

# PROGRAM MEMORANDUM INTERMEDIARIES

Department of Health  
and Human Services

Health Care Financing  
Administration

Transmittal No. A-00-16

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## CHANGE REQUEST 1128

**SUBJECT: The Balanced Budget Refinement Act (BBRA) Revision to PM Trasmittal No. A-99-51: FY 2000 Prospective Payment System and Excluded Hospital Bill Processing Changes--Wage Adjust 75th Percentile Cap of the Target Amounts or Excluded Hospitals and Units**

This Program Memorandum (PM) provides instructions for implementing §121(a) of the BBRA (Public Law 106-113) which was enacted November 29, 1999. It amends §1886 (b)(3)(H) of the Social Security Act (the Act) to wage adjust the 75th percentile cap for long term care hospitals and rehabilitation and psychiatric hospitals and hospital units. These caps apply to the target amounts of hospitals and hospital units that were subject to the caps for existing providers as specified in 42 CFR §413.40(c). The new legislation requires a revision to the cap amounts effective for cost reporting periods beginning on or after October 1, 1999.

Section 4414 of Public Law 105-33, which amended §1886 (b)(3) of the Act, first established the cap by requiring HCFA to "estimate the 75th percentile of the target amounts for such [long term care, rehabilitation, psychiatric] hospitals within [each] class for cost reporting periods ending during fiscal year 1996." The caps on target amounts for existing providers were originally calculated using the latest available data on hospital specific target amounts for cost reporting periods ending during fiscal year 1996 and updated by the applicable market basket each year. PM A-99-51, dated December 1999 listed the updated caps as follows:

- 1.) Long-term Care \$39,712
- 2.) Psychiatric \$11,100
- 3.) Rehabilitation \$20,129

The caps have now been revised to wage-adjust the labor portion of the originally determined cap amount, using the most recent data available for the hospital specific target amounts for each separate class of hospital and hospital units' cost reporting periods ending during fiscal year 1996, and applying the wage indices appropriate to each provider. The 75th percentile was determined based on an array of all the wage-adjusted targets for each class and updated by the market basket to FY 2000. The revised wage-adjusted caps on target amounts are shown in the table below:

**Table 1: Revised Caps for PPS-Exempt Hospitals and Units by Class**

Class of Hospital & Hospital Unit	Labor-Related Portion of Revised Cap	Non-Labor Related Portion of Revised Cap
Long Term Care	\$ 28,431	\$ 8,088
Psychiatric	\$ 7,862	\$ 2,237
Rehabilitation	\$14,654	\$ 4,169

HCFA-Pub. 60A

**EXAMPLE:** Determine the appropriate cap for a Psychiatric hospital (Hospital X) located in the Metropolitan Statistical Area (MSA) 1303 (Berlington). For purposes of this example, assume the hospital's hospital specific target amount is \$10,000.

As noted in the *Federal Register*, July 30, 1999, page 41586, the wage index for MSA 1303 is 1.0558. The wage-adjustment is only applicable to the Labor-Related Portion of the cap. Therefore:

(\$ 7,862 * 1.0558)	+ \$ 2,237	= \$ 10,538
Labor Portion for Psych. From Table 1 multiplied by the W.I. from FR	Add in the Non-Labor Related Portion for Psych. From Table 1	Wage-Adjusted Cap for Hospital X

The hospital's target amount is set at the lower of the hospital's own hospital specific target amount (\$10,000), or the hospital's wage-adjusted cap (\$ 10,538). In this case, since the hospital specific target amount is lower than the wage-adjusted cap, the target amount applied to the hospital would be set at \$10,000.

*The effective date for this PM is October 1, 1999.*

*The implementation date for this PM is July 1, 2000.*

**These instructions should be implemented within your current operating budget.**

**For questions regarding this document, contact Nora Kraemer on (410) 786-6908.**

**This PM may be discarded after September 30, 2000.**