

# **Brief Overview of the Fair Rental Value System**

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**Presented by the  
Georgia Department of  
Community Health**

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## **A well designed FRVS will:**

**per Joe Lubarsky presentation to Ga Health Care Association, March 17, 2008**

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- 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

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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

## 1.) Determine the Replacement Value of a Facility

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- 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

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- 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

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

## 4. Calculate a Rental Amount

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

## 5. Calculate the FRV Per Diem

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- 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