

Congress of the United States

Washington, DC 20515

July 12, 2004

Mark B. McClellan, M.D., Ph.D.
Administrator
Centers for Medicare & Medicaid Services (CMS)
Department of Health and Human Services
Hubert H. Humphrey Building, Room 443-G
200 Independence Avenue, S.W.
Washington, DC 20201

Subject: Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2005 Rates; Proposed Rule, *Federal Register*, Vol. 69, No. 96, May 18, 2004, pp. 28195-28817. [CMS-1428-P]

Dear Dr. McClellan:

As members of the New York Congressional delegation, we are opposed to the expansion of the current New York metropolitan statistical area (MSA) to include three counties in northern New Jersey for the purposes of Medicare hospital inpatient payment. We believe the expansion, set out in the Centers for Medicare and Medicaid Services (CMS) proposed inpatient rule for federal fiscal year (FFY) 2005, is not based on adequate data sufficient enough to warrant a change in policy. Further, the consequence of implementation of the proposal would be a \$65 million reduction in Medicare reimbursement to the 80 New York hospitals currently part of, or reclassified to, the New York MSA.

Based on the findings of the 2000 Census, the Office of Management and Budget (OMB) has developed new statistical areas. OMB has clearly advised agencies to carefully consider the implications of accepting the various gradations of its newly determined statistical areas as some may or may not be appropriate to the programs administered by each agency. OMB recommends agencies modify the statistical areas as fitting for each program. In the case of the Medicare program, CMS has rejected some of the new OMB determinations in the proposed rule while altering the New York MSA despite the absence of economic data to support the expansion.

The General Accounting Office (GAO) recommended in a 2002 report "To improve the adequacy of Medicare's labor cost adjustments, ... the Administrator of CMS [should] refine the geographic areas used to more accurately reflect the labor markets in which hospitals compete for employees and the geographic variation in hospitals' labor costs. This could include ...removing certain outlying counties in MSAs from the metropolitan geographic area if they exhibit wage costs that are significantly different from the rest of the metropolitan area."

In the case of the New York MSA the data shows distinct differences between the current New York MSA and the three New Jersey counties, making the merger into one wage index area untenable. The geographic variances in the cost of health care employment for New York City, its northern suburbs and Long Island have not changed over the past decade. Hospitals in the New York MSA pay wages that are, on average, fourteen percent higher than those paid to workers in the three New Jersey counties in question. Hospital wage index calculations are based on the average hourly wage (AHW) for the hospitals in a wage index area. Specifically, the combined AHW for the hospitals in the three New Jersey counties is \$30.82, or is 14% less than the \$35.83 AHW for the hospitals in the eight counties that comprise the current New York City wage index area. Moreover, none of the 20 hospitals in these New Jersey counties has an AHW that even equals the average for New York City.


The Medicare payment reduction that would be caused by the creation of a New York City-New Jersey Core Based Statistical Areas (CBSA) is far from the sum of the negative fiscal effect this regulation would have on New York MSA hospitals. In addition to the funds lost due to changing geographic boundaries, there will be substantial losses due to other changes in the Medicare wage index. We understand some of the reduction in the AWI is a result of the slower growth in the New York MSA hospitals' hourly wage rates in the year used for the calculations (FFY 2001), compared to hospitals elsewhere in the country. While we do not dispute the AWI data and its resultant decrease, we are alarmed by the overall magnitude of the total loss in Medicare reimbursement to New York MSA hospitals - *negative \$161 million* for FFY 2005 alone.

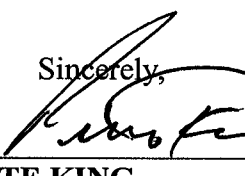
The enormity of the loss would also be felt beyond hospital inpatient facilities as Medicare employs the hospital inpatient wage index to determine outpatient hospital, inpatient rehabilitation facility, skilled nursing facility, home health agency, and hospice payment.


The CMS New York expansion proposal would have an extraordinary adverse impact on the hospitals in the current New York MSA, most of which are financially fragile. We strongly urge you to maintain the current New York MSA boundaries for the purposes of calculating the Medicare wage adjustment. By creating an accurate statistical area hospitals and other health care providers in the current New York MSA will be better able to care for the Medicare patients and all patients in their communities.

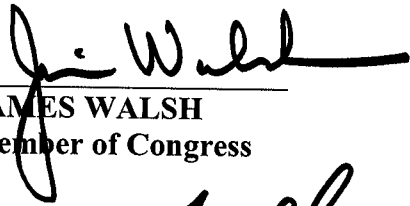
We would appreciate the opportunity to meet with you to discuss this matter and hope to receive a written response to our request to maintain the current New York MSA boundaries.

Sincerely,

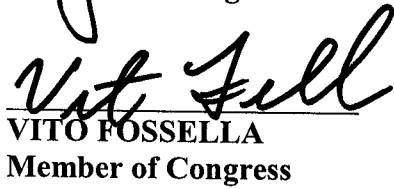

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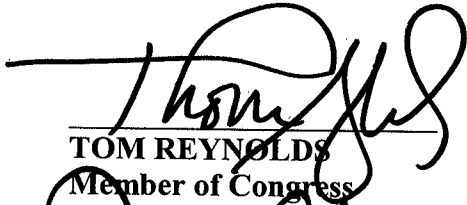

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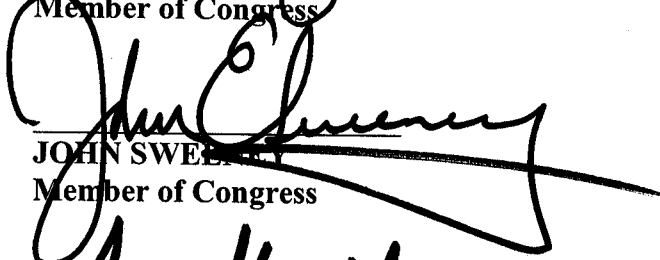
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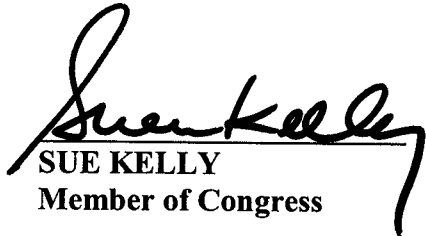
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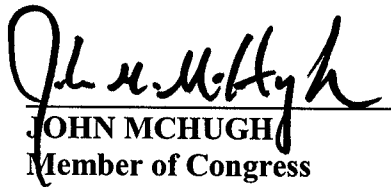
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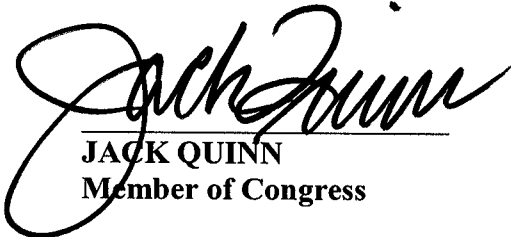
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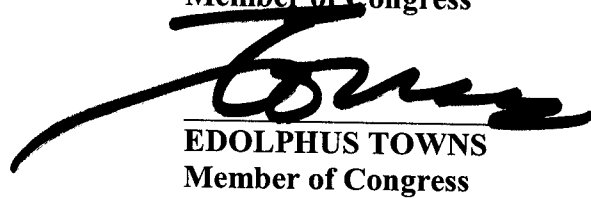
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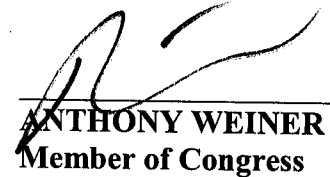
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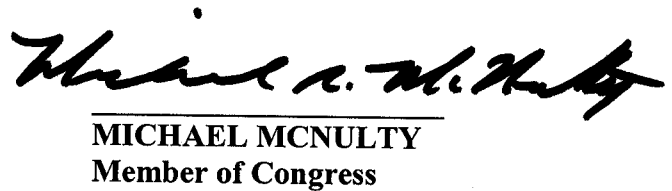
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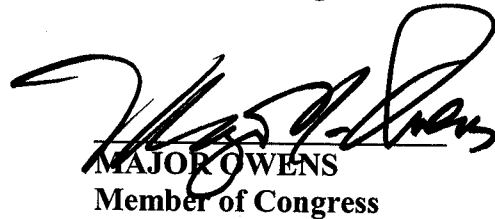
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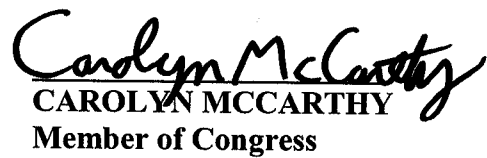
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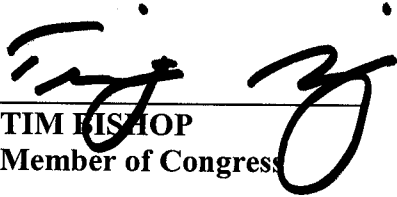
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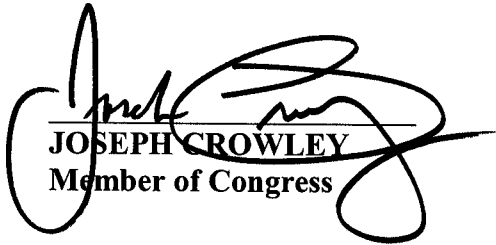
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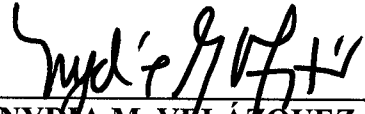
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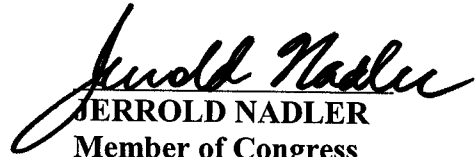
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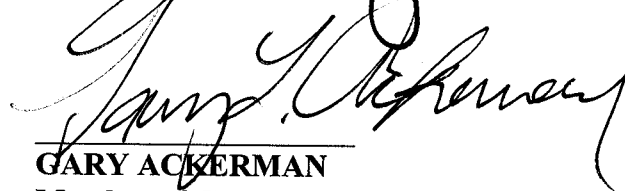
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