper 35 RUGs of the refined 53-group system to assist in making certain SNF level of care determinations, as discussed in greater detail in section II.E. of this proposed rule.

• *Consolidated Billing.* The SNF PPS includes a consolidated billing provision that requires a SNF to submit consolidated Medicare bills to its fiscal intermediary for almost all of the services that its residents receive during the course of a covered Part A stay. While section 313 of the BIPA repealed the Part B aspect of the consolidated billing requirement, SNFs maintain responsibility for submitting consolidated Medicare bills to the fiscal intermediary for physical, occupational, and speech-language therapy that residents receive during a noncovered stay. The statute excludes a small list of services from the consolidated billing provision (primarily those of physicians and certain other types of practitioners), which remain separately billable under Part B when furnished to a SNF's Part A resident. A more detailed discussion of this provision appears in section V. of this proposed rule.

• *Application of the SNF PPS to SNF services furnished by swing-bed hospitals.* Section 1883 of the Act permits certain small, rural hospitals to enter into a Medicare swing-bed agreement, under which the hospital can use its beds to provide either acute or SNF care, as needed. For critical access hospitals (CAHs), Part A pays on a reasonable cost basis for SNF services furnished under a swing-bed agreement. However, in accordance with section 1888(e)(7) of the Act, these services furnished by non-CAH rural hospitals are paid under the SNF PPS, effective with cost reporting periods beginning on or after July 1, 2002. A more detailed discussion of this provision appears in section VI. of this proposed rule.

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

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

1. The unadjusted Federal per diem rates to be applied to days of covered SNF services furnished during the FY.

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

3. The factors to be applied in making the area wage adjustment with respect to these services.

In the July 30, 1999 final rule (64 FR 41670), we indicated that we would announce any changes to the guidelines for Medicare level of care determinations related to modifications in the RUG–III classification structure (see section II.E of this proposed rule for a discussion of the relationship between the case-mix classification system and SNF level of care determinations).

Along with a number of other revisions proposed later in this preamble, this proposed rule provides the annual updates to the Federal rates as mandated by the Act.

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

There were several provisions in the BBRA that resulted in adjustments to the SNF PPS. We described these provisions in detail in the final rule that we published in the **Federal Register** on July 31, 2000 (65 FR 46770). In particular, section 101(a) of the BBRA provided for a temporary 20 percent increase in the per diem adjusted payment rates for 15 specified RUG–III groups. In accordance with section 101(c)(2) of the BBRA, this temporary payment adjustment expired on January 1, 2006, upon the implementation of case-mix refinements (see section I.F.1. of this proposed rule). We included further information on BBRA provisions that affected the SNF PPS in Program Memorandums A–99–53 and A–99–61 (December 1999).

Also, section 103 of the BBRA designated certain additional services for exclusion from the consolidated billing requirement, as discussed in section IV of this proposed rule. Further, for swing-bed hospitals with more than 49 (but less than 100) beds, section 408 of the BBRA provided for the repeal of certain statutory restrictions on length of stay and aggregate payment for patient days, effective with the end of the SNF PPS transition period described in section

1888(e)(2)(E) of the Act. In the July 31, 2001 final rule (66 FR 39562), we made conforming changes to the regulations at § 413.114(d), effective for services furnished in cost reporting periods beginning on or after July 1, 2002, to reflect section 408 of the BBRA.

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

The BIPA also included several provisions that resulted in adjustments to the SNF PPS. We described these provisions in detail in the final rule that we published in the **Federal Register** on July 31, 2001 (66 FR 39562). In particular:

• Section 203 of the BIPA exempted CAH swing-beds from the SNF PPS. We included further information on this provision in Program Memorandum A–01–09 (Change Request #1509), issued January 16, 2001, which is available online at *www.cms.hhs.gov/ transmittals/downloads/a0109.pdf.*

• Section 311 of the BIPA revised the statutory update formula for the SNF market basket, and also directed us to conduct a study of alternative case-mix classification systems for the SNF PPS. In 2006, we submitted a report to the Congress on this study, which is available online at *www.cms.hhs.gov/ SNFPPS/Downloads/RC_2006_PC– PPSSNF.pdf.*

• Section 312 of the BIPA provided for a temporary increase of 16.66 percent in the nursing component of the case-mix adjusted Federal rate for services furnished on or after April 1, 2001, and before October 1, 2002. The add-on is no longer in effect. This section also directed the General Accounting Office (GAO) to conduct an audit of SNF nursing staff ratios and submit a report to the Congress on whether the temporary increase in the nursing component should be continued. The report (GAO–03–176), which GAO issued in November 2002, is available online at *www.gao.gov/ new.items/d03176.pdf.*

• Section 313 of the BIPA repealed the consolidated billing requirement for services (other than physical, occupational, and speech-language therapy) furnished to SNF residents during noncovered stays, effective January 1, 2001. (A more detailed discussion of this provision appears in section V. of this proposed rule.)

• Section 314 of the BIPA corrected an anomaly involving three of the RUGs that the BBRA had designated to receive the temporary payment adjustment discussed above in section I.C. of this proposed rule. (As noted previously, in accordance with section 101(c)(2) of the

BBRA, this temporary payment adjustment expired upon the implementation of case-mix refinements on January 1, 2006.)

• Section 315 of the BIPA authorized us to establish a geographic reclassification procedure that is specific to SNFs, but only after collecting the data necessary to establish a SNF wage index that is based on wage data from nursing homes. At this time, this has proven to be infeasible due to the volatility of existing SNF wage data and the significant amount of resources that would be required to improve the quality of that data.

We included further information on several of the BIPA provisions in Program Memorandum A–01–08 (Change Request #1510), issued January 16, 2001, which is available online at *www.cms.hhs.gov/transmittals/ downloads/a0108.pdf.*

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

The MMA included a provision that results in a further adjustment to the SNF PPS. Specifically, section 511 of the MMA amended section 1888(e)(12) of the Act to provide for a temporary increase of 128 percent in the PPS per diem payment for any SNF resident with Acquired Immune Deficiency Syndrome (AIDS), effective with services furnished on or after October 1, 2004. This special AIDS add-on was to remain in effect until "* * * such date as the Secretary certifies that there is an appropriate adjustment in the case mix * * *." The AIDS add-on is also discussed in Program Transmittal #160 (Change Request #3291), issued on April 30, 2004, which is available online at *www.cms.hhs.gov/transmittals/ downloads/r160cp.pdf.* As discussed in the SNF PPS final rule for FY 2006 (70 FR 45028, August 4, 2005), we did not address the certification of the AIDs add-on with the implementation of the case-mix refinements, thus allowing the temporary add-on payment created by section 511 of the MMA to continue in effect.

For the limited number of SNF residents that qualify for the AIDS add-on, implementation of this provision results in a significant increase in payment. For example, using 2005 data, we identified 1276 SNF residents with a principal diagnosis code of 042 ("Human Immunodeficiency Virus (HIV) Infection"). For FY 2008, an urban facility with a resident with AIDS in RUG group "SSA" would have a case-mix adjusted payment of almost $250.91 (see Table 4) before the application of the MMA adjustment. After an increase

of 128 percent, this urban facility would receive a case-mix adjusted payment of approximately $572.07.

In addition, section 410 of the MMA contained a provision that excluded from consolidated billing certain practitioner and other services furnished to SNF residents by rural health clinics (RHCs) and Federally Qualified Health Centers (FQHCs). (A more detailed discussion of this provision appears in section V. of this proposed rule.)

F. Skilled Nursing Facility Prospective Payment System—General Overview

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

1. Payment Provisions—Federal Rate

The PPS uses per diem Federal payment rates based on mean SNF costs in a base year updated for inflation to the first effective period of the PPS. We developed the Federal payment rates using allowable costs from hospital-based and freestanding SNF cost reports for reporting periods beginning in FY 1995. The data used in developing the Federal rates also incorporated an estimate of the amounts that would be payable under Part B for covered SNF services furnished to individuals during the course of a covered Part A stay in a SNF.

In developing the rates for the initial period, we updated costs to the first effective year of the PPS (the 15-month period beginning July 1, 1998) using a SNF market basket index, and then standardized for the costs of facility differences in case-mix and for geographic variations in wages. In compiling the database used to compute the Federal payment rates, we excluded those providers that received new provider exemptions from the routine

cost limits, as well as costs related to payments for exceptions to the routine cost limits. Using the formula that the BBA prescribed, we set the Federal rates at a level equal to the weighted mean of freestanding costs plus 50 percent of the difference between the freestanding mean and weighted mean of all SNF costs (hospital-based and freestanding) combined. We computed and applied separately the payment rates for facilities located in urban and rural areas. In addition, we adjusted the portion of the Federal rate attributable to wage-related costs by a wage index.

The Federal rate also incorporates adjustments to account for facility case-mix, using a classification system that accounts for the relative resource utilization of different patient types. The RUG–III classification system uses beneficiary assessment data from the Minimum Data Set (MDS) completed by SNFs to assign beneficiaries to one of 53 RUG–III groups. The original RUG–III case-mix classification system included 44 groups. However, under refinements that became effective on January 1, 2006, we added nine new groups— comprising a new Rehabilitation plus Extensive Services category—at the top of the RUG hierarchy. The May 12, 1998 interim final rule (63 FR 26252) included a complete and detailed description of the original 44-group RUG–III case-mix classification system. A comprehensive description of the refined 53-group RUG–III case-mix classification system (RUG–53) appeared in the proposed and final rules for FY 2006 (70 FR 29070, May 19, 2005, and 70 FR 45026, August 4, 2005).

Further, in accordance with section 1888(e)(4)(E)(ii)(IV) of the Act, the Federal rates in this proposed rule reflect an update to the rates that we published in the July 31, 2006 final rule for FY 2007 (71 FR 43158) and the associated correction notice (71 FR 57519, September 29, 2006), equal to the full change in the SNF market basket index. A more detailed discussion of the SNF market basket index and related issues appears in sections I.F.2. and III. of this proposed rule.

2. Rate Updates Using the Skilled Nursing Facility Market Basket Index

Section 1888(e)(5) of the Act requires us to establish a SNF market basket index that reflects changes over time in the prices of an appropriate mix of goods and services included in covered SNF services. We use the SNF market basket index to update the Federal rates on an annual basis. For FY 2008, we propose to revise and rebase the market basket to reflect 2004 total cost data as detailed in section III.A. The proposed

FY 2008 market basket increase is 3.3 percent. (However, we note that both the President's budget and the recommendations of the Medicare Payment Advisory Commission (MedPAC) include a proposal for a zero percent update in the SNF market basket for FY 2008, and that the provisions outlined in this proposed rule would need to reflect any legislation that the Congress enacts to adopt this proposal.)

As explained in the final rule for FY 2004 (66 FR 46058, August 4, 2003), the annual update of the payment rates includes, as appropriate, an adjustment to account for market basket forecast error. When we initially proposed the forecast error adjustment (68 FR 34768, June 10, 2003), we noted that significant previous forecast errors had resulted from wages and benefits for SNF workers increasing more rapidly than expected. In the SNF PPS final rule for FY 2004, we then proceeded to correct for those forecast errors with a one-time, cumulative adjustment relating to the FYs 2000 through 2002 updates, resulting in a 3.26 percentage point addition to the market basket update. We also provided for subsequent adjustments in succeeding fiscal years whenever the difference between the forecasted and actual market basket increases exceeds a specified threshold, which we indicated at the time would likely be 0.25 percentage point.

However, we believe that it is now appropriate to draw a distinction between the kind of exceptional, unanticipated major increases in wages and benefits that initially gave rise to this policy and the much smaller variances between forecasted and actual change that more typically occur from year to year, in recognition that a certain level of imprecision is inherently associated with measuring statistics. In general, the SNF market basket is expected to reasonably project inflationary price pressures. Further, according to MedPAC analysis, we note that freestanding SNFs (which represent more than 80 percent of all SNFs) have received Medicare payments that exceeded costs by 10.8 percent or more since 2001, and Medicare margins are projected to be 11 percent in 2007. Moreover, following the initial,

cumulative 3.26 percent forecast error adjustment relating to FYs 2000 through 2002 updates, the differences between the forecasted and actual increases in the market basket for each of the subsequent fiscal years have been far smaller in magnitude (0.3 percentage point or less) than the ones that originally had prompted the adoption of this policy.

Accordingly, we believe it would be appropriate at this point to recalibrate the specified threshold for triggering a forecast error adjustment, in a manner that distinguishes between the major forecast errors that gave rise to this policy initially and the far more typical minor variances that have consistently occurred in each of the succeeding years. As indicated in our original proposal for a forecast error adjustment, we believe that establishing a minimum threshold for making such adjustments reflects the concept that there is generally a minimal amount of imprecision that is inherently associated with measuring statistics, and that any such threshold should be sufficiently high to screen out small variations that may arise from this imprecision. At this point, however, we are concerned that the existing 0.25 percentage point threshold may not be high enough to accomplish this and to focus instead on the more significant variations—those of a magnitude that would indicate a failure to reflect accurately the actual historical price changes faced by SNFs—which the forecast error adjustment was originally created to address.

We believe that a threshold of 0.5 percentage point represents an amount that is sufficiently high to screen out the expected minor variances in a projected statistical methodology, while at the same time appropriately serving to trigger an adjustment in those instances where it is clear that the historical price changes are not being adequately reflected. Therefore, this proposed rule would raise the threshold for triggering a forecast error adjustment under the SNF PPS from the current 0.25 percentage point to 0.5 percentage point, effective with FY 2008.

We are also considering a higher threshold for the forecast error adjustment, up to 1.0 percentage point.

This would be consistent with the relative magnitude of forecast error that is addressed by the inpatient hospital capital PPS forecast error adjustment. Both the SNF and inpatient hospital capital PPS forecast error adjustments currently utilize a 0.25 percent threshold. However, the inpatient hospital capital PPS's average annual forecasted market basket update from FY 1996 through FY 2006 (the period of historical data used for forecast error adjustments to date) was approximately 0.9 percent. In contrast, the SNF PPS's average annual forecasted market basket update from FY 2000 through FY 2006 (the period of historical data used for forecast error adjustments to date) was approximately 3.1 percent. Thus, the 0.25 percentage point threshold addressed forecast errors equaling 28 percent or more of the average annual forecasted market basket update under the inpatient hospital capital PPS, compared with 8 percent of the average annual forecasted market basket update under the SNF PPS. Utilizing a 1 percentage point forecast error adjustment threshold under the SNF PPS would address forecast errors equaling 32 percent or more of the average annual forecasted market basket update, which is more consistent with the relative magnitude of forecast error for which adjustment is made under the inpatient hospital capital PPS.

While this rule proposes applying the new threshold in FY 2008, we are also considering delaying implementation of this change to FY 2009. We specifically invite comments on increasing the forecast error adjustment threshold and making the proposal effective in FY 2009.

As the difference between the estimated and actual amount of change falls below the proposed 0.5 percentage point threshold, no forecast error adjustment is appropriate in FY 2008. For FY 2006 (the most recently available fiscal year for which there is final data), the estimated increase in the market basket index was 3.1 percentage points, while the actual increase was 3.4 percentage points, resulting in a 0.3 percentage point difference. Table 1 below shows the forecasted and actual market basket amount for FY 2006.

TABLE 1.—DIFFERENCE BETWEEN THE FORECASTED AND ACTUAL MARKET BASKET INCREASES FOR FY 2006

Index	Forecasted Actual FY 2006 increase*	Actual FY 2006 increase**	FY 2006 difference
SNF	3.1	3.4	0.3

*Published in FEDERAL REGISTER; based on second quarter 2005 Global Insight Inc. forecast (97 index).
**Based on the first quarter 2007 Global Insight forecast (97 index).

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

[If you choose to comment on issues in this section, please include the caption "Annual Update" at the beginning of your comments.]

A. Federal Prospective Payment System

This proposed rule sets forth a schedule of Federal prospective payment rates applicable to Medicare Part A SNF services beginning October 1, 2007. The schedule incorporates per diem Federal rates that provide Part A payment for all costs of services furnished to a beneficiary in a SNF during a Medicare-covered stay.

1. Costs and Services Covered by the Federal Rates

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

2. Methodology Used for the Calculation of the Federal Rates

The proposed FY 2008 rates would reflect an update using the full amount of the latest market basket index. The FY 2008 market basket increase factor is 3.3 percent. A complete description of the multi-step process initially appeared in the May 12, 1998 interim final rule (63 FR 26252), as further revised in subsequent rules. We note that in accordance with section 101(c)(2) of the BBRA, the previous, temporary increases in the per diem adjusted payment rates for certain designated RUGs, as specified in section 101(a) of the BBRA and section 314 of the BIPA, are no longer in effect due to the implementation of case-mix refinements as of January 1, 2006. However, the temporary increase of 128 percent in the per diem adjusted payment rates for SNF residents with AIDS, enacted by section 511 of the MMA, remains in effect.

We used the SNF market basket to adjust each per diem component of the Federal rates forward to reflect cost increases occurring between the midpoint of the Federal fiscal year beginning October 1, 2006, and ending September 30, 2007, and the midpoint of the Federal fiscal year beginning October 1, 2007, and ending September 30, 2008, to which the payment rates apply. In accordance with section 1888(e)(4)(E)(ii)(IV) of the Act, we update the payment rates for FY 2008 by a factor equal to the full market basket index percentage increase. We further adjust the rates by a wage index budget neutrality factor, described later in this section. Tables 2 and 3 reflect the updated components of the unadjusted Federal rates for FY 2008.

TABLE 2.—FY 2008 UNADJUSTED FEDERAL RATE PER DIEM URBAN

Rate component	Nursing—case-mix	Therapy—case-mix	Therapy—non-case-mix	Non-case-mix
Per Diem Amount	$146.77	$110.55	$14.56	$74.90

TABLE 3.—FY 2008 UNADJUSTED FEDERAL RATE PER DIEM RURAL

Rate component	Nursing—case-mix	Therapy—case-mix	Therapy—non-case-mix	Non-case-mix
Per Diem Amount	$140.22	$127.48	$15.55	$76.29

B. Case-Mix Refinements

Under the BBA, each update of the SNF PPS payment rates must include the case-mix classification methodology applicable for the coming Federal fiscal year. As indicated in section I.F.1. of this proposed rule, the payment rates set forth herein reflect the use of the refined RUG–53 that we discussed in detail in the proposed and final rules for FY 2006 (70 FR 29070, May 19, 2005, and 70 FR 45026, August 4, 2005). As noted in the FY 2006 final rule, we deferred RUG–53 implementation from the beginning of FY 2006 (October 1, 2005) until January 1, 2006, in order to allow sufficient time to prepare for and ease the transition to the refinements (70 FR 45034).

We list the case-mix adjusted payment rates separately for urban and rural SNFs in Tables 4 and 5, with the corresponding case-mix values. These tables do not reflect the AIDS add-on enacted by section 511 of the MMA, which we apply only after making all other adjustments (wage and case-mix).

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Table 4.
RUG-53
CASE-MIX ADJUSTED FEDERAL RATES AND ASSOCIATED INDEXES
URBAN

RUG-III Category	Nursing Index	Therapy Index	Nursing Component	Therapy Component	Non-case Mix Therapy Comp	Non-case Mix Component	Total Rate
RUX	1.90	2.25	278.86	248.74		74.90	602.50
RUL	1.40	2.25	205.48	248.74		74.90	529.12
RVX	1.54	1.41	226.03	155.88		74.90	456.81
RVL	1.33	1.41	195.20	155.88		74.90	425.98
RHX	1.42	0.94	208.41	103.92		74.90	387.23
RHL	1.37	0.94	201.07	103.92		74.90	379.89
RMX	1.93	0.77	283.27	85.12		74.90	443.29
RML	1.68	0.77	246.57	85.12		74.90	406.59
RLX	1.31	0.43	192.27	47.54		74.90	314.71
RUC	1.28	2.25	187.87	248.74		74.90	511.51
RUB	0.99	2.25	145.30	248.74		74.90	468.94
RUA	0.84	2.25	123.29	248.74		74.90	446.93
RVC	1.23	1.41	180.53	155.88		74.90	411.31
RVB	1.09	1.41	159.98	155.88		74.90	390.76
RVA	0.82	1.41	120.35	155.88		74.90	351.13
RHC	1.22	0.94	179.06	103.92		74.90	357.88
RHB	1.11	0.94	162.91	103.92		74.90	341.73
RHA	0.94	0.94	137.96	103.92		74.90	316.78
RMC	1.15	0.77	168.79	85.12		74.90	328.81
RMB	1.09	0.77	159.98	85.12		74.90	320.00
RMA	1.04	0.77	152.64	85.12		74.90	312.66
RLB	1.14	0.43	167.32	47.54		74.90	289.76

RUG-III Category	Nursing Index	Therapy Index	Nursing Component	Therapy Component	Non-case Mix Therapy Comp	Non-case Mix Component	Total Rate
RLA	0.85	0.43	124.75	47.54		74.90	247.19
SE3	1.86		272.99		14.56	74.90	362.45
SE2	1.49		218.69		14.56	74.90	308.15
SE1	1.26		184.93		14.56	74.90	274.39
SSC	1.23		180.53		14.56	74.90	269.99
SSB	1.13		165.85		14.56	74.90	255.31
SSA	1.10		161.45		14.56	74.90	250.91
CC2	1.22		179.06		14.56	74.90	268.52
CC1	1.06		155.58		14.56	74.90	245.04
CB2	0.98		143.83		14.56	74.90	233.29
CB1	0.91		133.56		14.56	74.90	223.02
CA2	0.90		132.09		14.56	74.90	221.55
CA1	0.80		117.42		14.56	74.90	206.88
IB2	0.74		108.61		14.56	74.90	198.07
IB1	0.72		105.67		14.56	74.90	195.13
IA2	0.61		89.53		14.56	74.90	178.99
IA1	0.56		82.19		14.56	74.90	171.65
BB2	0.73		107.14		14.56	74.90	196.60
BB1	0.69		101.27		14.56	74.90	190.73
BA2	0.60		88.06		14.56	74.90	177.52
BA1	0.52		76.32		14.56	74.90	165.78
PE2	0.85		124.75		14.56	74.90	214.21
PE1	0.82		120.35		14.56	74.90	209.81
PD2	0.78		114.48		14.56	74.90	203.94
PD1	0.76		111.55		14.56	74.90	201.01
PC2	0.71		104.21		14.56	74.90	193.67
PC1	0.69		101.27		14.56	74.90	190.73
PB2	0.55		80.72		14.56	74.90	170.18
PB1	0.54		79.26		14.56	74.90	168.72
PA2	0.53		77.79		14.56	74.90	167.25
PA1	0.50		73.39		14.56	74.90	162.85

Table 5.
RUG-53
CASE-MIX ADJUSTED FEDERAL RATES AND ASSOCIATED INDEXES
RURAL

RUG-III Category	Nursing Index	Therapy Index	Nursing Component	Therapy Component	Non-case Mix Therapy Comp	Non-case Mix Component	Total Rate
RUX	1.9	2.25	266.42	286.83		76.29	629.54
RUL	1.4	2.25	196.31	286.83		76.29	559.43
RVX	1.54	1.41	215.94	179.75		76.29	471.98
RVL	1.33	1.41	186.49	179.75		76.29	442.53
RHX	1.42	0.94	199.11	119.83		76.29	395.23

RHL	1.37	0.94	192.10	119.83		76.29	388.22
RMX	1.93	0.77	270.62	98.16		76.29	445.07
RML	1.68	0.77	235.57	98.16		76.29	410.02
RLX	1.31	0.43	183.69	54.82		76.29	314.80
RUC	1.28	2.25	179.48	286.83		76.29	542.60
RUB	0.99	2.25	138.82	286.83		76.29	501.94
RUA	0.84	2.25	117.78	286.83		76.29	480.90
RVC	1.23	1.41	172.47	179.75		76.29	428.51
RVB	1.09	1.41	152.84	179.75		76.29	408.88
RVA	0.82	1.41	114.98	179.75		76.29	371.02
RHC	1.22	0.94	171.07	119.83		76.29	367.19
RHB	1.11	0.94	155.64	119.83		76.29	351.76
RHA	0.94	0.94	131.81	119.83		76.29	327.93
RMC	1.15	0.77	161.25	98.16		76.29	335.70
RMB	1.09	0.77	152.84	98.16		76.29	327.29
RMA	1.04	0.77	145.83	98.16		76.29	320.28
RLB	1.14	0.43	159.85	54.82		76.29	290.96
RLA	0.85	0.43	119.19	54.82		76.29	250.30
SE3	1.86		260.81		15.55	76.29	352.65
SE2	1.49		208.93		15.55	76.29	300.77
SE1	1.26		176.68		15.55	76.29	268.52
SSC	1.23		172.47		15.55	76.29	264.31
SSB	1.13		158.45		15.55	76.29	250.29
SSA	1.10		154.24		15.55	76.29	246.08
CC2	1.22		171.07		15.55	76.29	262.91
CC1	1.06		148.63		15.55	76.29	240.47
CB2	0.98		137.42		15.55	76.29	229.26
CB1	0.91		127.60		15.55	76.29	219.44
CA2	0.90		126.20		15.55	76.29	218.04
CA1	0.80		112.18		15.55	76.29	204.02
IB2	0.74		103.76		15.55	76.29	195.60
IB1	0.72		100.96		15.55	76.29	192.80
IA2	0.61		85.53		15.55	76.29	177.37
IA1	0.56		78.52		15.55	76.29	170.36
BB2	0.73		102.36		15.55	76.29	194.20
BB1	0.69		96.75		15.55	76.29	188.59
BA2	0.60		84.13		15.55	76.29	175.97
BA1	0.52		72.91		15.55	76.29	164.75
PE2	0.85		119.19		15.55	76.29	211.03
PE1	0.82		114.98		15.55	76.29	206.82
PD2	0.78		109.37		15.55	76.29	201.21
PD1	0.76		106.57		15.55	76.29	198.41
PC2	0.71		99.56		15.55	76.29	191.40
PC1	0.69		96.75		15.55	76.29	188.59
PB2	0.55		77.12		15.55	76.29	168.96
PB1	0.54		75.72		15.55	76.29	167.56
PA2	0.53		74.32		15.55	76.29	166.16
PA1	0.50		70.11		15.55	76.29	161.95

C. Wage Index Adjustment to Federal Rates

Section 1888(e)(4)(G)(ii) of the Act requires that we adjust the Federal rates to account for differences in area wage levels, using a wage index that we find appropriate. Since the inception of a PPS for SNFs, we have used hospital wage data in developing a wage index to be applied to SNFs. We propose to continue that practice for FY 2008, as we continue to believe that in the absence of SNF-specific wage data, using the hospital inpatient wage data is appropriate and reasonable for the SNF PPS. As explained in the update notice for FY 2005 (69 FR 45786, July 30, 2004), the SNF PPS does not use the hospital area wage index's occupational mix adjustment, as this adjustment serves specifically to define the occupational categories more clearly in a hospital setting; moreover, the collection of the occupational wage data also excludes any wage data related to SNFs. Therefore, we believe that using the updated wage data exclusive of the occupational mix adjustment continues to be appropriate for SNF payments.

We would apply the wage index adjustment to the labor-related portion of the Federal rate, which is 73.757 percent of the total rate. This percentage reflects the labor-related relative importance for FY 2008, using the proposed revised and rebased FY 2004-based market basket. The labor-related relative importance for FY 2007 was 75.839, using the FY 1997-based market basket, as shown in Table 11. We calculate the labor-related relative importance from the SNF market basket, and it approximates the labor-related portion of the total costs after taking into account historical and projected price changes between the base year and FY 2008. The price proxies that move the different cost categories in the market basket do not necessarily change at the same rate, and the relative importance captures these changes. Accordingly, the relative importance figure more closely reflects the cost share weights for FY 2008 than the base year weights from the SNF market basket.

We calculate the labor-related relative importance for FY 2008 in four steps. First, we compute the FY 2008 price index level for the total market basket and each cost category of the market basket. Second, we calculate a ratio for each cost category by dividing the FY 2008 price index level for that cost category by the total market basket price index level. Third, we determine the FY 2008 relative importance for each cost category by multiplying this ratio by the base year (FY 1997) weight. Finally, we add the FY 2008 relative importance for each of the labor-related cost categories (wages and salaries, employee benefits, nonmedical professional fees, labor-intensive services, and a portion of capital-related expenses) to produce the FY 2008 labor-related relative importance. Tables 6 and 7 below show the Federal rates by labor-related and non-labor-related components.

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Table 6.
RUG-53
Case-Mix Adjusted Federal Rates for Urban SNFs
By Labor and Non-Labor Component

RUG-III Category	Total Rate	Labor Portion	Non-Labor Portion
RUX	602.50	444.39	158.11
RUL	529.12	390.26	138.86
RVX	456.81	336.93	119.88
RVL	425.98	314.19	111.79
RHX	387.23	285.61	101.62
RHL	379.89	280.20	99.69
RMX	443.29	326.96	116.33
RML	406.59	299.89	106.70
RLX	314.71	232.12	82.59
RUC	511.51	377.27	134.24
RUB	468.94	345.88	123.06
RUA	446.93	329.64	117.29
RVC	411.31	303.37	107.94
RVB	390.76	288.21	102.55
RVA	351.13	258.98	92.15
RHC	357.88	263.96	93.92
RHB	341.73	252.05	89.68
RHA	316.78	233.65	83.13
RMC	328.81	242.52	86.29
RMB	320.00	236.02	83.98
RMA	312.66	230.61	82.05
RLB	289.76	213.72	76.04
RLA	247.19	182.32	64.87
SE3	362.45	267.33	95.12
SE2	308.15	227.28	80.87
SE1	274.39	202.38	72.01
SSC	269.99	199.14	70.85
SSB	255.31	188.31	67.00
SSA	250.91	185.06	65.85
CC2	268.52	198.05	70.47
CC1	245.04	180.73	64.31
CB2	233.29	172.07	61.22
CB1	223.02	164.49	58.53
CA2	221.55	163.41	58.14

CA1	206.88	152.59	54.29
IB2	198.07	146.09	51.98
IB1	195.13	143.92	51.21
IA2	178.99	132.02	46.97
IA1	171.65	126.60	45.05
BB2	196.60	145.01	51.59
BB1	190.73	140.68	50.05
BA2	177.52	130.93	46.59
BA1	165.78	122.27	43.51
PE2	214.21	157.99	56.22
PE1	209.81	154.75	55.06
PD2	203.94	150.42	53.52
PD1	201.01	148.26	52.75
PC2	193.67	142.85	50.82
PC1	190.73	140.68	50.05
PB2	170.18	125.52	44.66
PB1	168.72	124.44	44.28
PA2	167.25	123.36	43.89
PA1	162.85	120.11	42.74

Table 7.
RUG-53
Case-Mix Adjusted Federal Rates for Rural SNFs
by Labor and Non-Labor Component

RUG-III Category	Total Rate	Labor Portion	Non-Labor Portion
RUX	629.54	464.33	165.21
RUL	559.43	412.62	146.81
RVX	471.98	348.12	123.86
RVL	442.53	326.40	116.13
RHX	395.23	291.51	103.72
RHL	388.22	286.34	101.88
RMX	445.07	328.27	116.80
RML	410.02	302.42	107.60
RLX	314.80	232.19	82.61
RUC	542.60	400.21	142.39
RUB	501.94	370.22	131.72
RUA	480.90	354.70	126.20
RVC	428.51	316.06	112.45
RVB	408.88	301.58	107.30
RVA	371.02	273.65	97.37
RHC	367.19	270.83	96.36
RHB	351.76	259.45	92.31

RHA	327.93	241.87	86.06
RMC	335.70	247.60	88.10
RMB	327.29	241.40	85.89
RMA	320.28	236.23	84.05
RLB	290.96	214.60	76.36
RLA	250.30	184.61	65.69
SE3	352.65	260.10	92.55
SE2	300.77	221.84	78.93
SE1	268.52	198.05	70.47
SSC	264.31	194.95	69.36
SSB	250.29	184.61	65.68
SSA	246.08	181.50	64.58
CC2	262.91	193.91	69.00
CC1	240.47	177.36	63.11
CB2	229.26	169.10	60.16
CB1	219.44	161.85	57.59
CA2	218.04	160.82	57.22
CA1	204.02	150.48	53.54
IB2	195.60	144.27	51.33
IB1	192.80	142.20	50.60
IA2	177.37	130.82	46.55
IA1	170.36	125.65	44.71
BB2	194.20	143.24	50.96
BB1	188.59	139.10	49.49
BA2	175.97	129.79	46.18
BA1	164.75	121.51	43.24
PE2	211.03	155.65	55.38
PE1	206.82	152.54	54.28
PD2	201.21	148.41	52.80
PD1	198.41	146.34	52.07
PC2	191.40	141.17	50.23
PC1	188.59	139.10	49.49
PB2	168.96	124.62	44.34
PB1	167.56	123.59	43.97
PA2	166.16	122.55	43.61
PA1	161.95	119.45	42.50

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Section 1888(e)(4)(G)(ii) of the Act also requires that we apply this wage index in a manner that does not result in aggregate payments that are greater or less than would otherwise be made in the absence of the wage adjustment. For FY 2008 (Federal rates effective October 1, 2007), we would apply the most recent wage index using the hospital inpatient wage data, and would also apply an adjustment to fulfill the budget neutrality requirement. We would meet this requirement by multiplying each of the components of the unadjusted Federal rates by a factor equal to the ratio of the volume weighted mean wage adjustment factor (using the wage index

from the previous year) to the volume weighted mean wage adjustment factor, using the wage index for the FY beginning October 1, 2006. We use the same volume weights in both the numerator and denominator, and derive them from the 1997 Medicare Provider Analysis and Review File (MEDPAR) data. We define the wage adjustment factor used in this calculation as the labor share of the rate component multiplied by the wage index plus the non-labor share. The proposed budget neutrality factor for this year is 1.0003. The wage index applicable to FY 2008 appears in Tables 8 and 9 of this proposed rule.

In the SNF PPS final rule for FY 2006 (70 FR 45026, August 4, 2005), we adopted the changes discussed in the Office of Management and Budget (OMB) Bulletin No. 03–04 (June 6, 2003), available online at *www.whitehouse.gov/omb/bulletins/ b03–04.html,* which announced revised definitions for Metropolitan Statistical Areas (MSAs), and the creation of Micropolitan Statistical Areas and Combined Statistical Areas. In addition, OMB published subsequent bulletins regarding CBSA changes, including changes in CBSA numbers and titles. We wish to clarify that this and all subsequent SNF PPS rules and notices are considered to incorporate the CBSA

changes published in the most recent OMB bulletin that applies to the hospital wage data used to determine the current SNF PPS wage index. The OMB bulletins may be accessed online at *http://www.whitehouse.gov/omb/ bulletins/index.html*.

In adopting the OMB Core-Based Statistical Area (CBSA) geographic designations, we provided for a 1-year transition with a blended wage index for all providers. For FY 2006, the wage index for each provider consisted of a blend of 50 percent of the FY 2006 MSA-based wage index and 50 percent of the FY 2006 CBSA-based wage index (both using FY 2002 hospital data). We referred to the blended wage index as the FY 2006 SNF PPS transition wage index. As discussed in the SNF PPS final rule for FY 2006 (70 FR 45041), subsequent to the expiration of this 1-year transition on September 30, 2006, we used the full CBSA-based wage index values, as now presented in Tables 8 and 9 of this proposed rule.

When adopting OMB's new labor market designations, we identified some geographic areas where there were no hospitals and, thus, no hospital wage index data on which to base the calculation of the SNF PPS wage index (70 FR 29095, May 19, 2005). As in the SNF PPS final rule for FY 2006 (70 FR 45041) and in the SNF PPS update notice for FY 2007 (71 FR 43170, July 31, 2006), we now address two situations concerning the wage index.

The first situation involves rural locations in Massachusetts and Puerto Rico. Under the CBSA labor market areas, there are no rural hospitals in those locations. Because there was no rural proxy for more recent rural data within those areas, we used the FY 2005 wage index value in both FY 2006 and FY 2007 for rural Massachusetts and rural Puerto Rico.

Because we have used the same wage index value (from FY 2005) for these areas for the previous two fiscal years, we believe it is appropriate at this point to consider alternatives in our methodology to update the wage index for rural areas without hospital wage index data. We believe that the best imputed proxy would (1) use pre-floor, pre-reclassified hospital data, (2) use the most local data available, (3) be easy to evaluate, and (4) be easily updateable from year-to-year. Although our current methodology uses local, rural pre-floor, pre-reclassified hospital wage data, this method is not updateable from year-to-year.

Therefore, in cases where there is a rural area without hospital wage data, we propose using the average wage index from all contiguous CBSAs to represent a reasonable proxy for the rural area. This approach uses pre-floor, pre-reclassified hospital wage data, is easy to evaluate, is updateable from year-to-year, and uses the most local data available.

In determining an imputed rural wage index, we interpret the term "contiguous" to mean sharing a border. For example, in the case of Massachusetts, the entire rural area consists of Dukes and Nantucket counties. We have determined that the borders of Dukes and Nantucket counties are "contiguous" with Barnstable and Bristol counties. Under the proposed methodology, the wage indexes for the counties of Barnstable (CBSA 12700, Barnstable Town, MA-(1.2539)) and Bristol (CBSA 39300, Providence-New Bedford-Fall River, RI-MA-(1.0783)) are averaged, resulting in an imputed rural wage index of 1.1665 for rural Massachusetts for FY 2008. While we believe that this policy could be readily applied to other rural areas that lack hospital wage data (possibly due to hospitals converting to a different provider type, such as a CAH, that does not submit the appropriate wage data), should a similar situation arise in the future, we may re-examine this policy. However, we do not believe that this policy is appropriate for Puerto Rico. There are sufficient economic differences between hospitals in the United States and those in Puerto Rico (including the payment of hospitals in Puerto Rico using blended Federal/ Commonwealth-specific rates) to warrant establishing a separate and distinct policy specifically for Puerto Rico. Consequently, any alternative methodology for imputing a wage index for rural Puerto Rico would need to take into account those differences. Our policy of imputing a rural wage index based on the wage index(es) of CBSAs contiguous to the rural area in question does not recognize the unique circumstances of Puerto Rico. While we have not yet identified an alternative methodology for imputing a wage index for rural Puerto Rico, we will continue to evaluate the feasibility of using existing hospital wage data and, possibly, wage data from other sources. Accordingly, we propose to continue using the most recent wage index previously available for rural Puerto Rico; that is, a wage index of 0.4047.

The second situation involved the urban CBSA (25980) Hinesville-Fort Stewart, GA. Again, under CBSA designations there are no urban hospitals within that CBSA. For FY 2006 and FY 2007, we used all of the urban areas within the State to serve as a reasonable proxy for the urban area without specific hospital wage index data in determining the SNF PPS wage index.

We propose to continue this approach for urban areas without specific hospital wage index data. Therefore, the wage index for urban CBSA (25980) Hinesville-Fort Stewart, GA is calculated as the average wage index of all urban areas in Georgia.

We solicit comments on these approaches to calculating the wage index values for areas without hospitals for FY 2008 and subsequent years.

D. Updates to the Federal Rates

In accordance with section 1888(e)(4)(E) of the Act as amended by section 311 of the BIPA, the proposed payment rates in this proposed rule reflect an update equal to the full SNF market basket, estimated at 3.3 percentage points. We will continue to disseminate the rates, wage index, and case-mix classification methodology through the **Federal Register** before the August 1 that precedes the start of each succeeding fiscal year.

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

As discussed in § 413.345, we include in each update of the Federal payment rates in the **Federal Register** the designation of those specific RUGs under the classification system that represent the required SNF level of care, as provided in § 409.30. This designation reflects an administrative presumption under the refined RUG–53 that beneficiaries who are correctly assigned to one of the upper 35 of the RUG–53 groups on the initial 5-day, Medicare-required assessment are automatically classified as meeting the SNF level of care definition up to and including the assessment reference date on the 5-day Medicare required assessment.

A beneficiary assigned to any of the lower 18 groups is not automatically classified as either meeting or not meeting the definition, but instead receives an individual level of care determination using the existing administrative criteria. This presumption recognizes the strong likelihood that beneficiaries assigned to one of the upper 35 groups during the immediate post-hospital period require a covered level of care, which would be significantly less likely for those beneficiaries assigned to one of the lower 18 groups.

In this proposed rule, we are continuing the designation of the upper 35 groups for purposes of this administrative presumption, consisting

of the following RUG–53 classifications: All groups within the Rehabilitation plus Extensive Services category; all groups within the Ultra High Rehabilitation category; all groups within the Very High Rehabilitation category; all groups within the High Rehabilitation category; all groups within the Medium Rehabilitation category; all groups within the Low

Rehabilitation category; all groups within the Extensive Services category; all groups within the Special Care category; and, all groups within the Clinically Complex category.

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

Using the SNF XYZ described in Table 10 below, the following shows the

adjustments made to the Federal per diem rate to compute the provider's actual per diem PPS payment. SNF XYZ's total PPS payment would equal $29,656. The Labor and Non-labor columns are derived from Table 6 of this proposed rule.

TABLE 10.—RUG–53 SNF XYZ: LOCATED IN CEDAR RAPIDS, IA (URBAN CBSA 16300) WAGE INDEX: 0.8853

RUG group	Labor	Wage index	Adj. labor	Non-labor	Adj. rate	Percent adj	Medicare days	Payment
RVX	$336.93	0.8853	$298.28	$119.88	$418.16	$418.16	14	$5,854.00
RLX	232.12	0.8853	205.50	82.59	288.09	288.09	30	8,643.00
RHA	233.65	0.8853	206.85	83.13	289.98	289.98	16	4,640.00
CC2	198.05	0.8853	175.33	70.47	245.80	*560.43	10	5,604.00
IA2	132.02	0.8853	116.88	46.97	163.85	163.85	30	4,915.00
	....	....	....	....	....	....	100	29,656.00

* Reflects a 128 percent adjustment from section 511 of the MMA.

III. The Skilled Nursing Facility Market Basket Index

[If you choose to comment on issues in this section, please include the caption "Market Basket Index" at the beginning of your comments.]

Section 1888(e)(5)(A) of the Act requires us to establish a SNF market basket index (input price index) that reflects changes over time in the prices of an appropriate mix of goods and

services included in the SNF PPS. This proposed rule incorporates the latest available projections of the SNF market basket index. We will incorporate into the SNF final rule updated projections based on the latest available projections at that time. Accordingly, 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. A discussion of our

proposal to revise and rebase the SNF market basket appears in section IV. of this proposed rule.

Each year, we calculate a revised labor-related share based on the relative importance of labor-related cost categories in the input price index. Table 11 below summarizes the proposed updated labor-related share for FY 2008, which is based on the proposed rebased and revised SNF market basket.

TABLE 11.—LABOR-RELATED RELATIVE IMPORTANCE, FY 2007 AND FY 2008

	Relative importance, labor-related, FY 2007 (1997-based index) 0:2 forecast	Relative importance, labor-related, FY 2008 (2004-based index) 07:41 forecast
Wages and salaries	54.231	53.628
Employee benefits	11.903	12.299
Nonmedical professional fees	2.721	1.442
Labor-intensive services	4.035	3.746
Capital-related (.391)	2.949	2.642
Total	75.839	73.757

Source: Global Insight, Inc., formerly DRI–WEFA.

A. Use of the Skilled Nursing Facility Market Basket Percentage

Section 1888(e)(5)(B) of the Act defines the SNF market basket percentage as the percentage change in the SNF market basket index, as described in the previous section, from the average of the prior fiscal year to the average of the current fiscal year. For the Federal rates established in this proposed rule, we use the percentage increase in the SNF market basket index to compute the update factor for FY

2008. We use the Global Insight, Inc. (formerly DRI–WEFA), 1st quarter 2007 forecasted percentage increase in the FY 2004-based SNF market basket index for routine, ancillary, and capital-related expenses, described in the previous section, to compute the update factor in this proposed rule. Finally, as discussed in section I.A. of this proposed rule, we no longer compute update factors to adjust a facility-specific portion of the SNF PPS rates, because the initial three-phase transition period from facility-

specific to full Federal rates that started with cost reporting periods beginning in July 1998 has expired.

B. Market Basket Forecast Error Adjustment

As discussed in the June 10, 2003, supplemental proposed rule (68 FR 34768) and finalized in the August 4, 2003, final rule (68 FR 46067), the regulations at 42 CFR 413.337(d)(2) currently provide for an adjustment to account for market basket forecast error.

The initial adjustment applied to the update of the FY 2003 rate for FY 2004, and took into account the cumulative forecast error for the period from FY 2000 through FY 2002. Subsequent adjustments in succeeding FYs take into account the forecast error from the most recently available fiscal year for which there is final data, and apply whenever the difference between the forecasted and actual change in the market basket exceeds a 0.25 percentage point threshold. As also discussed previously in section I.F.2. of this proposed rule, we are proposing to raise the 0.25 percentage point threshold for forecast error adjustments under the SNF PPS to 0.5 percentage point effective with FY 2008, and we invite comments on increasing the forecast error adjustment threshold and its effective date, as well as other aspects of this proposed rule. As also discussed in that section, the payment rates for FY 2008 do not include a forecast error adjustment, as the difference between the estimated and actual amounts of increase in the market basket index for FY 2006 (the most recently available fiscal year for which there is final data) does not exceed the proposed 0.5 percentage point threshold.

C. Federal Rate Update Factor

Section 1888(e)(4)(E)(ii)(IV) of the Act requires that the update factor used to establish the FY 2008 Federal rates be at a level equal to the full market basket percentage change. Accordingly, to establish the update factor, we determined the total growth from the average market basket level for the period of October 1, 2006 through September 30, 2007 to the average market basket level for the period of October 1, 2007 through September 30, 2008. Using this process, the proposed market basket update factor for FY 2008 SNF Federal rates is 3.3 percent. We used this revised proposed update factor to compute the Federal portion of the SNF PPS rate shown in Tables 2 and 3.

IV. Revising and Rebasing the Skilled Nursing Facility Market Basket Index

[If you choose to comment on issues in this section, please include the caption "Revising and Rebasing" at the beginning of your comments.]

A. Background

Section 1888(e)(5)(A) of the Social Security Act requires the Secretary to establish a market basket index that reflects the changes over time in the prices of an appropriate mix of goods and services included in the SNF PPS. Effective for cost reporting periods beginning on or after July 1, 1998, we revised and rebased our 1977 routine costs input price index and adopted a total expenses SNF input price index using FY 1992 as the base year. In 2001 we rebased and revised the market basket to a base year of FY 1997. This year, in 2007, we propose to revise and rebase the SNF market basket to a base year of FY 2004.

The term "market basket" technically describes the mix of goods and services needed to produce SNF care, and is also commonly used to denote the input price index that includes both weights (mix of goods and services) and price factors. The term "market basket" used in this proposed rule refers to the SNF input price index.

The proposed FY 2004-based SNF market basket represents routine costs, costs of ancillary services, and capital-related costs. The percentage change in the market basket reflects the average change in the price of a fixed set of goods and services purchased by SNFs in order to furnish all services. For further background information, see the May 12, 1998 interim final rule (63 FR 26289) and the July 31, 2001 final rule (66 FR 39582).

For purposes of the SNF PPS, the SNF market basket is a fixed-weight (Laspeyres-type) price index. A Laspeyres-type index compares the cost of purchasing a specified mix of goods and services in a selected base period to the cost of purchasing that same group of goods and services at current prices.

We construct the market basket in three steps. The first step is to select a base period and estimate total base period expenditure shares for mutually exclusive and exhaustive spending categories. We use total costs for routine services, ancillary services, and capital. These shares are called "cost" or "expenditure" weights. The second step is to match each expenditure category to a price/wage variable, called a price proxy. We draw these price proxy variables from publicly available statistical series published on a consistent schedule, preferably at least quarterly. The final step involves multiplying the price level for each spending category by the cost weight for that category. The sum of these products (that is, weights multiplied by proxy index levels) for all cost categories yields the composite index level of the market basket for a given quarter or year. Repeating the third step for other quarters and years produces a time series of market basket index levels, from which we can calculate rates of growth.

The market basket represents a fixed-weight index because it answers the question of how much more or less it would cost, at a later time, to purchase the same mix of goods and services that was purchased in the base period. The effects on total expenditures resulting from changes in the quantity or mix of goods and services purchased subsequent or prior to the base period are, by design, not considered.

As discussed in the May 12, 1998 interim final rule (63 FR 26252) and in the July 31, 2001 final rule (66 FR 39582), to implement section 1888(e)(5)(A) of the Act we propose to revise and rebase the market basket so the cost weights and price proxies reflect the mix of goods and services that SNFs purchased for all costs (routine, ancillary, and capital-related) included in the SNF PPS for FY 2004.

B. Rebasing and Revising the Skilled Nursing Facility Market Basket

The terms "rebasing" and "revising", while often used interchangeably, actually denote different activities. Rebasing means shifting the base year for the structure of costs of the input price index (for example, for this proposed rule, we propose to shift the base year cost structure from fiscal year 1997 to fiscal year 2004). Revising means changing data sources, cost categories, price proxies, and/or methodology used in developing the input price index.

We are proposing both to rebase and revise the SNF market basket to reflect 2004 Medicare allowable total cost data (routine, ancillary, and capital-related). Medicare allowable costs are costs that could be reimbursed under the SNF PPS. For example, the SNF market basket excludes home health aide costs as these costs would be reimbursed under the HHA PPS and, therefore, these costs are not SNF Medicare allowable costs.

The 1997-based SNF market basket is based on total facility costs, which includes costs not reimbursed under the SNF PPS (such as nursing facility, long-term care, HHA, and intermediate care facility costs). Due to insufficient data, we were unable to separate Medicare allowable costs from total facility costs during the 1997-based SNF market basket rebasing and other previous rebasings. For this current rebasing analysis, we compared a 2004-based SNF market basket based on Medicare allowable costs to one based on total facility cost methodologies and found the cost weights to be similar. We believe that using only Medicare allowable costs better reflects the cost structure of SNFs serving Medicare beneficiaries, and permits us to apply the same methodology used to calculate the Inpatient Prospective Payment

System (IPPS), Rehabilitation, Psychiatric, and Long-term Care (RPL), and Home Health Agency (HHA) market baskets.

We selected FY 2004 as the new base year because 2004 is the most recent year for which relatively complete Medicare cost report data are available. In developing the proposed market basket, we reviewed SNF expenditure data from Medicare cost reports for FY 2004 for each freestanding SNF that reported Medicare expenses and payments. The FY 2004 cost reports are those with cost reporting periods beginning after September 30, 2003 and before October 1, 2004. We maintained our policy of using data from freestanding SNFs because freestanding SNF data reflect the actual cost structure faced by the SNF itself. In contrast, expense data for a hospital-based SNF reflect the allocation of overhead over the entire institution. Due to this method of allocation, total expenses will be correct, but the individual components' expenses may be skewed. If data from hospital-based SNFs were included, the resultant cost structure might be unrepresentative of the costs that a typical SNF experiences. We show in table 16 a comparison of the proposed 2004-based Medicare allowable and total facility SNF market baskets.

We developed cost category weights for the proposed 2004-based market basket in two stages. First, we derived base weights for seven major categories (wages and salaries, employee benefits, contract labor, pharmaceuticals, professional liability insurance, capital-related, and a residual "all other") using edited SNF Medicare cost reports. We edited the Medicare costs reports to remove reports where the data were deemed unreliable (for example, when total costs were not greater than zero). We divided the residual "all other" cost category into subcategories, using U.S. Department of Commerce Bureau of Economic Analysis' 1997 Benchmark Input-Output (I–O) tables for the nursing home industry aged forward using price changes. (The methodology we used to age the data involves applying the annual changes from the price proxies to the appropriate cost categories. We repeat this practice for each year.) The 1997-based SNF market basket used the U.S. Department of Commerce Bureau of Economic Analysis' 1997 Annual Input-Output tables and the 1997 Business Expenditures Survey. The 1997 Annual I–O is an update of the 1992 Benchmark I–O data, while the 1997 Benchmark I–O is based on a completely new set of data and, thus, is a more comprehensive

and up-to-date data source for nursing home expenditure data.

The capital-related portion of the proposed rebased and revised SNF PPS market basket employs the same overall methodology used to develop the capital-related portion of the 1992-based SNF market basket, described in the May 12, 1998 interim final rule (63 FR 26289) and the 1997-based SNF market basket, described in the July 31, 2001 final rule (66 FR 39582). It is also the same methodology used for the inpatient hospital capital input price index described in the May 31, 1996 proposed rule (61 FR 27466), the August 30, 1996 final rule (61 FR 46196), and the August 12, 2005 final rule (70 FR 47407). The strength of this methodology is that it reflects the vintage nature of capital, which represents the acquisition and use of capital over time. We explain this methodology in more detail below.

Our proposed rebasing and revising of the market basket index resulted in 23 cost weights, a change from the current market basket. We are adding cost categories for postage and professional liability insurance (PLI), and have changed price proxies in several of the categories. We describe below the sources of the main category weights and their subcategories in the proposed 2004-based SNF market basket. The proposed market basket contains 23 detailed cost weights, two more cost weights than the 1997-based index.

Wages and Salaries: We derived the wages and salaries cost category using the 2004 SNF Medicare Cost Reports. We determined the share using Medicare allowable wages and salaries from Worksheet S–3, part II and total expenses from Worksheet B, part I. Medicare allowable wages and salaries are equal to total wages and salaries minus excluded salaries from Worksheet S–3, part II, as well as nursing facility and non-reimbursable salaries from Worksheet A, lines 18, 34 through 36, and 58 through 63. Medicare allowable total expenses are equal to total expenses from Worksheet B, lines 16, 21 through 30, 32, 33, 48, and 52 through 54. This share represents the wage and salary share of costs for employees for the SNF, and does not include the wages and salaries from contract labor, which are allocated to wages and salaries in a later step.

Employee Benefits: We determined the weight for employee benefits using 2004 SNF Medicare Cost Reports. We derived the share using Medicare allowable wage-related costs from Worksheet S–3, part II and total expenses from Worksheet B. Medicare allowable benefits are equal to total

benefits from Worksheet S–3, part II, minus excluded (non-Medicare allowable) benefits. Non-Medicare allowable benefits are equal to the non-Medicare allowable salaries times the ratio of total benefit costs for the SNF to the total wage costs for the SNF.

Contract Labor: We determined the weight for contract labor using 2004 SNF Medicare Cost Reports. We derived the share using Medicare allowable wage-related costs from Worksheet S–3, part II line 17 minus Nursing Facility (NF) contract labor costs and Medicare allowable total costs from Worksheet B, part I. (Worksheet S–3, part II line 17 only includes direct patient care contract labor attributable to SNF and NF services.) NF contract labor costs (which are not reimbursable under Medicare) are equal to total contract labor costs multiplied by the ratio of NF wages and salaries to the sum of NF and SNF wages and salaries.

We then distributed contract labor costs between the wages and salaries and employee benefits cost categories, under the assumption that contract costs should move at the same rate as direct labor costs even though unit labor cost levels may be different.

Pharmaceuticals: We derived the cost weight for pharmaceuticals from the 2004 SNF Medicare Cost Reports. We calculated this share using non-salary costs from the Pharmacy cost center and the Drugs Charged to Patients' cost center, both found on Worksheet B. Since these drug costs were attributable to the entire SNF and not limited to Medicare allowable services, we adjusted the drug costs by the ratio of Medicare allowable pharmacy total costs to total pharmacy costs from Worksheet B, part I, column 11. Worksheet B, part I allocates the general service cost centers, which are often referred to as "overhead costs" (in which pharmacy costs are included), to the Medicare allowable and non-Medicare allowable cost centers. This resulted in a drug cost weight (3.2 percent) that was slightly higher than the drug cost weight would have been (2.7 percent) if no adjustment for Medicare allowable services had been made. We are proposing to use this methodology to derive the pharmaceutical cost weight.

In addition to the Medicare allowable methodology, we also explored alternative methods for calculating the SNF market basket drug cost weight. Specifically, we researched the viability of calculating a Medicare-specific drug cost weight based on Medicare drug costs as a percent of Medicare total costs. Because these expenses are not reported directly, we were required to

estimate them using cost-to-charge ratios. Medicare drug costs can be calculated as the product of non-salary, non-overhead costs from the Drugs Charged to Patients cost center (including allocated costs from the Pharmacy cost center) from Worksheet B, part I and the cost-to-charge ratio from Worksheet D, part 1. We excluded salary and facility overhead costs from this weight, as these costs would be included in the other cost weights. Medicare total costs can be calculated as the sum of Medicare inpatient costs and Medicare ancillary costs, including Medicare drug costs.

This methodology produced a cost weight that was nearly three times higher than the Medicare allowable drug cost weight. This considerably higher drug cost weight is primarily driven by the cost-to-charge ratio for the Drugs Charged to Patients cost center, which is 0.8 on average based on the 2004 SNF Medicare cost reports. This ratio has been relatively consistent over the last five years. The Drugs Charged to Patient cost center is one of the ancillary cost centers on the Medicare cost report. The

average cost-to-charge ratio for all ancillary cost centers is 0.65.

Furthermore, the Medicare Drugs Charged to Patients cost-to-charge ratios for freestanding SNFs differ greatly from those of hospital-based SNFs. Hospital-based SNFs report an average cost-to-charge ratio for the Drugs Charged to Patients cost center of 0.22. For sensitivity analysis we used the hospital-based ratio of 0.22 to estimate a freestanding SNF Medicare drug cost weight. The resulting weight was 3.3 percent, which is close to the 3.2 percent weight that was determined using the Medicare allowable methodology. Contrary to freestanding SNFs, the cost-to-charge ratio for the Drugs Charged to Patients cost center for hospital-based SNFs is below the average cost-to-charge ratio for all ancillary cost centers, which is 0.29.

The large inconsistencies between freestanding and hospital-based SNFs, including the substantial difference in the drug cost-to-charge ratios, as well as the dissimilarity in the relationships of those ratios to the cost-to-charge ratios from all ancillary cost centers by SNF type, led us to believe this methodology

was inappropriate to use in developing the proposed drug cost weight in the proposed 2004-based SNF market basket. In addition, as part of our sensitivity analysis, we estimated the impact that this alternative methodology would have on our proposed FY 2008 update, and found that it was minimal. However, we are soliciting comments on this methodology. We also welcome any input, data, or documentation from the public that would help to clarify the discrepancies between freestanding and hospital-based facilities' Medicare drug cost weights. Based on further internal analyses and any external data or documentation that we receive from the industry, we may still consider adoption of this Medicare drug cost weight methodology to derive the SNF market basket drug cost weight.

Table 12 below shows the similarity between the SNF market basket percent changes using the drug cost weight calculated with the Medicare allowable methodology for drugs and the market basket percent changes using the alternative drug methodology described above.

Table 12
SNF Market Basket Percent Changes using Medicare Allowable Methodology to Determine Pharmaceuticals Cost Weight, FY 2002-FY 2010

Fiscal Year (FY)	Medicare Allowable Methodology	Alternative Drug Methodology
Historical data:		
FY 2002	3.7	3.8
FY 2003	3.4	3.6
FY 2004	3.3	3.5
FY 2005	3.3	3.4
FY 2006	3.6	3.8
Average FY 2002-2006	3.5	3.6
Forecast:		
FY 2007	3.3	3.4
FY 2008	3.3	3.4
FY 2009	3.1	3.2
FY 2010	2.9	3.0
Average FY 2007-2010	3.2	3.3

Source: Global Insight, Inc. 1st Qtr 2007, @USMACRO/CNTL0307@CISSIM/TL0207.SIM

Malpractice: Unlike the 1997-based SNF market basket, the proposed 2004-based SNF market basket includes a separate cost category for professional liability insurance (PLI). The 2004 SNF

Medicare cost reports include PLI as an entry, while in 1997 very few SNFs reported data for malpractice premiums, paid losses, or self-insurance on Worksheet S–2. In addition, the 1997

Benchmark Input-Output table indicated that the general category for insurance carriers (which includes PLI as a subset) was a very small share of total SNF costs in 1997. In the past, it

has been our policy not to provide detailed breakouts of cost categories unless they represent a significant portion of providers' costs. Recent indications are that PLI costs for SNFs are rising.

We calculated the share using malpractice costs from Worksheet S–2 of the Medicare Cost reports to develop a SNF total facility cost weight. Since these malpractice costs are attributable to the entire SNF and not just Medicare allowable services, we adjusted the malpractice costs by the ratio of Medicare allowable beds to total facility beds. We believe this is an appropriate adjustment as malpractice costs are often based on the number of facility beds. The proposed malpractice cost weight is slightly higher than the 2004-based SNF total facility market basket malpractice cost weight.

In addition to the proposed adjustment, we also considered adjusting the total facility malpractice costs by the ratio of SNF inpatient days to total facility days and by the ratio of Medicare allowable costs to total facility costs. We note that these latter adjustment methodologies produced malpractice cost weights that were less than one-tenth of a percentage point different than the Medicare allowable cost weight determined using our proposed adjustment of Medicare allowable beds to total beds. Again, we believe using Medicare allowable beds to total beds is an appropriate adjustment to total facility malpractice costs as malpractice costs are often based on the number of facility beds. Due to a lack of data, the malpractice cost weight was not broken out

separately in the 1997-based SNF market basket.

Capital-Related: We derived the weight for overall capital-related expenses using the 2004 SNF Medicare cost reports. We calculated the Medicare allowable capital-related cost weight from Worksheet B, part II. In determining the subcategory weights for capital, we used information from the 2004 SNF Medicare Cost Reports and the 2002 Bureau of Census' Business Expenditure Survey (BES). We calculated the depreciation cost weight using depreciation costs from Worksheet S–2. Unlike the cost weights described above, we did not calculate the depreciation cost weight using Medicare allowable total costs. Rather, we used total facility costs under the assumption that the depreciation of an asset is not dependent upon whether the asset was used for Medicare or non-Medicare patients.

We determined the distribution between building and fixed equipment and movable equipment from the 2004 SNF Medicare Cost Reports. From these calculations, we estimated the depreciation expenses (that is, depreciation expenses excluding leasing costs) to be 32 percent of total capital-related expenditures in 2004.

We also derived the interest expense share of capital-related expenses from Worksheet A for the same edited 2004 SNF Medicare cost reports. Similar to the depreciation cost weight, we calculated the interest cost weight using total facility costs. For the current market basket, we determined the split of interest expense between for-profit and not-for-profit facilities based on the

distribution of long-term debt outstanding by type of SNF (for-profit or not-for-profit) from the 2004 SNF Medicare cost reports. We estimated the interest expense (that is, interest expenses excluding leasing costs) to be 34 percent of total capital-related expenditures in 2004.

Because the data were not available in the Medicare cost reports, we used the most recent 2002 BES data to derive the capital-related expenses attributable to leasing and other capital-related expenses. We determined the leasing costs to be 21 percent of capital-related expenses in 2002, while we determined the other capital-related costs (insurance, taxes, licenses, other) to be 13 percent of capital-related expenses.

Lease expenses are not broken out as a separate cost category, but are distributed among the cost categories of depreciation, interest, and other, reflecting the assumption that the underlying cost structure of leases is similar to capital costs in general. As was done in previous rebasings, we assumed 10 percent of lease expenses are overhead and assigned them to the other capital expenses cost category as overhead. We distributed the remaining lease expenses to the three cost categories based on the proportion of depreciation, interest, and other capital expenses to total capital costs, excluding lease expenses.

Table 13 shows the capital-related expense distribution (including expenses from leases) in the proposed 2004-based SNF market basket and the 1997-based SNF market basket.

TABLE 13.—COMPARISON OF THE CAPITAL-RELATED EXPENSE DISTRIBUTION OF THE 2004-BASED SNF MARKET BASKET AND THE 1997-BASED SNF MARKET BASKET

Cost category	Proposed 2004-based SNF market basket	1997-based SNF market basket
Capital-related Expenses	7.518	8.602
Total Depreciation	2.981	5.266
Total Interest	3.168	3.852
Other Capital-related Expenses	1.369	0.760

Our methodology for determining the price change of capital-related expenses accounts for the vintage nature of capital, which is the acquisition and use of capital over time. In order to capture this vintage nature, the price proxies must be vintage-weighted. The determination of these vintage weights occurs in two steps. First, we must determine the expected useful life of capital and debt instruments in SNFs. Second, we must identify the proportion

of expenditures within a cost category that is attributable to each individual year over the useful life of the relevant capital assets, or the vintage weights. The data source that we previously used to develop the useful lives of capital is no longer available. We researched alternative data sources and found that the Bureau of Economic Analysis (BEA) provided enough data for us to derive the useful lives of both fixed and movable capital.

Estimates of useful lives for movable and fixed assets are 9 and 22 years, respectively. These estimates are based on data from the BEA which publishes various useful life-related statistics, including asset service lives and average ages. We note, however, that these data in their published form are not directly applicable to SNFs. However, we can use the BEA data to produce our own useful life estimates for SNFs.

BEA service life data are published at a detailed asset level and not at an aggregate level, such as movable and fixed assets. There are 43 detailed movable assets in the BEA estimates. Some examples include computer software (34 months service life), electromedical equipment (9 years), medical instruments and related equipment (12 years), communication equipment (15 years), and office equipment (8 years). There are 23 detailed fixed assets in the BEA estimates. Some examples of detailed fixed assets are medical office buildings (36 years), hospitals and special care buildings (48 years), lodging (32 years), and so on (Bureau of Economic Analysis, *Fixed Assets and Consumer Durable Goods in the United States, 1925–97*, September 2003; Carol E. Moylan and Brooks B. Robinson, "Preview of the 2003 Comprehensive Revision of the National Income and Product Accounts: Statistical Changes," *Survey of Current Business*, Volume 83, No. 9 (September 2003), pp. 17–32).

However, BEA also publishes average asset age estimates. Data are available (1) by detailed and aggregate asset levels and (2) by industry, and were last published in 2002. In these estimates, SNFs are included in the Standard Industrial Classification (SIC) "health services." We recognize, though, that this industry classification encompasses far more than SNFs (that is, hospitals and other health-related facilities, physician and dental services, medical laboratories, home health services, kidney dialysis centers, and more). In 2003, BEA changed their industry classification system to a North American Industrial Classification System (NAICS) basis. SNFs are now included in "nursing and residential care services," a more relevant industry. Unfortunately, at the time of this analysis, BEA had not published average ages based on these new industry classifications.

Nonetheless, we have approximated average movable and fixed asset ages for nursing and residential care services using other published BEA numbers such as those noted previously. At the time of our analysis, 2001 was the latest year of age estimates data. We took average ages for each asset and weighted them using stock levels for each of these assets in the nursing and residential care services industry. The stocks for each specific asset come from BEA's Detailed Fixed Asset Tables (*http://www.bea.gov/national/FA2004/Details/xls/detailnonres_stk1.xls*). This produced average age data for movable and fixed assets of 4.3 and 11.2 years. As average asset ages stay relatively constant from one year to the next, we have assumed these results would remain the same for 2004. Further, as averages are measures of central tendency, we multiplied each of these estimates by two to produce estimates of useful lives of 8.6 and 22.4 years for movable and fixed assets, which we would round to 9 and 22 years, respectively.

We are proposing to use this methodology to develop the vintage weights in the proposed 2004-based SNF market basket. We are proposing an interest vintage weight time span of 20 years, obtained by weighting the movable and fixed vintage weights (9 years and 22 years, respectively) by the moveable and fixed split (14 percent and 86 percent, respectively). We calculated the split between moveable and fixed capital expenses from Worksheet G of the 2004 SNF Medicare cost reports.

Below is a table comparing the market basket percent changes using the proposed useful lives of 9 years for movable assets, 22 years for fixed assets, and 20 years for interest with the 1997-based useful lives of 10 years for movable assets, 23 years for fixed assets, and 23 years for interest. For both the historical and forecasted periods between FY 2002 and FY 2010, the difference between the two market baskets is minor.

Table 14
Comparing the Market Basket Percent Changes using the Proposed and Current Useful Lives

Fiscal Year (FY)	FY04-based Market Basket using Proposed Useful Lives	FY04-based Market Basket using Current Useful Lives
Historical data:		
FY 2002	3.7	3.8
FY 2003	3.4	3.4
FY 2004	3.3	3.3
FY 2005	3.3	3.3
FY 2006	3.6	3.5
Average FY 2002-2006	3.5	3.5
Forecast:		
FY 2007	3.3	3.3
FY 2008	3.3	3.3
FY 2009	3.1	3.1
FY 2010	2.9	2.9
Average FY 2007-2010	3.2	3.2

Source: Global Insight, Inc. 1st Qtr 2007, @USMACRO/CNTL0307@CISSIM/TL0207.SIM

In addition to the proposed methodology, we also researched alternative data sources, including the Medicare cost reports. An asset's useful life can be determined by taking the current year's depreciation costs divided by the depreciable assets. This methodology is used to derive the useful lives of fixed and movable assets in the 2002-based Capital Input Price Index. However, unlike the hospital Medicare cost reports, the SNF Medicare cost reports do not provide depreciation costs for fixed and movable assets separately. We attempted to calculate the 2004 depreciation costs for fixed and movable equipment separately using the SNF Medicare cost reports. Specifically, we subtracted the accumulated depreciation for fixed and moveable assets separately for 2003 and 2002, as reported in the balance sheet (Worksheet G), using a matched sample of SNFs with consecutive cost reporting periods. However, we were unable to use this methodology as less than 1,000 SNF providers reported these data, while approximately 9,000 SNFs reported salary, benefit, and contract labor data. We are hopeful that at our next rebasing of the SNF market basket, there will be sufficient balance sheet data to calculate the useful lives of fixed and movable equipment.

Given the expected useful life of capital and debt instruments, we must determine the proportion of capital expenditures attributable to each year of the expected useful life by cost category. These proportions represent the vintage weights. We were not able to find a historical time series of capital expenditures by SNFs. Therefore, we approximated the capital expenditure patterns of SNFs over time using alternative SNF data sources. For building and fixed equipment, we used the stock of beds in nursing homes from the CMS National Health Accounts for 1962 through 1999. Due to a lack of data for 2000 through 2003, we extrapolated the 1999 bed data forward to 2004 using a 10-year moving average of bed growth.

We then used the change in the stock of beds each year to approximate building and fixed equipment purchases for that year. This procedure assumes that bed growth reflects the growth in capital-related costs in SNFs for building and fixed equipment. We believe that this assumption is reasonable because the number of beds reflects the size of a SNF, and as a SNF adds beds, it also adds fixed capital.

For movable equipment, we used available SNF data to capture the changes in intensity of SNF services that would cause SNFs to purchase movable equipment. We estimated the change in intensity as the change in the ratio of non-therapy ancillary costs to routine costs from 1989 through 2004 using Medicare cost reports. We estimated this ratio for 1962 through 1988 using regression analysis. The time series of the ratio of non-therapy ancillary costs to routine costs for SNFs measures changes in intensity in SNF services, which are assumed to be associated with movable equipment purchase patterns. The assumption here is that as non-therapy ancillary costs increase compared to routine costs, the SNF caseload becomes more complex and would require more movable equipment. Again, the lack of movable equipment purchase data for SNFs over time required us to use alternative SNF data sources. Although we are proposing to use the ratio of non-therapy ancillary costs to routine costs as the proxy for changes in the intensity of SNF services, we are also reviewing the possibility (and feasibility) of using the ratio of total ancillary costs (including therapy and non-therapy costs) to routine costs such as a proxy. We recognize that therapy utilization in SNFs has increased over the last decade and, therefore, the therapy equipment purchases have also likely increased, although perhaps at a different rate than those of non-therapy ancillary equipment. We plan to review this methodology between the publication of the proposed and final rules. We

welcome any comments and/or equipment purchase data that would help enhance this review. Depending upon whether the latter methodology is appropriate and feasible, we may adopt the use of this ratio of total ancillary costs to total routine costs as the proxy for changes in intensity of SNF services that would cause SNFs to purchase movable equipment. The resulting two time series, determined from beds and the ratio of non-therapy ancillary to routine costs, would reflect real capital purchases of building and fixed equipment and movable equipment over time, respectively.

To obtain nominal purchases, which are used to determine the vintage weights for interest, we converted the two real capital purchase series from 1963 through 2004 determined above to nominal capital purchase series using their respective price proxies (the Boeckh Institutional Construction Index and the PPI for Machinery and Equipment). We then combined the two nominal series into one nominal capital purchase series for 1963 through 2004. Nominal capital purchases are needed for interest vintage weights to capture the value of debt instruments.

Once we created these capital purchase time series for 1963 through 2004, we averaged different periods to obtain an average capital purchase pattern over time. For building and fixed equipment we averaged twenty-one 22-year periods, for movable equipment we averaged thirty-four 9-year periods, and for interest we averaged twenty-four 20-year periods. We calculate the vintage weight for a given year by dividing the capital purchase amount in any given year by the total amount of purchases during the expected useful life of the equipment or debt instrument. We described this methodology in the May 12, 1998 interim final rule (63 FR 26252). Table 15 shows the resulting vintage weights for each of these cost categories.

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Table 15
Vintage Weights for Proposed 2004-Based SNF PPS
Capital-Related Price Proxies

Year	Building and Fixed Equipment	Movable Equipment	Interest
1	0.078	0.133	0.039
2	0.073	0.153	0.039
3	0.071	0.129	0.04
4	0.066	0.075	0.04
5	0.06	0.084	0.042
6	0.05	0.098	0.043
7	0.046	0.106	0.045
8	0.042	0.108	0.047
9	0.037	0.115	0.049
10	0.034		0.052
11	0.035		0.055
12	0.037		0.057
13	0.037		0.058
14	0.036		0.057
15	0.035		0.054
16	0.035		0.054
17	0.035		0.055
18	0.036		0.056
19	0.037		0.057
20	0.039		0.059
21	0.04		
22	0.042		
Total	1.000*	1.000*	1.000*

SOURCES: 2004 SNF Medicare Cost Reports; CMS,
*NOTE: Totals may not sum to 1.000 due to rounding.

We divided the residual "all other" cost category into subcategories, using the BEA's Benchmark Input-Output Tables for the nursing home industry aged to 2004 using relative price changes. (The methodology we used to age the data involves applying the annual price changes from the price proxies to the appropriate cost categories. We repeat this practice for each year.) Therefore, we derive approximately 80 percent of the 2004-based SNF market basket from FY 2004 Medicare cost report data for freestanding SNFs.

Below is a table comparing the proposed 2004-based SNF market basket using the proposed Medicare allowable methodology and the proposed 2004-based SNF market basket using the total facility methodology.

Table 16
Comparison of the Proposed 2004-based SNF Market Basket (Medicare Allowable Methodology) and the 2004-based SNF Total Facility Market Basket Cost Weights

Cost Category	Proposed 2004-based SNF Market Basket (Medicare Allowable Methodology) Weights	2004-based SNF Total Facility Market Basket Weights
Compensation	65.458	62.604
Wages and Salaries	53.563	51.498
Employee benefits	11.895	11.106
Nonmedical professional fees	1.426	1.914
Professional Liability Insurance	1.784	1.457
Utilities	1.673	2.120
Electricity	0.992	1.063
Fuels, nonhighway	0.488	0.483
Water and sewerage	0.193	0.574
All Other	22.141	23.774
Other Products	15.219	15.352
Pharmaceuticals	3.209	2.725
Food, wholesale purchase	3.135	3.308
Food, retail purchase	3.398	3.606
Chemicals	0.636	0.551
Rubber and plastics	1.632	1.712
Paper products	1.504	1.478
Miscellaneous products	1.706	1.972
Other Services	6.922	8.422
Telephone Services	0.469	0.478
Postage	0.490	0.522
Labor-intensive Services	3.798	4.150
Non labor-intensive services	2.166	3.272
Capital-related Expenses	7.518	8.129
Total Depreciation	2.981	3.224
Building & Fixed Equipment	2.556	2.764
Movable Equipment	0.426	0.460
Total Interest	3.168	3.425
For-Profit SNFs	1.919	2.075
Government & Nonprofit SNFs	1.249	1.350
Other Capital-related Expenses	1.369	1.480
Total	100.000*	100.000*

* NOTE: Totals may not sum to 100.000 due to rounding.

Using the Medicare allowable methodology does affect the individual cost weights of the SNF market basket. The compensation cost weight using the Medicare allowable methodology is higher than that calculated using the total facility methodology. This is primarily due to the exclusion of long term care hospital (LTCH) and nonreimbursable inpatient costs (including, but not limited to gift, flower, coffee, barber shops and physician private offices) from the Medicare allowable cost weight. In addition, LTCH and nonreimbursable

services tend to be less labor intensive; therefore, the exclusion of these costs from the Medicare allowable market basket results in a higher compensation weight than the compensation weight in the total facility market basket.

The capital cost weight using the Medicare allowable methodology is slightly lower than the total facility methodology. This is also primarily due to the exclusion of LTCH and nonreimbursable inpatient costs.

Below is a table comparing the proposed 2004-based SNF market basket with the currently used 1997-based SNF market basket.

Table 17
Comparison of the Proposed 2004-based SNF Market Basket (Medicare Allowable Methodology) and the 1997-based SNF Market Basket Cost Weights

Cost Category	Proposed 2004-based SNF Market Basket (Medicare Allowable Methodology) Weights	1997-based SNF Market Basket Weights
Compensation	65.458	62.998
Wages and Salaries	53.563	52.263
Employee benefits	11.895	10.734
Nonmedical professional fees	1.426	2.634
Professional Liability Insurance	1.784	n/a
Utilities	1.673	2.368
Electricity	0.992	1.420
Fuels, nonhighway	0.488	0.426
Water and sewerage	0.193	0.522
Other Expenses	22.141	22.123
Other Products	15.219	13.522
Pharmaceuticals	3.209	3.006
Food, wholesale purchase	3.135	3.198
Food, retail purchase	3.398	0.937
Chemicals	0.636	0.891
Rubber and plastics	1.632	1.611
Paper products	1.504	1.289
Miscellaneous products	1.706	2.589
Other Services	6.922	8.602
Telephone Services	0.469	0.448
Postage	0.490	n/a
Labor-intensive Services	3.798	4.094
Non labor-intensive services	2.166	4.059
Capital-related Expenses	7.518	9.877
Total Depreciation	2.981	5.266
Building & Fixed Equipment	2.556	3.609
Movable Equipment	0.426	1.657
Total Interest	3.168	3.852
For-Profit SNFs	1.919	1.962
Government & Nonprofit SNFs	1.249	1.890
Other Capital-related Expenses	1.369	0.760
Total	100.000*	100.000*

* NOTE: Totals may not sum to 100.000 due to rounding.

C. Price Proxies Used To Measure Cost Category Growth

After developing the 23 cost weights for the proposed revised and rebased SNF market basket, we selected the most appropriate wage and price proxies currently available to monitor the rate of change for each expenditure category. With four exceptions (three for the capital-related expenses cost categories and one for PLI), we base the wage and price proxies on Bureau of Labor Statistics (BLS) data, and group them into one of the following BLS categories:

• *Employment Cost Indexes.* Employment Cost Indexes (ECIs)

measure the rate of change in employment wage rates and employer costs for employee benefits per hour worked. These indexes are fixed-weight indexes and strictly measure the change in wage rates and employee benefits per hour. ECIs are superior to Average Hourly Earnings (AHE) as price proxies for input price indexes because they are not affected by shifts in occupation or industry mix, and because they measure pure price change and are available by both occupational group and by industry. ECIs were based on NAICS (North American Industrial Classification System) rather than SIC (Standard Industrial Classification) in April 2006 with the publication of March 2006 data.

• *Producer Price Indexes.* Producer Price Indexes (PPIs) measure price changes for goods sold in markets other than retail markets. PPIs are used when the purchases of goods or services are made at the wholesale level.

• *Consumer Price Indexes.* Consumer Price Indexes (CPIs) measure changes in the prices of final goods and services bought by consumers. CPIs are only used when the purchases are similar to those of retail consumers rather than purchases at the wholesale level, or if no appropriate PPI were available.

We evaluated the price proxies using the criteria of reliability, timeliness, availability, and relevance. Reliability indicates that the index is based on valid statistical methods and has low sampling variability. Widely accepted statistical methods ensure that the data were collected and aggregated in a way that can be replicated. Low sampling variability is desirable because it indicates that the sample reflects the typical members of the population. (Sampling variability is variation that occurs by chance because only a sample was surveyed rather than the entire population.) Timeliness implies that the proxy is published regularly, preferably at least once a quarter. The market baskets are updated quarterly and, therefore, it is important for the underlying price proxies to be up-to-date, reflecting the most recent data available. We believe that using proxies that are published regularly (at least quarterly, whenever possible) helps to ensure that we are using the most recent data available to update the market basket. We strive to use publications that are disseminated frequently, because we believe that this is an optimal way to stay abreast of the most current data available. Availability means that the proxy is publicly available. We prefer that our proxies are publicly available because this will help ensure that our market basket updates

are as transparent to the public as possible. In addition, this enables the public to be able to obtain the price proxy data on a regular basis. Finally, relevance means that the proxy is applicable and representative of the cost category weight to which it is applied. The CPIs, PPIs, and ECIs that we have selected to propose in this regulation meet these criteria. Therefore, we believe that they continue to be the best measure of price changes for the cost categories to which they would be applied.

Table 19 lists all price proxies for the proposed revised and rebased SNF market basket. Below is a detailed explanation of the price proxies used for each cost category weight.

1. Wages and Salaries

For measuring price growth in the wages and salaries cost component of the proposed 2004-based SNF market basket, we propose using the percentage change of a blended index based on 50 percent of the ECI for wages and salaries for nursing and residential care facilities (NAICS 623) and 50 percent of the ECI for wages and salaries for hospital workers (NAICS 622).

The 1997-based SNF market basket uses the ECI for nursing and residential care facilities as a proxy, which is based on the Standard Industrial Code (SIC) 805. Beginning in April 2006 with the publication of March 2006 data, ECIs were converted from an SIC basis to an NAICS basis. The ECI for wages and salaries for nursing and residential care facilities was replaced with an index that was less representative of skilled nursing facilities, NAICS 623. NAICS 623 represents facilities that provide residential care combined with nursing, supervisory, or other types of care. The care provided is a mix of health and social services with the health services being largely some level of nursing services. Within NAICS 623 is NAICS 623100, nursing care facilities primarily engaged in providing inpatient nursing and rehabilitative services. These facilities, which are most comparable to Medicare-certified SNFs, provide skilled nursing and continuous personal care services for an extended period of time and therefore, have a permanent core staff of registered or licensed practical nurses.

Employment in nursing care facilities (NAICS 623100) represents approximately 56 percent of 2003 and 2004 employment in nursing and residential care (NAICS 623). The SIC-based wage proxy, the ECI for nursing and personal care facilities based on SIC 805, includes skilled nursing care facilities (SIC 8051), which accounts for

approximately 75 percent of the employment. Therefore, the SIC based ECI is more representative of Medicare-certified skilled nursing facilities than the NAICS based ECI.

BLS began publishing ECI data for the more detailed nursing care facilities (NAICS 623100) beginning with 2006, first quarter. However, given the lack of historical data, Global Insight Inc., the economic forecasting firm used to forecast the price proxies of the market basket, is unable to develop a forecasting model for this detailed NAICS ECI. In the future, when sufficient data are available to forecast the ECI for NAICS 623100, we will evaluate the use of this price proxy in the SNF market basket. For now, we have researched and developed several alternative wage and salary price proxies, which we describe in detail below. All of the five alternative wage and salary price proxies use the Occupational Employment Statistics (OES) survey published by BLS to develop occupational weights. The first four options use the OES data to create economy-wide occupational groups while the fifth option uses OES data to measure healthcare specific occupational groups.

The first proxy (option 1) is a blended wage index composed of four occupational groups that appear in NAICS. The weights of the four economy-wide occupational groups (professional and technical, services, clerical, and managers) are equal to the shares of total payroll for NAICS 6231 that each occupational group constitutes. We proxied each occupational group by a representative ECI to create a blended wage index. Therefore, the professional and technical (P&T) occupational group is a proxy to the ECI for professional and technical workers. The services occupational group is a proxy to the ECI for service workers. The clerical occupational group is a proxy to the ECI for clerical workers. The managers occupational group is a proxy to the ECI for executive, administrative, and managerial occupations.

The second alternative index (option 2) uses the same methodology as the option 1 wage proxy, except that we would base the occupational group weights on employment data rather than payroll data from the BLS OES.

The third alternative index (option 3) again uses a methodology similar to options 1 and 2, but would increase the weight for P&T workers by one-half of the difference between the hospital P&T employment share and the nursing care facility P&T employment share. As the P&T share increases, the other weights

would be normalized and would decrease slightly so the weights for all occupational groups add to 1.0.

The fourth alternative index (option 4) increases the weight of P&T workers by one-third of the difference between the hospital P&T employment share and the nursing care facility P&T employment share. Again, as the P&T share increases, the weights of the other 4 occupational groups would decrease through the normalization.

The last proposed alternative index (option 5) is a blended wage index based on 50 percent of the ECI for hospital workers (NAICS 622) and 50 percent of the ECI nursing and residential care facility (NAICS 623). We estimate the weights of 50 percent from BLS OES data, which show that the share of payroll attributable to registered nurses, licensed practical and licensed vocational nurses, and health care practitioners and technical occupations for nursing care facilities (NAICS 623) is 50 percent of the share of payroll for the same occupations as for hospitals.

We propose to use the option 5 index, because we believe that the new ECI for nursing and residential care facilities based on NAICS 623 will no longer accurately represent the skilled nursing and healthcare staff employed at Medicare-certified SNFs. Using a blended index of the ECI for nursing and residential care and the ECI for

hospital workers gives more weight to the percent changes of wages and salaries for these skilled healthcare workers, who are also employed at hospitals. As the data indicate, the hospital industry occupational mix is more skilled than that of a Medicare-certified SNF, so we believe that a blend of the two indexes would be the best alternative given the data limitations.

We believe the major drawback of options 1 through 4 is that while these indexes may reflect the use of more skilled healthcare staff, the types of P&T workers represented in the ECI for P&T workers are not heavily weighted toward healthcare professional and technical workers.

2. Employee Benefits

For measuring price growth in the benefit cost component of the 2004-based SNF market basket, we propose using the percentage change of a blended index based on 50 percent of the ECI for benefits for nursing and residential care facilities (NAICS 623) and 50 percent of the ECI for benefits for hospital workers (NAICS 622). For the same reasons noted above for the wages and salaries cost category, we believe this blended index is the best proxy for employee benefit price growth.

Below is a table comparing the market basket percent changes using the proposed wage and benefit proxies and the alternative wage and benefit proxies

(options 1 through 4). For the historical period between FY 2002 and FY 2006, the difference between the proposed market basket and the market baskets using the alternative compensation price proxies is significant. This is the result of the healthcare professional and technical occupations' compensation increasing faster than overall professional and technical occupations. The largest difference occurred in FY 2002, when the proposed market basket increased 3.7 percent compared to an increase in the alternative compensation market baskets of 2.5 percent.

For the forecasted time period (FY 2007 to FY 2010), the difference between the proposed market basket and the alternative compensation market baskets is less than the historical difference. This is a result of the expectation that compensation inflationary pressures in the healthcare industry will lessen and the price changes associated with healthcare professional and technical compensation will be comparable to the price changes associated with overall professional and technical compensation. As stated previously, we believe the blended index of the ECI for nursing and residential care and the ECI for hospital workers best reflects the occupational mix (specifically, skilled healthcare workers) of SNFs serving Medicare patients.

Table 18
Comparison of the 2004-based
SNF Market Basket Percent Changes using the
Alternative Compensation Proxies

Fiscal Year (FY)	Proposed	Option 1	Option 2	Option 3	Option 4
	50/50 Blend				
Historical data:					
FY 2002	3.7	2.6	2.6	2.6	2.6
FY 2003	3.4	2.8	2.8	2.8	2.8
FY 2004	3.3	3.2	3.1	3.3	3.3
FY 2005	3.3	3.1	3.0	3.3	3.2
FY 2006	3.6	3.1	3.0	3.2	3.1
Average FY 2002-2006	3.5	3.0	2.9	3.0	3.0
Forecast:					
FY 2007	3.3	3.1	3.1	3.2	3.2
FY 2008	3.3	3.1	3.1	3.1	3.1
FY 2009	3.1	2.8	2.8	2.8	2.8
FY 2010	2.9	2.6	2.7	2.6	2.6
Average FY 2007-2010	3.2	2.9	2.9	2.9	2.9

Source: Global Insight, Inc. 1st Qtr 2007, @USMACRO/CNTL0307@CISSIM/TL0207.SIM

3. All Other Expenses

• *Nonmedical professional fees:* We are proposing to use the ECI for compensation for Private Industry Professional, Technical, and Specialty Workers to measure price changes in nonmedical professional fees. We used the same index in the 1997-based SNF market basket.

• *Professional liability insurance:* We were unable to find a price proxy that directly tracks the prices associated with SNF malpractice costs. Our desired price proxy would calculate the price changes for a fixed coverage of SNF general liability insurance (for example, $1 million/$3 million liability coverage). It would not, by definition of a fixed weight index, reflect the increase in costs associated with increases in coverage, because that is found in the malpractice cost weight.

We have met with representatives for the SNF industry on this subject. We have also reviewed several studies on nursing home and long-term care liability insurance, all of which state that the cost of malpractice insurance has increased significantly over the last five years. Our own analysis of SNF malpractice costs, as reported on the Medicare cost reports, shows that from 1999 to 2003, malpractice costs per bed have increased over 300 percent. This increase in costs is also seen in the malpractice cost weight, which has more than doubled over the same time period.

The difficulties associated with pricing malpractice costs are experienced in all healthcare sectors, including hospitals and physicians. In addition to the lack of comprehensive data, the questions of how to proxy self-insurance, how to allocate paid losses over time, and how to account for those providers who are unable to purchase the insurance, make the process of measuring price changes associated with malpractice insurance extremely difficult. We are currently researching alternative data sources, such as obtaining the data directly from the individual states' Departments of Insurance. Given the lack of SNF-specific data, we are proposing to use the CMS Hospital Professional Liability Index, which tracks price changes for commercial insurance premiums for a fixed level of coverage, holding non-price factors constant (such as a change in the level of coverage).

• *Electricity:* For measuring price change in the electricity cost category, we are proposing to use the PPI for Commercial Electric Power. We used the same index in the 1997-based SNF market basket.

• *Fuels, nonhighway:* For measuring price change in the Fuels, Nonhighway cost category, we are proposing to use the PPI for Commercial Natural Gas. We used the same index in the 1997-based SNF market basket.

• *Water and Sewerage:* For measuring price change in the Water and Sewerage cost category, we are proposing to use the CPI-U (Consumer Price Index for All Urban Consumers) for Water and Sewerage. We used the same index in the 1997-based SNF market basket.

• *Food-wholesale purchases:* For measuring price change in the Food-wholesale purchases cost category, we are proposing to use the PPI for Processed Foods. We used the same index in the 1997-based SNF market basket.

• *Food-retail purchases:* For measuring price change in the Food-retail purchases cost category, we are proposing to use the CPI-U for Food Away From Home. This reflects the use of contract food service by some SNFs. We used the same index in the 1997-based SNF market basket.

• *Pharmaceuticals:* For measuring price change in the Pharmaceuticals cost category, we are proposing to use the PPI for Prescription Drugs. We used the same index in the 1997-based SNF market basket.

• *Chemicals:* For measuring price change in the Chemicals cost category, we are proposing to use a blended PPI composed of the PPIs for soap and other detergent manufacturing (NAICS 325611), polish and other sanitation good manufacturing (NAICS 325612), and all other miscellaneous chemical product manufacturing (NAICS 325998). Using the 1997 Benchmark I-O data, we found that the latter NAICS industries accounted for approximately 65 percent of SNF chemical expenses. Therefore, we are proposing to use this index because we believe it better reflects purchasing patterns of SNFs than PPI for Industrial Chemicals, the proxy used in the 1997-based market basket.

• *Rubber and Plastics:* For measuring price change in the Rubber and Plastics cost category, we are proposing to use the PPI for Rubber and Plastic Products. We used the same index in the 1997-based SNF market basket.

• *Paper Products:* For measuring price change in the Paper Products cost category, we are proposing to use the PPI for Converted Paper and Paperboard. We used the same index in the 1997-based SNF market basket.

• *Miscellaneous Products:* For measuring price change in the Miscellaneous Products cost category, we are proposing to use the PPI for Finished Goods less Food and Energy.

Both food and energy are already adequately represented in separate cost categories and should not also be reflected in this cost category. We used the same index in the 1997-based SNF market basket.

• *Telephone Services:* For measuring the price change in the telephone services, we are proposing to use the CPI-U applied to this component. We used the same index in the 1997-based SNF market basket.

• *Postage:* For measuring the price change in postage costs, we are proposing to use the CPI for postage. The 1997-based index did not have a separate cost category for postage.

• *Labor-Intensive Services:* For measuring price change in the Labor-Intensive Services cost category, we are proposing to use the ECI for Compensation for Private Service Occupations. We used the same index in the 1997-based SNF market basket.

• *Non Labor-Intensive Services:* For measuring price change in the Non Labor-Intensive Services cost category, we are proposing to use the CPI–U for All Items. We used the same index in the 1997-based SNF market basket.

4. Capital-Related

All capital-related expense categories have the same price proxies as those used in the 1992-based SNF PPS market basket described in the May 12, 1998 interim final rule (63 FR 26252) and the 1997-based SNF PPS market basket described in the July 31, 2001 final rule (66 FR 39581). We describe the price proxies for the SNF capital-related expenses below:

• *Depreciation—Building and Fixed Equipment:* For measuring price change in this cost category, we are proposing to use the Boeckh Institutional Construction Index.

• *Depreciation—Movable Equipment:* For measuring price change in this cost category, we are proposing to use the PPI for Machinery and Equipment.

• *Interest—Government and Nonprofit SNFs:* For measuring price change in this cost category, we are proposing to use the Average Yield for Municipal Bonds from the Bond Buyer Index of 20 bonds. CMS input price indexes, including this rebased and revised SNF market basket, appropriately reflect the rate of change in the price proxy and not the level of the price proxy. While SNFs may face different interest rate levels than those included in the Bond Buyer Index, the rate of change between the two is not significantly different.

• *Interest—For-profit SNFs:* For measuring price change in this cost category, we are proposing to use the

Average Yield for Moody's AAA Corporate Bonds. Again, the proposed rebased SNF index focuses on the rate of change in this interest rate, not on the level of the interest rate.

• *Other Capital-related Expenses:* For measuring price change in this cost category, we are proposing the CPI–U for Residential Rent.

Below is a table showing the proposed price proxies for the FY 2004-based SNF Market Basket.

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Table 19
Proposed Price Proxies for the
FY 2004-based SNF Market Basket

Cost Category	Weight	Proposed Price Proxy
Compensation	65.458	
Wages and Salaries	53.563	Blended proxy of 50 percent ECI for Wages and Salaries for Nursing and Residential care facilities and 50 percent for Wages and Salaries for Hospital Workers
Employee benefits	11.895	Blended proxy of 50 percent ECI for Benefits for Nursing and Residential care facilities and 50 percent for Benefits for Hospital Workers
Nonmedical professional fees	1.426	ECI for Compensation for Private Professional, Technical and Specialty workers
Professional Liability Insurance	1.784	CMS Hospital Professional Liability Index.
Utilities	1.673	
Electricity	0.992	PPI for Commercial Electric Power
Fuels, nonhighway	0.488	PPI for Commercial Natural Gas
Water and sewerage	0.193	CPI-U for Water and Sewerage
All Other	22.141	
Other Products	15.219	
Pharmaceuticals	3.209	PPI for Prescription Drugs
Food, wholesale purchase	3.135	PPI for Processed Foods
Food, retail purchase	3.398	CPI-U for Food Away From Home
Chemicals	0.636	Blended PPI for Chemicals
Rubber and plastics	1.632	PPI for Rubber and Plastic Products
Paper products	1.504	PPI for Converted Paper and Paperboard
Miscellaneous products	1.706	PPI for Finished Goods less Food and Energy
Other Services	6.922	
Telephone Services	0.469	CPI-U for Telephone Services
Postage	0.490	CPI - Postage
Labor-intensive Services	3.798	ECI for Compensation for Private Service Occupations
Non labor-intensive services	2.166	CPI-U for All Items
Capital-related Expenses	7.518	
Total Depreciation	2.981	
Building & Fixed Equipment	2.556	Boeckh Institutional Construction Index (vintage-weighted over 22 years)
Movable Equipment	0.426	PPI for Machinery & Equipment (vintage-weighted over 9 years)
Total Interest	3.168	
For-Profit SNFs	1.919	Average Yield Moody's AAA Bonds (vintage-weighted over 20 years)
Government & Nonprofit SNFs	1.249	Average Yield Municipal Bonds (Bond Buyer Index-20 bonds) (vintage-weighted over 20 years)
Other Capital-related Expenses	1.369	CPI-U for Residential Rent
Total	100.000*	

*NOTE: Total may not sum to 100.000 due to rounding.

D. Proposed Market Basket Estimate for the FY 2008 SNF Update

As discussed previously in this proposed rule, beginning with the FY 2008 SNF PPS update, we are proposing to adopt the FY 2004-based SNF market basket as the appropriate market basket of goods and services for the SNF PPS.

Based on Global Insight's 1st quarter 2007 forecast with history through the 4th quarter of 2006, the most recent estimate of the proposed 2004-based SNF market basket for FY 2008 is 3.3

percent. Global Insight, Inc. is a nationally recognized economic and financial forecasting firm that contracts with CMS to forecast the components of CMS's market baskets. Based on Global Insight's 1st quarter 2007 forecast with historical data through the 4th quarter of 2006, the estimate of the current 1997-based SNF market basket for FY 2008 is 3.5 percent.

Table 20 compares the proposed FY 2004-based SNF market basket and the FY 1997-based SNF market basket percent changes. For the historical period between FY 2002 and FY 2006,

the average difference between the two market baskets is 0.3 percentage points. This is primarily the result of a higher compensation cost weight and higher compensation price increases in the 2004-based market basket compared to the 1997-based SNF market basket. Also contributing is the separate cost category weight for malpractice in the 2004-based SNF market basket and the relatively higher price increases. For the forecasted period between FY 2007 and FY 2010, the average difference in the market basket forecasts is minor.

Table 20
Proposed FY 2004-based SNF Market Basket and
FY 1997-based SNF Market Basket,
Percent Changes: 2002-2010

Fiscal Year (FY)	Proposed Rebased FY 2004-based SNF Market Basket	FY 1997-based SNF Basket
Historical data:		
FY 2002	3.7	3.7
FY 2003	3.4	3.2
FY 2004	3.3	3.0
FY 2005	3.3	2.9
FY 2006	3.6	3.4
Average FY 2002-2006	3.5	3.2
Forecast:		
FY 2007	3.3	3.3
FY 2008	3.3	3.5
FY 2009	3.1	3.1
FY 2010	2.9	2.7
Average FY 2007-2010	3.2	3.2

Source: Global Insight, Inc. 1st Qtr 2007, @USMACRO/CNTL0307@CISSIM/TL0207.SIM

V. Consolidated Billing

[If you choose to comment on issues in this section, please include the caption "Consolidated Billing" at the beginning of your comments.]

Section 4432(b) of the BBA established a consolidated billing requirement that places with the SNF the Medicare billing responsibility for virtually all of the services that the SNF's residents receive, except for a small number of services that the statute specifically identifies as being excluded from this provision. As noted previously in section I. of this proposed rule, subsequent legislation enacted a number of modifications in the consolidated billing provision.

Specifically, section 103 of the BBRA amended this provision by further

excluding a number of individual "high-cost, low-probability" services, identified by the Healthcare Common Procedure Coding System (HCPCS) codes, within several broader categories (chemotherapy and its administration, radioisotope services, and customized prosthetic devices) that otherwise remained subject to the provision. We discuss this BBRA amendment in greater detail in the proposed and final rules for FY 2001 (65 FR 19231–19232, April 10, 2000, and 65 FR 46790–46795, July 31, 2000), as well as in Program Memorandum AB–00–18 (Change Request #1070), issued March 2000, which is available online at *www.cms.hhs.gov/transmittals/ downloads/ab001860.pdf.*

Section 313 of the BIPA further amended this provision by repealing its Part B aspect; that is, its applicability to Part B services furnished to a resident during an SNF stay that Medicare Part A does not cover. However, physical, occupational, and speech-language therapy remain subject to consolidated billing, regardless of whether the resident who receives these services is in a covered Part A stay. We discuss this BIPA amendment in greater detail in the proposed and final rules for FY 2002 (66 FR 24020–24021, May 10, 2001, and 66 FR 39587–39588, July 31, 2001).

In addition, section 410 of the MMA amended this provision by excluding certain practitioner and other services furnished to SNF residents by RHCs and FQHCs. We discuss this MMA

amendment in greater detail in the update notice for FY 2005 (69 FR 45818–45819, July 30, 2004), as well as in Program Transmittal #390 (Change Request #3575), issued December 10, 2004, which is available online at *www.cms.hhs.gov/transmittals/ downloads/r390cp.pdf.*

To date, the Congress has enacted no further legislation affecting the consolidated billing provision. However, as noted above and explained in the proposed rule for FY 2001 (65 FR 19232, April 10, 2000), the amendments enacted in section 103 of the BBRA not only identified for exclusion from this provision a number of particular service codes within four specified categories (that is, chemotherapy items, chemotherapy administration services, radioisotope services, and customized prosthetic devices), but also gave the Secretary " * * * the authority to designate additional, individual services for exclusion within each of the specified service categories." In the proposed rule for FY 2001, we also noted that the BBRA Conference report (H.R. Rep. No. 106–479 at 854 (1999) (Conf. Rep.)) characterizes the individual services that this legislation targets for exclusion as " * * * high-cost, low probability events that could have devastating financial impacts because their costs far exceed the payment [SNFs] receive under the prospective payment system * * *" According to the conferees, section 103(a) "is an attempt to exclude from the PPS certain services and costly items that are provided infrequently in SNFs * * *" By contrast, we noted that the Congress declined to designate for exclusion any of the remaining services within those four categories (thus leaving all of those services subject to SNF consolidated billing), because they are relatively inexpensive and are furnished routinely in SNFs.

As we further explained in the final rule for FY 2001 (65 FR 46790, July 31, 2000), and as our longstanding policy, any additional service codes that we might designate for exclusion under our discretionary authority must meet the same criteria that the Congress used in identifying the original codes excluded from consolidated billing under section 103(a) of the BBRA: they must fall within one of the four service categories specified in the BBRA, and they also must meet the same standards of high cost and low probability in the SNF setting. Accordingly, we characterized this statutory authority to identify additional service codes for exclusion " * * * as essentially affording the flexibility to revise the list of excluded codes in response to changes of major

significance that may occur over time (for example, the development of new medical technologies or other advances in the state of medical practice)" (65 FR 46791). In view of the time that has elapsed since we last invited comments on this issue, we believe it is appropriate at this point once again to invite public comments that identify codes in any of these four service categories representing recent medical advances that might meet our criteria for exclusion from SNF consolidated billing.

We note that the original BBRA legislation (as well as the implementing regulations) identified a set of excluded services by means of specifying HCPCS codes that were in effect as of a particular date (in that case, as of July 1, 1999). Identifying the excluded services in this manner made it possible for us to utilize program issuances as the vehicle for accomplishing routine updates of the excluded codes, in order to reflect any minor revisions that might subsequently occur in the coding system itself (for example, the assignment of a different code number to the same service). Accordingly, in the event that we identify through the current rulemaking cycle any new services that would actually represent a substantive change in the scope of the exclusions from SNF consolidated billing, we would identify these additional excluded services by means of the HCPCS codes that are in effect as of a specific date (in this case, as of October 1, 2007). By making any new exclusions in this manner, we could similarly accomplish routine future updates of these additional codes through the issuance of program instructions.

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

[If you choose to comment on issues in this section, please include the caption "Swing-Bed Hospitals" at the beginning of your comments.]

In accordance with section 1888(e)(7) of the Act as amended by section 203 of the BIPA, Part A pays CAHs on a reasonable cost basis for SNF services furnished under a swing-bed agreement, as previously indicated in sections I.A. and I.D. of this proposed rule. However, effective with cost reporting periods beginning on or after July 1, 2002, the swing-bed services of non-CAH rural hospitals are paid under the SNF PPS. As explained in the final rule for FY 2002 (66 FR 39562, July 31, 2001), we selected this effective date consistent with the statutory provision to integrate non-CAH swing-bed rural hospitals into

the SNF PPS by the end of the SNF transition period, June 30, 2002.

Accordingly, all non-CAH swing-bed rural hospitals have come under the SNF PPS as of June 30, 2003. Therefore, all rates and wage indexes outlined in earlier sections of this proposed rule for the SNF PPS also apply to all non-CAH swing-bed rural hospitals. A complete discussion of assessment schedules, the MDS and the transmission software (Raven-SB for Swing Beds) appears in the final rule for FY 2002 (66 FR 39562, July 31, 2001). The latest changes in the MDS for non-CAH swing-bed rural hospitals appear on our SNF PPS website, *www.cms.hhs.gov/snfpps.*

VII. Provisions of the Proposed Rule

[If you choose to comment on issues in this section, please include the caption "Provisions of the Proposed Rule" at the beginning of your comments.]

We propose to update the payment rates used under the prospective payment system for SNFs for FY 2008. In addition, we propose to rebase the market basket to a base year of 2004 and propose the following market basket revisions: using Medicare allowable total cost data instead of facility total cost data to derive the SNF market basket cost weights; using new wage and salary, benefits and chemical price proxies; using new data to estimate useful lives for fixed and moveable equipment; and adding new cost categories for professional liability insurance and postage. Also, as discussed previously in sections I.F.2 and III.B of this proposed rule, we are proposing to raise the current 0.25 percentage point threshold for the forecast error adjustment under the SNF PPS to 0.5 percentage point, effective with FY 2008.

VIII. Collection of Information Requirements

[If you choose to comment on issues in this section, please include the caption "Collection of Information" at the beginning of your comments.]

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

IX. Regulatory Impact Analysis

[If you choose to comment on issues in this section, please include the caption "Impact Analysis" at the beginning of your comments.]

A. Overall Impact

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

Executive Order 12866 (as amended by Executive Order 13258, which only reassigns responsibility of duties) directs agencies to assess all costs and benefits of available regulatory alternatives and, if regulation is necessary, to select regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety effects, distributive impacts, and equity). A regulatory impact analysis (RIA) must be prepared for major rules with economically significant effects ($100 million or more in any one year). This proposed rule is major, as defined in Title 5, United States Code, section 804(2), because we estimate the impact of the standard update will be to increase payments to SNFs by approximately $690 million.

The proposed update set forth in this proposed rule would apply to payments in FY 2008. Accordingly, the analysis that follows describes the impact of this one year only. In accordance with the requirements of the Act, we will publish a notice for each subsequent FY that will provide for an update to the payment rates and include an associated impact analysis.

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

This proposed rule would update the SNF PPS rates published in the update notice for FY 2007 (71 FR 43158, July 31, 2006) and the associated correction

notice (71 FR 57519, September 29, 2006), thereby increasing aggregate payments by an estimated $690 million. As indicated in Table 20, the effect on facilities will be an aggregate positive impact of 3.3 percent. We note that some individual providers may experience larger increases in payments than others due to the distributional impact of the FY 2008 wage indexes and the degree of Medicare utilization. While this proposed rule is considered major, its overall impact is extremely small; that is, less than 3 percent of total SNF revenues from all payor sources. As the overall impact is positive on the industry as a whole, and on small entities specifically, it is not necessary to consider regulatory alternatives.

In addition, section 1102(b) of the Act requires us to prepare a regulatory impact analysis if a rule may have a significant impact on the operations of a substantial number of small rural hospitals. This analysis must conform to the provisions of section 603 of the RFA. For purposes of section 1102(b) of the Act, we define a small rural hospital as a hospital that is located outside of a Metropolitan Statistical Area and has fewer than 100 beds. Because the proposed increase in SNF payment rates set forth in this proposed rule also applies to rural non-CAH hospital swing-bed services, we believe that this proposed rule would have a positive fiscal impact on non-CAH swing-bed 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 whose mandates require spending in any 1 year of $100 million in 1995 dollars, updated annually for inflation. That threshold level is currently approximately $120 million. This proposed rule would not have a substantial effect on State, local, or tribal governments, or on private sector costs.

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

B. Anticipated Effects

This proposed rule sets forth proposed updates of the SNF PPS rates contained in the update notice for FY 2007 (71 FR 43158, July 31, 2006) and the associated correction notice (71 FR

57519, September 29, 2006). Based on the above, we estimate the FY 2008 impact will be a net increase of $690 million in payments to SNF providers. The impact analysis of this proposed rule represents the projected effects of the changes in the SNF PPS from FY 2007 to FY 2008. We estimate the effects by estimating payments while holding all other payment variables constant. We use the best data available, but we do not attempt to predict behavioral responses to these changes, and we do not make adjustments for future changes in such variables as days or case-mix.

We note that certain events may combine to limit the scope or accuracy of our impact analysis, because such an analysis is future-oriented and, thus, very susceptible to forecasting errors due to other changes in the forecasted impact time period. Some examples of such possible events include new legislation requiring funding changes to the Medicare, or legislative changes that specifically affect SNFs. In addition, changes to the Medicare program may continue to be made as a result of the BBA, the BBRA, the BIPA, the MMA, or new statutory provisions. Although these changes may not be specific to the SNF PPS, the nature of the Medicare program is such that the changes may interact, and the complexity of the interaction of these changes could make it difficult to predict accurately the full scope of the impact upon SNFs.

In accordance with section 1888(e)(4)(E) of the Act, we update the payment rates for FY 2008 by a factor equal to the full market basket index percentage increase to determine the payment rates for FY 2008. The special AIDS add-on established by section 511 of the MMA remains in effect until "* * * such date as the Secretary certifies that there is an appropriate adjustment in the case mix * * *." We have not provided a separate impact analysis for the MMA provision. Our latest estimates indicate that there are less than 2,000 beneficiaries who qualify for the AIDS add-on payment. The impact to Medicare is included in the "total" column of Table 21. In proposing to update the rates for FY 2008, we made a number of standard annual revisions and clarifications mentioned elsewhere in this proposed rule (for example, the update to the wage and market basket indexes used for adjusting the Federal rates). These revisions would increase payments to SNFs by approximately $690 million.

The impacts are shown in Table 21. The breakdown of the various categories of data in the table follows.

The first column shows the breakdown of all SNFs by urban or rural

status, hospital-based or freestanding status, and census region.

The first row of figures in the first column describes the estimated effects of the various changes on all facilities. The next six rows show the effects on facilities split by hospital-based, freestanding, urban, and rural categories. The urban and rural designations are based on the location of the facility under the CBSA designation. The next twenty-two rows show the effects on urban versus rural status by census region.

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

The third column of the table shows the effect of the annual update to the wage index. This represents the effect of using the most recent wage data available. The total impact of this change is zero percent; however, there are distributional effects of the change.

The fourth column shows the effect of all of the changes on the FY 2008 payments. The market basket increase of 3.3 percentage points is constant for all providers and, though not shown individually, is included in the total column. It is projected that aggregate payments will increase by 3.3 percent in total, assuming facilities do not change

their care delivery and billing practices in response.

As can be seen from this table, the combined effects of all of the changes vary by specific types of providers and by location. For example, though facilities in the rural Outlying region experience a payment decrease of 0.5 percent, some providers (such as those in the urban Outlying region) show a significant increase of 5.7 percent. Payment increases for facilities in the urban Outlying area of the country are the highest for any provider category.

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Table 21
Projected Impact to the SNF PPS for FY 2008

	Number of facilities	Update wage data	Total FY 2008 change
Total	15,271	0.0%	3.3%
Urban	10,442	-0.1%	3.2%
Rural	4,829	0.6%	3.9%
Hospital based urban	1,424	0.0%	3.3%
Freestanding urban	9,018	-0.1%	3.2%
Hospital based rural	1,114	0.7%	4.0%
Freestanding rural	3,715	0.5%	3.8%
Urban by region			
New England	864	0.0%	3.3%
Middle Atlantic	1,477	-0.6%	2.7%
South Atlantic	1,732	0.0%	3.3%
East North Central	1,995	-0.4%	2.9%
East South Central	522	-0.1%	3.2%
West North Central	822	0.4%	3.7%
West South Central	1,141	0.2%	3.5%
Mountain	467	0.3%	3.6%
Pacific	1,414	0.3%	3.6%
Outlying	8	2.3%	5.7%
Rural by region			
New England	127	0.4%	3.7%
Middle Atlantic	259	0.9%	4.2%
South Atlantic	607	0.4%	3.7%
East North Central	925	0.5%	3.8%
East South Central	556	0.6%	3.9%
West North Central	1,134	0.4%	3.7%
West South Central	810	0.4%	3.7%
Mountain	258	1.2%	4.5%
Pacific	151	1.4%	4.7%
Outlying	2	-3.7%	-0.5%
Ownership			
Government	672	0.0%	3.3%
Proprietary	11,135	0.0%	3.3%
Voluntary	3,464	-0.1%	3.2%

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C. Accounting Statement

As required by OMB Circular A–4 (available at *www.whitehouse.gov/omb/circulars/a004/a-4.pdf*), in Table 22 below, we have prepared an accounting statement showing the classification of the expenditures associated with the provisions of this proposed rule. This table provides our best estimate of the change in Medicare payments under the SNF PPS as a result of the policies in this proposed rule based on the data for 15,271 SNFs in our database. All expenditures are classified as transfers to Medicare providers (that is, SNFs).

TABLE 22.—ACCOUNTING STATEMENT: CLASSIFICATION OF ESTIMATED EXPENDITURES, FROM THE 2007 SNF PPS RATE YEAR TO THE 2008 SNF PPS RATE YEAR

[In millions]

Category	Transfers
Annualized Monetized Transfers	$690 million.
From Whom To Whom?	Federal Government to SNF Medicare Providers.

D. Alternatives Considered

Section 1888(e) of the Act establishes the SNF PPS for the payment of Medicare SNF services for cost reporting periods beginning on or after July 1, 1998. This section of the statute prescribes a detailed formula for calculating payment rates under the SNF PPS, and does not provide for the use of any alternative methodology. It specifies that the base year cost data to be used for computing the SNF PPS payment rates must be from FY 1995 (October 1, 1994 through September 30, 1995.) In accordance with the statute, we also incorporated a number of elements into the SNF PPS, such as case-mix classification methodology, the MDS assessment schedule, a market basket index, a wage index, and the urban and rural distinction used in the development or adjustment of the Federal rates. Further, section 1888(e)(4)(H) of the Act specifically requires us to disseminate the payment rates for each new fiscal year through the **Federal Register**, and to do so before the August 1 that precedes the start of the new fiscal year. Accordingly, we are not pursuing alternatives with respect to the payment methodology as discussed above.

The proposed rule would raise the threshold for triggering a forecast error adjustment under the SNF PPS from the current 0.25 percentage point to 0.5 percentage point, effective with FY 2008. However, as discussed in sections I.F.2 and III.B of this proposed rule, we are considering a higher threshold for the forecast error adjustment, up to 1.0 percentage point. We are also considering delaying implementation of this change until FY 2009. We specifically invite comments on increasing the forecast error adjustment threshold and the effective date.

E. Conclusion

This proposed rule does not propose to initiate any policy changes with regard to the SNF PPS; rather, it simply proposes an update to the rates for FY 2008. Therefore, for the reasons set forth in the preceding discussion, we are not preparing analyses for either the RFA or section 1102(b) of the Act, because we have determined that this proposed rule would not have a significant economic impact on a substantial number of small entities or a significant impact on the operations of a substantial number of small rural hospitals. Also, an analysis as outlined in section 202 of the UMRA has not been completed because this proposed rule would not have a substantial effect on the governments mentioned, or on private sector costs.

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

Dated: March 8, 2007.

Leslie V. Norwalk,

Acting Administrator, Centers for Medicare & Medicaid Services.

Dated: March 28, 2007.

Michael O. Leavitt,

Secretary.

[**Note:** The following Addendum will not appear in the Code of Federal Regulations]

Addendum—FY 2008 CBSA Wage Index Tables

In this addendum, we provide Tables 8 and 9 which indicate the CBSA-based wage index values for urban and rural providers.

Table 8. FY 2008 Wage Index For Urban Areas Based On CBSA Labor Market Areas

CBSA Code	Urban Area (Constituent Counties)	Wage Index
10180	Abilene, TX Callahan County, TX Jones County, TX Taylor County, TX	0.7958
10380	Aguadilla-Isabela-San Sebastián, PR Aguada Municipio, PR Aguadilla Municipio, PR Añasco Municipio, PR Isabela Municipio, PR Lares Municipio, PR Moca Municipio, PR Rincón Municipio, PR San Sebastián Municipio, PR	0.3398
10420	Akron, OH Portage County, OH Summit County, OH	0.8795
10500	Albany, GA Baker County, GA Dougherty County, GA Lee County, GA Terrell County, GA Worth County, GA	0.8515

CBSA Code	Urban Area (Constituent Counties)	Wage Index
10580	Albany-Schenectady-Troy, NY Albany County, NY Rensselaer County, NY Saratoga County, NY Schenectady County, NY Schoharie County, NY	0.8589
10740	Albuquerque, NM Bernalillo County, NM Sandoval County, NM Torrance County, NM Valencia County, NM	0.9569
10780	Alexandria, LA Grant Parish, LA Rapides Parish, LA	0.7981
10900	Allentown-Bethlehem-Easton, PA-NJ Warren County, NJ Carbon County, PA Lehigh County, PA Northampton County, PA	0.9868
11020	Altoona, PA Blair County, PA	0.8620
11100	Amarillo, TX Armstrong County, TX Carson County, TX Potter County, TX Randall County, TX	0.9101
11180	Ames, IA Story County, IA	1.0048
11260	Anchorage, AK Anchorage Municipality, AK Matanuska-Susitna Borough, AK	1.1915
11300	Anderson, IN Madison County, IN	0.8828
11340	Anderson, SC Anderson County, SC	0.9088
11460	Ann Arbor, MI Washtenaw County, MI	1.0541
11500	Anniston-Oxford, AL Calhoun County, AL	0.7927
11540	Appleton, WI Calumet County, WI Outagamie County, WI	0.9632

CBSA Code	Urban Area (Constituent Counties)	Wage Index
11700	Asheville, NC Buncombe County, NC Haywood County, NC Henderson County, NC Madison County, NC	0.9190
12020	Athens-Clarke County, GA Clarke County, GA Madison County, GA Oconee County, GA Oglethorpe County, GA	1.1086
12060	Atlanta-Sandy Springs-Marietta, GA Barrow County, GA Bartow County, GA Butts County, GA Carroll County, GA Cherokee County, GA Clayton County, GA Cobb County, GA Coweta County, GA Dawson County, GA DeKalb County, GA Douglas County, GA Fayette County, GA Forsyth County, GA Fulton County, GA Gwinnett County, GA Haralson County, GA Heard County, GA Henry County, GA Jasper County, GA Lamar County, GA Meriwether County, GA Newton County, GA Paulding County, GA Pickens County, GA Pike County, GA Rockdale County, GA Spalding County, GA Walton County, GA	0.9859
12100	Atlantic City, NJ Atlantic County, NJ	1.2200
12220	Auburn-Opelika, AL Lee County, AL	0.8099

CBSA Code	Urban Area (Constituent Counties)	Wage Index
12260	Augusta-Richmond County, GA-SC Burke County, GA Columbia County, GA McDuffie County, GA Richmond County, GA Aiken County, SC Edgefield County, SC	0.9643
12420	Austin-Round Rock, TX Bastrop County, TX Caldwell County, TX Hays County, TX Travis County, TX Williamson County, TX	0.9557
12540	Bakersfield, CA Kern County, CA	1.1223
12580	Baltimore-Towson, MD Anne Arundel County, MD Baltimore County, MD Carroll County, MD Harford County, MD Howard County, MD Queen Anne's County, MD Baltimore City, MD	1.0209
12620	Bangor, ME	0.9952
12700	Penobscot County, ME Barnstable Town, MA Barnstable County, MA	1.2605
12940	Baton Rouge, LA Ascension Parish, LA East Baton Rouge Parish, LA East Feliciana Parish, LA Iberville Parish, LA Livingston Parish, LA Pointe Coupee Parish, LA St. Helena Parish, LA West Baton Rouge Parish, LA West Feliciana Parish, LA	0.8036
12980	Battle Creek, MI Calhoun County, MI	1.0164
13020	Bay City, MI Bay County, MI	0.8899

CBSA Code	Urban Area (Constituent Counties)	Wage Index
13140	Beaumont-Port Arthur, TX Hardin County, TX Jefferson County, TX Orange County, TX	0.8499
13380	Bellingham, WA Whatcom County, WA	1.1476
13460	Bend, OR Deschutes County, OR	1.0944
13644	Bethesda-Frederick-Gaithersburg, MD Frederick County, MD Montgomery County, MD	1.0513
13740	Billings, MT Carbon County, MT Yellowstone County, MT	0.8670
13780	Binghamton, NY Broome County, NY Tioga County, NY	0.8951
13820	Birmingham-Hoover, AL Bibb County, AL Blount County, AL Chilton County, AL Jefferson County, AL St. Clair County, AL Shelby County, AL Walker County, AL	0.8911
13900	Bismarck, ND Burleigh County, ND Morton County, ND	0.7226
13980	Blacksburg-Christiansburg-Radford, VA Giles County, VA Montgomery County, VA Pulaski County, VA Radford City, VA	0.8136
14020	Bloomington, IN Greene County, IN Monroe County, IN Owen County, IN	0.8916
14060	Bloomington-Normal, IL McLean County, IL	0.9326

CBSA Code	Urban Area (Constituent Counties)	Wage Index
14260	Boise City-Nampa, ID Ada County, ID Boise County, ID Canyon County, ID Gem County, ID Owyhee County, ID	0.9467
14484	Boston-Quincy, MA Norfolk County, MA Plymouth County, MA Suffolk County, MA	1.1649
14500	Boulder, CO Boulder County, CO	1.0431
14540	Bowling Green, KY Edmonson County, KY Warren County, KY	0.8160
14740	Bremerton-Silverdale, WA Kitsap County, WA	1.0906
14860	Bridgeport-Stamford-Norwalk, CT Fairfield County, CT	1.2838
15180	Brownsville-Harlingen, TX Cameron County, TX	0.9284
15260	Brunswick, GA Brantley County, GA Glynn County, GA McIntosh County, GA	0.9476
15380	Buffalo-Niagara Falls, NY Erie County, NY Niagara County, NY	0.9563
15500	Burlington, NC Alamance County, NC	0.8748
15540	Burlington-South Burlington, VT Chittenden County, VT Franklin County, VT Grand Isle County, VT	0.9662
15764	Cambridge-Newton-Framingham, MA Middlesex County, MA	1.1169
15804	Camden, NJ Burlington County, NJ Camden County, NJ Gloucester County, NJ	1.0396
15940	Canton-Massillon, OH Carroll County, OH Stark County, OH	0.8935

CBSA Code	Urban Area (Constituent Counties)	Wage Index
15980	Cape Coral-Fort Myers, FL Lee County, FL	0.9397
16180	Carson City, NV Carson City, NV	0.9354
16220	Casper, WY Natrona County, WY	0.9386
16300	Cedar Rapids, IA Benton County, IA Jones County, IA Linn County, IA	0.8853
16580	Champaign-Urbana, IL Champaign County, IL Ford County, IL Piatt County, IL	0.9392
16620	Charleston, WV Boone County, WV Clay County, WV Kanawha County, WV Lincoln County, WV Putnam County, WV	0.8290
16700	Charleston-North Charleston, SC Berkeley County, SC Charleston County, SC Dorchester County, SC	0.9159
16740	Charlotte-Gastonia-Concord, NC-SC Anson County, NC Cabarrus County, NC Gaston County, NC Mecklenburg County, NC Union County, NC York County, SC	0.9523
16820	Charlottesville, VA Albemarle County, VA Fluvanna County, VA Greene County, VA Nelson County, VA Charlottesville City, VA	0.9674
16860	Chattanooga, TN-GA Catoosa County, GA Dade County, GA Walker County, GA Hamilton County, TN Marion County, TN Sequatchie County, TN	0.8995

CBSA Code	Urban Area (Constituent Counties)	Wage Index
16940	Cheyenne, WY Laramie County, WY	0.9309
16974	Chicago-Naperville-Joliet, IL Cook County, IL DeKalb County, IL DuPage County, IL Grundy County, IL Kane County, IL Kendall County, IL McHenry County, IL Will County, IL	1.0575
17020	Chico, CA Butte County, CA	1.1291
17140	Cincinnati-Middletown, OH-KY-IN Dearborn County, IN Franklin County, IN Ohio County, IN Boone County, KY Bracken County, KY Campbell County, KY Gallatin County, KY Grant County, KY Kenton County, KY Pendleton County, KY Brown County, OH Butler County, OH Clermont County, OH Hamilton County, OH Warren County, OH	0.9773
17300	Clarksville, TN-KY Christian County, KY Trigg County, KY Montgomery County, TN Stewart County, TN	0.8252
17420	Cleveland, TN Bradley County, TN Polk County, TN	0.8054
17460	Cleveland-Elyria-Mentor, OH Cuyahoga County, OH Geauga County, OH Lake County, OH Lorain County, OH Medina County, OH	0.9355

CBSA Code	Urban Area (Constituent Counties)	Wage Index
17660	Coeur d'Alene, ID Kootenai County, ID	0.9533
17780	College Station-Bryan, TX Brazos County, TX Burleson County, TX Robertson County, TX	0.9359
17820	Colorado Springs, CO El Paso County, CO Teller County, CO	0.9721
17860	Columbia, MO Boone County, MO Howard County, MO	0.8662
17900	Columbia, SC Calhoun County, SC Fairfield County, SC Kershaw County, SC Lexington County, SC Richland County, SC Saluda County, SC	0.8758
17980	Columbus, GA-AL Russell County, AL Chattahoochee County, GA Harris County, GA Marion County, GA Muscogee County, GA	0.8731
18020	Columbus, IN Bartholomew County, IN	0.9539
18140	Columbus, OH Delaware County, OH Fairfield County, OH Franklin County, OH Licking County, OH Madison County, OH Morrow County, OH Pickaway County, OH Union County, OH	1.0105
18580	Corpus Christi, TX Aransas County, TX Nueces County, TX San Patricio County, TX	0.8589
18700	Corvallis, OR Benton County, OR	1.0961

CBSA Code	Urban Area (Constituent Counties)	Wage Index
19060	Cumberland, MD–WV Allegany County, MD Mineral County, WV	0.8296
19124	Dallas-Plano-Irving, TX Collin County, TX Dallas County, TX Delta County, TX Denton County, TX Ellis County, TX Hunt County, TX Kaufman County, TX Rockwall County, TX	0.9922
19140	Dalton, GA Murray County, GA Whitfield County, GA	0.8761
19180	Danville, IL Vermilion County, IL	0.8960
19260	Danville, VA Pittsylvania County, VA Danville City, VA	0.8426
19340	Davenport-Moline-Rock Island, IA–IL Henry County, IL Mercer County, IL Rock Island County, IL Scott County, IA	0.8831
19380	Dayton, OH Greene County, OH Miami County, OH Montgomery County, OH Preble County, OH	0.9192
19460	Decatur, AL Lawrence County, AL Morgan County, AL	0.7992
19500	Decatur, IL Macon County, IL	0.8075
19660	Deltona-Daytona Beach-Ormond Beach, FL Volusia County, FL	0.9033

CBSA Code	Urban Area (Constituent Counties)	Wage Index
19740	Denver-Aurora, CO Adams County, CO Arapahoe County, CO Broomfield County, CO Clear Creek County, CO Denver County, CO Douglas County, CO Elbert County, CO Gilpin County, CO Jefferson County, CO Park County, CO	1.0749
19780	Des Moines-West Des Moines, IA Dallas County, IA Guthrie County, IA Madison County, IA Polk County, IA Warren County, IA	0.9228
19804	Detroit-Livonia-Dearborn, MI Wayne County, MI	0.9990
20020	Dothan, AL Geneva County, AL Henry County, AL Houston County, AL	0.7270
20100	Dover, DE Kent County, DE	1.0101
20220	Dubuque, IA Dubuque County, IA	0.9053
20260	Duluth, MN-WI Carlton County, MN St. Louis County, MN Douglas County, WI	1.0040
20500	Durham, NC Chatham County, NC Durham County, NC Orange County, NC Person County, NC	0.9889
20740	Eau Claire, WI Chippewa County, WI Eau Claire County, WI	0.9462
20764	Edison, NJ Middlesex County, NJ Monmouth County, NJ Ocean County, NJ Somerset County, NJ	1.1175

CBSA Code	Urban Area (Constituent Counties)	Wage Index
20940	El Centro, CA Imperial County, CA	0.8915
21060	Elizabethtown, KY Hardin County, KY Larue County, KY	0.8712
21140	Elkhart-Goshen, IN Elkhart County, IN	0.9504
21300	Elmira, NY Chemung County, NY	0.8265
21340	El Paso, TX El Paso County, TX	0.8991
21500	Erie, PA Erie County, PA	0.8497
21660	Eugene-Springfield, OR Lane County, OR	1.0934
21780	Evansville, IN-KY Gibson County, IN Posey County, IN Vanderburgh County, IN Warrick County, IN Henderson County, KY Webster County, KY	0.8663
21820	Fairbanks, AK Fairbanks North Star Borough, AK	1.1052
21940	Fajardo, PR Ceiba Municipio, PR Fajardo Municipio, PR Luquillo Municipio, PR	0.4129
22020	Fargo, ND-MN Cass County, ND Clay County, MN	0.8043
22140	Farmington, NM San Juan County, NM	0.9591
22180	Fayetteville, NC Cumberland County, NC Hoke County, NC	0.9374
22220	Fayetteville-Springdale-Rogers, AR-MO Benton County, AR Madison County, AR Washington County, AR McDonald County, MO	0.8744
22380	Flagstaff, AZ Coconino County, AZ	1.1688

CBSA Code	Urban Area (Constituent Counties)	Wage Index
22420	Flint, MI Genesee County, MI	1.1283
22500	Florence, SC Darlington County, SC Florence County, SC	0.8236
22520	Florence-Muscle Shoals, AL Colbert County, AL Lauderdale County, AL	0.7994
22540	Fond du Lac, WI Fond du Lac County, WI	0.9669
22660	Fort Collins-Loveland, CO Larimer County, CO	0.9898
22744	Fort Lauderdale-Pompano Beach-Deerfield Beach, FL Broward County, FL	1.0231
22900	Fort Smith, AR-OK Crawford County, AR Franklin County, AR Sebastian County, AR Le Flore County, OK Sequoyah County, OK	0.7934
23020	Fort Walton Beach-Crestview-Destin, FL Okaloosa County, FL	0.8742
23060	Fort Wayne, IN Allen County, IN Wells County, IN Whitley County, IN	0.9285
23104	Fort Worth-Arlington, TX Johnson County, TX Parker County, TX Tarrant County, TX Wise County, TX	0.9699
23420	Fresno, CA Fresno County, CA	1.0993
23460	Gadsden, AL Etowah County, AL	0.8143
23540	Gainesville, FL Alachua County, FL Gilchrist County, FL	0.9197
23580	Gainesville, GA Hall County, GA	0.9218

CBSA Code	Urban Area (Constituent Counties)	Wage Index
23844	Gary, IN Jasper County, IN Lake County, IN Newton County, IN Porter County, IN	0.9225
24020	Glens Falls, NY Warren County, NY Washington County, NY	0.8257
24140	Goldsboro, NC Wayne County, NC	0.9290
24220	Grand Forks, ND-MN Polk County, MN Grand Forks County, ND	0.7883
24300	Grand Junction, CO Mesa County, CO	0.9865
24340	Grand Rapids-Wyoming, MI Barry County, MI Ionia County, MI Kent County, MI Newaygo County, MI	0.9316
24500	Great Falls, MT Cascade County, MT	0.8674
24540	Greeley, CO Weld County, CO	0.9660
24580	Green Bay, WI Brown County, WI Kewaunee County, WI Oconto County, WI	0.9728
24660	Greensboro-High Point, NC Guilford County, NC Randolph County, NC Rockingham County, NC	0.9012
24780	Greenville, NC Greene County, NC Pitt County, NC	0.9403
24860	Greenville, SC Greenville County, SC Laurens County, SC Pickens County, SC	0.9911
25020	Guayama, PR Arroyo Municipio, PR Guayama Municipio, PR Patillas Municipio, PR	0.3064

CBSA Code	Urban Area (Constituent Counties)	Wage Index
25060	Gulfport-Biloxi, MS Hancock County, MS Harrison County, MS Stone County, MS	0.8780
25180	Hagerstown-Martinsburg, MD-WV Washington County, MD Berkeley County, WV Morgan County, WV	0.9015
25260	Hanford-Corcoran, CA Kings County, CA	1.0497
25420	Harrisburg-Carlisle, PA Cumberland County, PA Dauphin County, PA Perry County, PA	0.9287
25500	Harrisonburg, VA Rockingham County, VA Harrisonburg City, VA	0.8944
25540	Hartford-West Hartford-East Hartford, CT Hartford County, CT Litchfield County, CT Middlesex County, CT Tolland County, CT	1.0889
25620	Hattiesburg, MS Forrest County, MS Lamar County, MS Perry County, MS	0.7368
25860	Hickory-Lenoir-Morganton, NC Alexander County, NC Burke County, NC Caldwell County, NC Catawba County, NC	0.9030
25980	Hinesville-Fort Stewart, GA[1] Liberty County, GA Long County, GA	0.9237
26100	Holland-Grand Haven, MI Ottawa County, MI	0.9006
26180	Honolulu, HI Honolulu County, HI	1.1535
26300	Hot Springs, AR Garland County, AR	0.9110
26380	Houma-Bayou Cane-Thibodaux, LA Lafourche Parish, LA Terrebonne Parish, LA	0.7893

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26420	Houston-Sugar Land-Baytown, TX Austin County, TX Brazoria County, TX Chambers County, TX Fort Bend County, TX Galveston County, TX Harris County, TX Liberty County, TX Montgomery County, TX San Jacinto County, TX Waller County, TX	0.9987
26580	Huntington-Ashland, WV-KY-OH Boyd County, KY Greenup County, KY Lawrence County, OH Cabell County, WV Wayne County, WV	0.9004
26620	Huntsville, AL Limestone County, AL Madison County, AL	0.9303
26820	Idaho Falls, ID Bonneville County, ID Jefferson County, ID	0.9265
26900	Indianapolis-Carmel, IN Boone County, IN Brown County, IN Hamilton County, IN Hancock County, IN Hendricks County, IN Johnson County, IN Marion County, IN Morgan County, IN Putnam County, IN Shelby County, IN	0.9846
26980	Iowa City, IA Johnson County, IA Washington County, IA	0.9569
27060	Ithaca, NY Tompkins County, NY	0.9620
27100	Jackson, MI Jackson County, MI	0.9331

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27140	Jackson, MS Copiah County, MS Hinds County, MS Madison County, MS Rankin County, MS Simpson County, MS	0.8101
27180	Jackson, TN Chester County, TN Madison County, TN	0.8672
27260	Jacksonville, FL Baker County, FL Clay County, FL Duval County, FL Nassau County, FL St. Johns County, FL	0.9038
27340	Jacksonville, NC Onslow County, NC	0.8081
27500	Janesville, WI Rock County, WI	0.9659
27620	Jefferson City, MO Callaway County, MO Cole County, MO Moniteau County, MO Osage County, MO	0.8479
27740	Johnson City, TN Carter County, TN Unicoi County, TN Washington County, TN	0.7727
27780	Johnstown, PA Cambria County, PA	0.7544
27860	Jonesboro, AR Craighead County, AR Poinsett County, AR	0.7791
27900	Joplin, MO Jasper County, MO Newton County, MO	0.9050
28020	Kalamazoo-Portage, MI Kalamazoo County, MI Van Buren County, MI	1.0435
28100	Kankakee-Bradley, IL Kankakee County, IL	1.1781

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28140	Kansas City, MO-KS Franklin County, KS Johnson County, KS Leavenworth County, KS Linn County, KS Miami County, KS Wyandotte County, KS Bates County, MO Caldwell County, MO Cass County, MO Clay County, MO Clinton County, MO Jackson County, MO Lafayette County, MO Platte County, MO Ray County, MO	0.9503
28420	Kennewick-Richland-Pasco, WA Benton County, WA Franklin County, WA	1.0076
28660	Killeen-Temple-Fort Hood, TX Bell County, TX Coryell County, TX Lampasas County, TX	0.8250
28700	Kingsport-Bristol-Bristol, TN-VA Hawkins County, TN Sullivan County, TN Bristol City, VA Scott County, VA Washington County, VA	0.7677
28740	Kingston, NY Ulster County, NY	0.9492
28940	Knoxville, TN Anderson County, TN Blount County, TN Knox County, TN Loudon County, TN Union County, TN	0.8065
29020	Kokomo, IN Howard County, IN Tipton County, IN	0.9592
29100	La Crosse, WI-MN Houston County, MN La Crosse County, WI	0.9686

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29140	Lafayette, IN Benton County, IN Carroll County, IN Tippecanoe County, IN	0.8870
29180	Lafayette, LA Lafayette Parish, LA St. Martin Parish, LA	0.8245
29340	Lake Charles, LA Calcasieu Parish, LA Cameron Parish, LA	0.7778
29404	Lake County-Kenosha County, IL-WI Lake County, IL Kenosha County, WI	1.0291
29420	Lake Havasu City - Kingman, AZ Mohave, County, AZ	0.9334
29460	Lakeland, FL Polk County, FL	0.8663
29540	Lancaster, PA Lancaster County, PA	0.9259
29620	Lansing-East Lansing, MI Clinton County, MI Eaton County, MI Ingham County, MI	1.0120
29700	Laredo, TX Webb County, TX	0.8076
29740	Las Cruces, NM Dona Ana County, NM	0.8677
29820	Las Vegas-Paradise, NV Clark County, NV	1.1779
29940	Lawrence, KS Douglas County, KS	0.8262
30020	Lawton, OK Comanche County, OK	0.8024
30140	Lebanon, PA Lebanon County, PA	0.8194
30300	Lewiston, ID-WA Nez Perce County, ID Asotin County, WA	0.9456
30340	Lewiston-Auburn, ME Androscoggin County, ME	0.9195

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30460	Lexington-Fayette, KY Bourbon County, KY Clark County, KY Fayette County, KY Jessamine County, KY Scott County, KY Woodford County, KY	0.9213
30620	Lima, OH Allen County, OH	0.9426
30700	Lincoln, NE Lancaster County, NE Seward County, NE	1.0010
30780	Little Rock-North Little Rock, AR Faulkner County, AR Grant County, AR Lonoke County, AR Perry County, AR Pulaski County, AR Saline County, AR	0.8864
30860	Logan, UT-ID Franklin County, ID Cache County, UT	0.9184
30980	Longview, TX Gregg County, TX Rusk County, TX Upshur County, TX	0.8717
31020	Longview, WA Cowlitz County, WA	1.0829
31084	Los Angeles-Long Beach-Glendale, CA Los Angeles County, CA	1.1753
31140	Louisville, KY-IN Clark County, IN Floyd County, IN Harrison County, IN Washington County, IN Bullitt County, KY Henry County, KY Jefferson County, KY Meade County, KY Nelson County, KY Oldham County, KY Shelby County, KY Spencer County, KY Trimble County, KY	0.9077

CBSA Code	Urban Area (Constituent Counties)	Wage Index
31180	Lubbock, TX Crosby County, TX Lubbock County, TX	0.8714
31340	Lynchburg, VA Amherst County, VA Appomattox County, VA Bedford County, VA Campbell County, VA Bedford City, VA Lynchburg City, VA	0.8593
31420	Macon, GA Bibb County, GA Crawford County, GA Jones County, GA Monroe County, GA Twiggs County, GA	0.9540
31460	Madera, CA Madera County, CA	0.8071
31540	Madison, WI Columbia County, WI Dane County, WI Iowa County, WI	1.0937
31700	Manchester-Nashua, NH Hillsborough County, NH Merrimack County, NH	1.0069
31900	Mansfield, OH[1] Richland County, OH	0.9273
32420	Mayagüez, PR Hormigueros Municipio, PR Mayagüez Municipio, PR	0.3712
32580	McAllen-Edinburg-Pharr, TX Hidalgo County, TX	0.9124
32780	Medford, OR Jackson County, OR	1.0320
32820	Memphis, TN-MS-AR Crittenden County, AR DeSoto County, MS Marshall County, MS Tate County, MS Tunica County, MS Fayette County, TN Shelby County, TN Tipton County, TN	0.9224

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32900	Merced, CA Merced County, CA	1.2101
33124	Miami-Miami Beach-Kendall, FL Miami-Dade County, FL	1.0003
33140	Michigan City-La Porte, IN LaPorte County, IN	0.8916
33260	Midland, TX Midland County, TX	1.0326
33340	Milwaukee-Waukesha-West Allis, WI Milwaukee County, WI Ozaukee County, WI Washington County, WI Waukesha County, WI	1.0211
33460	Minneapolis-St. Paul-Bloomington, MN-WI Anoka County, MN Carver County, MN Chisago County, MN Dakota County, MN Hennepin County, MN Isanti County, MN Ramsey County, MN Scott County, MN Sherburne County, MN Washington County, MN Wright County, MN Pierce County, WI St. Croix County, WI	1.1154
33540	Missoula, MT Missoula County, MT	0.8947
33660	Mobile, AL Mobile County, AL	0.8032
33700	Modesto, CA Stanislaus County, CA	1.1926
33740	Monroe, LA Ouachita Parish, LA Union Parish, LA	0.7833
33780	Monroe, MI Monroe County, MI	0.9415
33860	Montgomery, AL Autauga County, AL Elmore County, AL Lowndes County, AL Montgomery County, AL	0.8335

CBSA Code	Urban Area (Constituent Counties)	Wage Index
34060	Morgantown, WV Monongalia County, WV Preston County, WV	0.8322
34100	Morristown, TN Grainger County, TN Hamblen County, TN Jefferson County, TN	0.7377
34580	Mount Vernon-Anacortes, WA Skagit County, WA	1.0531
34620	Muncie, IN Delaware County, IN	0.8215
34740	Muskegon-Norton Shores, MI Muskegon County, MI	0.9799
34820	Myrtle Beach-Conway-North Myrtle Beach, SC Horry County, SC	0.8637
34900	Napa, CA Napa County, CA	1.4332
34940	Naples-Marco Island, FL Collier County, FL	0.9619
34980	Nashville-Davidson--Murfreesboro, TN Cannon County, TN Cheatham County, TN Davidson County, TN Dickson County, TN Hickman County, TN Macon County, TN Robertson County, TN Rutherford County, TN Smith County, TN Sumner County, TN Trousdale County, TN Williamson County, TN Wilson County, TN	0.9743
35004	Nassau-Suffolk, NY Nassau County, NY Suffolk County, NY	1.2569
35084	Newark-Union, NJ-PA Essex County, NJ Hunterdon County, NJ Morris County, NJ Sussex County, NJ Union County, NJ Pike County, PA	1.1864

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35300	New Haven-Milford, CT New Haven County, CT	1.1877
35380	New Orleans-Metairie-Kenner, LA Jefferson Parish, LA Orleans Parish, LA Plaquemines Parish, LA St. Bernard Parish, LA St. Charles Parish, LA St. John the Baptist Parish, LA St. Tammany Parish, LA	0.8915
35644	New York-Wayne-White Plains, NY-NJ Bergen County, NJ Hudson County, NJ Passaic County, NJ Bronx County, NY Kings County, NY New York County, NY Putnam County, NY Queens County, NY Richmond County, NY Rockland County, NY Westchester County, NY	1.3097
35660	Niles-Benton Harbor, MI Berrien County, MI	0.9143
35980	Norwich-New London, CT New London County, CT	1.1493
36084	Oakland-Fremont-Hayward, CA Alameda County, CA Contra Costa County, CA	1.5620
36100	Ocala, FL Marion County, FL	0.8628
36140	Ocean City, NJ Cape May County, NJ	1.0660
36220	Odessa, TX Ector County, TX	1.0044
36260	Ogden-Clearfield, UT Davis County, UT Morgan County, UT Weber County, UT	0.9006

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36420	Oklahoma City, OK Canadian County, OK Cleveland County, OK Grady County, OK Lincoln County, OK Logan County, OK McClain County, OK Oklahoma County, OK	0.8822
36500	Olympia, WA Thurston County, WA	1.1552
36540	Omaha-Council Bluffs, NE-IA Harrison County, IA Mills County, IA Pottawattamie County, IA Cass County, NE Douglas County, NE Sarpy County, NE Saunders County, NE Washington County, NE	0.9503
36740	Orlando, FL Lake County, FL Orange County, FL Osceola County, FL Seminole County, FL	0.9320
36780	Oshkosh-Neenah, WI Winnebago County, WI	0.9568
36980	Owensboro, KY Daviess County, KY Hancock County, KY McLean County, KY	0.8752
37100	Oxnard-Thousand Oaks-Ventura, CA Ventura County, CA	1.1828
37340	Palm Bay-Melbourne-Titusville, FL Brevard County, FL	0.9326
37380	Palm Coast, FL Flagler County, FL	0.8946
37460	Panama City-Lynn Haven, FL Bay County, FL	0.8171
37620	Parkersburg-Marietta, WV-OH Washington County, OH Pleasants County, WV Wirt County, WV Wood County, WV	0.8103

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37700	Pascagoula, MS George County, MS Jackson County, MS	0.8649
37764	Peabody, MA Essex County, MA	1.0258
37860	Pensacola-Ferry Pass-Brent, FL Escambia County, FL Santa Rosa County, FL	0.8283
37900	Peoria, IL Marshall County, IL Peoria County, IL Stark County, IL Tazewell County, IL Woodford County, IL	0.9285
37964	Philadelphia, PA Bucks County, PA Chester County, PA Delaware County, PA Montgomery County, PA Philadelphia County, PA	1.0935
38060	Phoenix-Mesa-Scottsdale, AZ Maricopa County, AZ Pinal County, AZ	1.0268
38220	Pine Bluff, AR Cleveland County, AR Jefferson County, AR Lincoln County, AR	0.7840
38300	Pittsburgh, PA Allegheny County, PA Armstrong County, PA Beaver County, PA Butler County, PA Fayette County, PA Washington County, PA Westmoreland County, PA	0.8520
38340	Pittsfield, MA Berkshire County, MA	1.0106
38540	Pocatello, ID Bannock County, ID Power County, ID	0.9428
38660	Ponce, PR Juana Díaz Municipio, PR Ponce Municipio, PR Villalba Municipio, PR	0.4343

CBSA Code	Urban Area (Constituent Counties)	Wage Index
38860	Portland-South Portland-Biddeford, ME Cumberland County, ME Sagadahoc County, ME York County, ME	1.0044
38900	Portland-Vancouver-Beaverton, OR-WA Clackamas County, OR Columbia County, OR Multnomah County, OR Washington County, OR Yamhill County, OR Clark County, WA Skamania County, WA	1.1500
38940	Port St. Lucie-Fort Pierce, FL Martin County, FL St. Lucie County, FL	1.0018
39100	Poughkeepsie-Newburgh-Middletown, NY Dutchess County, NY Orange County, NY	1.0849
39140	Prescott, AZ Yavapai County, AZ	1.0021
39300	Providence-New Bedford-Fall River, RI-MA Bristol County, MA Bristol County, RI Kent County, RI Newport County, RI Providence County, RI Washington County, RI	1.0725
39340	Provo-Orem, UT Juab County, UT Utah County, UT	0.9558
39380	Pueblo, CO Pueblo County, CO	0.8852
39460	Punta Gorda, FL Charlotte County, FL	0.9255
39540	Racine, WI Racine County, WI	0.9500
39580	Raleigh-Cary, NC Franklin County, NC Johnston County, NC Wake County, NC	0.9536
39660	Rapid City, SD Meade County, SD Pennington County, SD	0.8812

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39740	Reading, PA Berks County, PA	0.9357
39820	Redding, CA Shasta County, CA	1.3553
39900	Reno-Sparks, NV Storey County, NV Washoe County, NV	1.0954
40060	Richmond, VA Amelia County, VA Caroline County, VA Charles City County, VA Chesterfield County, VA Cumberland County, VA Dinwiddie County, VA Goochland County, VA Hanover County, VA Henrico County, VA King and Queen County, VA King William County, VA Louisa County, VA New Kent County, VA Powhatan County, VA Prince George County, VA Sussex County, VA Colonial Heights City, VA Hopewell City, VA Petersburg City, VA Richmond City, VA	0.9427
40140	Riverside-San Bernardino-Ontario, CA Riverside County, CA San Bernardino County, CA	1.0931
40220	Roanoke, VA Botetourt County, VA Craig County, VA Franklin County, VA Roanoke County, VA Roanoke City, VA Salem City, VA	0.8618
40340	Rochester, MN Dodge County, MN Olmsted County, MN Wabasha County, MN	1.1033

CBSA Code	Urban Area (Constituent Counties)	Wage Index
40380	Rochester, NY Livingston County, NY Monroe County, NY Ontario County, NY Orleans County, NY Wayne County, NY	0.8836
40420	Rockford, IL Boone County, IL Winnebago County, IL	0.9660
40484	Rockingham County-Strafford County, NH Rockingham County, NH Strafford County, NH	1.0113
40580	Rocky Mount, NC Edgecombe County, NC Nash County, NC	0.9008
40660	Rome, GA Floyd County, GA	0.9040
40900	Sacramento--Arden-Arcade--Roseville, CA El Dorado County, CA Placer County, CA Sacramento County, CA Yolo County, CA	1.3428
40980	Saginaw-Saginaw Township North, MI Saginaw County, MI	0.8813
41060	St. Cloud, MN Benton County, MN Stearns County, MN	1.0551
41100	St. George, UT Washington County, UT	0.9365
41140	St. Joseph, MO-KS Doniphan County, KS Andrew County, MO Buchanan County, MO DeKalb County, MO	0.8764

CBSA Code	Urban Area (Constituent Counties)	Wage Index
41180	St. Louis, MO-IL Bond County, IL Calhoun County, IL Clinton County, IL Jersey County, IL Macoupin County, IL Madison County, IL Monroe County, IL St. Clair County, IL Crawford County, MO Franklin County, MO Jefferson County, MO Lincoln County, MO St. Charles County, MO St. Louis County, MO Warren County, MO Washington County, MO St. Louis City, MO	0.8923
41420	Salem, OR Marion County, OR Polk County, OR	1.0573
41500	Salinas, CA Monterey County, CA	1.4581
41540	Salisbury, MD Somerset County, MD Wicomico County, MD	0.8995
41620	Salt Lake City, UT Salt Lake County, UT Summit County, UT Tooele County, UT	0.9404
41660	San Angelo, TX Irion County, TX Tom Green County, TX	0.8581
41700	San Antonio, TX Atascosa County, TX Bandera County, TX Bexar County, TX Comal County, TX Guadalupe County, TX Kendall County, TX Medina County, TX Wilson County, TX	0.8851
41740	San Diego-Carlsbad-San Marcos, CA San Diego County, CA	1.1418

CBSA Code	Urban Area (Constituent Counties)	Wage Index
41780	Sandusky, OH Erie County, OH	0.8824
41884	San Francisco-San Mateo-Redwood City, CA Marin County, CA San Francisco County, CA San Mateo County, CA	1.5154
41900	San Germán-Cabo Rojo, PR Cabo Rojo Municipio, PR Lajas Municipio, PR Sabana Grande Municipio, PR San Germán Municipio, PR	0.4730
41940	San Jose-Sunnyvale-Santa Clara, CA San Benito County, CA Santa Clara County, CA	1.5639

CBSA Code	Urban Area (Constituent Counties)	Wage Index
41980	San Juan-Caguas-Guaynabo, PR Aguas Buenas Municipio, PR Aibonito Municipio, PR Arecibo Municipio, PR Barceloneta Municipio, PR Barranquitas Municipio, PR Bayamón Municipio, PR Caguas Municipio, PR Camuy Municipio, PR Canóvanas Municipio, PR Carolina Municipio, PR Cataño Municipio, PR Cayey Municipio, PR Ciales Municipio, PR Cidra Municipio, PR Comerío Municipio, PR Corozal Municipio, PR Dorado Municipio, PR Florida Municipio, PR Guaynabo Municipio, PR Gurabo Municipio, PR Hatillo Municipio, PR Humacao Municipio, PR Juncos Municipio, PR Las Piedras Municipio, PR Loíza Municipio, PR Manatí Municipio, PR Maunabo Municipio, PR Morovis Municipio, PR Naguabo Municipio, PR Naranjito Municipio, PR Orocovis Municipio, PR Quebradillas Municipio, PR Río Grande Municipio, PR San Juan Municipio, PR San Lorenzo Municipio, PR Toa Alta Municipio, PR Toa Baja Municipio, PR Trujillo Alto Municipio, PR Vega Alta Municipio, PR Vega Baja Municipio, PR Yabucoa Municipio, PR	0.4516
42020	San Luis Obispo-Paso Robles, CA San Luis Obispo County, CA	1.2442

CBSA Code	Urban Area (Constituent Counties)	Wage Index
42044	Santa Ana-Anaheim-Irvine, CA Orange County, CA	1.1745
42060	Santa Barbara-Santa Maria-Goleta, CA Santa Barbara County, CA	1.1697
42100	Santa Cruz-Watsonville, CA Santa Cruz County, CA	1.6117
42140	Santa Fe, NM Santa Fe County, NM	1.0735
42220	Santa Rosa-Petaluma, CA Sonoma County, CA	1.4482
42260	Sarasota-Bradenton-Venice, FL Manatee County, FL Sarasota County, FL	0.9917
42340	Savannah, GA Bryan County, GA Chatham County, GA Effingham County, GA	0.9226
42540	Scranton--Wilkes-Barre, PA Lackawanna County, PA Luzerne County, PA Wyoming County, PA	0.8459
42644	Seattle-Bellevue-Everett, WA King County, WA Snohomish County, WA	1.1556
42680	Sebastian-Vero Beach, FL Indian River County, FL	0.9414
43100	Sheboygan, WI Sheboygan County, WI	0.8977
43300	Sherman-Denison, TX Grayson County, TX	0.8321
43340	Shreveport-Bossier City, LA Bossier Parish, LA Caddo Parish, LA De Soto Parish, LA	0.8535
43580	Sioux City, IA-NE-SD Woodbury County, IA Dakota County, NE Dixon County, NE Union County, SD	0.9383
43620	Sioux Falls, SD Lincoln County, SD McCook County, SD Minnehaha County, SD Turner County, SD	0.9565

CBSA Code	Urban Area (Constituent Counties)	Wage Index
43780	South Bend-Mishawaka, IN-MI St. Joseph County, IN Cass County, MI	0.9618
43900	Spartanburg, SC Spartanburg County, SC	0.9424
44060	Spokane, WA Spokane County, WA	1.0444
44100	Springfield, IL Menard County, IL Sangamon County, IL	0.8945
44140	Springfield, MA Franklin County, MA Hampden County, MA Hampshire County, MA	1.0151
44180	Springfield, MO Christian County, MO Dallas County, MO Greene County, MO Polk County, MO Webster County, MO	0.9095
44220	Springfield, OH Clark County, OH	0.8665
44300	State College, PA Centre County, PA	0.8770
44700	Stockton, CA San Joaquin County, CA	1.1775
44940	Sumter, SC Sumter County, SC	0.8600
45060	Syracuse, NY Madison County, NY Onondaga County, NY Oswego County, NY	0.9868
45104	Tacoma, WA Pierce County, WA	1.1056
45220	Tallahassee, FL Gadsden County, FL Jefferson County, FL Leon County, FL Wakulla County, FL	0.9026
45300	Tampa-St. Petersburg-Clearwater, FL Hernando County, FL Hillsborough County, FL Pasco County, FL Pinellas County, FL	0.9020

CBSA Code	Urban Area (Constituent Counties)	Wage Index
45460	Terre Haute, IN Clay County, IN Sullivan County, IN Vermillion County, IN Vigo County, IN	0.8806
45500	Texarkana, TX-Texarkana, AR Miller County, AR Bowie County, TX	0.8127
45780	Toledo, OH Fulton County, OH Lucas County, OH Ottawa County, OH Wood County, OH	0.9435
45820	Topeka, KS Jackson County, KS Jefferson County, KS Osage County, KS Shawnee County, KS Wabaunsee County, KS	0.8540
45940	Trenton-Ewing, NJ Mercer County, NJ	1.0700
46060	Tucson, AZ Pima County, AZ	0.9312
46140	Tulsa, OK Creek County, OK Okmulgee County, OK Osage County, OK Pawnee County, OK Rogers County, OK Tulsa County, OK Wagoner County, OK	0.8343
46220	Tuscaloosa, AL Greene County, AL Hale County, AL Tuscaloosa County, AL	0.8304
46340	Tyler, TX Smith County, TX	0.9120
46540	Utica-Rome, NY Herkimer County, NY Oneida County, NY	0.8483

CBSA Code	Urban Area (Constituent Counties)	Wage Index
46660	Valdosta, GA Brooks County, GA Echols County, GA Lanier County, GA Lowndes County, GA	0.8099
46700	Vallejo-Fairfield, CA Solano County, CA	1.4628
47020	Victoria, TX Calhoun County, TX Goliad County, TX Victoria County, TX	0.8306
47220	Vineland-Millville-Bridgeton, NJ Cumberland County, NJ	1.0134
47260	Virginia Beach-Norfolk-Newport News, VA-NC Currituck County, NC Gloucester County, VA Isle of Wight County, VA James City County, VA Mathews County, VA Surry County, VA York County, VA Chesapeake City, VA Hampton City, VA Newport News City, VA Norfolk City, VA Poquoson City, VA Portsmouth City, VA Suffolk City, VA Virginia Beach City, VA Williamsburg City, VA	0.8823
47300	Visalia-Porterville, CA Tulare County, CA	1.0092
47380	Waco, TX McLennan County, TX	0.8520
47580	Warner Robins, GA Houston County, GA	0.9130
47644	Warren-Troy-Farmington Hills, MI Lapeer County, MI Livingston County, MI Macomb County, MI Oakland County, MI St. Clair County, MI	1.0004

CBSA Code	Urban Area (Constituent Counties)	Wage Index
47894	Washington-Arlington-Alexandria, DC-VA-MD-WV District of Columbia, DC Calvert County, MD Charles County, MD Prince George's County, MD Arlington County, VA Clarke County, VA Fairfax County, VA Fauquier County, VA Loudoun County, VA Prince William County, VA Spotsylvania County, VA Stafford County, VA Warren County, VA Alexandria City, VA Fairfax City, VA Falls Church City, VA Fredericksburg City, VA Manassas City, VA Manassas Park City, VA Jefferson County, WV	1.0845
47940	Waterloo-Cedar Falls, IA Black Hawk County, IA Bremer County, IA Grundy County, IA	0.8520
48140	Wausau, WI Marathon County, WI	0.9680
48260	Weirton-Steubenville, WV-OH Jefferson County, OH Brooke County, WV Hancock County, WV	0.7925
48300	Wenatchee, WA Chelan County, WA Douglas County, WA	1.1471
48424	West Palm Beach-Boca Raton-Boynton Beach, FL Palm Beach County, FL	0.9735
48540	Wheeling, WV-OH Belmont County, OH Marshall County, WV Ohio County, WV	0.6962

CBSA Code	Urban Area (Constituent Counties)	Wage Index
48620	Wichita, KS Butler County, KS Harvey County, KS Sedgwick County, KS Sumner County, KS	0.9129
48660	Wichita Falls, TX Archer County, TX Clay County, TX Wichita County, TX	0.8192
48700	Williamsport, PA Lycoming County, PA	0.8044
48864	Wilmington, DE-MD-NJ New Castle County, DE Cecil County, MD Salem County, NJ	1.0824
48900	Wilmington, NC Brunswick County, NC New Hanover County, NC Pender County, NC	0.9419
49020	Winchester, VA-WV Frederick County, VA Winchester City, VA Hampshire County, WV	0.9914
49180	Winston-Salem, NC Davie County, NC Forsyth County, NC Stokes County, NC Yadkin County, NC	0.9120
49340	Worcester, MA Worcester County, MA	1.1268
49420	Yakima, WA Yakima County, WA	1.0268
49500	Yauco, PR Guánica Municipio, PR Guayanilla Municipio, PR Peñuelas Municipio, PR Yauco Municipio, PR	0.3284
49620	York-Hanover, PA York County, PA	0.9237
49660	Youngstown-Warren-Boardman, OH-PA Mahoning County, OH Trumbull County, OH Mercer County, PA	0.9004

CBSA Code	Urban Area (Constituent Counties)	Wage Index
49700	Yuba City, CA Sutter County, CA Yuba County, CA	1.0758
49740	Yuma, AZ Yuma County, AZ	0.9489

[1] At this time, there are no hospitals located in this urban area on which to base a wage index.

Table 9. FY 2008 WAGE INDEX BASED ON CBSA LABOR MARKET AREAS FOR RURAL AREAS

CBSA Code	Nonurban Area	Wage Index
1	Alabama	0.7560
2	Alaska	1.1826
3	Arizona	0.8655
4	Arkansas	0.7371
5	California	1.1887
6	Colorado	0.9703
7	Connecticut	1.1475
8	Delaware	0.9659
10	Florida	0.8470
11	Georgia	0.7659
12	Hawaii	1.0618
13	Idaho	0.7981
14	Illinois	0.8342
15	Indiana	0.8604
16	Iowa	0.8568
17	Kansas	0.7984
18	Kentucky	0.7792
19	Louisiana	0.7376
20	Maine	0.8476
21	Maryland	0.9035
22	Massachusetts[1]	1.1665
23	Michigan	0.8941
24	Minnesota	0.9185
25	Mississippi	0.7872
26	Missouri	0.7886
27	Montana	0.8378
28	Nebraska	0.8848
29	Nevada	0.9254
30	New Hampshire	1.0865
31	New Jersey[1]	------

CBSA Code	Nonurban Area	Wage Index
32	New Mexico	0.8937
33	New York	0.8261
34	North Carolina	0.8604
35	North Dakota	0.7183
36	Ohio	0.8715
37	Oklahoma	0.7490
38	Oregon	0.9895
39	Pennsylvania	0.8391
40	Puerto Rico[1]	0.4047
41	Rhode Island[1]	------
42	South Carolina	0.8744
43	South Dakota	0.8538
44	Tennessee	0.7718
45	Texas	0.7970
46	Utah	0.8185
47	Vermont	0.9918
48	Virgin Islands	0.6831
49	Virginia	0.7915
50	Washington	1.0262
51	West Virginia	0.7440
52	Wisconsin	0.9614
53	Wyoming	0.9288
65	Guam	0.9611

[1] All counties within the State are classified as urban, with the exception of Massachusetts and Puerto Rico. Massachusetts and Puerto Rico have areas designated as rural; however, no short-term, acute care hospitals are located in the area(s) for FY 2008. The rural Massachusetts wage index is calculated as the average of all contiguous CBSAs. The Puerto Rico wage index is the same as FY 2007.