

---

# CMS Manual System

## Pub. 100-20 One-Time Notification

---

Department of Health &  
Human Services (DHHS)  
Centers for Medicare &  
Medicaid Services (CMS)

Transmittal 64

Date: MARCH 26, 2004

---

CHANGE REQUEST 3158

**SUMMARY OF CHANGES:** This One-Time Notification implements sections 401, 402, 504, and 508(a) of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) (Public Law 108-173).

Section 401 equalizes the national adjusted operating standardized amounts for large urban and other areas. It also increases the large urban and other area national adjusted amounts for Puerto Rico to equal the national adjusted operating standardized amounts. Section 401 also equalizes the Puerto Rico-specific urban and other area rates.

Section 504 changes the current blend of 50 percent Federal and 50 percent Puerto Rico to 62.5 percent Federal and 37.5 percent Puerto Rico effective for discharges from April 1, 2004 through September 30, 2004.

Section 402 increases the DSH adjustment for rural hospitals and urban hospitals with fewer than 100 beds. This change is effective for discharges occurring on or after April 1, 2004.

Under Section 508(a), a qualifying hospital may appeal the wage index classification otherwise applicable to the hospital and apply for reclassification to another area of the State in which the hospital is located (or, at the discretion of the Secretary, to an area within a contiguous State). These reclassifications are applicable to discharges occurring during the 3-year period beginning on April 1, 2004, and ending on March 31, 2007.

**NEW/REVISED MATERIAL - EFFECTIVE DATE: April 1, 2004**

**\*IMPLEMENTATION DATE: April 5, 2004**

## II. CHANGES IN MANUAL INSTRUCTIONS:

(R = REVISED, N = NEW, D = DELETED)

R/N/D	CHAPTER/SECTION/SUBSECTION/TITLE
N/A	

## \*III. FUNDING:

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

**IV. ATTACHMENTS:**

	<b>Business Requirements</b>
	<b>Manual Instruction</b>
	<b>Confidential Requirements</b>
<b>X</b>	<b>One-Time Notification</b>
	<b>Recurring Update Notification</b>

**\*Medicare contractors only**

# One-Time Notification

Pub. 100-20	Transmittal: 64	Date: March 26, 2004	Change Request 3158
-------------	-----------------	----------------------	---------------------

**SUBJECT: Implementation of Sections 401, 402, 504 and 508(a) of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Public Law 108-173)**

## I. GENERAL INFORMATION

**A. Background:** This One-Time Notification (OTN) implements the various changes required by Sections 401, 402, 504, and 508(a) of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) (Public Law 108-173).

**B. Policy:** Section 401 continues the equalization of the national adjusted operating standardized amounts for large urban and other areas. It also increases the large urban and other area national adjusted amounts for Puerto Rico to equal the national adjusted operating standardized amounts. Section 401 also equalizes the Puerto Rico-specific urban and other area rates. The Puerto Rico-specific equalization of urban and other areas is retroactive to October 1, 2003, but will not be effective until April 1, 2004. We calculated the payment necessary to make up for the 6 months that the Puerto Rico “other areas” did not receive payments equal to the Puerto Rico urban rates. Therefore, from April 1, 2004 to September 30, 2004, the Puerto Rico-specific other area rate will exceed the Puerto Rico urban rate so that the requirements of the provision can be implemented without reprocessing claims (in accordance with Section 401(d)(2)).

Section 504 changes the current blend of 50 percent Federal and 50 percent Puerto Rico to 62.5 percent Federal and 37.5 percent Puerto Rico effective for discharges from April 1, 2004 through September 30, 2004. The blend is further adjusted to 75 percent Federal and 25 percent Puerto Rico on October 1, 2004. The new rates reflecting this blend will be announced in the August 1, 2004 Federal Register.

The new rates effective for discharges occurring on or after April 1, 2004 through September 30, 2004, based on Sections 401 and 504 of MMA, are as follows:

	Large Urban		Other Area	
	Labor	Nonlabor	Labor	Nonlabor
National	\$ 3,135.49	\$ 1,274.49	\$ 3,135.49	\$ 1,274.49
National PR	\$ 3,135.49	\$ 1,274.49	\$ 3,135.49	\$ 1,274.49
PR Specific	\$ 1,507.58	\$ 606.83	\$ 1,539.38	\$ 619.64

The new budget neutrality factors effective April 1, 2004 are as follows:

Puerto Rico Recalibration Budget Neutrality: 1.001698  
 Wage Index and DRG Recalibration Budget Neutrality: 1.002628  
 Geographic Reclassification Budget Neutrality: 0.991798

The new fixed loss amount for determining the cost outlier threshold effective for discharges occurring on or after April 1, 2004 through September 30, 2004 resulting from the payment changes made by Sections 401, 402 and 504 of MMA is \$30,150

The regulations at §412.312(c) establish a unified outlier methodology for inpatient operating and capital-related costs, which utilizes a single set of thresholds to identify outlier cases under both the operating PPS and the capital PPS. Because the fixed loss amount used for determining the cost outlier threshold is being changed effective for discharges occurring on or after April 1, 2004 through September 30, 2004 as a result of the payment changes made by Sections 401, 402 and 504 of MMA, the new capital PPS rates effective for discharges occurring on or after April 1, 2004 through September 30, 2004 are as follows:

National	\$413.48; and
Puerto Rico	\$202.96

These rates were determined using an updated national GAF/DRG adjustment factor of 1.0025, a Puerto Rico GAF/DRG adjustment factor of 1.0011, a national outlier adjustment factor of 0.9508 and a Puerto Rico outlier adjustment factor of 0.9922 for discharges occurring on or after April 1, 2004 through September 30, 2004.

Section 402 of the MMA increases the disproportionate share hospital (DSH) adjustment for rural hospitals and urban hospitals with fewer than 100 beds. The adjustment is effective for discharges occurring on or after April 1, 2004.

Under Section 1886(d)(5)(F) of the Social Security Act, Medicare makes additional DSH payments to acute hospitals that serve a large number of low-income Medicare and Medicaid patients as part of its inpatient prospective payment system (PPS). As specified in Section 211 of the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000, as of April 1, 2001, all inpatient PPS hospitals that meet the number of beds requirement will be eligible to receive DSH payments when their DSH patient percentage meets or exceeds 15 percent. Various formulas are used to establish a hospital's DSH payment adjustment based on the hospital's location, number of beds and status as a rural referral center or sole community hospital. We have attached the formulas.

This OTN also serves as notification to FI of forthcoming decisions by the Medicare Geographic Classification Review Board (MGCRB) in accordance with Section 508(a), "One-Time Appeals Process for Hospital Wage Index Classification". Under this provision, a qualifying hospital may appeal the wage index classification otherwise applicable to the hospital and apply for reclassification to another area of the State in which the hospital is located (or, at the discretion of the Secretary, to an area within a contiguous State). Upon completion of the MGCRB review process, we will post a complete listing of the approved Section 508(a) hospital geographic reclassifications on our Web site. Geographic reclassifications approved under Section 508(a) are effective

for discharges occurring during the 3-year period beginning on April 1, 2004, and ending on March 31, 2007.

**C. Provider Education:** A provider education article related to this instruction will be available at [www.cms.hhs.gov/medlearn/matters](http://www.cms.hhs.gov/medlearn/matters) shortly after the CR is released. You will receive notification of the article release via the established "medlearn matters" listserv. Contractors shall post this article to their Web site, and include it in a listserv message if applicable, within one week of the availability of the provider education article. In addition, the provider education article must be included in your next regularly scheduled bulletin.

## II. BUSINESS REQUIREMENTS

*"Shall" denotes a mandatory requirement*

*"Should" denotes an optional requirement*

Requirement #	Requirements	Responsibility
3158.1	The SSM will install the new PRICER.	SSM
3158.2	The FI shall ensure the provider specific file reflects all wage index reclassifications included in listing posted on the CMS Web site.	FI
3158.3	The FI shall notify the affected hospitals of the changes.	FI

## III. SUPPORTING INFORMATION & POSSIBLE DESIGN CONSIDERATIONS

### A. Other Instructions:

X-Ref Requirement #	Instructions
	N/A

### B. Design Considerations:

X-Ref Requirement #	Recommendation for Medicare System Requirements
	N/A

**C. Interfaces:** N/A

**D. Contractor Financial Reporting /Workload Impact:** N/A

**E. Dependencies:** N/A

**F. Testing Considerations:** N/A

#### IV. SCHEDULE, CONTACTS, AND FUNDING

<p><b>Effective Date: April 1, 2004</b></p> <p><b>Implementation Date: April 5, 2004</b></p> <p><b>Pre-Implementation Contact(s):</b> Division of Acute Care, (410) 786-4548 (Sherry Armstead (DSH), Brett James (standardized amounts), Margot Blige Holloway (geographic reclassification))</p> <p><b>Post-Implementation Contact(s):</b> Division of Acute Care, (410) 786-4548 (Sherry Armstead (DSH), Brett James (standardized amounts), Margot Blige Holloway (geographic reclassification))</p>	<p><b>These instructions should be implemented within your current operating budget.</b></p>
---	--

Attachment

## ATTACHMENT

### Urban Hospitals

0-99 Beds	$\geq 15\%$ , $<20.2\%$ $\geq 20.2\%$	$2.5\% + [.65 \times (\text{DSH pct.} - 15\%)]$ $5.88\% + [.825 \times (\text{DSH pct.} - 20.2\%)]$ <b>Not to Exceed 12%</b>
-----------	--	--

100+ Beds	$\geq 15\%$ , $<20.2\%$ $\geq 20.2\%$	$2.5\% + [.65 \times (\text{DSH pct.} - 15\%)]$ $5.88\% + [.825 \times (\text{DSH pct.} - 20.2\%)]$ <b>No Cap</b>
-----------	--	---

Sole Community Hospitals (SCH)	$\geq 15\%$ , $<20.2\%$ $\geq 20.2\%$	$2.5\% + [.65 \times (\text{DSH pct.} - 15\%)]$ $5.88\% + [.825 \times (\text{DSH pct.} - 20.2\%)]$ <b>Not to Exceed 12%</b>
--------------------------------	--	--

Rural Referral Centers (RRC)	$\geq 15\%$ , $<20.2\%$ $\geq 20.2\%$	$2.5\% + [.65 \times (\text{DSH pct.} - 15\%)]$ $5.88\% + [.825 \times (\text{DSH pct.} - 20.2\%)]$ <b>No Cap</b>
------------------------------	--	---

Both SCH and RRC	$\geq 15\%$ , $<20.2\%$ $\geq 20.2\%$	$2.5\% + [.65 \times (\text{DSH pct.} - 15\%)]$ $5.88\% + [.825 \times (\text{DSH pct.} - 20.2\%)]$ <b>No Cap</b>
------------------	--	---

### Other Rural Hospitals

0-499 Beds	$\geq 15\%$ , $<20.2\%$ $\geq 20.2\%$	$2.5\% + [.65 \times (\text{DSH pct.} - 15\%)]$ $5.88\% + [.825 \times (\text{DSH pct.} - 20.2\%)]$ <b>Not to Exceed 12%</b>
------------	--	--

500+ Beds	$\geq 15\%$ , $<20.2\%$ $\geq 20.2\%$	$2.5\% + [.65 \times (\text{DSH pct.} - 15\%)]$ $5.88\% + [.825 \times (\text{DSH pct.} - 20.2\%)]$ <b>No Cap</b>
-----------	--	---