Background - What is the Fair Rental Value System (FRVS)?

The fair rental value system (FRVS) is an alternative to the current Dodge property index which will be phased out over a two year period. Unlike the Dodge property index that is no longer being supported by its originator, the FRVS relies on a contemporary construction index (RSMeans) in order to evaluate nursing facility construction/renovation projects for the purpose of adjusting the depreciable life of a facility. In simple terms, construction/renovation projects that exceed a dollar threshold ($500/bed) will have the effect of making a nursing facility “younger” and, therefore, subject to fewer years of depreciation when calculating that facility’s fair rental value.

Construction/renovation projects that exceed the per project dollar threshold will continue to make the facility newer and will continue to potentially raise (based on available funding) the fair rental value property component until the FRVS rate component reaches 150% of the Dodge rate in effect for that facility on July 1, 2009. Likewise, the FRVS rate component will not fall below the Dodge rate in effect for that facility on July 1, 2009. This stop loss / stop gain relationship between FRVS and Dodge will be in effect for two years at which time the reference to a Dodge rate will no longer exist.

The FRVS algorithm was originally presented to Georgia Department of Community Health in May of 2008 by the Georgia Health Care Association as a means upgrading the general appearance and structure of Georgia’s nursing homes and also creating jobs. DCH obtained the computer program to generate the FRV outcomes using the GHCA FRV survey data. As DCH began the process of evaluating various model inputs, we obtained FRV state plan information from a number of states (AL, CA, MS, NC and VA) and looked at a number of different combinations of variables available to us in the GHCA survey data.

In 2008 DCH and GHCA worked together to produce a budget forecast using the FRV model and the GHCA survey data to look at FRV fiscal impact by applying different values to variables (e.g., beds / square feet, initial age of construction, depreciation rate, rental rate, cost threshold for qualifying construction/renovation projects, includable equipment in construction projects, etc.) in the model. The outcome of this modeling process was a NF State Plan Amendment (SPA) that was filed with the Centers for Medicare and Medicaid Services (CMS) with an FRV effective date of July 1, 2008.

Statewide budget cuts for FY 2009 required DCH to formally withdraw the NF FRV SPA along with several other provider rate increase SPAs but we re-filed the NF SPA as a draft and requested an informal review of our FRV proposal by CMS. DCH received constructive feedback from CMS and resumed discussions with GHCA to see how we could incorporate the comments and suggestions from the CMS review. Having had
these discussions, DCH was in a position to re-start the FRV modeling process using a narrower range of values when HB 119 was passed with a new FRV budget for FY 2010.

FRVS Actions for FY 2010 – Incorporation of the FRVS into FY 2010 Nursing Facility Rates

A revised NF FRV SPA was filed with CMS on August 12, 2009, with a proposed effective date of July 1, 2009. In anticipation of federal approval DCH has initiated several new processes to expedite FRV rate-setting. This will begin with a review of the construction data from last year’s GHCA survey that we were able to validate against the Health Facilities Planning (HFP) database. About 20% of the construction projects reported on the survey were found in the HFP database. The data matches were on projects which represent multiple projects for individual nursing facilities. The first step in the process will require that each nursing facility that submitted construction projects in the GHCA survey to identify their Long Term Care (LTC) Number in the Excel file (Initial Year of Construction, Earliest Year of Activity) posted to this web site to see what we have been able to validate with HFP data.

If nursing facilities don’t find their LTC number in the file, they need to supply DCH with documentation supporting each of the construction projects they wish to claim in order to establish an initial FRV-based rate. This supporting documentation should be submitted to DCH along with an updated copy of the GHCA survey form. Please note that FRV construction projects can be any supportable renovations or bed additions. This year we are not counting projects that would be characterized as bed replacements. New or updated construction information for projects completed prior to June 30, 2009, should be submitted to the attention of Darryl Threat at the address below. Complete initial rate submission packages must be submitted by no later than December 31, 2009, in order for DCH to be able to establish an initial rate effective for the fiscal year beginning July 1, 2009.

Darryl Threat, Manager
Nursing Home Reimbursement
2 Peachtree Street, N.W., 39th Floor
Atlanta, Georgia 30303

Resubmitted or updated surveys must include the following information and backup documentation in order for DCH to be able to establish an initial FRV-based rate for construction projects completed prior to June 30, 2009 (“historical” projects).

- Nursing Facility Specific Data Requirements
  - Year of Initial Construction
  - Initial Nursing Facility Beds
  - Number of Beds Added listed by Year Added
  - Year of Each Renovation and Renovation Amount
  - Nursing Facility Square Footage
Once DCH receives a complete submission package, the FRVS algorithm will be applied

to the data using the most recently published RSMeans construction cost indices

applicable to the construction project, whether historical or new (completed after July 1,

2009). RSMeans annually publishes a nationally recognized set of construction indices

that are applicable, by industry (including the nursing home industry), by location (state

and zip code), by labor type (union or open shop constructions trades), by year. For

purposes of FRVS rate-setting, the following RSMeans factors are used in the algorithm.

- RS Means Indices and Critical Factors
  - Renovation Year Cost Index
  - Rate Year Cost Index
  - Rate Year Cost per Square Foot
  - Location Factor

Effective for dates of service on and after July 1, 2009, the value per square foot shall be

based on the $141.10 construction cost for nursing facilities, as derived from the 2009

RSMeans Building Construction cost data for Nursing Homes (national index for open

shop construction). The Value per Square Foot shall be adjusted by using the RSMeans

Location factors based on the facility’s zip code as well as by a Construction Cost Index

which is initially set at 1.000. The resulting product is the Adjusted Cost per Square

Foot.

A Facility Replacement Value is calculated by multiplying the Adjusted Cost per Square

Foot by the Allowed Total Square Footage. The latter figure is the lesser of a nursing

facility’s actual square footage (computed using the gross footage method) compared to

the number of licensed beds times 700 square feet (the maximum allowable figure per

bed).

An Equipment Value is calculated by multiplying the number of licensed beds by $6,000

(the amount allowed per bed) and by an initial Equipment Cost Index of 1.000.

A Depreciated Replacement Value is calculated by depreciating the sum of the Facility

Replacement Value and the Equipment Value. The amount depreciated is determined by

multiplying the Adjusted Facility Age by a 2% Facility Depreciation Rate. The initial

Adjusted Facility Age will be the lesser of the calculated facility age or 25 years. The

Land Value of a facility is calculated by multiplying the Facility Replacement Value

by15% to approximate the cost of land.

A Rental Amount is calculated by summing the facility’s Depreciated Replacement

Value and the Land Value and multiplying this figure by a Rental Rate which is 9.0%

effective July 1, 2009. The Annual Rental Amount is divided by the greater of the

facility’s actual cumulative resident days during the 2006 cost reporting period or 85% of

the licensed bed capacity of the facility multiplied by 365. The resulting figure

constitutes the Property and Related Net Per Diem established under the FRV system.

A Renovation Construction Project shall mean a capital expenditure that exceeds $500

per existing licensed bed and has been filed with the Office of Health Planning as a New
Construction Project under the authority of O.G.C.A. § 290-5-8. Historical projects not filed through the Office of Health Planning may be filed directly with DCH as described previously and are subject to subsequent review by the Department of Audits and Accounts as described below.

**Role of the Department of Audits and Accounts (DOAA) in FRV**

DCH relies heavily on audit determinations provided by DOAA in a variety of areas, including nursing home cost reports. With regard to FRV, DOAA will validate the cost of construction projects submitted for both initial FRV rate-setting and FRV rate adjustments for new projects completed after July 1, 2009. It should be noted that while DCH will establish initial FRV rates based on submissions DCH feels, at the time, are adequately documented, if DOAA reviews indicate that historical projects are inadequately documented initial FRV-based rates may be reversed for the entire rate year. As such, it is critically important that all historical constructions projects submitted to DCH are accurately represented.

One of the areas of difficulty experienced by all parties during last year’s attempt to implement the FRVS was lack of clarity regarding how equipment costs could or could not be counted in a construction project. Since then, there has been a shift in the FRVS model structure to give more weight to the construction cost allowance ($6,000/bed) than to equipment included in an actual construction project. As such, the type of equipment that can be included in construction project cost submittals has been more precisely defined as discussed below.

DOAA reviews will determine allowability of capital expenditures as including the costs of buildings, machinery (see Table 5 in Estimated Useful Lives of Depreciable Hospital Assets (Revised 2008 Edition), published by Health Forum, Inc, for a complete listing of allowable machinery), fixtures, and fixed equipment constituting any construction project. The exceptions to this requirement are for telemedicine terminals, solar panels, tankless water heaters and low flow toilets. Capital expenditures are asset acquisitions that meet the criteria of §108.1 of the Provider Reimbursement Manual (CMS-15-1) or are betterments or improvements which meet the criteria of §108.2 of the Provider Reimbursement Manual (CMS-15-1) or which materially (a) expand the capacity, (b) reduce the operating and maintenance costs, (c) significantly improve safety or (d) promote energy conservation.