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Part VII

Department of Health and Human Services

Health Care Financing Administration

Medicare Programs; Schedule of Limits on Hospital Per Diem Inpatient General Routine Operating Costs

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Health Care Financing Administration

Medicare Program; Schedule of Limits on Hospital Per Diem Inpatient General Routine Operating Costs

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

ACTION: Final notice.

SUMMARY: This notice sets forth a schedule of limits on hospital per deim inpatient general routine operating costs that may be reimbused under Medicare beginning October 1, 1981. This is a special revision of the schedule, not an annual update, and replaces the current schedule, which was published in the Federal Register on June 30, 1981 (46 FR 33637). It incorporates two changes required by the Omnibus Budget Reconciliation Act of 1981:

- The limits are lowered from 112 percent of mean costs to 108 percent; and
- The limits are revised to reflect a reduction in the nursing salary differential.

As required by statute, this notice also has a special provision for its effective date.

EFFECTIVE DATE: The revised schedule of limits is applicable to cost reporting periods *ending after* September 30, 1981. For any of these cost reporting periods that begin before October 1, 1981, the reductions in payments resulting from application of these limits shall be applied only in proportion to the part of the reporting period that occurs after September 30, 1981.

FOR FURTHER INFORMATION CONTACT: Carl Slutter, 301–594–9344.

SUPPLEMENTARY INFORMATION:

I. Background

Section 1861(v)(1) of the Social Security Act (42 U.S.C. 1395x(v)(1)) as amended by Section 223 of Pub. L. 92–603, the Social Security Amendments of 1972, authorizes the Secretary to set prospective limits on the costs that are reimbursed under Medicare. These limits may be applied to direct or indirect overall costs or to costs incurred for specific items or services furnished by a Medicare provider, and may be based on estimates of the cost necessary in the efficient delivery of needed health services.

Regulations implementing this authority are set forth at 42 CFR 405.460. Under this authority, we published limits on hospital per diem inpatient general routine service costs annually from 1974 through 1978, and limits on hospital per diem inpatient general routine operating costs in 1979 and 1980.

On June 30, 1981, we published in the Federal Register (46 FR 33637) a schedule of limits on hospital per diem inpatient general routine operating costs applicable to cost reporting periods beginning on or after July 1, 1981. In that notice, we described the scope of the limits, and explained our methodology for deriving and applying those limits. That methodology remains essentially unchanged.

II. Changes Required by the Omnibus Budget Reconciliation Act of 1981

A. *Limits cannot exceed 108 percent of mean costs.* Section 2143 of the Omnibus Budget Reconciliation Act of 1981 (Pub. L. 97–35) established a new statutory maximum on cost limits for reimbursement of hospitals under Medicare. The statute states:

> The Secretary, in determining the amount of the payments that may be made under this title with respect to routine operating costs for the provision of general inpatient hospital services, may not recognize as reasonable (in the efficient delivery of health services) routine operating costs for the provision of general inpatient hospital services by a hospital to the extent these costs exceed 108 percent of the mean of such routine operating costs per diem for hospitals, or, in the judgment of the Secretary, such lower percentage or such comparable or lower limit as the Secretary may determine.

As stated in the House Report on H.R. 3850 (House Report No. 97–143, p. 79), the Congress believed that reducing the limits from 112 percent of mean costs to 108 percent is an appropriate method of encouraging efficient operation of hospitals. In accordance with section 2143 of the Omnibus Budget Reconciliation Act of 1981, we have revised the limits to set them at 108 percent of the mean labor-related costs and mean non-labor costs of each comparison group. We continue to have the authority to grant exceptions to and exemptions from the limits. (Exceptions are granted to cover specific types of costs, such as costs of atypical services to meet the special needs of patients treated; exemptions are granted in specific circumstances, such as when a hospital is the sole community source of inpatient hospital care. See 42 CFR 405.460(e) and (f).)

B. *Adjustment required by change in the nursing salary differential.* Under the Medicare regulations (42 CFR 405.430) published in July 1969, we have recognized a per diem rate above the facility's average costs for all patients for inpatient routine nursing care furnished to aged Medicare patients. (The differential is also applied to pediatric and maternity patients, who also are assumed to require a greater amount of routine nursing services than other patients.) This is called the "nursing salary cost differential." The differential is not an add-on to the total routine nursing salary costs incurred by a provider, but rather a reallocation of the actual routine nursing salary costs between aged, pediatric and maternity patients and all other classes of patients. It presumes that, on the average, aged, pediatric and maternity patients receive more routine nursing services than do other patients.

The effect of the nursing differential is that the Medicare program recognizes a higher than average routine per diem cost for aged, pediatric and maternity patients and a lower than average per diem cost for all other classes of patients. (Disabled Medicare beneficiaries are counted in the "all other" category, unless they are also pediatric or maternity patients, and the lower than average per diem is applicable to that class of patient.)

The total impact of the differential on a particular facility's Medicare reimbursement will vary, depending on the provider's patient mix. If all of the provider's patients were aged, pediatric and maternity, no differential would be applicable.

We presently recognize a nursing salary differential equal to 8.5 percent of the provider's average per diem nursing salary costs. However, Section 2141 of Pub. L. 97–35 amended Section 1861(v)(1) of the Social Security Act to state that "an inpatient routine nursing salary cost differential shall be allowable as a reasonable cost of hospitals, at a rate not to exceed 5 percent, to be applied under the same methodology used for the nursing salary cost differential for the month of April 1981." According to its terms, Section 2141 is effective for all cost reporting periods ending after September 30, 1981, and reductions in Medicare payments resulting from the smaller nursing differential shall be made only in proportion to the part of a provider's reporting period that occurs after September 30, 1981.

We will be publishing a separate regulation implementing Section 2141. However, Section 2141 has also necessitated an adjustment of the cost limits. All of our current cost report data incorporates the 8.5 percent differential in the Medicare costs. However, for cost reports that straddle September 30, 1981, we can only recognize a 5 percent nursing differential for that portion of the cost reporting period occurring on or after October 1, 1981. To do this, we have estimated the portion of per diem

costs in each hospital classification group attributable to the 8.5 percent nursing differential, and developed adjustment ratios that reflect the proportionate application of this change to the part of the cost reporting period after September 30, 1981.

Briefly, we derived these ratios in the following way:

- We calculated the total average per diem routine operating costs for each provider grouping (for purposes of these cost limits, hospitals are grouped in seven cells according to SMSA/non-SMSA location and bedsize). We also calculated the Medicare average per diem routine operating costs for the same grouping. (We did this for a cost reporting period ending September 30, 1981, in order to reflect the same period for which we have developed the revised limits.)
- For each grouping, we determined the difference between the overall total average per diem costs and the Medicare average per diem costs. This difference represents the average effect of the 8.5 percent nursing differential on the average per diem cost for that provider grouping.
- For each provider grouping, we multiplied the resulting figure by .588 (the ration of 5 percent to 8.5 percent). The products represent the dollar value, on the average, of a 5 percent nursing differential for each hospital grouping. We subtracted this amount from the average dollar value of the differential at 8.5 percent to obtain the dollar value of the reduction.
- We divided the result from the prior step by the original Medicare average per diem cost for each grouping. This gives us a ratio of the reduction due to the differential to the original mean. (This varies from group to group ranging from approximatley 1 to 2 percent.)
- The ratio obtained from the prior step, for each grouping, is divided into twelve equal parts and applied in proportion to the number of months in the cost year prior to October 1.
- The arithmetic from the prior step yields a set of ratios, set forth in Tables IV A and IV B. An explanation of how to use these tables is also set forth below, in paragraph VII.3.

C. *Special effective date provision.* Section 2143 of the Reconciliation Act also included provisions for its effective date that prescribe how it is to be applied to particular cost reporting periods. Previously, we had always made revised shcedules of cost limits applicable to the cost reporting periods beginning on or after a specified date (usually July 1 of each year). However, Section 2143(b) states that this provision is effective for cost reporting periods *ending* after September 30, 1981.

Thus, these limits apply to current cost reporting years. Section 2143(b) also states, however, that for cost reporting periods that straddle the September 30 date, the limits will be applied in proportion to the part of the cost reporting period that occurs after September 30, 1981. Thus, each hospital cost reporting period beginning before October 1, 1981, and ending after that date, will be governed by two schedules of cost limits: (1) The schedule in effect on the first day of the cost reporting period, which will be applied in proportion to the part of the total period occurring between the first day of the period and ending September 30, 1981; and (2) this schedule, effective October 1, 1981, which will be applied in proportion to the part of the total cost reporting period occurring after September 30, 1981. The method for making these proportional applications is illustrated later in this notice under paragraph VII. 7. For cost reporting periods beginning on or after October 1, 1981, these revised limits will be in effect for the entire cost reporting period.

III. Summary Description of Cost Limit Methodology

The basic methodology previously used has not been changed. A full explanation is set forth in the notices published on April 1, 1980 (45 FR 21582), June 20, 1980 (45 FR 41868) and June 30, 1981 (46 FR 33637). In brief summary, it is as follows:

1. Limits on hospital per diem inpatient general routine operating costs. The limits do not apply to capital-related costs, costs of approved medical or nursing education programs that are properly allocated to interns and residents (in approved programs) and nursing school cost centers on the hospital's Medicare cost report, costs of special care units or ancillary services, or malpractice insurance costs.

2. A classification system based on each hospital's bed size, and whether the hospital is located within a Standard Metropolitan Statistical Area (SMSA), a New England County Metropolitan Area (NECMA) or in a non-SMSA/non-NECMA area. (For a discussion of the exceptions to these rules for certain New England areas, see the notice published June 18, 1980 (45 FR 41218). For a listing of the counties including in each SMSA or NECMA, see the hospital cost limits notice published on June 20, 1980 (45 FR 41868).)

The Executive Office of Management and Budget on June 19, 1981 announced new SMSAs based on the 1980 census. As soon as we have received new wage index values for these areas, we will publish in the **Federal Register** a list of the constituent counties in the SMSAs and their wage index values.

3. Use of actual hospital inpatient general routine per diem operating cost data from Medicare cost reports to derive the limits. We have adjusted the limits to reflect the allowance of an 8.5 percent routine nursing salary cost differential through September 30, 1981, and a 5 percent nursing differential thereafter.

4. A market basket index (see Appendix) that we developed to reflect changes in the prices of goods and services purchased by hospitals.

5. A hospital wage index (see Tables III A and III B) that we developed from hospital wage and employment data obtained from the Bureau of Labor Statistics (BLS). We use this index to adjust for the differing levels of labor-related costs among the areas in which hospitals are located.

6. A cost-of-living adjustment to the nonlabor component of the limits for hospitals in Alaska and Hawaii.

7. Limits set at 108 percent of the mean labor-related costs and of the mean nonlabor costs of each group.

8. An adjustment to the limits for increased costs due to approved internship and residency programs.

9. A formula that permits the limits to be adjusted upward for areas where the number of covered days of care per 1,000 Medicare beneficiaries is less than the national average.

10. An explanation of how these limits will be implemented effective October 1, 1981, in proportion to whatever part of a hospital's cost reporting period occurs after September 30, 1981.

11. A revised schedule of dollar limits, by geographic area and hospital size, that we calculated under the methodology summarized above.

IV. Impact analyses

Executive Order 12291

This notice merely implements statutory amendments made by Pub. L. 97–35 to Section 1861(v)(1) of the Social Security Act, and does not otherwise modify the methodology used to compute the limits in any manner. Therefore, the Secretary has determined that, although this notice will have an annual effect on the economy of $263 million in fiscal year 1982, the development of a Regulatory Impact Analysis is not required. If, in the future, discretionary changes are proposed that would modify the methodology used in computing the limits and would meet the

criteria for conducting a Regulatory Impact Analysis, a Regulatory Impact Analysis will be developed and made available for public comment.

Regulatory Flexibility Act

The Secretary certifies, under Section 605(b) of the Regulatory Flexibility Act (Pub. L. 96–354), that the revised schedule of limits set forth in this notice will not have a significant economic impact on a substantial number of small entities. The reason for the Secretary's certification is that the revised limits merely implement recent statutory changes governing the system of hospital costs limits that is now in effect, and do not otherwise include any changes in our methodology for deriving and applying them.

V. Waiver of Proposed Notice and 30-day Delay in Effective Date

We developed the revised limits set forth below by using the same methodology that we use to develop the current hospital cost limits, which were published on June 30, 1981 (46 FR 33637) and the previous cost limits, published on June 20, 1980 (45 FR 41868). On April 1, 1980, we published a proposed notice that described in detail our methodology for developing and applying those limits, and provided a 60-day period for public comment (45 FR 21582). In developing the current methodology for deriving and applying the schedule of limits, we considered all comments received in response to the April 1, 1980 notice. These comments, and our responses to them, are described in the June 20, 1980 notice.

Because the methodology used for the revised schedule has previously been published for public comment, and because the changes being made in this notice are mandated by statute, we do not believe it is either necessary or useful to request comment agains on that methodology. Therefore, we find good cause to waive publication of a proposed notice, and to publish this notice of revised limits in final form.

In the past, we generally have attempted to allow a 30-day period between the date of publication of each cost limit schedule and the effective date of the schedule. Since the effective date of the statutory changes is October 1, 1981, we find that there is good cause to waive the customary 30-day delay between publication of new limits and their effective date, and apply them to hospitals effective October 1, 1981.

VI. Methodology for Determining per Diem Routine Operating Cost Limit

Development of Published Limits

1. *Data.* We developed the limits by using actual hospital inpatient general routine operating cost data obtained from the latest Medicare cost reports available as of April 15, 1980. In developing the revised limits, we excluded capital-related costs and costs allocated to the interns and residents (in approved programs) and nursing school cost centers. After excluding these costs, we would normally adjust the remaining data for inflation by projecting them from the midpoints of the cost reporting periods used in the data collection through the midpoint of the first cost reporting period to which the limits would apply.

Since the amendments to the statute direct that the revised limits be applied to cost reporting periods *ending* (rather the *beginning*) after September 30, 1981, the limits published in this notice represent what the limits would have been at 108 percent costs for the period October 1, 1980 through September 30, 1981. We derived these limits by deflating (using the market basket index) the means used in deriving the limits published on June 30, 1981, so that the midpoint of the limits became March 31, 1981, rather than December 31, 1981. We then multiplied the new means by 1.08 to arrive at the new limits.

We derived the limits in this manner for ease of administration and application. For every hospital whose cost reporting period ends after September 30, 1981, the intermediary will adjust the limits to account for the change in the nursing differential, as indicaated in item 3 below, and will apply an inflation adjustment as indicated in item 6 under "*Calculation of Individual Hospital Limit*" below. The intermediary will apply both of these adjustments for those months in the cost reporting period that occur after September 30, 1981.

We anticipate that our next schedule of limits will apply for whole cost reporting periods beginning on or after October 1, 1982. The schedule of limits in this notice is applied to periods ending after September 30, 1981. As a result of this, many hospitals will have a second cost reporting period subject to the limits contained in this schedule. For example, a hospital whose cost reporting period ends December 32, 1981 will also be subject to this schedule for the period beginning January 1, 1982. Therefore, we have included additional inflation factors in item 6 which the intermediary will use to determine the limit for the reporting period following the reporting period which ends after September 30, 1981.

The annual percentage increase over the previous year that we used for our inflation projections are:

	Percent
1978	13.1
1979 (1/1 through 6/30)	10.8
1979 market basket (7/1 through 12/31)	9.1
1980 market basket	11.7
1981 market basket	*10.8
1982 market basket	*9.5
1983 market basket	*9.5

*Forecasted increase.

If the actual rate of the increase in the market basket is at least .3 of 1 percentage point above the estimated rate, we will advise the Medicare intermediaries to use the actual rate to adjust each hospital's cost limit at the time of final settlement.

2. *Adjustment for Education Costs.* We adjusted each hospital's Medicare per diem routine operating costs used in calculating the mean for each group by dividing the per diem costs by 1.0 plus the product of the education adjustment factor (.047) and the individual hospital's adjusted intern-and-resident to bed ratio. We determined that adjusted ratio by dividing the number of full-time equivalent (FTE) interns and residents for the cost reporting period to which each per diem cost applies (see step 5 of the "Calculation of Individual Hospital Limit") by the hospital's bed size determined at the beginning of that period to obtain the hospital's intern-and-resident to bed ratio, and dividing that ratio by .1. Example: The per diem operating cost of a 686-bed hospital in Los Angeles, California, is $200. The hospital employed 77 FTE interns and residents in approved teaching programs.

The per diem cost is adjusted for education costs as follows:

$77 \div 686 = .1122$, which is the intern-and-resident to bed ratio for this hospital.
$.1122 \div .1 = 1.122$ — Adjusted Ratio
$\$200 \div [1 + (.047 \times 1.122)] =$
$\$200 \div 1.0527 = \$189.99$, Education-adjusted per diem cost.

The education-adjusted per diem costs are divided into labor-related and nonlabor portions, adjusted by the wage index and used to calculate the group means (see steps 3 and 4 below).

3. *Use of Wage Index to Adjust Cost Data.* We divided each hospital's adjusted per diem routine operating cost into labor-related and nonlabor portions. We determined the labor-related portion of cost by multiplying each hospital's adjusted per diem

routine operating cost by 79.26 percent, which is the labor-related portion of cost from the market basket. We then divided the labor-related portion of each hospital's per diem cost by the wage index applicable to the hospital's location (see Tables III A and III B) to arrive at an adjusted labor-related portion of routine cost.

If we discover that we, or the Bureau of Labor Statistics, have made any error that results in an incorrect wage index for any area, we will notify the Medicare intermediaries of the corrected index and will direct them to recalculate the limits for affected providers.

4. *Group Limits.* We calculated separate means of routine labor-related and nonlabor operating costs for each group established in accordance with the hospitals' SMSA/NECMA or non-SMSA/non-NECMA location and bed size.

For each group, we multiplied the mean labor-related and mean nonlabor costs by 108 percent. (See Tables I and II as well as the explanation in item 1 above.)

VII. Calculation of Individual Hospital Limit

1. *Cost-of-Living Adjustment (Alaska and Hawaii Hospitals Only).* If a hospital is located in Alaska or Hawaii, the hospital's intermediary will multiply the nonlabor component for the hospital's group (see Tables I and II) by the appropriate cost-of-living adjustment factor from the list included in these tables. The intermediary will use the adjusted nonlabor component in computing the hospital's limit.

Example—Calculation of Cost-of-Living Adjusted Non-Labor Component for a 400-bed Hospital Located in Alaska.

Non-Labor Component—$27.62 (Published in Table I)
Adjustment Factor for Alaska=1.25
$27.62×1.25=$34.53 Cost-of-Living Adjusted Non-Labor Component.

2. *Adjustment of Labor-Related Component by Wage Index.* To arrive at a labor-adjusted limit for each hospital, the hospital's Medicare intermediary will multiply the labor-related component for the hospital's group by the wage index developed from the wage levels for hospital workers in the area in which the hospital is located (see Tables III. A and III. B). The individual limit that applies to any hospital will be the sum of the nonlabor component, plus the adjusted labor-related component, as adjusted further for the change in the nursing differential under item 3, and for the hospital's actual cost reporting period under item 6, unless the hospital also qualifies for one or more of the adjustments described in steps 4 and 5.

Example—Calculation of Adjusted Limit for a 686-bed Hospital Located in Los Angeles, California, with a cost reporting period ending 11/30/81.

Non-Labor Component—$28.95 (published in Table I).

Labor-related Component—$98.15 (published in Table I).

SMSA Wage Index—1.2899 (published in Table III A).

Computation of Adjusted Limit
$98.15×1.2899 (wage index)=$126.60—Adjusted Labor Component
$126.60+$28.95=$155.55—Adjusted limit.

The wage indices for each SMSA/NECMA area and for the non-SMSA/non-NECMA areas of each State are published in Tables III A and III B.

3. *Adjustment for change in nursing differential.* To adjust each hospital's limit to take account of the change in the nursing differential from 8.5 percent to 5 percent effective for cost reporting periods ending after September 30, 1981, the Medicare intermediary will multiply the individual limit (after adjusting the labor component under item 2 and combining the adjusted labor component and nonlabor component into an adjusted limit) by the appropriate ratio for that hospital's bed size, urban or rural location, and the beginning date of its reporting period (see Tables IV A and IV B). The resulting limit will reflect application of the 8.5 percent differential from the first day of the reporting period through September 30, 1981, and a 5 percent differential for the remainder of the period.

All cost reporting periods that begin after October 1981 will be subject to the adjustment factor that appears for October 1981.

Example—A 686-bed hospital in Los Angeles, California has an adjusted Medicare limit of $155.55. The adjustment ratio from Table IV A is .99857.

Adjusted limit $155.55×Adjustment ratio .99857=$155.33, which is the hospital's limit after applying the nursing salary differential adjustment.

4. *Adjustment for Covered Days of Care.* If a hospital is located in a State that is entitled to a covered days of care adjustment (see Table V) the intermediary will determine the adjusted limit for the hospital, and multiply that limit by the applicable factor from Table IV.

Example—A 686-bed hospital in Los Angeles, California has an adjusted Medicare limit of $155.33. The adjustment factor from Table V is 1.06483.

Adjusted limit $155.33×Adjustment factor 1.06483=$165.40, which is the hospital's limit after application of the covered days of care adjustment.

5. *Education Cost Adjustment.* If a hospital has a graduate medical education program approved under 42 CFR 405.421, the intermediary will increase the hospital's limit by 4.7 percent for each .1 increase (above zero) in the hospital's ratio of full-time equivalent (FTE) interns and residents (in approved programs) to its bed size. The hospital will report to its intermediary, 45 days before the start of each cost reporting period, the number of FTE interns and residents it employed on the September 30 immediately preceding the date on which this report is due. The intermediary will calculate the amount of the education cost adjustment based on that report, and will adjust the hospital's limit retroactively at final settlement if, for a cost reporting year, a hospital actually employed more or fewer FTE interns and residents on September 30 of that period than the number it reported.

The number of full-time equivalent interns and residents is the sum of:

a. Interns and residents employed for 35 hours or more per week, and

b. One half of the total number of interns and residents working less than 35 hours per week (regardless of the number of hours worked).

For purposes of this adjustment, a hospital will be allowed to count only interns and residents in teaching programs approved under 42 CFR 405.421 who are employed at the hospital. Interns and residents in unapproved programs and those who are on the hospital's payroll but furnish services at another site will not be taken into account in making this adjustment.

Example—A 686-bed hospital in Los Angeles, California has an adjusted limit of $165.40 for the portion of the cost reporting period occurring after September 30, 1981. The hospital has a cost reporting period of December 1, 1980 through November 30, 1981. The hospital employed 77 FTE interns and residents in approved teaching programs on September 30, 1980.

77÷686=.1122 Ratio of FTE Interns and Residents to Beds
Ratio .1122+.1=1.122 Adjusted ratio
The Education Adjustment Factor is .047.
Adjusted Medicare limit
$165.40×[1+(education adjustment factor .047×adjusted ratio 1.122)]=$165.40×1.0527=$174.12 Education-adjusted Medicare limit.

If the number of FTE interns and residents the hospital employs on September 30, 1981, is more or less than

77, the intermediary will adjust the hospital's limit at the time of final settlement of the hospital's cost report.

6. *Market Basket Inflation Adjustment for Cost Reporting Year.* For all hospitals having cost reporting periods ending after September 30, 1981, the intermediary will increase the limit by the factor from Table VI that corresponds to the month and year in which the cost reporting period begins. Each factor represents the monthly increase that we derived by dividing the projected annual increase in the market basket index by twelve. This adjustment is needed to account for price increases that occur after the date on which the limits are effective.

As indicated under item 1 above, the majority of hospitals will experience a second cost reporting period under this schedule of limits. Therefore, Table VI contains additional inflation factors to be applied to the second cost reporting period.

Example—A 686-bed hospital in Los Angeles, California has a cost reporting period that ends November 30, 1981. The otherwise applicable limit for the hospital is $174.12.

Computation of Revised Hospital Limit

Individual Hospital Adjusted Limit—$174.12
Adjustment Factor from Table VI—1.018
Adjusted Limit $174.12×Adjustment factor 1.018=Revised Medicare limit $177.25

For the cost reporting period beginning December 1, 1981, the adjustment factor will be 1.12058.

If a hospital uses a cost reporting period that is not 12 months in duration, a special calculation of the adjustment factor must be made. This results from the fact that projections are computed to the midpoint of a cost reporting period and the adjustment factors in Table VI are based on an assumed 12 month reporting period. For cost reporting periods other than 12 months, the calculation must be done specifically for the midpoint of the cost reporting period. The hospital's intermediary will obtain this adjustment factor from HCFA.

7. *Proportional Application of Limits to Cost Reporting Periods Ending After September 30, 1981.* As a result of the new legislation, each hospital reporting period beginning before October 1, 1981, and ending after September 30, 1981, will be governed by two schedules of cost limits: (1) The schedule in effect on the first day of the reporting period, which will be applied in proportion to the part of the total period occurring between the first day of the period and ending September 30, 1981; and (2) the schedule in this notice, which will be applied in proportion to the part of the total period occurring after September 30, 1981.

In determining the proportional application of the new limits, it is not our intention that ongoing systems for reporting and determining reasonable costs be revised or otherwise disrupted or that hospitals be subjected to new reporting requirements. However, we also understand that more than one method can be used to determine the proportional application. We believe some hospitals may find the adjustment easier to calculate as a reduction factor based upon the previous limit, particularly since this application is specific to those cost reporting periods which begin before October 1, 1981 and end after September 30, 1981. Therefore, we have provided two alternatives for calculating the application of the new cost limits. The examples illustrate two alternative methods providers and intermediaries may use to determine the proportional application.

Example 1: A hospital has a cost reporting period which begins December 1, 1980. Assume that the hospital's limit for this period is $177.24, and the limit for that portion of the period ending after September 30, 1981 is $170.24. Assume also that the hospital had 1,000 general routine patient days during the entire cost reporting period.

It is first necessary to determine what total allowable cost would be for the entire period under both the old and new limits (even though neither the old nor the new limit in fact applies to the entire period). This is done as follows:

Total allowable cost for the entire period using old limit:
$177.24×1,000 days=$177,240

Total allowable cost for the entire period using new limit:
$170.24×1,000 days=170,240
Difference=$7,000

It is then necessary to determine what proportion of this difference should be applied to the months after September 30, 1981. This is accomplished as follows:

$7,000×$\frac{3}{12}$ (number of months after 9–20–81 in the hospital's cost reporting period)=$1,167

To determine the actual total allowable cost, the amount of the disallowance under the new limits ($1167) is subtracted from the total allowable costs for the entire period (under the old limit) as follows:

Total allowable cost for the period	$177,240
	−1,167
	176,073

Example 2: Assume the same facts as in example 1.

Total allowable costs for the entire period using old limit: $177,240.

Ratio of new limit to old limit $170.24 to $177.24 is .96050.

.96050 represents the proportion which the new limit bears to the old limit. However, since the new limit applies only to months in the reporting period after September 30, 1981, it is necessary to increase this proportion to reflect this fact. This is done by the formula below. .0395 represents the total percentage reduction in the new limit (1.00−.96050). This figure is then reduced in proportion to the number of months subject to the old limit (10) and the result is added to .96050 to obtain the relationship which total allowable costs using the proportional application of the new limits bears to total allowable costs computed under the old limits for the entire period.

[(.0395×10 divided by 12)+.96050]×$177,240=$176,073—Total allowable cost for the period.

VIII. Schedule of Limits

Under the authority of section 1861(v) of the Social Security Act, the following per diem limits will apply to hospital inpatient general routine operating costs that may be reimbursed under Medicare effective October 1, 1981. Medicare fiscal intermediaries will compute the adjusted limits for hospitals that participate in Medicare using the methodology set forth in this notice, and will notify each hospital of its applicable limit. These limits, adjusted by the cost reporting year adjustment factors in Table VI, will remain in effect until replaced by a revised schedule of limits published in a final notice in the Federal Register.

Table I.—*Hospitals Located in SMSA (NECMA) Areas*

Bed size	Labor-related component	Nonlabor component
Less than 100	$101.28	$28.06
100 to 404	97.78	27.62
405 to 684	94.16	26.58
685 and above	98.15	28.95

Table II.—*Hospitals Located in Non-SMSA (Non-NECMA) Areas*

Bed size	Labor-related component	Nonlabor component
Less than 100	$96.14	$24.02
100 to 169	91.91	23.29
170 and above	87.92	22.64

Nonlabor components for hospitals located in the States of Alaska and Hawaii will be

increased by multiplying them by the following cost-of-living adjustment factors:

Location	Adjustment factor
Alaska	1.25
Hawaii:	
Oahu	1.15
Kauai	1.15
Molokai	1.125
Maui and Lanai	1.15
Hawaii	1.10

Table IIIA.—*Wage Index for Urban Areas*

SMSA area	Wage index
Abilene, TX	0.8485
Akron, OH	1.0417
Albany, GA	.8566
Albany-Schenectady-Troy, NY	.9624
Albuquerque, NM	1.0009
Alexandria, LA	.8954
Allentown-Bethlehem-Easton, PA-NJ	1.0569
Altoona, PA	1.0219
Amarillo, TX	.9233
Anaheim-Santa Ana-Garden Grove, CA	1.2115
Anchorage, AK	1.6461
Anderson, IN	.9612
Ann Arbor, MI	1.2175
Anniston, AL	.8400
Appleton-Oshkosh, WI	1.0124
Asheville, NC	.9678
Atlanta, GA	.9162
Atlantic City, NJ	1.0174
Augusta, GA-SC	.9237
Austin, TX	.9859
Bakersfield, CA	1.1223
Baltimore, MD	1.1698
Baton Rouge, LA	.8813
Battle Creek, MI	1.0229
Bay City, MI	1.1238
Beaumont-Port Arthur-Orange, TX	.8530
Billings, MT	[1].9496
Biloxi-Gulfport, MS	.8143
Binghamton, NY-PA	.9789
Birmingham, AL	.9656
Bismarck, ND	.9032
Bloomington, IN	[1].9481
Bloomington-Normal, IL	.8484
Boise City, ID	.9834
Boston-Lowell-Brockton-Lawrence-Haverhill, MA-NH	1.1214
Bradenton, FL	[1].8631
Bridgeport-Stamford-Norwalk-Danbury, CT	1.1647
Brownsville-Harlingen-San Benito, TX	.9312
Bryan-College Station, TX	.8377
Buffalo, NY	.9928
Burlington, NC	.8699
Canton, OH	.9447
Cedar Rapids, IA	[1].9193
Champaign-Urbana-Rantoul, IL	1.1197
Charleston-North Charleston, SC	.9751
Charleston, WV	1.0628
Charlotte-Gastonia, NC	.9456
Chattanooga, TN-GA	1.0226
Chicago, IL	1.1780
Cincinnati, OH-KY-IN	1.0814
Clarksville-Hopkinsville, TN-KY	.8397
Cleveland, OH	1.1957
Colorado Springs, CO	.9743
Columbia, MO	1.1712
Columbia, SC	.9743
Columbus, GA-AL	.9021
Columbus, OH	1.1184
Corpus Christi, TX	.9337
Dallas-Fort Worth, TX	.9403
Davenport-Rock Island-Moline, IA-IL	.9219
Dayton, OH	1.1064
Daytona Beach, FL	.9423
Decatur, IL	.9096
Denver-Boulder, CO	1.0960
Des Moines, IA	1.0156
Detroit, MI	1.2280
Dubuque, IA	.9426
Duluth-Superior, MN-WI	.9193
Eau Claire, WI	.9806
El Paso, TX	.8714
Elkhart, IN	[1] 7997
Elmira, NY	.9642
Enid, OK	.8228

Table IIIA.—*Wage Index for Urban Areas*—Continued

SMSA area	Wage index
Erie, PA	.9652
Eugene-Springfield, OR	.9639
Evansville, IN-KY	1.0742
Fargo-Moorhead, ND-MN	.9355
Fayetteville, NC	[1].8353
Fayetteville-Springdale, AR	.7997
Flint, MI	1.1919
Florence, AL	.8056
Fort Collins, CO	.8353
Fort Lauderdale-Hollywood, FL	1.0506
Fort Myers, FL	.9391
Fort Smith, AR-OK	.8899
Fort Wayne, IN	.8881
Fresno, CA	1.1265
Gadsden, AL	.9264
Gainesville, FL	.9019
Galveston-Texas City, TX	1.0607
Gary-Hammond-East Chicago, IN	1.1664
Grand Forks, ND-MN	.8779
Grand Rapids, MI	.9463
Great Falls, MT	[1].9162
Greeley, CO	[1].9312
Green Bay, WI	.9740
Greensboro-Winston-Salem-High Point, NC	.9232
Greenville-Spartanburg, SC	.9371
Hamilton-Middleton, OH	1.0620
Harrisburg, PA	1.0534
Hartford-New Britain-Bristol, CT	1.1535
Honolulu, HI	1.1645
Houston, TX	1.0630
Huntington-Ashland, WV-KY-OH	.9270
Huntsville, AL	.8593
Indianapolis, IN	1.0507
Iowa City, IA	1.0209
Jackson, MI	[1] 1.0173
Jackson, MS	.8699
Jacksonville, FL	.9331
Janesville-Beloit, WI	.8579
Jersey City, NJ	1.1180
Johnson City-Kingsport-Bristol, TN-VA	.8777
Johnstown, PA	1.0445
Kalamazoo-Portage, MI	1.1695
Kankakee, IL	1.0073
Kansas City, MO-KS	.9399
Kenosha, WI	[1] 1.0778
Killeen-Temple, TX	.8868
Knoxville, TN	.9100
Kokomo, IN	9828
La Crosse, WI	[1].9018
Lafayette, LA	.8622
Lafayette-West Lafayette, IN	.9141
Lake Charles, LA	.8706
Lakeland-Winter Haven, FL	.9749
Lancaster, PA	1.0674
Lansing-East Lansing, MI	1.0811
Laredo, TX	[1].8593
Las Cruces, NM	[1].8129
Las Vegas, NV	1.1884
Lawrence, KS	[1].9193
Lawton, OK	[1].8377
Lewiston,-Auburn, ME	[1].8899
Lexington-Fayette, KY	.9018
Lima, OH	.9932
Lincoln, NE	.9259
Little Rock-North Little Rock, AR	1.0205
Long Branch-Asbury Park, NJ	1.0648
Longview, TX	.8129
Lorain-Elyria, OH	1.0207
Los Angeles-Long Beach, CA	1.2899
Louisville, KY-IN	.9915
Lubbock, TX	.9042
Lynchburg, VA	.8878
Macon, GA	.9637
Madison, WI	1.0257
Manchester-Nashua, NH	.9352
Mansfield, OH	.9196
McAllen-Pharr-Edinburg, TX	.8165
Melbourne-Titusville-Cocoa, FL	.9374
Memphis, TN-AR-MS	1.0371
Miami, FL	1.1050
Midland, TX	[1].9141
Milwaukee, WI	1.0080
Minneapolis-St. Paul, MN-WI	.9802
Mobile, AL	.9418
Modesto, CA	1.0250
Monroe, LA	.9451
Montgomery, AL	.9626
Muncie, IN	[1].9852
Muskegon-Norton Shores-Muskegon Heights, MI	.9658
Nashville-Davidson, TN	1.0187

Table IIIA.—*Wage Index for Urban Areas*—Continued

SMSA area	Wage index
Nassau-Suffolk, NY	1.2758
New Bedford-Fall River, MA	.9687
New Brunswick-Perth Amboy-Sayreville, NJ	1.0409
New Haven-Waterbury-Meriden, CT	1.0990
New London-Norwich, CT	1.0903
New Orleans, LA	.9644
New York, NY-NJ	1.3956
Newark, NJ	1.2099
Newport News-Hampton, VA	.8907
Norfolk-Virginia Beach-Portsmouth, VA-NC	.9496
Northeast Pennsylvania	1.0598
Odessa, TX	[1].9496
Oklahoma City, OK	.9252
Omaha, NE-IA	.9365
Orlando, FL	.9087
Owensboro, KY	[1].8364
Oxnard-Simi Valley-Ventura, CA	1.3788
Panama City, FL	[1].8777
Parkersburg-Marietta, WV-OH	1.0461
Pascagoula-Moss Point, MS	[1] 1.1535
Paterson-Clifton-Passaic, NJ	1.0959
Pensacola, FL	.8841
Peoria, IL	1.0175
Petersburg-Colonial Heights-Hopewell, VA	.9484
Philadelphia, PA-NJ	1.1810
Phoenix, AZ	1.1100
Pine Bluff, AR	[1].7997
Pittsbrugh, PA	1.1275
Pittsfield, MA	1.0275
Portland, ME	.9718
Portland, OR-WA	1.1026
Poughkeepsie, NY	1.0778
Providence-Warwick-Pawtuckett, RI	1.0314
Provo-Orem, UT	.9454
Pueblo, CO	1.0969
Racine, WI	.9240
Raleigh-Durham, NC	1.0173
Rapid City, SD	[1].8680
Reading, PA	1.0101
Reno, NV	[1] 1.2428
Richland-Kennewick, WA	.9763
Richmond, VA	.9252
Riverside-San Bernardino-Ontario, CA	1.1729
Roanoke, VA	.9614
Rochester, MN	.9852
Rochester, NY	1.0653
Rockford, IL	.9696
Sacramento, CA	1.1396
Saginaw, MI	1.1279
St. Cloud, MN	.8680
St. Joseph, MO	.9749
St. Louis, MO-IL	.9977
Salem, OR	1.1083
Salinas-Seaside-Monterey, CA	1.2428
Salt Lake City-Ogden, UT	.8550
San Angelo, TX	.8364
San Antonio, TX	.9509
San Diego, CA	1.1113
San Francisco-Oakland, CA	1.3153
San Jose, CA	1.3055
Santa Barbara-Santa Maria-Lompoc, CA	1.0552
Santa Cruz, CA	1.0811
Santa Rosa, CA	1.4037
Sarasota, FL	.8554
Savannah, GA	.9414
Seattle-Everett, WA	1.0500
Sherman-Denison, TX	.8277
Shreveport, LA	.9292
Sioux City, IA-NE	.9306
Sioux Falls, SD	.8844
South Bend, IN	.9154
Spokane, WA	1.0921
Springfield, IL	.9873
Springfield, MO	.8933
Springfield, OH	.9821
Springfield-Chicopee-Holyoke, MA	1.0184
Steubenville-Weirton, OH-WV	.9689
Stockton, CA	1.3046
Syracuse, NY	1.3209
Tacoma, WA	1.0514
Tallahassee, FL	[1].9219
Tampa-St. Petersburg, FL	.9898
Terre Haute, IN	.8644
Texarkana-TX-Texarkana, AR	1.0929
Toledo, OH-MI	1.1157
Topeka, KS	1.0602
Trenton, NJ	1.1708
Tucson, AZ	.9977
Tulsa, OK	.9626
Tuscaloosa, AL	1.0142

Table IIIA.—*Wage Index for Urban Areas*—Continued

SMSA area	Wage index
Tyler, TX	9481
Utica-Rome, NY	1 0145
Vallejo-Fairfield-Napa, CA	1 5862
Vineland-Millville-Bridgeton, NJ	1 0083
Waco, TX	8593
Washington, DC-MD-VA	1 1457
Waterloo-Cedar Falls, IA	8631
West Palm Beach-Boca Raton, FL	9632
Wheeling, WV-OH	9921
Wichita, KS	1 0248
Wichita Falls, TX	8282
Williamsport, PA	9749
Wilmington, DE-NJ-MD	1.0898
Wilmington, NC	.8936
Worcester-Fitchburg-Leominster, MA	9703
Yakima, WA	.9523
York, PA	.9884
Youngstown-Warren, OH	1 1090

[1] Approximate value for area.

Table IIIB.—*Wage Index for Rural Areas*

Non-SMSA area	Wage index
Alabama	0.8960
Alaska	1.5579
Arizona	1.0289
Arkansas	.8688
California	1.2415
Colorado	.8990
Connecticut	1 1552
Delaware	1.0370
Florida	9917
Georgia	.9463
Hawaii	1.3362
Idaho	.9669
Illinois	.9180
Indiana	.9763
Iowa	.9220
Kansas	.8973
Kentucky	.9207
Louisiana	.9216
Maine	.9926
Maryland	1 1026
Massachusetts	1 1722
Michigan	1 1325
Minnesota	.9052
Mississippi	.8751
Missouri	.9156
Montana	.9561
Nebraska	.8130
Nevada	1.0790
New Hampshire	1.0971
New Jersey	1.0820
New Mexico	1.0073
New York	1.0327
North Carolina	.9917
North Dakota	.9045
Ohio	1.0066
Oklahoma	9111
Oregon	1.0673
Pennsylvania	1 1358
Rhode Island	([1])
South Carolina	9180
South Dakota	7990
Tennessee	.8779
Texas	.8979
Utah	.8499
Vermont	.9993
Virginia	9792
Washington	1 0465
West Virginia	1 0111
Wisconsin	9179
Wyoming	1 0402

[1] Not applicable. All of Rhode Island is classified as urban.

Table IVA.—*Nursing Differential Adjustment Ratio for Hospitals Located in Urban Areas*

[Bed size]

Cost reporting period begins	Less than 100	101 to 404	405 to 684	685 and above
October 1980	1.000	1.000	1.000	1.000
November 1980	.99935	.99961	.99963	.99928
December 1980	.99869	.99922	.99925	.99857
January 1981	.99804	.99883	.99888	.99785
February 1981	.99739	.99844	.99850	.99713
March 1981	.99674	.99805	.99813	.99642
April 1981	.99609	.99766	.99776	.99571
May 1981	.99544	.99727	.99738	.99500
June 1981	.99479	.99688	.99701	.99429
July 1981	.99414	.99649	.99664	.99358
August 1981	.99349	.99610	.99626	.99287
September 1981	.99285	.99571	.99589	.99218
October 1981 or after	.99220	.99533	.99552	.99148

Table IVB.—*Nursing Differential Adjustment Ratio for Hospitals Located in Rural Areas*

[Bed size]

Cost reporting periods begins	Less than 100	101 to 169	170 and above
October 1980	1.000	1.000	1.000
November 1980	.99942	.99949	.99974
December 1980	.99885	.99899	.99948
January 1981	.99827	.99848	.99922
February 1981	.99770	.99798	.99896
March 1981	.99712	.99747	.99870
April 1981	.99655	.99697	.99844
May 1981	.99598	.99647	.99818
June 1981	.99541	.99598	.99792
July 1981	.99484	.99546	.99766
August 1981	.99427	.99498	.99740
September 1981	.99370	.99446	.99714
October 1981 or after	.99312	.99396	.99688

Table V.—*Adjustment to Limits Based on Areas With Covered Days of Care Per 1,000 HI Enrollees Less Than the National Average (1979 Data)*

State	Adjustment factor
Alaska	1 06577
Arizona	1 04813
California	1 06483
Colorado	1 00420
Connecticut	1 02302
Florida	1 01248
Georgia	1 01559
Hawaii	1 10006
Idaho	1 08364
Montana	1 04632
Nevada	1 02018
New Hampshire	1 02357
New Mexico	1 05796
Oregon	1 10056
Rhode Island	1 00912
South Carolina	1 02003

Table V.—*Adjustment to Limits Based on Areas With Covered Days of Care Per 1,000 HI Enrollees Less Than the National Average (1979 Data)*—Continued

State	Adjustment factor
Utah	1 13128
Washington	1 10009

The published limit will be increased so that hospitals in States with low utilization per 1,000 HI enrollees would receive higher per diem limits.

Sources of Data: Medicare inpatient covered days of care for short stay hospitals for 1979, by State: HCFA, Office of Research, Demonstrations and Statistics, Current Utilization Tabulations as of June 27, 1980—Table AA4A—Total—Number of Bills, Days of Care, Amount of Covered Charges and Reimbursement by Period Expense Incurred.

Number of Medicare beneficiaries, by State: HCFA, Office of Research, Demonstrations and Statistics, Medicare: 1979, Table 1.1.1., Enrollment (July 1) and reimbursement for hospital and medical insurance by census region, division, and State of residence: All persons, unpublished.

Table VI.—*Cost reporting year adjustment factors*

If the hospital cost reporting period begins—	The adjustment factor is: [1]
Oct. 1, 1980	1.00000
Nov 1, 1980	1.00900
Dec. 1, 1980	1.01800
Jan. 1, 1981	1.02700
Feb. 1, 1981	1.03600
Mar 1, 1981	1.04500
Apr 1, 1981	1.05400
May 1, 1981	1.06300
June 1, 1981	1.07200
July 1, 1981	1.08100
Aug. 1, 1981	1.08892
Sept. 1, 1981	1.09683
Oct. 1, 1981	1.10475
Nov 1, 1981	1.11267
Dec. 1, 1981	1.12058
Jan. 1, 1982	1.12850
Feb. 1, 1982	1.13642
Mar 1, 1982	1.14433
Apr 1, 1982	1.15225
May 1, 1982	1.16017
June 1, 1982	1 16808
July 1, 1982	1.17600
Aug. 1, 1982	1.18392
Sept. 1, 1982	1.19183

[1] Based on projected market basket inflation rates of 10.8 percent for 1981, 9.5 percent for 1982 and 9.5 percent for 1983. These adjustment factors are subject to change based on later estimates of cost increases.

If for any reason, we do not publish a new schedule of limits or do not announce other changes in the current schedule, the current limits would continue in affect. These limits would be increased by .007917 (corresponding to .7917 percent) per month, until a new schedule of limits or other provison is issued.

Appendix.—*Derivation of "Market Basket" index for routine inpatient hospital operating costs*

Category of costs	Relative importance,[1] 1979	Forecaster,[2] percent changes 1980–83	Price variable used
1. Wages and salaries	59.41	DRI–CFS	For the period calendar year 1980 and thereafter: Percentage change in average hourly earnings of hospital industry workers (SIC 806).[3] Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, (monthly) Table C–2.
2. Employee benefits	8.13	DRI–MM	Percentaga change in supplaments to wages and salaries per worker in nonagricultural establishments. Sources: For supplaments to wages and salaries—U.S. Department of Commerce, Buraau of Economic Analysis, *Survey of Current Business* (monthly) table 7 (1.12). July issue has detailed components. For total employment—U.S. Dept. of Labor, Bureau of Labor Statistics *Employment and Earnings*, (monthly) table B–4.
3. Professional fees, other (legal, auditing, consulting, etc.) [4]	.49	DRI–MM	Percentaga change in hourly earnings index for production or nonsupervisory workers on private nonagricultural payrolls, total private. Source: U.S. Dept. of Labor, Bureau of Labor Statistics, *Monthly Labor Review*, (monthly), table 18.
4. Malpractice insurance premiums	2.09	HHS, HCFA	Percentage change in hospital malpractice insurance premiums per hospital. Data obtained from the American Hospital Association for the period 1967–1978. HHS, Health Care Financing Administration projected these data for 1979–1981
5. Food	5.99	DRI–MM	A. Percentage change in food and bevarages component of consumer price index, all urban (relative importance, 3.02). Sources: U.S. Dept. of Labor, Bureau of Labor Statistics, *Monthly Labor Review*, table 23.
		DRI–MM	B. Percentage change in processed foods and feeds component of producer price index (relativa importance, 2.97). Source: U.S. Dept. of Labor, Bureau of Labor Statistics, *Monthly Labor Review*, table 27
6. Fuel and other utilities	3.33	DRI–MM	A. Percentage change in implicit price deflator—consumption of fuel oil and coal (derived from fuel oil component of consumer price index) (relative importance, 1.43). Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, (monthly) table 7.11.
		DRI–MM	B. Percantage change in implicit price deflator—consumption of electricity (derived from electricity component of consumer price index) (relative importance, .83). Source: U.S. Dept. of Commerce, Bureau of Economic Analysis. Unpublished data provided to Data Resources Inc. by the Bureau of Economic Analysis. Historcal time series data are available from the Health Cara Financing. Administration or the Bureau of Economic Analysis.
		DRI–MM	C. Percentage change in implicit prica deflator for natural gas, derived from utility (piped) gas component of consumer price index (relative importance, .69). Source: Same as electricity above.
		DRI–CFS	D. Percentage change in water and sewerage maintenance component of consumer price index (relative importance, .38). Source: U.S. Dept. of Labor, Bureau of Labor Statistics, *Monthly Labor Review*, table 23.
7 Drugs	1.32	DRI–CFS	Percentage changa in pharmaceutical preparations, ethical component of producer price index. Source: U.S. Dept. of Labor, Bureau of Labor Statistics, *Producer Prices and Price Indexes* (monthly), table 6.
8. Chemicals and cleaning products	2.53	DRI–MM	Percentage change in chemicals and allied products component of producer price index. Source: U.S. Dept. of Labor, Buraau of Labor Statistics, *Monthly Labor Review*, table 27.
9. Surgical and medical instruments and supplies	1.25	DRI–CFS	Percentage change in special industry machinery and equipment component of producer price index. Source: U.S. Dept. of Labor, Bureau of Labor Statistics, *Monthly Labor Review*, table 27.
10. Rubber and miscellaneous plastics	1.07	DRI–MM	Percentage change in rubber and plastic products component of producer price index. Sourca: U.S. Dept. of Labor, Bureau of Labor Statistics, *Monthly Labor Review*, table 27.
11. Business travel and motor freight	1.44	DRI–CFS	Percentage change in transportation component of consumer prica index, all urban. Source: U.S. Dept. of Labor, Buraau of Labor Statistics, *Monthly Labor Review*, table 23.
12. Apparel and textiles	1.72	DRI–MM	Percentage change in taxtile products and apparel compcnent of producer price index Source: U.S. Dept. of Labor, Buraau of Labor Statistics, *Monthly Labor Review*, table 27.
13. Business services	3.93	DRI–MM	Percentage change in services component of consumer prica index, all urban. Source: U.S. Dept. of Labor, Bureau of Labor Statistics, *Monthly Labor Review*, table 23.
14. All other miscellaneous expenses [5]	7.30	DRI–MM	Percentage change of consumer prica index for all items, all urban. Scurca: U.S. Dept. of Labor, Buraau of Labor Statistics, *Monthly Labor Review*, table 23.
Total	100.00		

[1]Routine operating cost weights for 1977 were derived from special studies by the Health Care Financing Administration using primarily data from the American Hospital Association and data from HCFA Medicare cost reports. A Laspeyres price index was constructed using 1977 weights and price variables indicated in this table. In calendar 1977 each price variable has an index value of 100.00. The "relative importance" of the routine operating cost weights changes each period in accordance with price changes for each price variable. Cost categories with relatively higher price increases get relatively higher cost weights and vice versa.

[2]DRI–CFS = Data Resources, Inc., Cost Forecasting Service, 1750 K Street, NW., Washington, D.C. 20006. (Forecast: CFS 811).
DRI–MM = Data Resources, Inc., Macro Model, 29 Hartwell Avenue, Lexington, Massachusetts 02173. (Forecast: Control 032381).
HHS–HCFA = Dept. of Health and Human Services, Health Care Financing Administration, 200 Independence Avenue, SW., Washington, D.C. 20201.

[3]For six months in 1979, the annual percentage change in average hourly earnings of service industry workers was used.

[4]Medical professional fees are included as part of nonroutine costs.

[5]This is a residual category of routine operating costs not included in the 13 specific categories above. It consists primarily of miscellaneous and unallocated items.

(Secs. 1102, 1814(b), 1861(v)(1), 1866(a), and 1871 of the Social Security Act; 42 U.S.C. 1302, 1395f(b), 1395x(v)(1), 1395cc(a), and 1395hh)
(Catalog of Federal Domestic Assistance Program No. 13.773, Medicare—Hospital Insurance)

Dated: September 12, 1981.

Carolyne K. Davis,

Administrator, Health Care Financing Administration.

Approved: September 18, 1981.

Richard S. Schweiker,

Secretary.

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