

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Health Care Financing Administration

[BPD-895-FNC]

RIN 0938-AL15

Medicare Program; Schedules of Limits and Prospectively Determined Payment Rates for Skilled Nursing Facility Inpatient Routine Service Costs

AGENCY: Health Care Financing Administration (HCFA), HHS.

ACTION: Final notice with comment period.

SUMMARY: This final notice with comment period sets forth an updated schedule of limits on skilled nursing facility (SNF) routine service costs for which payment may be made under the Medicare program and sets forth an updated schedule of payment rates for low Medicare volume SNFs that elect to receive prospectively determined payment rates for routine service costs. Section 1888(a) of the Social Security Act (the Act) requires that the Secretary update the per diem cost limits for SNF routine service costs for cost reporting periods beginning on or after October 1, 1995, and every 2 years thereafter. In addition, section 1888(d)(4) of the Act requires the Secretary to establish and publish prospectively determined payment rates at least 90 days prior to the beginning of the Federal fiscal year (FY) to which such rates are to be applied.

DATES: *Effective date:* The schedule of cost limits and the schedule of prospectively determined payment rates are effective for cost reporting periods beginning on or after October 1, 1997.

Comment date: Written comments will be considered if we receive them at the appropriate address, as provided below, no later than 5:00 p.m. on December 1, 1997.

ADDRESSES: Mail written comments (an original and three copies) to the following address: Health Care Financing Administration, Department of Health and Human Services, Attention: BPD-895-NC, P.O. Box 7517, Baltimore, MD 21244-0517.

If you prefer, you may deliver your written comments (one original and three copies) to one of the following addresses: Room 309-G, Hubert H. Humphrey Building, 200 Independence Avenue, SW, Washington, DC 20201, or Room C5-09-26, 7500 Security Boulevard, Baltimore, MD 21244-1850.

Comments may also be submitted electronically to the following E-mail

address: BPD-895-NC@hcfa.gov. E-mail comments must include the full name and address of the sender and must be submitted to the referenced address in order to be considered. All comments must be incorporated in the E-mail message because we may not be able to access attachments. Electronically submitted comments will be available for public inspection at the Independence Avenue address, below.

Because of staffing and resource limitations, we cannot accept comments by facsimile (FAX) transmission. In commenting, please refer to file code BPD-895-NC. Comments received timely will be available for public inspection as they are received, generally beginning approximately 3 weeks after publication of a document, in Room 309-G of the Department's offices at 200 Independence Avenue, SW, Washington, DC, on Monday through Friday of each week from 8:30 a.m. to 5 p.m. (phone: (202) 690-7890).

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FOR FURTHER INFORMATION CONTACT: Robert Kuhl, (410) 786-4597.

SUPPLEMENTARY INFORMATION:

I. Background

A. Authority for Establishing Cost Limits and Prospectively Determined Payment Rates

1. Cost Limits

Sections 1861(v)(1)(A) and 1888 of the Act authorize the Secretary to set limits on allowable costs incurred by a provider of services for which payment may be made under Medicare. These limits are based on estimates of the costs necessary for the efficient delivery of needed health services. Section 1888(a) of the Act directs the Secretary to set limits on per diem inpatient routine service costs for hospital-based and freestanding SNFs by urban or rural

area. Implementing regulations appear at 42 CFR 413.30.

2. Prospectively Determined Payment Rates

Most SNFs are paid on a reasonable cost basis up to the routine service per diem cost limits described in the previous paragraph. However, under section 1888(d) of the Act, for cost reporting periods beginning on or after October 1, 1986, a SNF with fewer than 1,500 Medicare covered days in a given cost reporting period may choose to receive payment based on a prospectively determined payment rate in the subsequent cost reporting period. Implementing regulations appear at 42 CFR Part 413, Subpart I.

The rates for the low Medicare volume SNFs are established on a per diem basis and include payment for the cost of furnishing general inpatient routine services and capital-related costs associated with routine services. We are required to publish annual revisions to the rates at least 90 days before the beginning of the Federal FY to which the revised rates apply. In addition, under § 413.312(a)(1)(i), we are required to base the revised rates on the same cost data used to develop the cost limits that are in effect for that Federal FY.

B. Previously Published Schedules of and Updates to Cost Limits and Rates

1. Effective for FY 1993

We published a final notice with comment period on October 7, 1992 (57 FR 46177) announcing a schedule of limits for freestanding and hospital-based SNFs effective for cost reporting periods beginning in FY 1993. In December 1992, we published section 2828 of the Medicare Provider Reimbursement Manual (HCFA Pub. 15-1), Transmittal Number 370, establishing rates effective for cost reporting periods beginning in FY 1993. The same cost report, wage, and inflation data were used to develop these cost limits and rates. The cost reports used to develop the FY 1993 cost limits and rates covered cost reporting periods ending on or after June 30, 1989, through May 31, 1990, for freestanding SNFs and on or after October 31, 1988, through September 30, 1989, for hospital-based SNFs. The 1988 hospital wage data and Metropolitan Statistical Area (MSA) designations, based on pre-1990 census data as described in the April 1, 1991, notice (56 FR 13319), were used to develop the wage index that was applicable to the FY 1993 cost limits and rates. It has been our longstanding

policy not to make changes in the cost report data or recognize changes in the wage and MSA data until we publish a **Federal Register** notice announcing an update to the SNF cost limits.

2. Effective for FY 1994 and FY 1995

Sections 13503(a)(1) and 13503(b) of the Omnibus Budget Reconciliation Act of 1993 (OBRA '93) (Public Law 103-66) required that there be no changes in the FY 1993 SNF routine cost limits and rates (including adjustments for changes in the wage index or applicable MSAs) established under section 1888 of the Act for cost reporting periods beginning during Federal FY 1994 and FY 1995. This 2-year freeze on the cost limits and rates resulted in a savings to the Medicare program. These provisions of OBRA '93 were implemented, for cost limits, in a final notice with comment period on January 6, 1994 (59 FR 762) and, for rates, in section 2828 L of the Provider Reimbursement Manual (Transmittal 374, December 1993).

3. Effective for FY 1996

Section 13503(a)(2) of OBRA '93 amended section 1888(a) of the Act and required that an update to the cost limits be provided for cost reporting periods beginning on or after October 1, 1995 (FY 1996), and every 2 years thereafter. However, during the FY 1996 legislative period, reconciliation legislation contained a provision to preserve the savings from the 2-year freeze by inflating the FY 1993 cost limits and rates to cost reporting periods beginning in FY 1996, except that inflation for FY 1994 and FY 1995 would not have been recognized. We did not believe that it would be appropriate to issue the required update to the cost limits and rates for cost reporting periods beginning in FY 1996 until the prospect of this provision becoming law was known. We determined in April 1996 (7 months into FY 1996) that the FY 1996 legislative period would not produce a law that included this provision.

On May 3, 1996, we expedited the issuance of the required update to the FY 1996 cost limits and rates through a memorandum to all Associate Regional Administrators (ARAs) for Medicare. We instructed the ARAs to notify the intermediaries to implement this update. (This memorandum also included corrections to erroneous projected rates of inflation used to develop the FY 1990 and FY 1993 cost limits.) This memorandum contained the monthly inflation factors that were needed to extend the FY 1993 cost limits and rates to cost reporting periods beginning in FY 1996.

Our policy regarding the methodology used to provide the required update to the limits and rates for FY 1996 conformed with the update methodology described below Table IV of the October 7, 1992 notice, which extends the cost reporting periods affected by the FY 1993 limits by computing monthly inflation factors beyond those shown in Table IV. Intermediaries were using this methodology to compute limits and rates between October 1, 1995, and the issuance of the aforementioned memorandum. We explained that this update methodology would be used until a new schedule of limits or other provision is issued.

4. Effective for FY 1997

Section 1888(a) of the Act did not require us to provide an update to the cost limits for FY 1997. Therefore, we trended the FY 1996 cost limits and rates to cost reporting periods beginning in FY 1997 using the latest available rates of inflation.

On August 22, 1996, we issued a memorandum to all ARAs for Medicare to notify the intermediaries of the cost limits and monthly inflation factors for cost reporting periods beginning in FY 1997.

On September 3, 1996, we published a final notice with comment period (61 FR 46466) announcing the schedule of rates effective for cost reporting periods beginning in FY 1997. That notice represented the first schedule of rates published in the **Federal Register** after the regulations implementing section 1888(d) were issued on July 21, 1995 (60 FR 37590).

C. Cost Limits and Rates Effective for FY 1998

This notice with comment period announces the schedule of cost limits and rates effective for cost reporting periods beginning in FY 1998, as required under section 1888(a) of the Act. To meet the update requirement under section 1888(a), we trended the FY 1997 cost limits and rates to cost reporting periods beginning in FY 1998 using the latest rates of inflation.

There is, however, increasing concern that post-1990 census data have not been used in determining MSA designations and wage index values since our last **Federal Register** notice was published on October 7, 1992. We believe that the numerous changes to the MSA designations since we published the FY 1993 cost limits and rates should be recognized in determining the appropriate wage index values used in this notice. This notice presents the opportunity to implement

these changes to the wage data and to the MSA designations and conforms with our longstanding policy to make such changes only in a **Federal Register** notice.

This is the first time we have published a combined schedule of cost limits and rates. Combining the cost limits and rates in one notice is more economical in that they both utilize the same cost report data, wage index values, and rates of inflation. In addition, under section 1888(d) of the Act, an individual provider's prospectively determined rate may not exceed its applicable cost limit (see Section III.D. of this notice). This notice, containing cost limits and rates for cost reporting periods beginning in FY 1998, allows a provider to more conveniently determine its individual rate than in previous years.

II. Update of the SNF Schedule of Limits and the Schedule of Prospectively Determined Rates

Under the authority cited in section I. of this notice, this final notice with comment period sets forth for cost reporting periods beginning in FY 1998: (1) an updated schedule of limits on SNF routine service costs for which payment may be made under the Medicare program; and (2) an updated schedule of prospectively determined payment rates for low Medicare volume SNFs that have elected to receive prospective payments for routine service costs.

The cost limits set forth in Table I and the rates set forth in Tables II and III of this notice are based on the FY 1997 cost limits and rates, respectively, trended to cost reporting periods beginning in FY 1998, using the most recent projections of the rates of inflation or increase in the costs included in the SNF market basket.

We are continuing to use the HCFA hospital wage data to account for area wage differences. This is necessary because industry-specific data needed to calculate a wage index for SNFs are not available. Under section 106 of the Social Security Act Amendments of 1994 (Public Law 103-432), the Secretary was required to begin collecting data no later than October 31, 1995, on employee compensation and paid hours of employment in SNFs for the purpose of constructing a SNF wage index adjustment to the routine service cost limits. Until this data collection effort is completed and the data are analyzed, we believe that hospital wage data provide the best measure of comparable wages that would also be paid by SNFs, since hospitals and SNFs generally compete in the same labor

market for employees. We believe that the use of the hospital wage data results in an appropriate adjustment to the labor-portion of the costs based on an appropriate wage index as required under section 1888(a) of the Act.

For the schedule of cost limits and rates effective with this notice, we are using wage index values that are based on hospital wage data from cost reporting periods beginning in FY 1993—the most recent hospital wage data in effect before the effective date of this notice and the most recent MSA designations. Accordingly, with the exception of those wage index values that may be affected by recent corrections to the 1993 wage data, the wage index values used in this notice are based on the same wage data as are used to compute the wage index values for the hospital prospective payment system for discharges occurring on or after October 1, 1996. (A detailed description of the methodology used to compute the hospital prospective payment wage index is set forth in the final rule published in the **Federal Register** on August 30, 1996 (61 FR 46166).) While these wage index values are based on the MSA designations in effect prior to the effective date of this notice, they do not, however, reflect changes in geographic classification for certain rural hospitals required under section 1886(d)(8)(B) of the Act or geographic reclassifications based on decisions of the Medicare Geographic Classification Review Board or the Secretary under section 1886(d)(10) of the Act. Section 1886 of the Act applies to hospitals only. Accordingly, as in the past, it would not be appropriate to recognize changes in the geographic classification of hospitals for purposes of computing the SNF cost limits even though an SNF may be part of a medical complex that includes a reclassified hospital.

III. Provisions of the SNF Schedule of Cost Limits and Prospectively Determined Payment Rates

The schedule of cost limits set forth below applies to all SNFs, including those low Medicare volume SNFs that are eligible to receive the optional prospectively determined payment rate for routine services. Under § 413.314(d), the operational portion of an SNF's prospectively determined payment rate, excluding capital-related costs, cannot exceed its actual routine service cost limit (without regard to exceptions, exemptions, or retroactive adjustments) in effect at the time of the election to be paid a prospectively determined payment rate. The eligibility requirements for receiving prospectively

determined payment rates are specified in subpart I of part 413.

These schedules of cost limits and rates provide for the following:

A. Separate Groupings for Labor-Related and Nonlabor-Related Components of Per Diem Routine Service Costs

We are retaining the same groupings for the labor-related and nonlabor-related components of per diem routine service costs as follows:

1. As described in the October 7, 1992 notice for the FY 1993 cost limits, separate group means were computed for the labor-related and nonlabor-related components for hospital-based and freestanding SNFs in accordance with the MSA or non-MSA designation in effect with that notice. Each group mean was then multiplied by 112 percent.

2. As described in the September 3, 1996 notice for the FY 1997 rates, separate group means were computed for labor-related, nonlabor-related, and capital-related components in accordance with the SNF's census region and MSA or non-MSA designation in effect with that notice. Each group mean was then multiplied by 105 percent.

B. Adjustment of SNF Labor-Related Data by the Wage Index

We are using a wage index based on 1993 hospital wage data and post-1990 MSA designations, as discussed in section II of this notice, to adjust the labor-related portion of the cost limits and rates contained in this notice for area wage differences.

C. Use of SNF Market Basket

We are trending the FY 1997 cost limits and rates to FY 1998 using projected cost increases by applying the SNF market basket index. This market basket index is used to adjust the SNF cost data to reflect cost increases occurring between the cost reporting periods represented in the data collection and the midpoints of the cost reporting periods to which the cost limits and rates apply.

The market basket index is comprised of the most commonly used categories of SNF routine service expenses. The categories are based primarily on those used by the National Center for Health Statistics in its National Nursing Home Surveys.

The categories of expenses are weighted according to the estimated proportion of SNF routine service costs attributable to each category. A detailed description of the market basket index is described in the October 7, 1992

notice for cost limits and the September 3, 1996 notice for the rates.

In developing the market basket index, we obtained historical and projected (estimated) rates of change in the price of goods and services in each category. For cost limit purposes only, estimated rates of change may be revised, retroactively, based on actual (final) rates of change. As described in all previous schedules of cost limits, if the final rate of change in the market basket index for a calendar year differs from the estimated rate of change by at least 0.3 percentage points, we will adjust the limits. Elsewhere in this issue of the **Federal Register**, we are proposing in a separate notice to eliminate this provision to adjust the limits.

D. Application of the Adjusted Hospital Wage Index to the Labor-Related Costs

In developing the FY 1997 cost limits and rates, we applied the wage index to five categories of labor-related costs: wages, employee benefits, health service costs, business service costs, and miscellaneous costs. We continue to use this methodology in computing the FY 1998 cost limits and rates.

For purposes of applying the wage index, employee benefits include such items as FICA tax, health insurance, life insurance, facility contributions to employee retirement funds, and all other compensation that the SNF records in the "employee health and welfare" cost center on its Medicare cost report. Health service costs include the costs of physician services that are purchased under arrangement from outside sources. Business service costs include costs of banking, contract laundry, telephone, and other services that SNFs purchase at retail from outside suppliers. Miscellaneous costs include various types of routine operating costs not allocated to any other category of the market basket.

E. Per Diem Add-On to the Cost Limits and Prospective Rates Effective for Cost Reporting Periods Beginning in FY 1998

In the October 7, 1992 notice and the September 3, 1996 notice, we described a per diem add-on to the limits and rates, respectively. This per diem add-on was developed to take into account the costs associated with the additional requirements placed on SNFs by the nursing home reform provisions in section 1819 of the Act, including conducting nurse aide training and competency evaluation programs, and to recognize the additional costs due to the universal precaution requirements of the Occupational Safety and Health Administration (OSHA).

The per diem add-on effective for FY 1997 will be trended to cost reporting periods beginning in FY 1998, using the latest market basket index. For cost limit purposes, the per diem add-on is \$2.27 for cost reporting periods beginning on or after October 1, 1997. For rate purposes, the per diem add-on is \$2.13 for cost reporting periods beginning on or after October 1, 1997.

When HCFA updates the SNF cost limits and prospective rates using a later data base that includes the costs of complying with these additional requirements, a per diem add-on will no longer be needed because those updated limits and rates would include these costs.

The following applies to the schedule of cost limits only:

F. Setting of Freestanding SNF Limits

The FY 1997 cost limits for freestanding SNFs were set at 112 percent of the average labor-related and average nonlabor-related costs of each group, as described in the October 7, 1992 notice. This methodology is prescribed by section 1888(a) of the Act. We continue to use this methodology to set the freestanding SNF cost limits contained in this notice.

G. Setting of Hospital-Based SNF Limits

The FY 1997 cost limits for hospital-based SNFs were set at the freestanding SNF limit plus 50 percent of the difference between the freestanding SNF limit and 112 percent of the mean per diem routine service costs of hospital-based SNFs. This methodology for setting hospital-based SNF cost limits was described in the October 7, 1992 notice and the January 6, 1994 notice. This methodology is prescribed by sections 1888(a) and (b) of the Act. We continue to use this methodology to set the hospital-based SNF cost limits contained in this notice.

H. Cost-of-Living Adjustments to the Limits for Alaska, Hawaii, Puerto Rico, and the Virgin Islands

To avoid disadvantaging SNFs located in Alaska, Hawaii, Puerto Rico, and the

Virgin Islands, we will continue to provide a cost-of-living adjustment to the limits for these areas. This is an adjustment of the nonlabor-related component of the limit that applies to these areas, based on the amount of the most recently determined cost-of-living differentials developed by the Office of Personnel Management. Since we adjust the labor-related component by the applicable wage index as discussed in section III.D. of this notice, this cost-of-living adjustment will apply only to the nonlabor-related component.

I. Exception to Cost Limits

A SNF may request an exception to the cost limits under the provisions of § 413.30(f). The SNF must make the request to the appropriate Medicare fiscal intermediary in accordance with section 2530 of the Provider Reimbursement Manual (HCFA Pub. 15-1). An adjustment may be granted if the costs in excess of the limit are reasonable, attributable to the circumstances specified in § 413.30(f)(1) through (f)(8), separately identified by the SNF, and verified by the intermediary.

J. Use of Classification System for the Limits

The classification system we use is based on whether a SNF is located within a MSA or in a New England County Metropolitan Area (NECMA) based on standards published in the **Federal Register** on March 30, 1990 (55 FR 12154), using Bureau of the Census data or Bureau of Census estimates made after 1990. The latest standards for developing MSAs are the ones contained in the March 30, 1990 **Federal Register**.

The following applies to the schedule of rates only:

K. Use of Classification System for the Rates

We will retain the classification system based on grouping SNFs by census regions and by urban or rural area designation within the region. As

required by sections 1883(d)(3) and 1886(d)(2)(D) of the Act, the term "region" means one of the 9 census divisions, comprising the 50 States and the District of Columbia, established by the Bureau of Census for Statistical and reporting purposes. The term "urban rate" means an area within a MSA (as defined by the Office of Management and Budget (OMB), with exceptions for certain NECMAs, as described in a notice published in the **Federal Register** on April 1, 1991 (56 FR 13319)). The term "rural area" means an area outside such an area (MSA).

IV. Methodology for Determining Per Diem Routine Service Cost Limits and Low Volume Prospective Payment Rates

A. Development of Base Cost Limits and Rates

As discussed in section I of this notice, we trended the FY 1997 cost limits and rates using the latest market basket index, as discussed in section III.C. of this notice. The annual percentage increases in the market basket over the previous year that we used for this projection in this notice are:

1993.....	3.7
1994.....	3.4
1995.....	2.9
1996.....	¹ 2.7
1997.....	¹ 3.2
1998.....	¹ 3.4
1999.....	¹ 3.6

¹ Forecasted increase.

B. Calculation of SNF Limit

1. Components of Limit

For each freestanding group, the freestanding limits for FY 1998 are shown in Table I of this notice. We used the computation below to determine the hospital-based cost limits shown in Table I.

COST LIMIT DATA—HOSPITAL-BASED SNFS FOR COST REPORTING PERIODS BEGINNING ON OR AFTER OCTOBER 1, 1997

	112 percent of hospital-based mean cost	
	Urban (MSA)	Rural (non-MSA)
Labor	\$166.13	\$143.18
Nonlabor	34.97	23.58
Total	201.10	166.76

CALCULATION OF 50 PERCENT OF DIFFERENCE BETWEEN 112 PERCENT OF HOSPITAL-BASED MEAN COST AND FREESTANDING LIMIT

	Labor	Nonlabor
Urban (MSA)		
112 Percent of Hospital-Based Mean Cost	\$166.13	\$34.97
Freestanding Limit (Table I)	-91.23	-19.59
Difference	74.90	15.38
50 Percent of Difference	37.45	7.69
Plus Freestanding Limit	+91.23	+19.59
Hospital-Based Limit (MSA)	128.68	27.28
Rural (Non-MSA)		
112 Percent of Hospital-Based Mean Cost	\$143.18	\$23.58
Freestanding Limit (Table I)	-92.64	-15.64
Difference	50.54	7.94
50 Percent of Difference	25.27	3.97
Plus Freestanding Limit	+92.64	+15.64
Hospital-Based Limit (Non-MSA)	117.91	19.61

2. Adjustment of Labor-Related Component by Wage Index

To arrive at a labor-adjusted limit for each SNF, we multiply the labor-related component of the limit for the SNF's group by the wage index developed

from wage levels for hospital workers in the area in which the SNF is located (see Tables IV and V of this notice). The adjusted limit that applies to a SNF is the sum of the nonlabor-related component, plus the adjusted labor-

related component, plus the OBRA/OSHA per diem add-on discussed in section III.E. of this notice.

Example—Calculation of Adjusted Limit for a Freestanding SNF Located in Dallas, Texas:

Labor-Related Component	\$ 91.23	(Table I).
Wage Index	×0.9729	(Table IV).
Adjusted Labor Component	88.76	
Nonlabor-Related Component	+19.59	(Table I).
OBRA/OSHA Per Diem Add-On	+2.27	(Sec. III.E.).
Adjusted Limit	110.62	

3. Adjustment for Cost Reporting Period

If a facility has a cost reporting period beginning in a month after October 1, 1997, the intermediary increases the limit that otherwise would apply to the SNF by the factor from Table VI of this notice that corresponds to the month

and year in which the cost reporting period begins. Each factor represents the compounded monthly increase derived from the projected annual increase in the market basket index and is used to account for inflation in costs that occur after the date on which the limits are effective.

Example: The following is a computation of a revised limit for the previously cited SNF that has a cost reporting period that begins January 1, 1998. The base adjusted limit for the SNF is \$110.62. The revised limit applicable to its cost reporting period \$111.56, is computed as follows:

Individual SNF Adjusted Base Limit	\$110.62
Adjustment Factor from Table V	×1.00846
Revised Limit	111.56

If a facility uses a cost reporting period that is not 12 months in duration, a special adjustment factor will be calculated. This is necessary because projections are computed to the midpoint of a cost reporting period and the adjustment factors in Table VI of this notice are based on an assumed 12-month reporting period. For cost reporting periods of other than 12 months, the calculation is done for the midpoint of the specific cost reporting period. The SNF's intermediary will obtain this adjustment factor from HCFA Central Office.

C. Calculation of the Routine Operating Portion of the Rates.

1. Adjustment of Labor-Related Component by Wage Index

a. *Urban SNFs.* To arrive at a labor adjusted component for the rates, we multiply the labor-related component of the rate for the SNF's region (Table II of this notice) by the wage index developed from wage levels for hospital workers in the area in which the SNF is located (Table IV of this notice).

b. *Rural SNFs.* To arrive at a labor adjusted component for the rates, we multiply the labor-related rate for the

SNF's region (Table III of this notice) by the wage index developed from wage levels for hospital workers in the state in which the SNF is located (Table V of this notice).

2. Non-Labor-Related and OBRA/OSHA Per Diem Add-on

The adjusted routine operating portion of the rate that applies to a SNF is the sum of the nonlabor-related component, plus the labor adjusted component, plus the OBRA/OSHA per diem add-on discussed in section III.E. of this notice.

3. Adjustment for Cost Reporting Period

If a facility has a cost reporting period beginning in a month after October 1, 1997, the intermediary increases the adjusted routine operating portion of the rate that otherwise apply to the SNF by the factor from Table VI of this notice that corresponds to the month and year in which the cost reporting period begins. Each factor represents the compounded monthly increase derived from the annual increase in the market basket index and is used to account for inflation in costs that occur after the date on which the prospective payment rates are effective.

If a facility uses a cost reporting period that is not 12 months in duration, a special adjustment factor is

calculated. This is necessary because market basket increases are computed to the midpoint of a cost reporting period and the adjustment factors in Table VI of this notice are based on an assumed 12-month cost reporting period. For cost reporting periods of other than 12 months, the calculation is done for the midpoint of the specific cost reporting period. The SNF's intermediary obtains this adjustment factor from the HCFA Central Office.

D. Comparison of Provider's Prospective Payment Rate With Provider's Cost Limit

Below is an example of the calculation of the prospectively determined payment rate for a provider, including a comparison of the adjusted

routine operating portion of the rate with the applicable routine operating cost limit applicable to the specific provider. The capital-related component of the rate is added to the lower of the SNF's specific cost limit or its adjusted routine operating portion of the rate to arrive at the provider's actual prospectively determined payment rate.

Example: In this case, the adjusted cost limit is less than the adjusted rate for a freestanding SNF located in Providence, Rhode Island (MSA Region 1), with a cost reporting period beginning January 1, 1998. Therefore, the prospectively determined payment rate for this SNF is the adjusted limit plus the capital-related component of the rate (\$134.93).

	Labor-related component	Non-labor related component	Capital-related component
Limit (Table I)	\$91.23	\$19.59
Rate (Table II)	120.13	22.91	\$10.00

CALCULATION OF PROSPECTIVE PAYMENT RATE

	Limit	Rate	Rate source
Labor-Related Component	\$91.23	\$120.13	(Chart above). (Table IV).
Wage Index	×1.1092	×1.1092	
Adjusted Labor Component	101.19	133.25	(Chart above). (Sec III.E.).
Non-Labor Component	19.59	22.91	
OBRA/OSHA Add-on	+2.27	+2.13	
Adjusted Limit/Rate	123.05	\$158.29	(Table VI).
Cost Reporting Year Adjustment Factor	×1.00846	×1.00846	
Revised Limit/Rate	124.09	159.63	(Chart above).
Capital-Related Component	+10.00		
Prospectively Determined Payment Rate	134.09		

V. Schedule of Limits

Under the authority of sections 1861(v)(1)(A) and 1888 of the Act, the following group per diem limits will apply to the adjusted SNF inpatient routine service costs paid for under Medicare for cost reporting periods

beginning on or after October 1, 1997. Medicare fiscal intermediaries will compute the adjusted limits for SNFs using the methodology set forth in this notice and will notify each SNF of its applicable limit. These limits, as adjusted by the applicable wage

indexes, cost reporting year adjustments, and adjusted by the OBRA/ OSHA per diem add-on, will remain in effect for cost reporting periods beginning on or after October 1, 1997, until a new schedule of cost limits or other provision is issued.

TABLE I.—SNF GROUP LIMITS
[Cost Reporting Periods Beginning On or After 10/1/97]

Location	Labor-related component	Non-labor* related component
Freestanding:		
MSA Limit	\$91.23	\$19.59
Non-MSA Limit	92.64	15.64
Hospital-Based:		
MSA Limit	128.68	27.28
Non-MSA Limit	117.91	19.61

* The nonlabor portion of the limits for SNFs located in the States of Alaska and Hawaii, the Commonwealth of Puerto Rico, and the Virgin Islands will be increased by the following cost-of-living adjustments:

Area	Adjustment factor
Alaska	1.250
Hawaii:	
Oahu	1.225
Kauai	1.175
Maui, Lanai and Molokai	1.200
Hawaii (island)	1.150
Puerto Rico	1.100
Virgin Islands	1.125

TABLE II.—PROSPECTIVE RATES—MSA LOCATIONS EFFECTIVE OCTOBER 1, 1997

Region ¹	Labor-related	Nonlabor-related	Capital-related
1. New England (CT, ME, MA, NH, RI, VT)	\$120.13	\$22.91	\$10.00
2. Middle Atlantic (PA, NJ, NY)	115.86	20.94	9.79
3. South Atlantic (DE, DC, FL, GA, MD, NC, SC, VA, WV)	103.86	16.70	9.81
4. East North Central (IL, IN, MI, OH, WI)	98.70	16.40	9.18
5. East South Central (AL, KY, MS, TN)	99.28	14.61	7.32
6. West North Central (IA, KS, MN, MO, NE, ND, SD)	105.87	17.59	10.23
7. West South Central (AR, LA, OK, TX)	92.64	14.47	10.06
8. Mountain (AZ, CO, ID, MT, NV, NM, UT, WY)	110.22	18.83	13.04
9. Pacific (AK, CA, HI, OR, WA)	100.30	20.56	8.40

¹ There are 17 MSAs that have counties in two or more regions. For each of these MSAs, the region in which a majority of the SNFs are located determines the regional rate that is paid as shown below. This is the same methodology as that used to implement the requirements of section 1886(d)(2)(D) of the Act as they apply to the hospital prospective payment system.

The MSAs are as follows:

MSA	Region
Chattanooga, TN-GA	5
Cincinnati, OH-KY-IN	4
Columbus, GA-AL	3
Davenport-Rock Island-Moline, IA-IL	4
Duluth-Superior, MN-WI	6
Evansville-Henderson, IN-KY	4
Huntington-Ashland, WV-KY-OH	3
Johnson City-Kingsport-Bristol, TN-VA	5
La Crosse, WI-MN	4
Louisville, KY-IN	5
Memphis, TN-AR-MS	5
Minneapolis-St. Paul, MN-WI	6
Parkersburg-Marietta, WV-OH	3
St. Louis, MO-IL	6
Steubenville-Weirton, OH-WV	4
Wheeling, WV-OH	3
Wilmington-Newark, DE-NJ-MD	3

TABLE III.—PROSPECTIVE RATES—NON-MSA LOCATIONS EFFECTIVE OCTOBER 1, 1997

Region	Labor-related	Nonlabor-related	Capital-related
1. New England (CT, ME, MA, NH, RI, VT)	\$129.68	\$21.62	\$10.58
2. Middle Atlantic (PA, NJ, NY)	121.14	17.40	7.94
3. South Atlantic (DE, DC, FL, GA, MD, NC, SC, VA, WV)	114.52	15.56	9.19
4. East North Central (IL, IN, MI, OH, WI)	108.02	15.08	8.28
5. East South Central (AL, KY, MS, TN)	108.81	13.70	6.77
6. West North Central (IA, KS, MN, MO, NE, ND, SD)	111.41	14.83	6.66
7. West South Central (AR, LA, OK, TX)	105.74	13.44	9.22
8. Mountain (AZ, CO, ID, MT, NV, NM, UT, WY)	110.40	16.18	8.36
9. Pacific (AK, CA, HI, OR, WA)	123.54	20.74	10.16

TABLE IV.—WAGE INDEX FOR URBAN AREAS

Urban area (constituent counties or county equivalents)	Wage index
0040 Abilene, TX	0.8048
Taylor, TX	
0060 Aguadilla, PR	0.4237
Aguada, PR	
Aguadilla, PR	
Moca, PR	
0080 Akron, OH	0.9853
Portage, OH	
Summit, OH	
0120 Albany, GA	0.8597
Dougherty, GA	
Lee, GA	
0160 Albany-Schenectady-Troy, NY	0.8624
Albany, NY	
Montgomery, NY	
Rensselaer, NY	
Saratoga, NY	
Schenectady, NY	
Schoharie, NY	
0200 Albuquerque, NM	0.9344
Bernalillo, NM	
Sandoval, NM	
Valencia, NM	
0220 Alexandria, LA	0.8119
Rapides, LA	
0240 Allentown-Bethlehem-Easton, PA	0.9992
Carbon, PA	
Lehigh, PA	
Northampton, PA	
0280 Altoona, PA	0.9510
Blair, PA	
0320 Amarillo, TX	0.8730
Potter, TX	
Randall, TX	
0380 AK Anchorage, AK	1.3224
Anchorage,	
0440 Ann Arbor, MI	1.1662
Lenawee, MI	
Livingston, MI	
Washtenaw, MI	
0450 Anniston, AL	0.8023
Calhoun, AL	
0460 Appleton-Oshkosh-Neenah, WI	0.8890
Calumet, WI	
Outagamie, WI	
Winnebago, WI	
0470 Arecibo, PR	0.4397
Arecibo, PR	
Camuy, PR	
Hatillo, PR	
0480 Asheville, NC	0.9334
Buncombe, NC	
Madison, NC	
0500 Athens, GA	0.9408
Clarke, GA	
Madison, GA	
Oconee, GA	
0520 Atlanta, GA	1.0033
Barrow, GA	
Bartow, GA	
Carroll, GA	
Cherokee, GA	
Clayton, GA	
Cobb, GA	
Coweta, GA	
DeKalb, GA	
Douglas, GA	

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Fayette, GA	
Forsyth, GA	
Fulton, GA	
Gwinnett, GA	
Henry, GA	
Newton, GA	
Paulding, GA	
Pickens, GA	
Rockdale, GA	
Spalding, GA	
Walton, GA	
0560 Atlantic City-Cape May, NJ	1.1077
Atlantic City, NJ	
Cape May, NJ	
0600 Augusta-Aiken, GA-SC	0.8836
Columbia, GA	
McDuffie, GA	
Richmond, GA	
Aiken, SC	
Edgefield, SC	
0640 Austin-San Marcos, TX	0.9254
Bastrop, TX	
Caldwell, TX	
Hays, TX	
Travis, TX	
Williamson, TX	
0680 Bakersfield, CA	1.0189
Kern, CA	
0720 Baltimore, MD	0.9798
Anne Arundel, MD	
Baltimore, MD	
Baltimore City, MD	
Carroll, MD	
Harford, MD	
Howard, MD	
Queen Annes, MD	
0733 Bangor, ME	0.9391
Penobscot, ME	
0743 Barnstable-Yarmouth, MA	1.3651
Barnstable, MA	
0760 Baton Rouge, LA	0.8433
Ascension, LA	
East Baton Rouge, LA	
Livingston, LA	
West Baton Rouge, LA	
0840 Beaumont-Port Arthur, TX	0.8576
Hardin, TX	
Jefferson, TX	
Orange, TX	
0860 Bellingham, WA	1.1317
Whatcom, WA	
0870 Benton Harbor, MI	0.8506
Berrien, MI	
0875 Bergen-Passaic, NJ	1.1785
Bergen, NJ	
Passaic, NJ	
0880 Billings, MT	0.9086
Yellowstone, MT	
0920 Biloxi-Gulfport-Pascagoula, MS	0.8554
Hancock, MS	
Harrison, MS	
Jackson, MS	
0960 Binghamton, NY	0.8822
Broome, NY	
Tioga, NY	
1000 Birmingham, AL	0.9036
Blount, AL	
Jefferson, AL	
St. Clair, AL	
Shelby, AL	

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
1010 Bismarck, ND	0.7923
Burleigh, ND	
Morton, ND	
1020 Bloomington, IN	0.8652
Monroe, IN	
1040 Bloomington-Normal, IL	0.8990
McLean, IL	
1080 Boise City, ID	0.9383
Ada, ID	
Canyon, ID	
1123 Boston-Worcester Lawrence-Lowell- Brockton, MA-NH	1.1613
Bristol, MA	
Essex, MA	
Middlesex, MA	
Norfolk, MA	
Plymouth, MA	
Suffolk, MA	
Worcester, MA	
Hillsborough, NH	
Merrimack, NH	
Rockingham, NH	
Strafford, NH	
1125 Boulder-Longmont, CO	0.9522
Boulder, CO	
1145 Brazoria, TX	0.9201
Brazoria, TX	
1150 Bremerton, WA	1.0901
Kitsap, WA	
1240 Brownsville-Harlingen-San Benito, TX	0.8542
Cameron, TX	
1260 Bryan-College Station, TX	0.8851
Brazos, TX	
1280 Buffalo-Niagara Falls, NY	0.9107
Erie, NY	
Niagara, NY	
1303 Burlington, VT	1.0068
Chittenden, VT	
Franklin, VT	
Grand Isle, VT	
1310 Caguas, PR	0.4573
Caguas, PR	
Cayey, PR	
Cidra, PR	
Gurabo, PR	
San Lorenzo, PR	
1320 Canton-Massillon, OH	0.8648
Carroll, OH	
Stark, OH	
1350 Casper, WY	0.8821
Natrona, WY	
1360 Cedar Rapids, IA	0.8458
Linn, IA	
1400 Champaign-Urbana, IL	0.9391
Champaign, IL	
1440 Charleston-North Charleston, SC	0.8963
Berkeley, SC	
Charleston, SC	
Dorchester, SC	
1480 Charleston, WV	0.9526
Kanawha, WV	
Putnam, WV	
1520 Charlotte-Gastonia-Rock Hill, NC-SC	0.9620
Cabarrus, NC	
Gaston, NC	
Lincoln, NC	

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Mecklenburg, NC	
Rowan, NC	
Union, NC	
York, SC	
1540 Charlottesville, VA	0.9155
Albemarle, VA	
Charlottesville City, VA	
Fluvanna, VA	
Greene, VA	
1560 Chattanooga, TN-GA	0.8847
Catoosa, GA	
Dade, GA	
Walker, GA	
Hamilton, TN	
Marion, TN	
1580 Cheyenne, WY	0.7678
Laramie, WY	
1600 Chicago, IL	1.0760
Cook, IL	
DeKalb, IL	
DuPage, IL	
Grundy, IL	
Kane, IL	
Kendall, IL	
Lake, IL	
McHenry, IL	
Will, IL	
1620 Chico-Paradise, CA	1.0417
Butte, CA	
1640 Cincinnati, OH-KY-IN	0.9570
Dearborn, IN	
Ohio, IN	
Boone, KY	
Campbell, KY	
Gallatin, KY	
Grant, KY	
Kenton, KY	
Pendleton, KY	
Brown, OH	
Clermont, OH	
Hamilton, OH	
Warren, OH	
1660 Clarksville-Hopkinsville, TN-KY	0.7716
Christian, KY	
Montgomery, TN	
1680 Cleveland-Lorain-Elyria, OH	0.9886
Ashtabula, OH	
Cuyahoga, OH	
Geauga, OH	
Lake, OH	
Lorain, OH	
Medina, OH	
1720 Colorado Springs, CO	0.9341
El Paso, CO	
1740 Columbia, MO	0.8899
Boone, MO	
1760 Columbia, SC	0.9160
Lexington, SC	
Richland, SC	
1800 Columbus, GA-AL Russell, AL	0.7779
Chattanooga, GA	
Harris, GA	
Muscogee, GA	
1840 Columbus, OH	0.9681
Delaware, OH	
Fairfield, OH	
Franklin, OH	

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Licking, OH	
Madison, OH	
Pickaway, OH	
1880 Corpus Christi, TX	0.8881
Nueces, TX	
San Patricio, TX	
1900 Cumberland, MD-WV	0.8671
Allegany, MD	
Mineral, WV	
1920 Dallas, TX	0.9729
Collin, TX	
Dallas, TX	
Denton, TX	
Ellis, TX	
Henderson, TX	
Hunt, TX	
Kaufman, TX	
Rockwall, TX	
1950 Danville, VA	0.8497
Danville City, VA	
Pittsylvania, VA	
1960 Davenport-Rock Island-Moline, IA-IL	0.8388
Scott, IA	
Henry, IL	
Rock Island, IL	
2000 Dayton-Springfield, OH	0.9559
Clark, OH	
Greene, OH	
Miami, OH	
Montgomery, OH	
2020 Daytona Beach, FL	0.8871
Flagler, FL	
Volusia, FL	
2030 Decatur, AL	0.8384
Lawrence, AL	
Morgan, AL	
2040 Decatur, IL	0.7848
Macon, IL	
2080 Denver, CO	1.0166
Adams, CO	
Arapahoe, CO	
Denver, CO	
Douglas, CO	
Jefferson, CO	
2120 Des Moines, IA	0.8815
Dallas, IA	
Polk, IA	
Warren, IA	
2160 Detroit, MI	1.0724
Lapeer, MI	
Macomb, MI	
Monroe, MI	
Oakland, MI	
St. Clair, MI	
Wayne, MI	
2180 Dothan, AL	0.7740
Dale, AL	
Houston, AL	
2190 Dover, DE	0.8997
Kent, DE	
2200 Dubuque, IA	0.8112
Dubuque, IA	
2240 Duluth-Superior, MN-WI	0.9416
St. Louis, MN	
Douglas, WI	
2281 Dutchess County, NY	1.0589
Dutchess, NY	
2290 Eau Claire, WI	0.8678
Chippewa, WI	

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Eau Claire, WI	
2320 El Paso, TX	0.9464
El Paso, TX	
2330 Elkhart-Goshen, IN	0.8801
Elkhart, IN	
2335 Elmira, NY	0.8417
Chemung, NY	
2340 Enid, OK	0.7862
Garfield, OK	
2360 Erie, PA	0.9159
Erie, PA	
2400 Eugene-Springfield, OR	1.1271
Lane, OR	
2440 Evansville-Henderson, IN-KY	0.8983
Posey, IN	
Vanderburgh, IN	
Warrick, IN	
Henderson, KY	
2520 Fargo-Moorhead, ND-MN	0.9045
Clay, MN	
Cass, ND	
2560 Fayetteville, NC	0.9007
Cumberland, NC	
2580 Fayetteville-Springdale-Rogers, AR	0.7220
Benton, AR	
Washington, AR	
2620 Flagstaff, AZ-UT	0.9019
Coconino, AZ	
Kane, UT	
2640 Flint, MI	1.1248
Genesee, MI	
2650 Florence, AL	0.7938
Colbert, AL	
Lauderdale, AL	
2655 Florence, SC	0.8594
Florence, SC	
2670 Fort Collins-Loveland, CO	1.0562
Larimer, CO	
2680 Ft. Lauderdale, FL	1.0548
Broward, FL	
2700 Fort Myers-Cape Coral, FL	0.9032
Lee, FL	
2710 Fort Pierce-Port St. Lucie, FL	1.0169
Martin, FL	
St. Lucie, FL	
2720 Fort Smith, AR-OK	0.7864
Crawford, AR	
Sebastian, AR	
Sequoyah, OK	
2750 Fort Walton Beach, FL	0.9192
Okaloosa, FL	
2760 Fort Wayne, IN	0.8800
Adams, IN	
Allen, IN	
DeKalb, IN	
Huntington, IN	
Wells, IN	
Whitley, IN	
2800 Forth Worth-Arlington, TX	1.0153
Hood, TX	
Johnson, TX	
Parker, TX	
Tarrant, TX	
2840 Fresno, CA	1.1183
Fresno, CA	
Madera, CA	
2880 Gadsden, AL	0.8881

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Etowah, AL	
2900 Gainesville, FL	0.9434
Alachua, FL	
2920 Galveston-Texas City, TX	1.0997
Galveston, TX	
2960 Gary, IN	0.9641
Lake, IN	
Porter, IN	
2975 Glens Falls, NY	0.8562
Warren, NY	
Washington, NY	
2980 Goldsboro, NC	0.8393
Wayne, NC	
2985 Grand Forks, ND-MN	0.9011
Polk, MN	
Grand Forks, ND	
2995 Grand Junction, CO	0.8336
Mesa, CO	
3000 Grand Rapids-Muskegon-	
Holland, MI	1.0119
Allegan, MI	
Kent, MI	
Muskegon, MI	
Ottawa, MI	
3040 Great Falls, MT	0.8681
Cascade, MT	
3060 Greeley, CO	0.9690
Weld, CO	
3080 Green Bay, WI	0.9038
Brown, WI	
3120 Greensboro-Winston-	
Salem-High Point, NC	0.9332
Alamance, NC	
Davidson, NC	
Davie, NC	
Forsyth, NC	
Guilford, NC	
Randolph, NC	
Stokes, NC	
Yadkin, NC	
3150 Greenville, NC	0.9078
Pitt, NC	
3160 Greenville-Spartanburg-An-	
derson, SC	0.8927
Anderson, SC	
Cherokee, SC	
Greenville, SC	
Pickens, SC	
Spartanburg, SC	
3180 Hagerstown, MD	0.9175
Washington, MD	
3200 Hamilton-Middletown, OH	0.9490
Butler, OH	
3240 Harrisburg-Lebanon-Car-	
lisle, PA	1.0158
Cumberland, PA	
Dauphin, PA	
Lebanon, PA	
Perry, PA	
3283 Hartford, CT	1.2367
Hartford, CT	
Litchfield, CT	
Middlesex, CT	
Tolland, CT	
3285 Hattiesburg, MS	0.7252
Forrest, MS	
Lamar, MS	
3290 Hickory-Morganton-Lenoir,	
NC	0.8626
Alexander, NC	

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Burke, NC	
Caldwell, NC	
Catawba, NC	
3320 Honolulu, HI	1.1461
Honolulu, HI	
3350 Houma, LA	0.7853
Lafourche, LA	
Terrebonne, LA	
3360 Houston, TX	1.0000
Chambers, TX	
Fort Bend, TX	
Harris, TX	
Liberty, TX	
Montgomery, TX	
Waller, TX	
3400 Huntington-Ashland, WV-	
KY-OH	0.9174
Boyd, KY	
Carter, KY	
Greenup, KY	
Lawrence, OH	
Cabell, WV	
Wayne, WV	
3440 Huntsville, AL	0.8206
Limestone, AL	
Madison, AL	
3480 Indianapolis, IN	0.9903
Boone, IN	
Hamilton, IN	
Hancock, IN	
Hendricks, IN	
Johnson, IN	
Madison, IN	
Marion, IN	
Morgan, IN	
Shelby, IN	
3500 Iowa City, IA	0.9361
Johnson, IA	
3520 Jackson, MI	0.9045
Jackson, MI	
3560 Jackson, MS	0.7884
Hinds, MS	
Madison, MS	
Rankin, MS	
3580 Jackson, TN	0.8288
Chester, TN	
Madison, TN	
3600 Jacksonville, FL	0.9086
Clay, FL	
Duval, FL	
Nassau, FL	
St. Johns, FL	
3605 Jacksonville, NC	0.7055
Onslow, NC	
3610 Jamestown, NY	0.7670
Chautauqua, NY	
3620 Janesville-Beloit, WI	0.8645
Rock, WI	
3640 Jersey City, NJ	1.1382
Hudson, NJ	
3660 Johnson City-Kingsport-	
Bristol, TN-VA	0.8884
Carter, TN	
Hawkins, TN	
Sullivan, TN	
Unicoi, TN	
Washington, TN	
Bristol City, VA	
Scott, VA	
Washington, VA	

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
3680 Johnstown, PA	0.8398
Cambria, PA	
Somerset, PA	
3700 Jonesboro, AR	0.7220
Craighead, AR	
3710 Joplin, MO	0.7638
Jasper, MO	
Newton, MO	
3720 Kalamazoo-Battlecreek, MI	1.0542
Calhoun, MI	
Kalamazoo, MI	
Van Buren, MI	
3740 Kankakee, IL	0.9115
Kankakee, IL	
3760 Kansas City, KS-MO	0.9478
Johnson, KS	
Leavenworth, KS	
Miami, KS	
Wyandotte, KS	
Cass, MO	
Clay, MO	
Clinton, MO	
Jackson, MO	
Lafayette, MO	
Platte, MO	
Ray, MO	
3800 Kenosha, WI	0.9145
Kenosha, WI	
3810 Killeen-Temple, TX	1.0392
Bell, TX	
Coryell, TX	
3840 Knoxville, TN	0.8502
Anderson, TN	
Blount, TN	
Knox, TN	
Loudon, TN	
Sevier, TN	
Union, TN	
3850 Kokomo, IN	0.8590
Howard, IN	
Tipton, IN	
3870 La Crosse, WI-MN	0.8618
Houston, MN	
La Crosse, WI	
3880 Lafayette, LA	0.8163
Acadia, LA	
Lafayette, LA	
St. Landry, LA	
St. Martin, LA	
3920 Lafayette, IN	0.8781
Clinton, IN	
Tippecanoe, IN	
3960 Lake Charles, LA	0.8034
Calcasieu, LA	
3980 Lakeland-Winter Haven,	
FL	0.8774
Polk, FL	
4000 Lancaster, PA	0.9583
Lancaster, PA	
4040 Lansing-East Lansing, MI	1.0010
Clinton, MI	
Eaton, MI	
Ingham, MI	
4080 Laredo, TX	0.7073
Webb, TX	
4100 Las Cruces, NM	0.8497
Dona Ana, NM	
4120 Las Vegas, NV-AZ	1.0870
Mohave, AZ	
Clark, NV	

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Nye, NV	
4150 Lawrence, KS	0.8597
Douglas, KS	
4200 Lawton, OK	0.8365
Comanche, OK	
4243 Lewiston-Auburn, ME	0.9410
Androscoggin, ME	
4280 Lexington, KY	0.8293
Bourbon, KY	
Clark, KY	
Fayette, KY	
Jessamine, KY	
Madison, KY	
Scott, KY	
Woodford, KY	
4320 Lima, OH	0.8732
Allen, OH	
Auglaize, OH	
4360 Lincoln, NE	0.9161
Lancaster, NE	
4400 Little Rock-North Little Rock, AR	0.8597
Faulkner, AR	
Lonoke, AR	
Pulaski, AR	
Saline, AR	
4420 Longview-Marshall, TX	0.8645
Gregg, TX	
Harrison, TX	
Upshur, TX	
4480 Los Angeles-Long Beach, CA	1.2343
Los Angeles, CA	
4520 Louisville, KY-IN	0.9447
Clark, IN	
Floyd, IN	
Harrison, IN	
Scott, IN	
Bullitt, KY	
Jefferson, KY	
Oldham, KY	
4600 Lubbock, TX	0.8510
Lubbock, TX	
4640 Lynchburg, VA	0.8052
Amherst, VA	
Bedford City, VA	
Bedford, VA	
Campbell, VA	
Lynchburg City, VA	
4680 Macon, GA	0.8824
Bibb, GA	
Houston, GA	
Jones, GA	
Peach, GA	
Twiggs, GA	
4720 Madison, WI	1.0021
Dane, WI	
4800 Mansfield, OH	0.8524
Crawford, OH	
Richland, OH	
4840 Mayaguez, PR	0.4215
Anasco, PR	
Cabo Rojo, PR	
Hormigueros, PR	
Mayaguez, PR	
Sabana Grande, PR	
San German, PR	
4880 McAllen-Edinburg-Mission, TX	0.8485
Hidalgo, TX	

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
4890 Medford-Ashland, OR	1.0068
Jackson, OR	
4900 Melbourne-Titusville-Palm Bay, FL	0.9068
Brevard, FL	
4920 Memphis, TN-AR-MS	0.8166
Crittenden, AR	
DeSoto, MS	
Fayette, TN	
Shelby, TN	
Tipton, TN	
4940 Merced, CA	1.0660
Merced, CA	
5000 Miami, FL	0.9938
Dade, FL	
5015 Middlesex-Somerset-Hunterdon, NJ	1.0883
Hunterdon, NJ	
Middlesex, NJ	
Somerset, NJ	
5080 Milwaukee-Waukesha, WI	
Milwaukee, WI	
Ozaukee, WI	
Washington, WI	
Waukesha, WI	
5120 Minneapolis-St. Paul, MN-WI	1.0777
Anoka, MN	
Carver, MN	
Chicago, MN	
Dakota, MN	
Hennepin, MN	
Isanti, MN	
Ramsey, MN	
Scott, MN	
Sherburne, MN	
Washington, MN	
Wright, MN	
Pierce, WI	
St. Croix, WI	
5160 Mobile, AL	0.7981
Baldwin, AL	
Mobile, AL	
5170 Modesto, CA	1.0600
Stanislaus, CA	
5190 Monmouth-Ocean, NJ	1.0833
Monmouth, NJ	
Ocean, NJ	
5200 Monroe, LA	0.8211
Ouachita, LA	
5240 Montgomery, AL	0.7876
Autauga, AL	
Elmore, AL	
Montgomery, AL	
5280 Muncie, IN	0.9714
Delaware, IN	
5330 Myrtle Beach, SC	0.7790
Horry, SC	
5345 Naples, FL	1.0199
Collier, FL	
5360 Nashville, TN	0.9081
Cheatham, TN	
Davidson, TN	
Dickson, TN	
Robertson, TN	
Rutherford, TN	
Sumner, TN	
Williamson, TN	
Wilson, TN	
5380 Nassau-Suffolk, NY	1.3547

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Nassau, NY	
Suffolk, NY	
5483 New Haven-Bridgeport-Stamford-Danbury-Waterbury, CT	1.2704
Fairfield, CT	
New Haven, CT	
5523 New London-Norwich, CT	1.2262
New London, CT	
5560 New Orleans, LA	0.9294
Jefferson, LA	
Orleans, LA	
Plaquemines, LA	
St. Bernard, LA	
St. Charles, LA	
St. James, LA	
St. John Baptist, LA	
St. Tammany, LA	
5600 New York, NY	1.4154
Bronx, NY	
Kings, NY	
New York, NY	
Putnam, NY	
Queens, NY	
Richmond, NY	
Rockland, NY	
Westchester, NY	
5640 Newark, NJ	1.1762
Essex, NJ	
Morris, NJ	
Sussex, NJ	
Union, NJ	
Warren, NJ	
5660 Newburgh, NY-PA	1.0803
Orange, NY	
Pike, PA	
5720 Norfolk-Virginia Beach-Newport News, VA-NC	0.8348
Currituck, NC	
Chesapeake City, VA	
Gloucester, VA	
Hampton City, VA	
Isle of Wight, VA	
James City, VA	
Mathews, VA	
Newport News City, VA	
Norfolk City, VA	
Poquoson City, VA	
Portsmouth City, VA	
Suffolk City, VA	
Virginia Beach City, VA	
Williamsburg City, VA	
York, VA	
5775 Oakland, CA	1.4991
Alameda, CA	
Contra Costa, CA	
5790 Ocala, FL	0.9105
Marion, FL	
5800 Odessa-Midland, TX	0.8482
Ector, TX	
Midland, TX	
5880 Oklahoma City, OK	0.8371
Canadian, OK	
Cleveland, OK	
Logan, OK	
McClain, OK	
Oklahoma, OK	
Pottawatomie, OK	
5910 Olympia, WA	1.0689
Thurston, WA	

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
5920 Omaha, NE—IA	0.9480
Pottawattamie, IA	
Cass, NE	
Douglas, NE	
Sarpy, NE	
Washington, NE	
5945 Orange County, CA	1.1966
Orange, CA	
5960 Orlando, FL	0.9470
Lake, FL	
Orange, FL	
Osceola, FL	
Seminole, FL	
5990 Owensboro, KY	0.7575
Daviess, KY	
6015 Panama City, FL	0.8061
Bay, FL	
6020 Parkersburg-Marietta, WV—OH	0.7877
Washington, OH	
Wood, WV	
6080 Pensacola, FL	0.8202
Escambia, FL	
Santa Rosa, FL	
6120 Peoria-Pekin, IL	0.8905
Peoria, IL	
Tazewell, IL	
Woodford, IL	
6160 Philadelphia, PA—NJ	1.1237
Burlington, NJ	
Camden, NJ	
Gloucester, NJ	
Salem, NJ	
Bucks, PA	
Chester, PA	
Delaware, PA	
Montgomery, PA	
Philadelphia, PA	
6200 Phoenix-Mesa, AZ	0.9810
Maricopa, AZ	
Pinal, AZ	
6240 Pine Bluff, AR	0.7886
Jefferson, AR	
6280 Pittsburgh, PA	0.9701
Allegheny, PA	
Beaver, PA	
Butler, PA	
Fayette, PA	
Washington, PA	
Westmoreland, PA	
6323 Pittsfield, MA	1.0552
Berkshire, MA	
6340 Pocatelo, ID	0.8784
Bannock ID	
6360 Ponce, PR	0.4685
Guayanilla, PR	
Juana Diaz, PR	
Penuelas, PR	
Ponce, PR	
Villalba, PR	
Yauco, PR	
6403 Portland, ME	0.9619
Cumberland, ME	
Sagadahoc, ME	
York, ME	
6440 Portland-Vancouver, OR—WA	1.1235
Clackamas, OR	
Columbia, OR	
Multnomah, OR	

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Washington, OR	
Yamhill, OR	
Clark, WA	
6483 Providence-Warwick-Paw-tucket, RI	1.1092
Bristol, RI	
Kent, RI	
Newport, RI	
Providence, RI	
Washington, RI	
6520 Provo-Orem, UT	1.0116
Utah, UT	
6560 Pueblo, CO	0.8284
Pueblo, CO	
6580 Punta Gorda, FL	0.8999
Charlotte, FL	
6600 Racine, WI	0.8835
Racine, WI	
6640 Raleigh-Durham-Chapel Hill, NC	0.9728
Chatham, NC	
Durham, NC	
Franklin, NC	
Johnston, NC	
Orange, NC	
Wake, NC	
6660 Rapid City, SD	0.8455
Pennington, SD	
6680 Reading, PA	0.9445
Berks, PA	
6690 Redding, CA	1.1605
Shasta, CA	
6720 Reno, NV	1.1018
Washoe, NV	
6740 Richland-Kennewick-Pasco, WA	0.9970
Benton, WA	
Franklin, WA	
6760 Richmond-Petersburg, VA	0.9194
Charles City County, VA	
Chesterfield, VA	
Colonial Heights City, VA	
Dinwiddie, VA	
Goochland, VA	
Hanover, VA	
Henrico, VA	
Hopewell City, VA	
New Kent, VA	
Petersburg City, VA	
Powhatan, VA	
Prince George, VA	
Richmond City, VA	
6780 Riverside-San Bernardino, CA	1.1379
Riverside, CA	
San Bernardino, CA	
6800 Roanoke, VA	0.8702
Botetourt, VA	
Roanoke, VA	
Roanoke City, VA	
Salem City, VA	
6820 Rochester, MN	1.0428
Olmsted, MN	
6840 Rochester, NY	0.9649
Genesee, NY	
Livingston, NY	
Monroe, NY	
Ontario, NY	
Orleans, NY	
Wayne, NY	

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
6880 Rockford, IL	0.8994
Boone, IL	
Ogle, IL	
Winnebago, IL	
6895 Rocky Mount, NC	0.8955
Edgecombe, NC	
Nash, NC	
6920 Sacramento, CA	1.2351
El Dorado, CA	
Placer, CA	
Sacramento, CA	
6960 Saginaw-Bay City-Midland, MI	0.9612
Bay, MI	
Midland, MI	
Saginaw, MI	
6980 St. Cloud, MN	0.9457
Benton, MN	
Stearns, MN	
7000 St. Joseph, MO	0.8551
Andrews, MO	
Buchanan, MO	
7040 St. Louis, MO—IL	0.9022
Clinton, IL	
Jersey, IL	
Madison, IL	
Monroe, IL	
St. Clair, IL	
Franklin, MO	
Jefferson, MO	
Lincoln, MO	
St. Charles, MO	
St. Louis, MO	
St. Louis City, MO	
Warren, MO	
7080 Salem, OR	0.9728
Marion, OR	
Polk, OR	
7120 Salinas, CA	1.3803
Monterey, CA	
7160 Salt Lake City-Ogden, UT	0.9677
Davis, UT	
Salt Lake, UT	
Weber, UT	
7200 San Angelo, TX	0.7577
Tom Green, TX	
7240 San Antonio, TX	0.8390
Bexar, TX	
Comal, TX	
Guadalupe, TX	
Wilson, TX	
7320 San Diego, CA	1.2134
San Diego, CA	
7360 San Francisco, CA	1.4260
Marin, CA	
San Francisco, CA	
San Mateo, CA	
7400 San Jose, CA	1.4519
Santa Clara, CA	
7440 San Juan-Bayamon, PR ...	0.4506
Aguas Buenas, PR	
Barceloneta, PR	
Bayamon, PR	
Canovanas, PR	
Carolina, PR	
Catano, PR	
Ceiba, PR	
Comerio, PR	
Corozal, PR	
Dorado, PR	

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Fajardo, PR	
Florida, PR	
Guaynabo, PR	
Humacao, PR	
Juncos, PR	
Los Piedras, PR	
Loiza, PR	
Luguillo, PR	
Manati, PR	
Morovis, PR	
Naguabo, PR	
Naranjito, PR	
Rio Grande, PR	
San Juan, PR	
Toa Alta, PR	
Toa Baja, PR	
Trujillo Alto, PR	
Vega Alta, PR	
Vega Baja, PR	
Yabucoa, PR	
7460 San Luis Obispo-Atascadero-Paso Robles, CA ...	1.1561
San Luis Obispo, CA	
7480 Santa Barbara-Santa Maria-Lompoc, CA	1.1242
Santa Barbara, CA	
7485 Santa Cruz-Watsonville, CA	1.3520
Santa Cruz, CA	
7490 Santa Fe, NM	1.0823
Los Alamos, NM	
Santa Fe, NM	
7500 Santa Rosa, CA	1.2526
Sonoma, CA	
7510 Sarasota-Bradenton, FL	0.9789
Manatee, FL	
Sarasota, FL	
7520 Savannah, GA	0.9649
Bryan, GA	
Chatham, GA	
Effingham, GA	
7560 Scranton—Wilkes-Barre—Hazleton, PA	0.8752
Columbia, PA	
Lackawanna, PA	
Luzerne, PA	
Wyoming, PA	
7600 Seattle-Bellevue-Everett, WA	1.1384
Island, WA	
King, WA	
Snohomish, WA	
7610 Sharon, PA	0.8885
Mercer, PA	
7620 Sheboygan, WI	0.7764
Sheboygan, WI	
7640 Sherman-Denison, TX	0.8614
Grayson, TX	
7680 Shreveport-Bossier City, LA	0.9359
Bossier, LA	
Caddo, LA	
Webster, LA	
7720 Sioux City, IA—NE	0.8313
Woodbury, IA	
Dakota, NE	
7760 Sioux Falls, SD	0.8620
Lincoln, SD	
Minnehaha, SD	
7800 South Bend, IN	0.9934

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
St. Joseph, IN	
7840 Spokane, WA	1.0524
Spokane, WA	
7880 Springfield, IL	0.8671
Menard, IL	
Sangamon, IL	
7920 Springfield, MO	0.7823
Christian, MO	
Greene, MO	
Webster, MO	
8003 Springfield, MA	1.0586
Hampden, MA	
Hampshire, MA	
8050 State College, PA	0.9538
Centre, PA	
8080 Steubenville-Weirton, OH—WV	0.8266
Jefferson, OH	
Brooke, WV	
Hancock, WV	
8120 Stockton-Lodi, CA	1.1330
San Joaquin, CA	
8140 Sumter, SC	0.7699
Sumter, SC	
8160 Syracuse, NY	0.9395
Cayuga, NY	
Madison, NY	
Onondaga, NY	
Oswego, NY	
8200 Tacoma, WA	1.0860
Pierce, WA	
8240 Tallahassee, FL	0.8313
Gadsden, FL	
Leon, FL	
8280 Tampa-St. Petersburg-Clearwater, FL	0.9250
Hernando, FL	
Hillsborough, FL	
Pasco, FL	
Pinellas, FL	
8320 Terre Haute, IN	0.8591
Clay, IN	
Vermillion, IN	
Vigo, IN	
8360 Texarkana, AR—Texarkana, TX	0.8503
Miller, AR	
Bowie, TX	
8400 Toledo, OH	1.0361
Fulton, OH	
Lucas, OH	
Wood, OH	
8440 Topeka, KS	1.0086
Shawnee, KS	
8480 Trenton, NJ	1.0549
Mercer, NJ	
8520 Tucson, AZ	0.9068
Pima, AZ	
8560 Tulsa, OK	0.8095
Creek, OK	
Osage, OK	
Rogers, OK	
Tulsa, OK	
Wagoner, OK	
8600 Tuscaloosa, AL	0.7784
Tuscaloosa, AL	
8640 Tyler, TX	0.9996
Smith, TX	
8680 Utica-Rome, NY	0.8413
Herkimer, NY	

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Oneida, NY	
8720 Vallejo-Fairfield-Napa, CA	1.3947
Napa, CA	
Solano, CA	
8735 Ventura, CA	1.1454
Ventura, CA	
8750 Victoria, TX	0.8393
Victoria, TX	
8760 Vineland-Millville-Bridgeton, NJ	0.9993
Cumberland, NJ	
8780 Visalia-Tulare-Porterville, CA	1.0151
Tulare, CA	
8800 Waco, TX	0.7772
McLennan, TX	
8840 Washington, DC—MD—VA—WV	1.0823
District of Columbia, DC	
Calvert, MD	
Charles, MD	
Frederick, MD	
Montgomery, MD	
Prince Georges, MD	
Alexandria City, VA	
Arlington, VA	
Clarke, VA	
Culpepper, VA	
Fairfax, VA	
Fairfax City, VA	
Falls Church City, VA	
Fauquier, VA	
Fredericksburg City, VA	
King George, VA	
Loudoun, VA	
Manassas City, VA	
Manassas Park City, VA	
Prince William, VA	
Spotsylvania, VA	
Stafford, VA	
Warren, VA	
Berkeley, WV	
Jefferson, WV	
8920 Waterloo-Cedar Falls, IA ...	0.8705
Black Hawk, IA	
8940 Wausau, WI	1.0323
Marathon, WI	
8960 West Palm Beach-Boca Raton, FL	1.0202
Palm Beach, FL	
9000 Wheeling, OH—WV	0.7563
Belmont, OH	
Marshall, WV	
Ohio, WV	
9040 Wichita, KS	0.9369
Butler, KS	
Harvey, KS	
Sedgwick, KS	
9080 Wichita Falls, TX	0.8041
Archer, TX	
Wichita, TX	
9140 Williamsport, PA	0.8467
Lycoming, PA	
9160 Wilmington-Newark, DE—MD	1.1315
New Castle, DE	
Cecil, MD	
9200 Wilmington, NC	0.9046
New Hanover, NC	
Brunswick, NC	

TABLE IV.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
9260 Yakima, WA	1.0026
Yakima, WA	
9270 Yolo, CA	1.1444
Yolo, CA	
9280 York, PA	0.9104
York, PA	
9320 Youngstown-Warren, OH ..	0.9742
Columbiana, OH	
Mahoning, OH	
Trumbull, OH	
9340 Yuba City, CA	1.0414
Sutter, CA	
Yuba, CA	
9360 Yuma, AZ	0.9497
Yuma, AZ	

TABLE V.—WAGE INDEX FOR RURAL AREAS

Nonurban area	Wage index
Alabama	0.7122
Alaska	1.2444
Arizona	0.7928
Arkansas	0.6954
California	1.0002
Colorado	0.8092
Connecticut	1.2759
Delaware	0.9447
Florida	0.8668
Georgia	0.7653
Hawaii	1.0245
Idaho	0.8277
Illinois	0.7553
Indiana	0.8124
Iowa	0.7373
Kansas	0.7107
Kentucky	0.7753
Louisiana	0.7232
Maine	0.8317
Maryland	0.8427
Massachusetts	1.0070
Michigan	0.8830
Minnesota	0.8144
Mississippi	0.6793
Missouri	0.7261
Montana	0.8128
Nebraska	0.7214
Nevada	0.8775
New Hampshire	0.9745
New Jersey ¹
New Mexico	0.8000
New York	0.8558
North Carolina	0.7950
North Dakota	0.7358
Ohio	0.8332
Oklahoma	0.6942
Oregon	0.9664
Pennsylvania	0.8453
Puerto Rico	0.4026
Rhode Island ¹
South Carolina	0.7668
South Dakota	0.7063
Tennessee	0.7341
Texas	0.7462
Utah	0.8848
Vermont	0.8921

TABLE V.—WAGE INDEX FOR RURAL AREAS—Continued

Nonurban area	Wage index
Virginia	0.7713
Virgin Islands	0.5660
Washington	0.9933
West Virginia	0.7904
Wisconsin	0.8430
Wyoming	0.8177

¹ All counties within the State are classified urban.

TABLE VI.—COST REPORTING YEAR ADJUSTMENT FACTORS¹
[Effective October 1, 1997]

If a SNF cost reporting period begins:	The adjustment factor is:
Nov. 1, 1997	1.00285
Dec. 1, 1997	1.00560
Jan. 1, 1998	1.00846
Feb. 1, 1998	1.01149
Mar. 1, 1998	1.01424
Apr. 1, 1998	1.01729
May 1, 1998	1.02025
June 1, 1998	1.02332
July 1, 1998	1.02630
Aug. 1, 1998	1.02939
Sept. 1, 1998	1.03249

¹ Based on compounded projected market basket inflation rates of 3.4 percent for 1998 and 3.6 percent for 1999.

VI. Impact Statement

For notices such as this, we generally prepare a regulatory flexibility analysis that is consistent with the Regulatory Flexibility Act (RFA) (5 U.S.C. 601 through 612) unless we certify that a notice will not have a significant economic impact on a substantial number of small entities. For purposes of the RFA, all SNFs are considered to be small entities. Individuals and States are not included in the definition of a small entity.

This final notice with comment period sets forth an updated schedule of limits on SNF routine service costs for which payment may be made under the Medicare program and sets forth an updated schedule of payment rates for low Medicare volume skilled nursing facilities that elect to receive prospectively determined payment rates for routine service costs. Section 1888(a) of the Act requires that the Secretary update the per diem cost limits for SNF routine service costs for cost reporting periods beginning on or after October 1, 1995, and every 2 years thereafter. In addition, section 1888(d)(4) of the Act requires the Secretary to establish and publish prospectively determined payment rates at least 90 days prior to

the beginning of the Federal fiscal year to which such rates are to be applied.

This final notice with comment period is the first time we are publishing a combined schedule of cost limits and rates. Combining the cost limits and rates in one notice is more economical in that they both utilize the same cost report data, wage index values, and rates of inflation. In addition, under section 1888(d) of the Act, an individual provider's prospectively determined rate may not exceed its applicable cost limit (see Section III.D. of this notice). This final notice with comment period, by containing both cost limits and rates for cost reporting periods beginning FY 1998, allows a provider to more conveniently determine its individual rate than in previous years.

As required under section 1888(a) and 1888(d) of the Act respectively, this final notice with comment period sets forth a revised schedule of SNF per diem cost limits and prospectively determined payment rates for freestanding and hospital-based SNFs for cost reporting periods beginning in FY 1998. As explained in this notice, we have retained the same basic methodology used to compute the limits and rates effective for cost reporting periods beginning in FY 1997, but we are revising the schedule of limits and rates to reflect more recent wage data, MSA designations, and inflation data.

The estimated effects of this notice are that (1) the updated cost limits will result in a loss of savings to the Medicare program of \$20 million in FY 1998, and (2) the updated rates will have a negligible effect. These estimates are the effect of the updating the cost limits and rates to reflect more recent wage data, MSA designations, and inflation data compared to just updating the previous (FY 1997) cost limits or rates only for inflation.

The table below shows the effect of updating the cost limits contained in this notice in comparison with updating the cost limits effective for FY 1997 by inflation (the market basket). Specifically, column (A) of the table shows the estimated total number of SNFs to which the cost limits effective for FY 1998 will apply. Column (B) shows the number of SNFs that would exceed the cost limits effective for FY 1997 updated only for inflation. Column (C) shows the number of SNFs that would exceed the cost limits contained in this notice. Implementing the cost limits contained in this notice, as

compared with maintaining the FY 1997 cost limits updated for inflation, will result in a small decrease in the number

of SNFs with costs in excess of the limits.

	Total SNFs to which limits effective for FY 1998 will apply (column A)	Number of SNFs over FY 1997 limits updated for inflation (column B)	Number of SNFs over FY 1998 limits contained in this notice (column C)
Freestanding SNFs:			
Urban (MSA)	4873	2353	2331
Rural (non-MSA)	1638	900	878
Hospital-Based SNFs:			
Urban (MSA)	367	301	283
Rural (non-MSA)	348	224	217

We are unable to identify the effects of these provisions on individual SNFs, but we expect that decreases in the number of SNFs exceeding the limits generally would result in increases in payments to those SNFs whose costs would previously have exceeded the limits but now fall under the limits. The effects of the increase in the limits on the total revenues of individual SNFs will depend on the SNF's ability to operate within the cost limits and on the proportion of its revenues that come from the Medicare program.

For purposes of the RFA, it is our practice not to consider an economic impact to be significant unless the annual total costs or revenues of a substantial number of entities will be increased or decreased by at least 3 percent. Because Medicare payments generally do not account for a high proportion of SNF revenue, we believe that the updated SNF limits and rates will not result in a substantial number of SNFs experiencing significant increases in their total revenues. Therefore, we have determined, and we certify, that a regulatory flexibility analysis under the RFA is not required.

Section 1102(b) of the Act requires us to prepare a regulatory impact analysis if a notice such as this may have a significant impact on the operations of a substantial number of small rural hospitals. Such an analysis must conform to the provisions of section 604 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 50 beds.

We have not prepared a rural impact statement since we have determined that this final notice with comment period will not have a significant

economic impact on the operations of a substantial number of small rural hospitals.

In accordance with the provisions of Executive Order 12866, this notice was reviewed by the Office of Management and Budget.

VII. Waiver of Proposed Notice

In adopting notices such as this, we ordinarily publish a proposed notice in the **Federal Register** with a 60-day period for public comment as required under section 1871(b)(1) of the Act. However, we may waive these procedures if we find good cause that prior notice and comment is impractical, unnecessary, or contrary to the public interest.

As discussed in section II. of this notice, we have used the same methodology to develop this schedule of limits that was used in setting the limits published for public comment on October 7, 1992. As discussed above, section 13503(a)(2) of OBRA '93 delayed the update to the schedule of limits until October 1, 1995 and then every 2 years. We have also used the same methodology to develop this schedule of rates that was used in setting the rates published for public comment on September 3, 1996. Section 13503(b) of OBRA '93 delayed the update to the schedule of prospectively determined payment rates until October 1, 1995. Thus, in conformance with the clear direction provided in sections 1861(v)(1) and 1888 of the Act and regulations at §§ 413.30 and 413.320, this notice announces the update to the schedule of limits for SNF routine service costs and the update to the schedule of prospectively determined payment rates for SNF inpatient cost, for cost reporting periods beginning on or after October 1, 1997. Because the

statute directs that this schedule of limits and this schedule of rates are effective for cost reporting periods beginning October 1, 1997, and given that we are making no changes in the methodology used to develop these limits, we believe it is unnecessary to publish a proposed notice. Therefore, we find good cause to waive publication of a proposed notice. However, we are providing a 60-day period for public comment, as indicated at the beginning of this notice.

VIII. Response to Comments

Because of the large number of items of correspondence we normally receive on **Federal Register** documents published for comment, we are not able to acknowledge or respond to them individually. We will consider all comments we receive by the date and time specified in the **DATES** section of this notice, and, if we proceed with a subsequent document, we will respond to the comments in that document.

Authority: (Secs. 1102, 1814(b), 1861(v)(1), 1866(a), 1871, and 1888 of the Social Security Act (42 U.S.C. 1302, 1395f(b), 1395x(v)(1), 1395cc(a), 1395hh, and 1395yy); section 13503 of Pub. L. 103-66 (42 U.S.C. 1395x(v)(1)(B) and 1395yy (note)) and 42 CFR 413.1, 413.24, 413.300 through 413.321). (Catalog of Federal Domestic Assistance Program No. 93.773, Medicare—Hospital Insurance)

Dated: September 25, 1997.

Nancy-Ann Min DeParle,

Deputy Administrator, Health Care Financing Administration.

Dated: September 25, 1997.

Donna E. Shalala,

Secretary.

[FR Doc. 97-25983 Filed 9-30-97; 8:45 am]

BILLING CODE 4120-01-P