


Nursing Facility Property Payment

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Georgia Health Care Association

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Fair Rental Value System (FRVS) Fundamentals

- Price for use of space irrespective of actual accounting cost
 - Economic value vs. financial accounting value
- Price = Facility value which increases over time based on replacement cost and proper upkeep times a rental rate
- Value based upon professional standards
 - Professional market appraisal
 - Proxy appraisal – Simulated appraisal value using commercial valuation systems such as Marshall Swift/Boeckh or RS Means



Why FRVS?

part 1

- A well designed fair rental value system will:
 - 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



Why FRVS?

part 2

- Distinguishes economic value over financial accounting value
- Eliminates concerns for system gaming:
 - DEFRA and COBRA
 - Capital lease issues
 - Related party transactions
- Promotes equity investment



States Reimbursed by FRVS

Alabama

Arkansas

California

Colorado

Connecticut

Florida

Idaho

Illinois

Kentucky

Louisiana

Maryland

Michigan

Minnesota

Mississippi

Missouri

North Carolina

Nevada

Pennsylvania

Rhode Island

South Carolina

Utah

West Virginia

Wisconsin

Virginia



FRVS Proxy Appraisal

- Proxy Appraisal = Creation of an appraisal model simulation using standardized values and depreciation factors consistent with commercial valuation systems
 - Facility base value established using a standard or actual facility square footage (per bed) and construction cost (RS Means or other)
 - Adjusted to include land value and equipment, and sometimes soft costs
 - Further adjusted for age and condition using depreciation factor
 - Periodically rebased for improvements and replacement cost inflation



Gross Fair Rental Example part 1

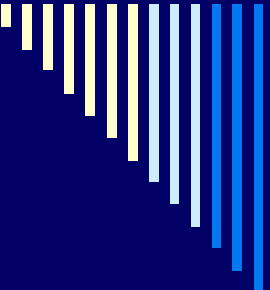
Assumptions

- ❑ 100 bed facility
- ❑ RS Means new bed value of \$60,000
- ❑ Land value at 10%
- ❑ Equipment value at \$5,000/bed
- ❑ 25 years old
- ❑ Depreciation rate of 1.5%/year
- ❑ Rental rate of 9.0%
- ❑ 33,000 annual patient days

Gross Fair Rental Example

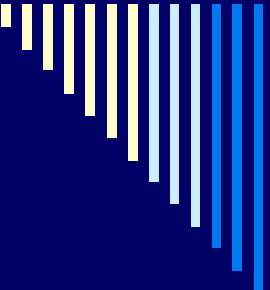
part 2

Gross Fair Rental Example		
New Bed Value	\$	6,000,000
Equipment	\$	500,000
Subtotal	\$	6,500,000
Depreciation	0.375 \$	(2,437,500)
Subtotal	\$	4,062,500
Land	\$	600,000
Rental Value	\$	4,662,500
Rental Rate		9%
Fair Rental	\$	419,625
Patient Days		33,000
Fair Rental Rate	\$	12.72



Proposed System Parameters part 1

❑ Cost per Square Foot (RS Means)	\$141.25
❑ Location Multipliers	.76 to .89
❑ Minimum Square Feet per Bed	350
❑ Maximum Square Feet per Bed	700
❑ Land Percentage	15%
❑ Equipment Allowance per Bed	\$5,000
❑ Maximum Age	32.5
❑ Rental Rate	9.00%



Proposed System Parameters

part 2

- Minimum occupancy 85%
- Depreciation:
 - Age is ≥ 32.5 2.00%
 - Age is ≥ 25 and < 32.5 1.75%
 - Age is ≥ 17 and < 25 1.50%
 - Age is ≥ 10 and < 17 1.25%
 - Age is < 10 1.00%



Georgia Facility Specifics

- Average facility square footage

330

- Number of facilities less than 350

208

- Number of facilities greater than 700

6



Georgia System Values

- Current facility average property rate \$5.31
- FRVS facility average rate \$9.43
- Average rate increase \$4.12
- Cost of FRVS \$38M
- Number of facilities whose rate would decrease 4
- Plan is to have a **hold harmless** provision



Proposed Rate Increase Ranges

□ Less than \$2.00	70
□ \$2.01 to \$4.00	95
□ \$4.01 to \$6.00	60
□ \$6.01 to \$8.00	27
□ \$8.01 to \$10.00	21
□ Greater than \$10.00	11