EXAMPLE ONLY

Proposed Algorithm for Determining Fair Rental Value Per Diem Rates for Nursing Facility Reimbursement

A	Facility Name	**Life Care Center of Gwinnett**		
B	Medicaid Provider ID	00370873A		
C	Year of Initial Construction	1988	Survey Data	
D	Initial Beds	106	Survey Data	
E	Total Licensed NF Beds	163	Survey Data	
F	Non-Nursing Facility Beds	0	Survey Data	
G	Bed Days at Minimum Occupancy	47,596	= D * 365 * 80.0%	
H	Total Patient Days	56,561	Survey Data	
I	Medicaid Patient Days	35,594	Survey Data	62.9%
J	Actual Square Footage	55,328	Survey Data	
K	Actual Square Footage per Bed	339	= J / E	
L	Allowed Square Footage (1)	**57,050**	= higher of J or (Plug Limits * E)	
M	Cost per Square Foot	141.25	Plug (2008 RS Means)	
N	Facility Cost Prior to Adjustments	**8,058,313**	= L * M	
O	Zip Code	30044	Survey Data	
P	Location Factor	**0.90**	Lookup based on Zip Code	
Q	Construction Cost Index	1.0000	Plug	
R	Adjusted Cost per Square Foot	**127.13**	= M * P * Q	
S	2008 Means Cost Index	168.00	per Means Historical Cost Index	
T	Initial Age Depreciation Rate	**2.0%**	Plug	

U	Replacement Value	**7,252,481**	= L * R
V	Land Percentage	15.00%	Plug
W	Land Value	**1,087,872**	= U * V
X	Equipment Allowance	$5,000	Plug
Y	Cost Index	1.0000	Plug
Z	Equipment Value	**815,000**	= X * Y * E
AA	Facility Value Excluding Land	**8,067,481**	= U + Z
AB	Facility Actual Age	20.00	Survey Data (2008 - C)
AC	Facility FRV Adjusted Age	**18.00**	2008 - New Base Yr, (t), or Max Age
AD	Depreciation Rate per Year (2)	1.75%	Plug Lookup
AE	Depreciation using the FRV Adj Age	2,541,257	= AC * AD * AA
AF	Depreciated Replacement Value	5,526,225	= AA - AE
AG	Depreciated Replacement Value & Land	**6,614,097**	= AF + U
AH	Rental Rate	9.00%	Plug
AI	Rental Amount	**595,269**	= AG * AH
AJ	Higher of Minimum Occup or Total Patient Days	56,561	= higher of G or H
AK	Fair Rental Value Per Diem	10.52	= AI / AJ
AL	07/01/08 Dodge Rate	7.25	Survey Data
AM	Difference	3.27	= AK - AL
AN	Estimated Annual Medicaid Impact	**116,548**	= AM * I

"Fair Rental Value" Age Adjustment Algorithm for Additions, Replacements and Renovations:

Activity	Year of Activity	Beds Added (Beds Added or Replaced)	Beds Rep-laced	Existing Beds Not Added or Replaced	Age of Beds Not Added or Replaced	Existing Beds Weighted Average	Base Year Age Adjust-ment	Reno-vation Amount (Beds Renovated)	Bed Totals at Reno-vation	Age of Beds	Cost Index: Year of Renovt'n	Age Index Factor	Bed Replace-ment Cost	Accum-ulated Deprec-iation	New Bed Equiv-alent	Tot Beds to be Weighted	Weighted Average of Beds	Base Year Age Adjust-ment	New Base Year (rounded)	Total Beds
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)
Source and/or Formulas:	Survey Data	Survey Data	Survey Data	(u) on Prior Ln, or Init Beds	Activity Yr - Base Yr	(e) x (f)	(g) / Tot Beds	Survey Data	(u) on Prior Ln, or Init Beds	(b) - (t) on Prior Ln	RS Means Lookup using (b)	(l) / S	[N * P * (m)] / (j)	(n) * (k) * T	(i) / (o), but Tot Beds Limit	(j) - (p)	(k) * (q)	(r) / (j)	(b) - (h) or (b) - (s)	(c) + (e) or (j)
Addition	1994	57		106	6	636	3.90												1990	163

Notes: (1) - Plug limits per bed include a minimum of 350 square feet or a maximum of 700 square feet (2) - Plug ranges are listed on the "Options" sheet

DCH FRV Options Using GHCA 041708 data - bd20080603

Att 1

Definition of a Renovation subject to FRV Consideration

A Renovation Project shall mean a capital expenditure or series of capital expenditures that exceed $500 per licensed bed over a 12 month period. The 12 month time period may be exceeded for a project where the construction period for a bed addition, replacement, or renovation reasonably requires a longer time frame. Up to five unrelated Renovation Projects may be aggregated for purposes of meeting the $500 threshold. Allowable capital expenditures include the costs of land, building, machinery, fixtures, furniture and equipment. Capital expenditures are asset acquisitions that meet the criteria of §108.1 of the Provider Reimbursement Manual (CMS-Pub. 15-1) or are betterments or improvements which meet the criteria of §108.2 of the Provider Reimbursement Manual (CMS-Pub. 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.

(c) Equipment still in use may be categorized (e.g., surgical instruments) and written off ratably over their actual useful lives. Where depreciable equipment had been written off directly through charges to operating expense, or previously inaccurately depreciated due to the provider's method of accounting for minor equipment, a new book value of equipment still in use may be recomputed using the actual useful lives.

Once a provider has applied one of the above methods, that method must be consistently used thereafter unless approval for a change is granted by the intermediary. A request for change must be made no later than the last day of the first month of the accounting year in which the new method is to be employed.

Methods (a) and (b) are not methods of depreciation and the rules of this chapter relevant to depreciation are not applicable.

108. GUIDELINES FOR CAPITALIZATION OF HISTORICAL COSTS AND IMPROVEMENT COSTS OF DEPRECIABLE ASSETS

108.1 Acquisitions.--If a depreciable asset has at the time of its acquisition an estimated useful life of at least 2 years and a historical cost of at least $5,000, its cost must be capitalized and written off ratably over the estimated useful life of the asset using one of the approved methods of depreciation. If a depreciable asset has a historical cost of less than $5,000, or if the asset has a useful life of less than 2 years, its cost is allowable in the year it is acquired, subject to the provisions of §106.

The provider may establish a capitalization policy with lower minimum criteria, but under no circumstances may the above minimum limits be exceeded. For example, a provider may elect to capitalize all assets with an estimated useful life of at least 18 months and a historical cost of at least $4,000. However, it may not elect to capitalize only those assets with a useful life of at least 3 years and a historical cost of more than $6,000.

When items are purchased as an integrated system, all items must be considered as a single asset when applying the capitalization threshold. Items that have a stand alone functional capability may be considered on an item-by-item basis. For example, an integrated system of office furniture (interlocking panels, desk tops that are supported by locking into panels) must be considered as a single asset when applying the threshold. Stand alone office furniture (e.g., chairs, free standing desks) will be considered on an item-by-item basis.

108.2 Betterments and Improvements.--Betterments and improvements extend the life, increase the productivity, or significantly improve the safety (e.g., asbestos removal) of an asset as opposed to repairs and maintenance which either restore the asset to, or maintain it at, its normal or expected service life. Repair and maintenance costs are always allowed in the current accounting period.

For the costs of betterments and improvements, the guidelines established in §108.1 must be followed, i.e., if the cost of a betterment or improvement to an asset is $5,000 or more and the estimated useful life of the asset is extended beyond its original estimated useful life by at least 2 years, or if the productivity of the asset is increased significantly over its original productivity, or the safety of the asset is increased significantly, then this cost must be capitalized and written off ratably over the remaining estimated useful life of the asset as modified by the betterment or improvement. As in the previous section, lower minimum criteria may be used if desired.

Department of Community Health
Fair Rental Value System
June 12, 2008

Department of Community Health:

FRV Model Characteristics / Variables	DCH
Current Year For Aging Purposes	2008
Cost per Square Foot	$141.25
Construction Cost Index	1.0000
Location Factor - varies based on ZIP Code	
Minimum Square Feet per Bed	350
Maximum Square Feet per Bed	700
Land Percentage	15.0%
Equipment Allowance per Bed	$5,000
Equipment Cost Index	1.0000
Capital Cost	
Depreciation Rate if FRVS Age is >= 32.5 Years	2.00%
Depreciation Rate if FRVS Age is >= 25.0 and < 32.5 Years	1.90%
Depreciation Rate if FRVS Age is >= 17.5 and < 25.0 Years	1.75%
Depreciation Rate if FRVS Age is >= 10.0 and < 17.5 Years	1.50%
Depreciation Rate if FRVS Age is < 10.0 Years	1.00%
Maximum Age	32.5
Return Rate (flat rate)	9.00%
Minimum Occupancy	80.00%
Depreciation Rate Used in Determining Initial Age	2.0%
Historical Data:	
Additions from Date of Initial Construction	
Replacements from Date of Initial Construction	
Renovations made within Last Seven Years (from 2001)	

Impact Analysis Based on Estimated Total Medicaid Days	DCH
Estimated Total Medicaid Days (per GHCA)	9,544,714
DCH's FRV Per Diem (Statewide Average) *	$8.56
Existing Dodge Rate Per Diem (Statewide Average) *	$5.38
Percent FRV Per Diem Increase over Existing Dodge Per Diem	59.1%
Estimated Medicaid Days times the Per Diem Rate	
Total Medicaid Payments Using DCH's Selected Criteria	$81,711,982
Existing Dodge Payments	$51,368,509
Projected Impact Utilizing DCH's FRV Per Diem	**$30,343,473**
Count of Providers by Range of Provider Specific Per Diem Increase:	
Less Than Current Dodge Rate	0
Retain Dodge	6
Greater than **$0.00** and equal to or less than **$2.00**	112
Greater than **$2.00** and equal to or less than **$4.00**	114
Greater than **$4.00** and equal to or less than **$6.00**	39
Greater than **$6.00** and equal to or less than **$8.00**	17
Greater than **$8.00** and equal to or less than **$10.00**	4
Greater than **$10.00**	11
Total Count of Providers Completing Survey	303

* - The GHCA proposed FRV Per Diem and the DCH FRV Per Diem figures are statewide averages. In fact, each nursing facility provider will get a unique FRV Per Diem once this new algorithm is implemented. The counts of providers by range of per diem increases is based on a comparison of each provider's existing Dodge rate to their specific projected FRV Per Diem rate.