

Brief Overview of the Fair Rental Value System (FRVS) and Important Changes for SFY 2010

Presentation to
THE GEORGIA HEALTH CARE ASSOCIATION
OCTOBER 20, 2009



Discussion Items

- A brief overview of the Fair Rental Value System
 - Joe Lubarsky's discourse on the merits of FRVS
 - What are the basic elements of FRVS
 - How do these elements function to yield a "fair rental rate"?
- CMS Review Caused Some Important Changes for SFY 2010
 1. Adequacy of documentation for older projects;
 2. Confusion regarding the multi-tiered depreciation table;
 3. Possible double-counting of equipment costs
 4. Distinction between older and newer renovations



“A Well Designed FRVS Accomplish the Following”

From Joe Lubarsky presentation to GHCA, March 17, 2008

- Differentiate reimbursement based upon age/condition
- Provide incentives to generate capital resources for renovation, improvement and replacement
- Encourage investment in physical plant upgrades and renovations
- Impact the physical environment that can result in improvement of resident quality of life
- Simplify administration and allow the State to exert reasonable budget predictability and control
- Distinguish economic value over financial accounting value
- Eliminate concerns for systems gaming, e.g., DEFRA & COBRA, Capital lease issues and related party transactions
- Promote equity investment



Brief Overview of FRVS

1. Determine the Replacement Value of a Facility
2. Depreciate It
3. Add the Land Value
4. Calculate a Rental Amount
5. Calculate the FRV Per Diem



I. Determine the Replacement Value of a Facility

- Calculate the Allowed Square Footage
 - Actual Square Footage divided by Number of Beds
 - Minimum of 350 Square Feet
 - Maximum of 700 Square Feet
- Calculate the Facility Cost prior to Adjustments
 - Allowed Square Footage x \$141.25 (2008 RS Means)
- Calculate the Adjusted Cost per Square Foot
 - Cost per Square Foot x Location Factor times x Construction Cost Index
- Calculate the Facility Replacement Value
 - Allowed Square Footage x Adjusted Cost per Square Foot



2. Depreciate It

- Calculate Equipment Value
 - Licensed Beds x \$5,000 x Equipment Cost Index
- Calculate Facility Value (excluding Land)
 - Facility Replacement Value + Equipment Value
- Calculate FRV Adjusted Age
 - Per Age Adjustment Algorithm for Additions, Replacements and Renovations (separate discussion)
- Calculate Depreciation
 - Facility Value x (FRV Adjusted Age x Depreciation Rate)
- Calculate Depreciated Replacement Value
 - Facility Value - Depreciation



3. Add the Land Value

- Facility Replacement Value x Land Percentage
 - Land percentage is 15.00%



4. Calculate a Rental Amount

- Sum the Depreciated Replacement Value and the Land Value
- Multiply by the Rental Rate
 - Rental Rate = 9.00%



5. Calculate the FRV Per Diem

- Calculate Allowed Patient Days by selecting the higher of:
 - Beds Days at Minimum capacity (80% of Licensed Beds)
 - Total Patient Days
- Divide Rental Amount by Allowed Patient Days
- Resulting Figure is the FRV Per Diem



CMS Review Caused Some Important Changes for SFY 2010

- DCH re-submitted a State Plan Amendment (SPA) for FRVS to address a number of areas of concern expressed by CMS in their review of the SPA DCH submitted for SFY 2009. Some of the key concerns related to:
 1. Adequacy of documentation for older projects;
 2. Confusion regarding the multi-tiered depreciation table;
 3. Possible double-counting of equipment costs
 4. Distinction between older and newer renovations

1. Adequacy of documentation for older projects

- The Georgia Department of Audits and Accounts assisted DCH in validating the information submitted on the GHCA property survey and found a number of problems:
 1. Older projects typically lacked verifiable back-up information, particularly where the property had changed ownership over time.
 2. A flaw in the state plan encouraged facilities to cobble together multiple, often disparate, items from fixed asset listings in order to reach the \$5,000/bed construction threshold.

2. Confusion regarding the multi-tiered depreciation table

Variable Depreciation Rates: (calculate the depreciated replacement value of a facility)

if FRVS Age is ≥ 32.5 Years 2.00%

if FRVS Age is ≥ 25.0 and < 32.5 Years 1.90%

if FRVS Age is ≥ 17.5 and < 25.0 Years 1.75%

if FRVS Age is ≥ 10.0 and < 17.5 Years 1.50%

if FRVS Age is < 10.0 Years 1.00%

- Need I say more?

3. Possible double-counting of equipment costs

- Another flaw in the originally filled FRV SPA for SFY 2009 was a lack of clarity in the treatment of equipment costs associated with a renovation project. We allowed certain equipment to be included in the cost of construction while, at the same time, included an equipment allowance of \$5,000/bed in the FRV rate.
- We increased the equipment allowance to \$6,000 but eliminated all but certain specified major equipment from inclusion in the actual construction project.
- This has greatly simplified and clarified the audit process.



4. Distinction between older and newer renovations

- Approximately 20% of renovation projects reported in the GHCA survey have been validated in the Health Facilities Planning database. The database will be posted on DCH's FRV web page and these projects will be given an initial "FRV starter rate."
- Beginning 11/1/09 a 30 day window of opportunity will be made available for facilities to provide documentation supporting construction projects completed on or before 11/1/09.

4. Distinction between older and newer renovations (continued)

- All new construction or renovation projects will need to be filed in accordance with the current rules governing such projects
- FRVS rate adjustment requests are to be submitted to DCH at the conclusion of the project.



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INFORMATION FOR THE DESIGN AND CONSTRUCTION
OF:
HOSPITALS
NURSING HOMES
AMBULATORY SURGICAL TREATMENT CENTERS

ALL construction projects, (*regardless of cost or C-O-N Reviewability*), involving new construction, renovations, alterations and/or additions shall be submitted to this office for review and shall be approved, in writing, by this office **PRIOR TO THE START OF CONSTRUCTION**.

The "PLAN REVIEW GUIDELINES" shall be followed when submitting plans for review.

Construction documents submitted for final review shall be sealed, signed and dated by the design professional in accordance with the Official Code of Georgia Chapter 43-4-15.
"The Law Governing the Practice of Architecture in Georgia and the Rules of the Board"

A copy of our "DCH PLANS TRANSMITTAL LETTER" shall be filled out and included with ALL plan submittals. A DCH project number, (IE: FULTON-1A), will be assigned upon first submittal and should be referenced on all submittals or correspondence thereafter.

The "DCH CONSTRUCTION / RENOVATION PROGRAM NARRATIVE" shall be filled out by the owner of the project and be included with the Construction Documents submitted for Final Review and issuance of the Construction Permit.

While it is permissible to submit schematic/preliminary and design development plans to this office by mail, it is customary and encouraged that an appointment be made for a sit-down review of the project. Only one copy of the floor plans are required for review, however, the design professional may wish to bring an additional copy to record notes, changes and other comments.

ONE set of Final Construction Documents shall be submitted to this office
A minimum of 45 days prior to the desired start of construction.

NEW for 2008 – Please include an electronic .pdf format copy of the floor plans, only.

Due to the time required for a complete review and time commitments to other projects, sit-down reviews of final construction plans are not possible



GEORGIA DEPARTMENT OF
COMMUNITY HEALTH

Next Steps

- DCH Next Steps Include:
 - Finalizing negotiations with CMS on the revised FRVS SPA (Hopefully, by early November for a 7/1/09 effective date)
 - Posting instructional material to DCH's FRV web page (10/30/09)
- GHCA and NF Next Steps Include:
 - Updating missing information regarding older construction projects not reflected in the Health Facilities Planning database.