DEPARTMENT OF HUMAN SERVICES

Legislative Report

Nursing Facility Payment Reform Property Study

Nursing Facility Rates and Policy Division

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I. Executive summary

In 2015, the Minnesota Legislature enacted major reforms to Medical Assistance (MA) nursing facility reimbursement. This new system is commonly referred to as "Value-Based Reimbursement" (VBR). Nursing facility (NH) services are bundled into a comprehensive package of room, board and nursing services. The Department of Human Services (DHS) establishes charges for this package of services as a daily rate. VBR reform addressed all components of the daily rate with the exception of the property rate component. The property rate is the amount paid for use of space including land, land improvements, buildings, attached fixtures, moveable equipment and mortgage and interest costs.

The VBR law did not reform property rate setting but directed DHS, in consultation with stakeholders, to conduct a property study for rate reform considerations in the future. In July 2015, a workgroup was formed consisting of representatives from the two professional nursing facility trade associations (Care Providers of Minnesota and LeadingAge Minnesota), nursing facility providers, property system experts, and staff from the Minnesota Department of Health and Department of Human Services. The stakeholder group made a determination that a fair rental value (FRV) system was the model supported as the system of the future. A key feature of a FRV property reimbursement rate is that the amount paid is based on an independent valuation of the property. The stakeholder group articulated goals for the new property system including: a) encourage facility improvement and maintenance; b) provide consumer access to nursing facilities and to private rooms; c) financially sustainable for both providers and the state and; d) establish a property system easy to administer and understand.

The current property rate system is extremely complex and allows for multiple avenues to adjust a facility's property rate. Current property rates are based on costs and appraisal values that are out of date and contains individual nursing facility inequities. During 2016, DHS contracted with two appraisal firms to conduct on-site appraisals to determine the independent value of land, land improvements, and buildings and attached fixtures/equipment for each MA certified nursing facility necessary to implement a FRV property reimbursement system.

Following completion of the appraisal process in early 2017, the workgroup reconvened and began analysis of the appraisal values assigned to each nursing facility. The group reviewed several variations of a FRV property system and the system's associated costs to the State. The workgroup identified a number of key variables that have a significant impact on individual nursing facility property rates including the rental rate, occupancy (capacity options) and the amount of square feet per bed that the state is willing to pay for.

In addition to key variables and options considered in calculating a property rate, a number of other property related issues were identified that influence a nursing facility's ability to cover investments in capital improvements. Due to a number of payment incentives in place which encourages the creation of single bedrooms and availability of beds resulting from declining occupancy, the number of private rooms has been steadily increasing over the last several years. The topic of setting private room rates needs a comprehensive review. Since a new FRV system will encourage nursing facilities to invest and upgrade their buildings, the question of how much new funding the state wants to invest in the system is important. Specific policies are needed to encourage investment in the physical plant that do not lead to unsustainable spending.

In addressing the inequities of the current system there are some individual nursing facility providers that would be negatively impacted under a FRV model. A transition plan for moving into a FRV model is needed. Sustainment of a FRV model is another topic to be addressed and a system for upgrading property values is necessary over time.

There is unanimous support for establishing a FRV system for determining daily property payment rates. The workgroup however, agreed more time is needed to study property rate setting key variables and consider policies related to the new property system that extend beyond the property rate setting model. DHS and the stakeholder group are recommending continued work on developing a property rate system.

II. Legislation

Laws of Minnesota, 2015, Chapter 71, Article 6, sec.42;

Sec. 42. PROPERTY RATE SETTING.

The commissioner shall conduct a study, in consultation with stakeholders and experts, of property rate setting, based on a rental value or other approach for Minnesota nursing facilities, and shall report the findings to the house of representatives and senate committees and divisions with jurisdiction over nursing facility payment rates by March 1, 2016, for a system implementation date of January 1, 2017. The commissioner shall:

(1) contract with at least two firms to conduct appraisals of all nursing facilities in the medical assistance program. Each firm shall conduct appraisals of approximately equal portions of all nursing facilities assigned to them at random. The appraisals shall determine the value of the land, building, and equipment of each nursing facility, taking into account the quality of construction and current condition of the building;

(2) use the information from the appraisals to complete the design of a rental value or other system and calculate a replacement value and an effective age for each nursing facility. Nursing facilities may request an appraisal by a second firm which shall be assigned randomly by the commissioner. The commissioner shall use the findings of the second appraisal. If the second firm increases the appraisal value by more than five percent, the state shall pay for the second appraisal. Otherwise, the nursing facility shall pay the cost of the appraisal. Results of appraisals are not otherwise subject to appeal under section 256B.50; and

(3) include in the report required under this section the following items:

(i) a description of the proposed rental value or other system;

(ii) options for adjusting the system parameters that vary the cost of implementing the new property rate system and an analysis of individual nursing facilities under the current property payment rate and the rates under various approaches to calculating rates under the rental value or other system;

(iii) recommended steps for transition to the rental value or other system;

(iv) an analysis of the expected long-term incentives of the rental value or other system for nursing facilities to maintain and replace buildings, including how the current exceptions to the moratorium process under Minnesota Statutes, section 144A.073, may be adapted; and

(v) bill language for implementation of the rental value or other system.

III. Introduction

In 2015, the Minnesota legislature enacted major reforms to Medical Assistance (MA) nursing facility reimbursement This new system is commonly referred to as "Value-Based Reimbursement" (VBR). Nursing facility (NF) services are bundled into a comprehensive package of room, board and nursing services. The Department of Human Services (DHS) establishes charges for this package of services as a daily rate. The daily rate can be further broken down into several rate components including the care-related payment rate; operating payment rate; external fixed costs payment rate; and a property rate. The property rate is the amount paid for use of space including land, land improvements, buildings, attached fixtures, fixed equipment and mortgage and interest costs.

The VBR law did not reform property rate setting but directed DHS to conduct a property study for property rate reform considerations in the future. Current property rates are established under Minnesota Statutes Section 256B.434, subdivision 4. Prior to October 1, 2011, nursing facilities received an annual inflation adjustment to the property component of their rate. The inflation adjustment was based on the 12-month period from the midpoint of the previous rate year to the midpoint of the rate year for which the rate is being determined. The annual inflationary adjustment has been suspended since October 2011 but will resume on January 1, 2019. Nursing facilities are allowed a property rate adjustment for construction projects over an established minimum threshold (currently $307,430) and under the maximum threshold (currently $1,572,923) and for projects approved under the moratorium exception process (Minnesota Statutes, Section 144A.073). Other potential property rate changes may occur if beds are taken out of active service and placed in layaway status or delicensed, changes to the single bed election, bed relocations and building consolidations for example.

Many nursing facilities had fair-rental value based property rates set in the 1980s. Beginning in 1995 facilities started moving to the Alternative Payment System, which provided an inflation increase to the entire rate, and then in 2006 all nursing facilities were put back onto a single property payment system (which provided an annual inflation adjustment with the possibility of rate increases when property projects were done). Over time, these changes in the property system have resulted in the weakening of the relationship between current property rates and the values of today's facilities.

The legislature directed DHS to conduct a study of property payment rate setting, in consultation with stakeholders and subject matter experts. A workgroup was formed to make recommendations on property rate reform and report to the legislature on its findings.[1] This report is submitted to the Minnesota Legislature pursuant to the Laws of Minnesota, 2015, Chapter 71, Article 6, sec. 42.

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[1] Legislation required recommendations on property reform be submitted by March 2016. The study began in 2015 with an extensive stakeholder input process. Legislation also specified DHS contract with at least two firms to conduct appraisals of all nursing facilities in the medical assistance program. Final appraisal values were determined in February 2017 and the stakeholder group reconvened and formulated recommendations contained in this report.

IV. Stakeholder Group Overview

In July 2015, a workgroup was formed consisting of representatives from the two professional nursing facility trade associations (Care Providers of Minnesota and LeadingAge Minnesota), nursing facility providers, property system experts, and MN Department of Health and Department of Human Services staff. The law directed the group to consider a fair rental value or other approach for establishing property rates for Minnesota nursing facilities. The first charge for the group was to discuss and make a recommendation on whether to pursue development of a cost-based or fair rental value property system. A literature review was conducted and other states' property systems were examined. State systems examined more closely included Wisconsin, Colorado, Florida and North Dakota. The stakeholder group made a determination that a fair rental value system was the model supported as the system of the future. Given that determination, the group's next charge was to plan for the procurement of two appraisal firms and their assigned duties. Following completion of the appraisal process in early 2017, the workgroup reconvened and began analysis of the appraisal values assigned to each nursing facility. The group reviewed several variations of a fair rental value property system and the system's associated costs to the State.

A. Goals for New System

The stakeholder group articulated goals for the new system as follows:

1. Encourage improving and maintaining facilities
    a. Provide buildings where people want to live and work
    b. Positive environmental quality
    c. Single bed-rooms encouraged
    d. Support dignity, privacy, and equality

2. Provide access to nursing facilities and to private rooms
    a. Appropriate bed distribution throughout the state
    b. Bed relocation to continue with location control
    c. To keep beds in MA program/MA use incentive

3. Financially sustainable for both providers and the state
    a. Ability to attract low cost capital
    b. Reward long term ownership
    c. Timely changes to rates
    d. May need some form of hold harmless, with possible phase-in
    e. Limit need for special legislation
    f. Long-term affordability for the state

4. Easy to administer and understand
    a. Need clear lines between operating and property rates
    b. Simplify approval process for large construction project

V. Background

A. Previous Minnesota Property Systems

Beginning in 1985, property rates were established based on the appraised value of each nursing facility including the buildings, attached fixtures, and land improvements. Each year the department contracted with a property appraisal firm to conduct a reappraisal for a random sample of 15% of MA certified nursing facilities using a depreciated replacement cost method to perform the reappraisal. The average percentage change in the appraised values for the nursing facilities in the sample was computed and applied across all nursing facilities. Special reappraisals were conducted for nursing facilities which made an addition to or replacement of the building. All nursing facilities were reappraised at least once every seven calendar years following the initial appraisal. The property rate was 5.66% of equity (appraised value plus capital additions less debt) plus interest expense, subject to per-bed limits, divided by 95% of capacity days until implementation of the Alternative Payment System (APS).

In 1995, the legislature established the APS. The purpose of the change was to explore a contract-based reimbursement system as an alternative to the existing cost-based system for reimbursement of nursing facility services. The system was initially an annual competitive application process transitioning approximately 40 nursing facilities to the APS system each year. The APS provided an inflation adjustment separately to operating costs and the property rate. All nursing facilities are now in the APS system, with base-rate years between July 1, 1995, and October 1, 2005. Currently, operating payment rates are established under VBR while the APS system continues for establishing property rates. APS contracts are renewed on a 4-year cycle.[2] MN statute, section 256B.434 still directs inflation and allows for major property additions. The current property rate is the rate calculated prior to entering APS with adjustments for bed changes and building projects. The property rate is to be increased annually by inflation; however, there have been years where inflation has been suspended by the legislature.

B. Current Property Reimbursement System

The current property system is extremely complex and allows for multiple avenues to adjust a facility's property rate. These mechanisms include: changes in active beds (layaways, permanent closures and single-bed incentives), moratorium projects, construction projects, bed relocations, facility consolidations, and single-bed elections.

[2] The contracting process under MN Statutes, section 256B.434 also allows for DHS to more easily enter into agreements for quality improvement projects such as performance-based incentive payment projects (PIPP) or projects funded by Civil Monetary Penalties (CMP).

C. Identification of Current Issues

The current property rate for each individual nursing facility is based on its initial property rate from immediately prior to entering APS system (with some inflation) plus the payment increases the facility has received since that date under the various adjustment provisions. There are two major areas of inequity between individual nursing facilities in the current system. First the property rate is based on costs and appraisal values that are largely or totally out of date, between 12-22 years for the base rates and the appraisals were prior to those dates. Second, the additions to the property rate received by an individual nursing facilities for projects and bed modifications vary due to the complications of the formula, which favor providers who have more knowledge of the system, ability to fund projects more advantageously or have more favorable formula limits. The current property system is difficult to administer, and is not easy for consumers, stakeholders and providers to understand.

In addition to the individual nursing facility inequities of the current system, it does not allow additional property funds to be used in the most efficient manner. The current system rewards large remodeling projects with higher rates than rates for a complete replacement of a nursing facility. The capital investment per bed limit for major projects is too low to allow for major construction. The system recognizes interest cost for construction projects, creating an incentive to obtain high borrowing costs with subsequent refinancing after property rates have been established. Loan principal and depreciation is not recognized while allowing for rate increases for new construction projects without depreciating the value of previously recognized projects. There is no adjustment for transfer of nursing facility space to non-nursing facility usage if that space is in the base rate.

VI. Property Study Appraisal Process

A. Overview

On October 19, 2015, DHS through its Nursing Facility Rates and Policy (NFRP) Division published a Request for Proposals seeking proposals from at least two qualified responders to conduct appraisals of nursing facilities in the medical assistance program to determine the value of the land, building, and equipment, taking into account the quality of construction and current condition of the building. Through this process two contractors were selected, CBIZ Valuation Group, LLC, and Oracle Healthcare Advisors, Inc. to conduct the appraisals for all MN Medicaid certified nursing facilities for a cost not exceed $724,000. Expected contractor duties included:

- Performing on-site nursing facility evaluation and appraisals to determine the value of land, land improvements, building, attached fixtures and equipment for nursing facilities participating in the Medical Assistance program using the Marshall & Swift/Marshall Valuation System for all components except for land which will be based on a market cost analysis.
- Initially, conducting on-site evaluation and appraisal for a pilot sample of eight nursing facilities designated by DHS. The on-site review at each pilot facility was conducted at the same time by each contractor. The purpose of the pilot studies was to attain common methodologies and

inter-rater consistency between the two contractors. Issues found during the pilot study were addressed at a joint meeting between DHS and the two contractors. Discrepancies were resolved and another test batch of nursing facilities was appraised by both firms to substantiate agreement in methodologies.

- The State assigned equal portions of the remaining nursing facilities to each of the two contractors. The contractor sent an engagement letter to each of their assigned nursing facilities. The engagement letter informed the nursing facility of any documents, records and/or diagrams that were required to be available during the on-site review.
- The contractors sent copies of the appraisal results in a PDF format to the nursing facility and to DHS within two weeks of the appraisal on-site review date.
- If the nursing facility was not satisfied with the appraisal results, the nursing facility had an option to request a second appraisal by contacting the State. If the second appraisal increased the value by more than five percent, the state would have paid for the second appraisal; otherwise, the nursing facility would have been required to pay the cost of the appraisal. No nursing facilities requested a second appraisal. As a result the total cost of the contracts with both appraisal firms for the project equaled $697,690. The on-site appraisal process began in March 2016 and ended December 31, 2016. During the appraisal period, 368 nursing facilities were enrolled as Medicaid providers.

B. Appraisal Methodology

Contractors were asked to perform on-site evaluations and appraisals to determine the value of land, land improvements, and buildings and the attached fixtures/equipment for each nursing facility assigned to the contractor. The Marshall & Swift/Boeckh ("MSB") valuation system was used for determining the undepreciated and depreciated replacement costs of buildings and structures. Nursing facilities often have different sections that may have been built or remodeled at different times. Contractors were instructed to value each section separately. The approaches used to value each asset category were as follows:

(a) Land Parcels: The scope of the land appraisals consists of estimating the market value of the subject properties. The land portion of contractor's appraisals was based upon comparative sales in the area. If there was no sales data available for the specific area where the nursing facility was located, the contractors used data from a similar area. Only the land indicated for the facility and related uses was included. Land appraisals were performed based on the premise of market value, defined as: the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.

(b) Land Improvements: Land improvements associated with inspected facilities (flagpoles, fencing, outdoor lighting, signage, parking lots, sidewalks, etc.) were inspected, recorded, valued and identified separately. Outbuildings were included as site improvements if they were nursing facility related. Land Improvements were valued outside of MSB. The standard of value applicable to land improvements was the Replacement Cost New, defined as: The cost required to produce a property of like kind and materials at one time of equal quality and utility in accordance with current market prices for materials, labor and manufactured equipment, contractors' overhead, profit and fees, but without provisions for overtime or bonuses for labor and premiums for materials. The contractor also provided the Depreciated Replacement Cost for each inspected land improvement. The Contractor used an objective and quantitative methodology for determining effective age. Depreciation determinations were based on the physical deterioration; neither functional nor economic obsolescence was considered.

(c) Buildings and Attached Fixtures and Fixed Equipment (FE): The contractor completed a limited scope on-site physical inspection and valuation of the nursing facilities that were assigned to the contractor. During the inspections, basic construction components and data were observed and collected. Appraised values were based on the gross area of the nursing facility calculated by determining the exterior dimensions all of all interior areas including stairwells of each floor. Square footage calculations were done using a combination of physically measuring the buildings, conducting take-offs of blueprints, and information made available by each nursing facility. All buildings and structures being used for nursing facility purposes were inspected and valued. Vacant space and other space not used for nursing facility purposes within the nursing facility building were identified but were not included in the appraised value. Examples of areas not used for nursing facility purposes included hospital, assisted living, clinics. Areas inside or outside of the nursing facility that are shared with another entity (such as a hospital, day care or assisted living residential facility) were included and separately identified and measured. Areas inside or outside the nursing facility that are used to generate revenue separate from the nursing facility care (such as gift shop, therapy area, etc.) were included and separately identified and measured.

C. Final Appraisal Reports

Final appraisal reports were prepared by the contractors for each nursing facility evaluation. The final report included the following:

(a) Nursing facility name and location
(b) Facility identification number
(c) Date of on-site review
(d) Name of appraiser preparing report
(e) Land valuation total
(f) Depreciated Replacement Cost and Undepreciated Replacement Cost valuation of building/FE/land improvements by section
(g) Total square footage of each section
(h) Identification of any shared areas including: function of shared area, square footage of shared area and section
(i) Summary total of all valuations for facility-land, land improvements, building/FE
(j) Summary page of land valuation calculation
(k) MSB valuation pages for each building section showing variables, valuation of any additions and totals

VII. What is a Fair Rental Value System

A. Concept/Description

A fair rental value system (FRV) establishes a price for the use of a space based on an appraised value of the property. The price is established without consideration of the actual accounting cost to construct or remodel the property. The goal of setting property rates for nursing facilities with a FRV system is to establish a price for the state to lease the facility for the use of its MA residents.

The price is the facility value times an established rental rate. The value is based on an appraisal through either a:

- Depreciated Replacement Cost appraisal conducted by an appraiser or
- Proxy appraisal – Simulated appraisal value using commercial valuation systems such as MSB valuation or RS Means
  - Replacement value typically based upon facility's square footage times current construction cost per square foot for facility's location
  - Depreciation at 1-2% per year
  - Age based upon chronological age reduced based upon major improvements made since original construction

B. Why FRV?

- Ties payment rate to actual current value of facility, so the state is paying a fair rental rate for residents
- Provides an incentive to invest in a facility by increasing the rate when effective age is reduced
- Actual costs are not used, which eliminates any incentive for sales and provides incentive to get the best possible financing arrangement
- Payment is based upon economic value vs. financial accounting value; building value increases over time if well maintained rather than depreciates from historical cost
- Encourages investment in physical plant upgrades and renovations by reducing the age and increasing building value for these construction projects
- Promotes equity investment-payment is not impacted by amount of debt
- Payment not differentiated based upon purchase prices, financing arrangements or related party transactions
- Simplifies administration (few audit issues) and allows the State to exert budget predictability and control
- Eliminates major audit issues: Change of Ownerships (CHOWs), related party transactions, lease issues, allowable debt

C. Why not FRV?

- FRV may not fully cover property costs (debt service) of newer construction due to:

    - Limitations on square footage
    - Limitations on value per bed
    - Financing fees and some other soft costs associated with new construction may not be incorporated in building value
- FRV is typically more expensive to the state than a cost-based system because:
    - Under fair rental, building value increases over time due to inflation relative to replacement cost and the impact of improvements on effective age. Under a cost-based payment, building value decreases since it is based upon historical cost and depreciated at a higher depreciation rate (accounting depreciation rather than appraiser depreciation tables which are based upon wear and tear and obsolescence factors)
    - The facility is rewarded for equity in their building. Cost-based payment commonly only recognizes debt in the payment model
- A perception that older facilities (even those not necessarily well maintained) may gain a windfall especially if higher payment is not used to improve the physical environment

VIII. Building FRV Models

The data contained in the summary reports from the appraisers were entered into a statewide database by DHS staff allowing DHS staff to create various fair rental value scenarios and determine the impact on individual nursing facilities and the statewide costs. These interactive models were refined over time with input from the stakeholder group. Key to understanding the models is understanding the definitions of the key variables in the model and the various options that can be considered.

A. Useful Definitions

Capacity Days

Capacity days is the maximum number of resident days the nursing facility is capable of having. It is the number of beds within the nursing facility multiplied by the days in a year.

Depreciation Expense

Depreciation expense is the cost of wear and tear over time on a building. On the appraisals this is the value of the difference between Replacement Cost and the Depreciated Value.

Depreciated Value

Depreciated Value Is the Depreciated Replacement Cost (DRC) from the appraisals. This is the cost the appraisal firms have said it would cost to replace the items listed with similar design and materials with similar wear and tear.

Effective Age

Effective Age is the weighted average appraised age of the building. The effective age is based on the appraised age of each section of the building then weighted based on square footage.

Property Reimbursement

Property Reimbursement is the yearly amount of the current value to be reimbursed. This is obtained by applying the Rental Rate to the allowed current value. This is also known as the total fair market rental amount for one year.

Rental Rate

The Rental Rate is the percentage of the current value of the building allowed per year in the property calculation to be reimbursed. It is essentially the rate of return on the property.

Replacement Cost

Replacement Cost is the Undepreciated Replacement Cost (URC) from the appraisals. The cost the appraisal firms have indicated it would cost to replace the items listed with similar design and brand new materials. (URC)

Replacement Cost per Square Feet Limit

Replacement Cost per Square Feet Limit is the maximum allowed replacement cost per square foot of a building. It will be set based on values across the industry and compared to an industry standard for reasonableness.

Shared Areas

Shared Areas is square footage that a nursing facility shares with a non-nursing facility operation to provide a support service. The appraisals initially include the full value of all shared areas. The values of the shared areas are adjusted to reflect only the nursing facility usage in the final nursing facility values.

Square Feet per Bed Limit

Square Feet per Bed Limit will place a cap on the amount of square feet per bed that the facility will be reimbursed for in their property rate. Square feet in excess of this limit will not be recognized in the rate setting process.

Total Property Related Rates

Total Property Related Rates includes equity incentives[3], as well as, all components in the current property rate of the APS property rate, construction adjustments and layaway adjustments

B. Sample Property Rate Determination

There are five steps to determining a property rate. Figure 1 represents a simplified example of the daily payment rate for reimbursement for a 100 bed nursing facility.

<u>First Step</u> - Determine the Total Replacement Costs to be used in the calculation.

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[3] A rate increase to reward investment of financial resources and reduce borrowing costs.

The replacements costs are determined and reported by the appraisers. The replacement costs reported by the appraisers can include replacement costs for the building, separate parking structures, land, and land improvements. Equipment Costs are usually determined by allowing a certain dollar amount per bed times the number of beds. In the sample (Figure 1), the Total Replacement Costs includes the replacement costs for the building, land and equipment.[4]

Second Step – Determine the Accumulated Depreciation Expense to be used in the calculation. This can be calculated in different ways by using the age, effective age or amounts reported by the appraiser. Accumulated Depreciation Expense includes accumulated depreciation expense for those types of undepreciated Replacement Costs used in the First Step. Equipment, as determined allowed amount per bed times the number of beds does not have depreciation applied. In the example (Figure 1), the Accumulated Depreciation Expense, does include accumulated depreciation expense for the building as both land and equipment do not include any accumulated depreciation expense.[5]

Third Step – Determine the Depreciated/Current Value to be used in the calculation. The Depreciated/Current Value is calculated by subtracting the Accumulated Depreciation Expense from the Total Replacement Costs. The Depreciated Value is also reported by the appraisers and used when relying on the appraisals data to find Accumulated Depreciation Expense. In the sample (Figure 1), the Depreciated/Current Value is for the land, building and equipment.

Fourth Step – Determine the Rental Value to be used in the calculation
The Rental Value is determined by the multiplying the Depreciated/Current Value by the Fair Rental Value (FRV) rate. The FRV rate is a set percentage of the Depreciated/Current value that will be reimbursed each year.

Final Step – Determine the Daily Rate to be reimbursed for property.
The Daily Rate is the rental value divided by a denominator that is based on capacity days.

Figure 1.

Simplified Example for 100 Bed Nursing Facility	**Values**
Land	$ 1,000,000
Building	$ 12,000,000
Equipment	$ 1,000,000
Total Replacement Costs	$ 14,000,000

[4] Total Replacement Costs are normally limited by an allowable replacement cost per square feet multiplied by square feet

[5] If the Total Undepreciated Replacement Costs are limited by an allowable replacement cost per square foot, the accumulated depreciation expense must also be limited.

Accumulated Depreciation Expense	$ (7,500,000)
Depreciated/Current Value	$ 6,500,000
FRV rate	7.5%
Rental Value	$ 487,500.00
Capacity Days (95% Capacity)	34,675
Daily Rate	$ 14.06

C. Policy Options and Key Variables

In addition to understanding the definitions used in the FRV model, there are a number of key variables that may or may not have a significant impact on the property rate. These key variables include the following:

- Land and Land Improvement Value
- Equipment Cost per Bed Allowance
- Depreciation Factor
- **Rental Rate**
- **Denominator of payment rate (Capacity Options)**
- **Limitation on Square Footage per bed**
- **Replacement Costs per Square Feet Limit**

Based on these key variables within the FRV formula there are a number of options to be considered. All of the options are discussed in the following narrative; the factors with the greatest impact on the rate are highlighted in bold above and are discussed in greater detail. Tables 1-4 below demonstrates the impact these key variables have on the rate.

Land/Land Improvement

There are two options being considered in determining the value of the land and land improvements to be applied to the Fair Rental Value. The first is to use a market value appraisal to value these two items and the second is to assign a valuation to them as a % of the building valuation. There is no option to use the same MSB to value land and land improvements, as that is not part of that valuation system.

The appraisers selected to conduct the on-site appraisals using the MSB valuation system for the building did assign a separate market based value to the land and land improvements.

There are several difficulties with assigning a market value to land. Most significant, it requires appraisers to have both a good knowledge of the local market and recent comparable of unimproved land sales. Since the appraisers are national companies, they do not have that local knowledge. The rural nature of many nursing facilities make land sale comparable values scarce. Consequently, there is a wide range of values assigned to land under the market based system. These values would be difficult to support if appealed and would fluctuate greatly as appraisals were redone. This option would add increased costs to future appraisals. One variation using actual land values that was considered, is the combination of actual land values with a floor and ceiling.

There was wide, but not unanimous, support among the stakeholders for using a set percentage of the building as an estimate of land value to allow for a more consistent process in the long run. Most of the states using FRV that DHS reviewed, used an approach based on a set percentage. There was some interest expressed by stakeholders in developing a modified market approach. Further discussion and analysis in this area may be beneficial in trying to reach consensus.

Equipment Allowance

While the value of fixed equipment is included in the building valuation determined by the MSB model, as with land, there is no value included for moveable equipment. As it is not practical or significant enough to appraise in any other manner, the consensus of the stakeholder group was that moveable equipment would be assigned a valuation. The most common method used by other States employing FRV is to assign a value to moveable equipment, either based on number of beds or patient days. It is also possible to modify this valuation based on size of the facility.

Depreciation Factor

The FRV model involves a rate of return applied in some manner to the depreciated cost of the building. The MSB model calculates both the undepreciated and depreciated value of a facility. In the early stages of discussion, the stakeholder group explored the possibility of creating a depreciated value outside of the model based upon the MSB findings but applying a different depreciation formula than the model. After reviewing the appraisal results and re-examining this possibility, it was agreed that it would be unnecessary to add this step as the depreciated values created by the MSB model were more easily obtained and have been held to be generally standard in the industry.

The Rental Rate

The Rental Rate previously defined, is the percentage of the current value to be reimbursed each year. The rental rate is essentially the rate of return on investment. Capital investments are dependent on construction methods, building code changes and property and building value and expenses. The rental rate should be high enough to cover the cost of long term financing (interest and principal) and attract equity capital. The rental rate could be adjusted annually to allow for changes in costs of materials and interest rates. The rental rate may be calculated based upon current interest rates but also should take into consideration market conditions of the nursing facility industry and costs incurred by the state. In many states utilizing a FRV system, the rental rate is set annually using a formula with a floor and ceiling. For example, a formula is established to calculate the rental rate but the result is limited by a floor of 6% and a ceiling of 10%.

Changing the rental rate has the greatest impact on the property rate calculation for each individual facility and to the cost for the state. As the yearly current value percentage of the building allowed in the property calculation is increased there is an increase to the property rates of each individual facility and thus to the cost for the state. The opposite is true as well; as the yearly current value percentage of the building allowed in the property calculation is decreased there is a decrease to the property rates of each individual facility and in the cost to the state.

The tables below compare a reference column (blue) to three options columns. The second (green), third (orange), and fourth (yellow) columns illustrate the impact on the property system when options are changed as indicated in the first row of each table.

Table 1 is based on data from the recent property appraisal reports in comparison to current property rates. It demonstrates the effect of various rental rates on total costs to the state and the impact on individual nursing facilities.

Table 1. Rental Rate

Option				
Rental Rate	**7.5%**	**8.0%**	**7.0%**	**6.5%**
Dollar amounts				
Total increase in Medicaid revenue	$32,220,080	$39,601,841	$24,838,320	$17,456,559
Total increase cost to state	$16,110,040	$19,800,920	$12,419,160	$8,728,280
Average property rate	$25.78	$27.31	$24.24	$22.71
Maximum property rate	$46.88	$49.82	$43.93	$40.99
Minimum property rate	$7.06	$7.35	$6.77	$6.48
Number of facilities				
Property rate increase more than $3.00	259	281	234	210
Property rate decrease more than $3.00	17	11	29	42

Denominator of property payment rate; Capacity Options

The amount allowed annually in property payments must be divided by a number of days (denominator) to set a daily property payment rate. In other states with this type of payment system, determining the denominator is commonly done by using some percentage of the capacity days. Determining the percentage of capacity days to use as a denominator is an important consideration. In periods of declining occupancy rental revenue paid to the individual nursing facility will decline as unoccupied beds will not result in any payment. This may result in a nursing facility not being able to cover the costs of its capital investment. However, if the capacity percentage is set too low the costs to the state increase and nursing facilities maintaining an occupancy higher than the rate established, will be receiving revenue above what is expected using the FRV methodology for establishing the property rate.

Another complication to establishing a fair capacity percentage is that occupancy typically varies according to the number of beds available in various geographic locations.

There are two viable options for determining the denominator of the property payments, both are based on a percentage of capacity days. Option one: use the same percentage of capacity days for all nursing facilities throughout the state. Option two: use a variable percentage of capacity days based on each nursing facility's number of licensed beds. Using 100% of capacity days was not considered because it is atypical for a nursing facility to have 100% occupancy.

Option one is to use the same percentage of capacity days for all facilities throughout the state. Within this option the percentage amount to use must be determined. Table 2 demonstrates the effects of three different percentage amounts of capacity days. The first column of numbers in this table (Statewide Average) uses the statewide average occupancy rate as determined by days reported on the Minnesota Statistical and Cost Report; 85.77%. The second column uses 90% as the capacity days percentage amount; this is higher than the statewide average occupancy. The final column demonstrates the effects of using a capacity days percentage that is lower than the statewide average occupancy rate.

There is some concern that using the same percentage amount of capacity days for all facilities throughout the state may not be sustainable for small facilities with high Medicaid usage. One option for addressing this concern is to use a variable capacity percentage amount for nursing facilities with 50 or fewer licensed beds while maintaining a static capacity percentage amount for those nursing facilities with more than 50 beds. Table 2 demonstrates the effects of this concept. In this example a capacity days percentage amount of 90% was used as the denominator for the payment rate for all nursing facilities larger than 50 beds. Nursing facilities with 50 beds or less would have the ability to go as low as 70% of the capacity days for the denominator. The determination of the capacity percentage for the <50 bed nursing facilities is based on the nursing facility's actual annual Medicaid utilization. Nursing facilities with 100% Medicaid utilization will have a capacity days percentage amount of 70% as the denominator and nursing facilities with zero Medicaid utilization will have a capacity days percentage amount of 90%. A straight line formula is used to determine the capacity days percentage amount for each <50 bed nursing facility with Medicaid utilization between zero and 100%. Further discussion is needed to determine whether the property system should include provisions to support smaller/rural facilities to address access issues or if access should be addressed through other avenue or some combination of both.

Table 2. Capacity Options

Option				
Denominator of Payment Rate (Percentage of Capacity Days)	**All facilities at 90% occupancy**	**All facilities at statewide average occupancy 85.77%**	**All facilities at 80% occupancy**	**Variable % for facilities with 50 beds or less, 90% for facilities with greater than 50 beds**
Dollar amounts				
Total increase in Medicaid revenue	$32,220,080	$37,680,879	$46,060,881	$34,448,460
Total increase cost to state	$16,110,040	$18,840,440	$23,030,441	$17,224,230
Average property rate	$25.78	$26.91	$28.66	$26.58
Maximum property rate	$46.88	$49.05	$52.39	$52.79
Minimum property rate	$7.06	$7.27	$7.60	$8.29
Number of facilities				
Property rate increase more than $3.00	259	276	296	267
Property rate decrease more than $3.00	17	12	10	15

D. Limits on Current Value

As in other states that utilize a FRV system it will be necessary to establish some payment limits to ensure the property payment system is sustainable for the state of Minnesota. Two common methods for cost containment are a replacement costs per square feet limit and a square feet per bed limit. These limits provide an incentive to nursing facility providers to be cost-conscious but yet provide adequate space to allow for comfort and a good quality of life for each resident. Limits do not necessarily deter providers from building larger facilities if they have other non-Medicaid revenue sources to support the capital investment. The two limits will replace the construction costs per bed limits in the current property payment system, while allowing for greater flexibility.

Replacement Costs per Square Feet Limit

Replacement Costs per Square Feet limit is the amount that will be allowed for reimbursement by the state per square feet of any sized facility for the cost to replace the building. This limit has the biggest impact on restraining state costs. Without this limit providers would have the ability to use any materials at any cost when constructing new facilities or remodeling. The limit could be based on the average, median, or percentile of the statewide costs per square feet. Stakeholders have expressed a desire to have this limit compared to some sort of an industry standard to test for fairness. Table 3 illustrates the impact to the state and nursing facilities based on various limits.

Table 3. Replacement Cost Per Square Feet Limit

Option				
Replacement Cost Per Square Feet Limit	**Median $204.57/sq. ft.**	**Average $212.28/sq. ft.**	**75th Percentile $226.87/sq. ft.**	**No Limit $577.62/sq. ft.**
Dollar amounts				
Total increase in Medicaid revenue	$32,220,080	$34,949,645	$39,170,037	$48,813,184
Total increase cost to state	$16,110,040	$17,474,823	$19,585,019	$24,406,592
Average property rate	$25.78	$26.33	$27.20	$29.97
Maximum property rate	$46.88	$48.54	$51.69	$119.41
Minimum property rate	$7.06	$7.06	$7.06	$7.06
Number of facilities				
Property rate increase more than $3.00	259	264	274	278
Property rate decrease more than $3.00	17	16	14	13
Limited replacement cost per sq. ft.	182	148	91	0
Limited sq. ft. per bed	126	126	126	126

Square Feet per Bed Limit

The second method is a square feet per bed limit. This method limits the square feet allowed per bed by allowing full value up to a certain amount of square feet per bed to be used in the FRV calculation but giving less value for the amount of square feet per bed over the square feet limit. This method is intended to promote adequate space for each resident but also recognizes that at a certain point additional square feet per bed will not improve quality of life. This limit must be low enough to deter nursing facility providers from building unnecessarily over-sized facilities and high enough to not discourage the development of creative living spaces.

is limit should deter nursing facility providers from building unnecessarily over-sized facilities with small numbers of beds to enhance their property rate while increasing their overhead costs beyond what the payment system will support.

Table 4 demonstrates the impact on costs to the state and its effect on facilities. This example shows four options. The first allows for a 100% of the full Current Value if the square footage per bed is 800 feet or less, recognizes 25% of the Current Value for the square footage per bed over 800 square feet and up to 1200 square feet. The second options, 100% of the Current Value is recognized up to 800 square feet and 50% of the value for square footage over 800. The third option allows for a 100% of the full Current Value if the square footage per bed is 600 feet or less, recognizes 50% of the Current Value for the square footage per bed over 600 square feet and up to 1200 square feet. The fourth option recognizes the full Current Value as determined by the appraisal regardless of the square feet per bed.

Table 4. Square Feet per Bed Limit

Option				
Square Feet per Bed Recognized	**100% of 0 - 800 25% of 801 - 1200 0% of 1201+**	**100% of 0 - 800 50% of 801+**	**100% of 0 - 600 50% of 601 - 1200 0% of 1201+**	**100% of All (No Limit)**
Dollar amounts				
Total increase in Medicaid revenue	$32,220,080	$35,106,936	$28,377,195	$39,213,607
Total increase cost to state	$16,110,040	$17,553,468	$14,188,598	$19,606,803
Average property rate	$25.78	$26.61	$25.08	$27.79
Maximum property rate	$46.88	$75.48	$57.98	$110.48
Minimum property rate	$7.06	$7.06	$7.06	$7.06
Number of facilities				
Property rate increase more than $3.00	259	262	253	264
Property rate decrease more than $3.00	17	17	22	16
Limited replacement cost per sq. ft.	182	182	182	182
Limited sq. ft. per bed	126	126	248	0

IX. Model Based on Actual Appraisal Values

To demonstrate a model, this report presents actual data from a randomly selected facility.

In the model below (Figure 2) only replacement cost amounts for the building are limited. The replacement costs are limited by the two methods mentioned under the options section.

An allowance for land, land improvements, and separate parking structures is included as a percentage of the Limited Replacement Costs. It is added to the Limited Depreciated Value to determine the Current Value just prior to applying the Fair Rental Value rate.

Equipment allowance is done as a separate per day calculation and added to the daily property rate to determine the total new property rate.

Several examples using a variety of options are demonstrated in Appendix A, tables A1-A4.

Figure 2.

Model Demonstration Based on a Sample Facility	
Appraisal Information	
Replacement Cost Total	$ 9,107,634
Depreciated Value Total	$ 5,954,577
Building Square Footage	51,486

Model Demonstration Based on a Sample Facility			
Effective Age			27.91
Limiters			
Building Square Footage			51,486
2016 Cost Report Number of beds			94
Total Actual Square Footage per bed			547.72
Square Feet per Bed Limit		Value	Adjusted:
Less than or equal to	800	100%	547.72
801	1,200	25%	-
1,201	or More	0%	-
Total Allowed Square Footage per bed			547.72
Replacement Cost Per Square Feet Limit			
Replacement Costs of all NFs			$ 4,379,804,415
Total square footage all NFs			20,631,893
Replacement Cost Per Square Feet Limit			$ 204.57
Allowed Replacement Costs Calculation			
Total Allowed Square Footage per bed			547.72
2016 Cost Report Number of beds		X	94
Allowed Facility Square Footage			51,486
Replacement Cost Building Per Square Foot Limit		X	$ 204.57
Allowed Replacement Costs Limit			$ 10,532,484
Replacement Cost Total			$ 9,107,634
Limited Replacement Cost			**$ 9,107,634**
Depreciation to be Used Calculation			
Replacement Cost Total			$ 9,107,634
Depreciated Value Total		-	$ 5,954,577

Model Demonstration Based on a Sample Facility		
Total Depreciation Expense		$ 3,153,057
Allowed % of Replacement Costs	X	100%
Accumulated Depreciation Expense		**$ 3,153,057**
Capacity Days Calculation		
2016 Cost Report MA Occupancy %		57.1%
Number of Beds		94.00
Capacity Percentage	X	90.00%
Days in a Year	X	365
Allowed Capacity Days		30,879
Property Rate Calculation		
Building Property Rate		
Limited Replacement Costs		**$ 9,107,634**
Depreciation Expense to Be Used	-	**3,153,057**
Limited Depreciated Value (Allowed Building Value)		**5,954,577**
Land Allowance	+	**$ 455,382**
Current Value		**6,409,959**
Rental Rate	**X**	**7%**
Property Reimbursement		**448,697**
Allowed Capacity Days	/	**$ 30,879**
Building Property Rate		**$ 14.53**
Equipment Property Rate		
Equipment Allowance		$ 94,000
Number of Beds		94
Capacity Percentage	X	100.00%
Days in a Year	X	365
Allowed Equipment Capacity days		34,310

Model Demonstration Based on a Sample Facility	
Equipment Property Rate	**$ 2.74**
Total Property Rate	
Total Property Rate	**$ 17.27**
Vs. Total Current Property Related rate (9/12/17)	**$ 14.49**

X. Other Property Related Issues

A. Private Rooms

Minnesota Statutes 256R.06, commonly referred to as the "Nursing Facility Rate Equalization Law," prohibits nursing facilities from charging private pay residents rates for similar services that exceed the rate approved by the DHS for Medical Assistance (Medicaid or MA) recipients. The Minnesota MA program normally pays for semi-private rooms for nursing facility (NF) residents covered by the MA program. Private rooms are not a covered service under MA, except in circumstances where a private room is determined to be medically necessary and is authorized by the Department of Human Services (DHS). In such cases, NFs receive up to 111.5% of the MA case-mix rate for that resident. However, a nursing facility may elect to not assign greater costs to single bedrooms which in effect increases their property rate. If they choose this election they are limited to charging private paying residents a differential of 10% of the weighted average total rate for a private room. If they choose this election, they are also agreeing not to charge MA for a private room for MA recipients. Under current law, providers may only change their single-bed election upon certain qualifying events such as a major construction project. Having this option under the current system results in some facilities being paid for private rooms while other are not. Whether or not the facility is being paid for private rooms has an impact on their current base property rate. This variable option has not been included in the FRV model contained in this report and therefore the impact on nursing facility revenue related to private room options is not yet understood.

This complex set of rules raises a number of policy questions that DHS in consultation with the stakeholder group must still address. Due to a number of payment incentives in place which encourages the creation of single bedrooms and availability of beds due to declining occupancy, the number of private rooms has been steadily increasing over the last several years. Along with this increase of private rooms, the number of private rooms authorized for payment under the MA program has also been increasing steadily. Given the significant changes in the market and consumers preference for private rooms, the topic of setting payment rates for private rooms needs a comprehensive review.

B. Moratorium Exceptions and Construction Project Thresholds

For over 30 years Minnesota has had a moratorium on the licensure of new nursing facility beds. In 1989, the law also established a competitive moratorium exception (ME) process for the renovation or replacement of existing nursing facility assets that exceeded specific dollar thresholds and involve MA dollars. Nursing facilities reimbursed under this statute are allowed property rate adjustments for building projects over the minimum and under the maximum threshold and for projects approved under the ME process. The ME process is funded through biennial legislative appropriations. These appropriations cover the increased state share of MA costs. The ME process is a competitive application process for renovations, complete building replacements, building additions and moving nursing facility beds from one location to another (beds are more typically moved during a cost-neutral relocation process).

In transitioning to a new property system, there are a number of issues that still require analysis and discussion including:

- Setting the floor and ceiling for projects that result in a rate increase without requiring application and approval. Using a higher ceiling than is allowed under the current system will allow for more projects to be undertaken without seeking an exception to the moratorium, but will have an impact on the forecast costs of a new system.
- Determine whether the floor and ceiling for projects that do not require approval should be based on total project cost (as in the current system) or on the per bed cost.
- Determine the building appraisal cycle for ME projects and other construction projects and associated effective dates of a rate adjustment.

As facilities are upgraded it raises the question of how much new funding does the state want to invest in the system. In a FRV system the property payment is increased as the building value is increased. What limits in capital growth would be appropriate? While there is definite value in funding these increases it is unlikely there could be no limits on new construction due to budgetary impacts. Specific policies are needed to encourage investment in the physical plant but that do not lead to unsustainable spending.

C. Bed Relocations

There are current provisions for approval of bed relocations designed to maximize bed utilization and create incentives for building upgrades which are not required to go through the moratorium exception approval process. However, the relocation of beds from one facility to another must be cost-neutral to the state and requires a construction project that will result in an improved quality of life for residents. Given a bed relocation results in a higher property payment rate, to keep it cost-neutral this in effect may limit access for MA recipients. It is anticipated some limits on relocation will be required in any new system to avoid areas of under-service for MA recipients.

A facility may purchase beds from a nursing facility that has beds which are not in active service (layaway) and relocate them to a new or existing nursing facility. In establishing the property payment rate for the new location of the beds, the property payment rate from the source nursing facility is used in determining the rate for the facility receiving the beds. This creates an incentive to obtain beds from a high property rate source facility and relocate them to a lower property rate receiving facility. The newly established property payment rate has in effect no relationship to the actual value of the property and creates inequities within the current property payment system. Facilities that have relocated beds under this provision will likely see a greater impact from a transition to the FRV system.

D. Hold-Harmless

In eliminating the inequities of the current system there are some individual providers that would be negatively impacted under the proposed FRV Model. Due to the nature of the current property reimbursement system, some providers have accumulated through available property adjustments, rates in excess of the rental value. They are receiving higher reimbursement under the current system, although the number affected depends upon the parameters set for the new system. It seems inequitable to pay in excess of the determined rental value having accepted the merit of the system but it also could create cash flow problems for these nursing facilities if they receive substantially lower property reimbursement. Setting a hold harmless would address this concern. Determining the level of the hold harmless that protects nursing facilities from large decreases but does not perpetuate the windfalls from the old system requires further consensus gathering. If nursing facilities are held 100% harmless from property rate decreases, the old system remains in place indefinitely and less funding is available for increases to other providers. The hold harmless provision could involve a period of phase in to the new rates or a flat rate decrease limit.

E. Reappraisals

The primary content of this report has discussed options for establishing an initial property payment rate under a FRV system. However, ongoing sustainability of a FRV system has not been addressed by the stakeholder group. For new construction and major upgrades, a reappraisal would be needed to determine the new Current Value. A threshold for determining when a reappraisal should be conducted would need to be established. For those facilities that did not go through a major construction project, a policy needs to be established for routine updating of appraisals as property values change over time. A number of approaches could be taken for routine reappraisals, such as a proportion of the industry is reappraised each year. For example, reappraisals could be spread out over a period of 4-7 years. An appropriation or other funding mechanism is needed to cover the costs of on-going appraisals.

XI. Report recommendations

DHS and the stakeholder work group achieved a consensus in recommending that a new property payment system for nursing facilities be developed based on a Fair Rental Value (FRV) model. A FRV system establishes a daily rate for the use of nursing facility space for Medical Assistance residents. FRV ties the daily payment rate to the actual current value of the facility. FRV also encourages investment in physical plant upgrades and renovations which results in increased building values and improved quality of life for nursing facility residents. An important consideration in designing the details of a FRV model is on-going sustainability and affordability for both the providers and the state. There are a number of key variables and options in the FRV model such as rental rate, limiting square footage in building designs and establishing reasonable levels of expected occupancy which can modified in a manner to support on-going sustainability. DHS and the stakeholder group has analyzed these various options and is recommending further study. Key outstanding questions for the stakeholder group to address include:

- What is a reasonable rental rate which will cover the cost of long-term financing (interest and principal) and attract equity capital?
- The amount allowed annually in property payments must be divided by a number of days to set a daily property payment rate. What percentage of the building's capacity days is fair and equitable across nursing facilities?
- States that utilize a FRV system, establish some payment limits to ensure the property payment system is sustainable for the state. Two common methods for cost containment are a replacement costs per square feet limit and a square feet per bed limit. What square footage limit methodology is preferred and what are the square footage parameters that contribute to a good quality of life for residents but within reasonable costs across the system?

In addition to key variables and options considered in calculating a property rate mentioned above, a number of other property related issues were identified which influence a nursing facility's ability to cover investments in capital improvements. DHS and the stakeholder group recommend an on-going discussion on the following topics to understand the impact on the FRV property system and future sustainability.

- Due to a number of payment incentives in place which encourages the creation of single bedrooms and availability of beds resulting from declining occupancy, the number of private rooms has been steadily increasing over the last several years. The topic of setting private rooms needs a comprehensive review.
- As nursing facilities are upgraded it raises the question of how much new funding the state wants to invest in the system. Specific policies are needed to encourage investment in the physical plant that do not lead to unsustainable spending.
- In addressing the inequities of the current system there are some individual nursing facility providers that would be negatively impacted under a FRV model. A transition plan for moving into a FRV model is needed.
- Sustainment of a FRV model is another topic to be addressed and a system for upgrading property values is necessary over time.

The legislation directing this report required bill language for implementation of a rental value or other property system. There is unanimous support for establishing a FRV system for determining daily property payment rates, however it is recommended DHS and the stakeholder workgroup continue study of a number of options for setting the system parameters. This report provides a framework on which to create a FRV property rate setting system, however the workgroup recommends further study of the issues and impact to the property rate setting system prior to development of bill language.

XIII. Appendix

Tables A-1 through A-4 provide more detailed information about the impact to the property system as the key variables are changed as discussed in Section VIII C. These tables begin with the following set of reference options (blue columns):

- Table A-1: Rental Rate at 7.5%
- Table A-2: Percentage of Capacity Days at 90%
- Table A-3: Replacement Cost per Square Feet limited to statewide median
- Table A-4: Square Feet per Bed limited at 800 square feet per bed fully recognized, 801 to 1200 square feet per bed recognized at 25%, square feet over 1200 not considered.

The second (green), third (orange), and fourth (yellow) columns below illustrate the impact on the property system when options are changed as indicated in the first row of each table.

Table A-1 Rental Rate

Rental Rate	**7.5%**	**8.0%**	**7.0%**	**6.5%**
Dollar amounts				
Total increase in Medicaid revenue	$32,220,080	$39,601,841	$24,838,320	$17,456,559
Total increase cost to state	$16,110,040	$19,800,920	$12,419,160	$8,728,280
Average property rate	$25.78	$27.31	$24.24	$22.71
Maximum property rate	$46.88	$49.82	$43.93	$40.99
Minimum property rate	$7.06	$7.35	$6.77	$6.48
Average change	$7.55	$9.08	$6.01	$4.47
Maximum change	$40.93	$43.87	$37.98	$35.04
Minimum change	($10.04)	($9.23)	($12.32)	($14.76)
Number of facilities				
Property rate increase over $3.00	259	281	234	210
Property rate decrease over $3.00	17	11	29	42
Limited replacement cost per sq. ft.	182	182	182	182
Limited sq. ft. per bed	126	126	126	126
Square feet per bed				
Unlimited median sq. ft. per bed	700.75	700.75	700.75	700.75
Unlimited maximum sq. ft. per bed	2,283.98	2,283.98	2,283.98	2,283.98
Unlimited minimum sq. ft. per bed	196.86	196.86	196.86	196.86
Limited median sq. ft. per bed	700.75	700.75	700.75	700.75
Limited maximum sq. ft. per bed	900.00	900.00	900.00	900.00
Limited minimum sq. ft. per bed	196.86	196.86	196.86	196.86

Rental Rate	7.5%		8.0%		7.0%		6.5%	
Change in Property Rate	# of NFs	Medicaid Revenue	# of NFs	Medicaid Revenue	# of NFs	Medicaid Revenue	# of NFs	Medicaid Revenue
$-500 to $-15	0	$0	0	$0	0	$0	0	$0
$-15 to $-12	0	$0	0	$0	1	($223,543)	2	($532,798)
$-12 to $-9	3	($847,704)	1	($162,661)	4	($1,076,002)	8	($1,627,559)
$-9 to $-6	7	($859,313)	7	($1,117,238)	7	($820,368)	9	($1,218,622)
$-6 to $-3	7	($417,910)	3	($219,845)	17	($1,161,892)	23	($1,182,546)
$-3 to $0	35	($718,128)	22	($478,067)	42	($801,117)	52	($1,142,099)
$0 to $3	54	$1,281,263	51	$1,088,387	60	$1,284,376	61	$1,200,432
$3 to $6	57	$3,225,842	53	$3,460,187	62	$3,523,311	81	$5,052,215
$6 to $9	71	$7,462,715	63	$6,054,036	65	$7,100,092	47	$4,617,645
$9 to $12	40	$5,725,726	52	$8,067,956	45	$5,246,461	38	$4,665,452
$12 to $15	39	$5,927,749	39	$5,990,321	25	$4,411,758	19	$3,300,899
$15 to $18	19	$4,088,978	32	$6,494,829	15	$3,354,893	12	$2,432,221
$18 to $21	12	$3,078,002	15	$3,973,520	9	$1,894,029	4	$694,462
$21 to $24	9	$2,051,048	10	$2,588,000	4	$786,236	3	$109,156
$24 to $27	4	$783,722	6	$1,594,214	3	$123,313	2	$627,395
$27 to $30	2	$132,239	3	$707,396	2	$695,297	2	$46,706
$30 to $33	2	$763,198	2	$145,879	2	$51,489	1	$391,871
$33 to $36	2	$56,272	3	$839,638	1	$426,439	1	$21,726
$36 to $39	1	$461,006	1	$52,516	1	$23,550	0	$0
$39 to $42	1	$25,374	1	$495,574	0	$0	0	$0
$42 to $45	0	$0	1	$27,199	0	$0	0	$0
$45 to $48	0	$0	0	$0	0	$0	0	$0
$48 to $51	0	$0	0	$0	0	$0	0	$0
$51 to $54	0	$0	0	$0	0	$0	0	$0
$54+	0	$0	0	$0	0	$0	0	$0
Total	365	$32,220,080	365	$39,601,841	365	$24,838,320	365	$17,456,559

Table A-2 Percentage of Capacity Days

Denominator of Payment Rate (Percentage of Capacity Days)	All facilities at 90% occupancy	All facilities at statewide average occupancy 85.77%	All facilities at 80% occupancy	Variable % for facilities with 50 beds or less, 90% for facilities with greater than 50 beds
Dollar amounts				
Total increase in Medicaid revenue	$32,220,080	$37,680,879	$46,060,881	$34,448,460
Total increase cost to state	$16,110,040	$18,840,440	$23,030,441	$17,224,230
Average property rate	$25.78	$26.91	$28.66	$26.58
Maximum property rate	$46.88	$49.05	$52.39	$52.79
Minimum property rate	$7.06	$7.27	$7.60	$8.29
Average change	$7.55	$8.68	$10.43	$8.34
Maximum change	$40.93	$43.10	$46.44	$45.37
Minimum change	($10.04)	($9.44)	($8.51)	($10.04)
Number of facilities				
Property rate increase more than $3.00	259	276	296	267
Property rate decrease more than $3.00	17	12	10	15
Limited replacement cost per sq. ft.	182	182	182	182
Limited sq. ft. per bed	126	126	126	126
Square feet per bed				
Unlimited median sq. ft. per bed	700.75	700.75	700.75	700.75
Unlimited maximum sq. ft. per bed	2,283.98	2,283.98	2,283.98	2,283.98
Unlimited minimum sq. ft. per bed	196.86	196.86	196.86	196.86
Limited median sq. ft. per bed	700.75	700.75	700.75	700.75
Limited maximum sq. ft. per bed	900.00	900.00	900.00	900.00
Limited minimum sq. ft. per bed	196.86	196.86	196.86	196.86

Table A-2, continued

Denominator of Payment Rate (Percentage of Capacity Days)	All facilities at 90% occupancy		All facilities at state wide average occupancy 85.77%		All facilities at 80% occupancy		Variable % for facilities with 50 beds or less, 90% for facilities with greater than 50 beds	
Change in Property Rate	# of NFs	Medicaid Revenue	# of NFs	Medicaid Revenue	# of NFs	Medicaid Revenue	# of NFs	Medicaid Revenue
$-500 to $-15	0	$0	0	$0	0	$0	0	$0
$-15 to $-12	0	$0	0	$0	0	$0	0	$0
$-12 to $-9	3	($847,704)	1	($166,390)	0	$0	3	($847,704)
$-9 to $-6	7	($859,313)	8	($1,279,074)	5	($883,492)	7	($854,369)
$-6 to $-3	7	($417,910)	3	($161,405)	5	($398,519)	5	($360,181)
$-3 to $0	35	($718,128)	30	($559,285)	16	($200,104)	31	($683,213)
$0 to $3	54	$1,281,263	47	$1,190,276	43	$1,044,684	52	$1,297,607
$3 to $6	57	$3,225,842	55	$3,392,736	50	$3,350,482	49	$2,906,653
$6 to $9	71	$7,462,715	68	$6,962,615	55	$4,822,536	69	$7,428,273
$9 to $12	40	$5,725,726	45	$6,749,593	61	$9,668,476	41	$5,609,910
$12 to $15	39	$5,927,749	38	$5,803,073	37	$6,958,670	43	$6,436,380
$15 to $18	19	$4,088,978	31	$6,181,755	34	$6,046,868	22	$4,334,125
$18 to $21	12	$3,078,002	14	$3,841,599	22	$5,683,573	18	$3,807,685
$21 to $24	9	$2,051,048	9	$1,957,402	14	$4,230,476	10	$2,434,327
$24 to $27	4	$783,722	5	$1,549,582	7	$1,562,213	7	$1,391,402
$27 to $30	2	$132,239	4	$820,746	5	$1,739,376	2	$144,766
$30 to $33	2	$763,198	2	$813,225	4	$913,069	2	$763,198
$33 to $36	2	$56,272	3	$71,130	2	$890,358	2	$56,398
$36 to $39	1	$461,006	0	$0	3	$77,601	0	$0
$39 to $42	1	$25,374	1	$486,578	0	$0	1	$25,766
$42 to $45	0	$0	1	$26,724	1	$525,820	0	$0
$45 to $48	0	$0	0	$0	1	$28,795	1	$557,438
$48 to $51	0	$0	0	$0	0	$0	0	$0
$51 to $54	0	$0	0	$0	0	$0	0	$0
$54+	0	$0	0	$0	0	$0	0	$0
Total	365	$32,220,080	365	$37,680,879	365	$46,060,881	365	$34,448,460

Table A-3 Replacement Cost per Square Feet

Replacement Cost Per Square Feet Limit	Median $204.57/sq. ft.	Average $212.28/sq. ft.	75th Percentile $226.87/sq. ft.	No Limit $577.62/sq. ft.
Dollar amounts				
Total increase in Medicaid revenue	$32,220,080	$34,949,645	$39,170,037	$48,813,184
Total increase cost to state	$16,110,040	$17,474,823	$19,585,019	$24,406,592
Average property rate	$25.78	$26.33	$27.20	$29.97
Maximum property rate	$46.88	$48.54	$51.69	$119.41
Minimum property rate	$7.06	$7.06	$7.06	$7.06
Average change	$7.55	$8.10	$8.96	$11.74
Maximum change	$40.93	$42.59	$45.74	$101.50
Minimum change	($10.04)	($9.62)	($9.62)	($9.62)
Number of facilities				
Property rate increase more than $3.00	259	264	274	278
Property rate decrease more than $3.00	17	16	14	13
Limited replacement cost per sq. ft.	182	148	91	0
Limited sq. ft. per bed	126	126	126	126
Square feet per bed				
Unlimited median sq. ft. per bed	700.75	700.75	700.75	700.75
Unlimited maximum sq. ft. per bed	2,283.98	2,283.98	2,283.98	2,283.98
Unlimited minimum sq. ft. per bed	196.86	196.86	196.86	196.86
Limited median sq. ft. per bed	700.75	700.75	700.75	700.75
Limited maximum sq. ft. per bed	900.00	900.00	900.00	900.00
Limited minimum sq. ft. per bed	196.86	196.86	196.86	196.86

Table A-3, continued

Replacement Cost Per Square Feet Limit	Median $204.57/sq. ft.		Average $212.28/sq. ft.		75th Percentile $226.87/sq. ft.		No Limit $577.62/sq. ft.	
Change in Property Rate	# of NFs	Medicaid Revenue	# of NFs	Medicaid Revenue	# of NFs	Medicaid Revenue	# of NFs	Medicaid Revenue
$-500 to $-15	0	$0	0	$0	0	$0	0	$0
$-15 to $-12	0	$0	0	$0	0	$0	0	$0
$-12 to $-9	3	($847,704)	2	($646,869)	1	($169,610)	1	($169,610)
$-9 to $-6	7	($859,313)	7	($882,563)	7	($1,178,771)	7	($1,166,771)
$-6 to $-3	7	($417,910)	7	($410,701)	6	($379,629)	5	($272,741)
$-3 to $0	35	($718,128)	31	($548,863)	23	($386,362)	21	($349,449)
$0 to $3	54	$1,281,263	54	$1,214,760	54	$1,102,839	53	$1,078,086
$3 to $6	57	$3,225,842	51	$3,089,782	50	$3,044,054	47	$3,234,773
$6 to $9	71	$7,462,715	71	$7,181,118	66	$6,180,272	62	$5,602,731
$9 to $12	40	$5,725,726	42	$6,103,751	45	$7,624,448	33	$6,180,345
$12 to $15	39	$5,927,749	39	$6,101,773	40	$6,368,921	39	$6,537,752
$15 to $18	19	$4,088,978	26	$5,722,192	23	$4,657,546	29	$6,129,344
$18 to $21	12	$3,078,002	12	$2,932,747	20	$4,840,986	9	$2,039,102
$21 to $24	9	$2,051,048	8	$1,699,740	11	$2,944,571	15	$4,736,906
$24 to $27	4	$783,722	4	$1,207,708	5	$1,259,548	11	$3,007,957
$27 to $30	2	$132,239	5	$817,528	3	$871,472	5	$1,249,037
$30 to $33	2	$763,198	1	$790,441	5	$905,543	6	$2,302,826
$33 to $36	2	$56,272	3	$70,138	1	$862,089	3	$1,718,871
$36 to $39	1	$461,006	0	$0	3	$76,234	2	$883,652
$39 to $42	1	$25,374	1	$480,557	0	$0	2	$727,764
$42 to $45	0	$0	1	$26,406	1	$517,531	0	$0
$45 to $48	0	$0	0	$0	1	$28,357	4	$1,361,532
$48 to $51	0	$0	0	$0	0	$0	3	$1,461,696
$51 to $54	0	$0	0	$0	0	$0	2	$1,321,657
$54+	0	$0	0	$0	0	$0	6	$0
Total	365	$32,220,080	365	$34,949,645	365	$39,170,037	365	$47,615,461

Table A-4 Square Feet per Bed Limit

Square Feet per Bed Recognized	100% of 0 - 800 25% of 801 -1200 0% of 1201+	100% of 0 - 800 50% of 801+	100% of 0 - 600 50% of 601 - 1200 0% of 1201+	100% of All (No Limit)
Dollar amounts				
Total increase in Medicaid revenue	$32,220,080	$35,106,936	$28,377,195	$39,213,607
Total increase cost to state	$16,110,040	$17,553,468	$14,188,598	$19,606,803
Average property rate	$25.78	$26.61	$25.08	$27.79
Maximum property rate	$46.88	$75.48	$57.98	$110.48
Minimum property rate	$7.06	$7.06	$7.06	$7.06
Average change	$7.55	$8.38	$6.84	$9.56
Maximum change	$40.93	$57.48	$42.45	$92.48
Minimum change	($10.04)	($10.04)	($11.49)	($10.04)
Number of facilities				
Property rate increase more than $3.00	259	262	253	264
Property rate decrease more than $3.00	17	17	22	16
Limited replacement cost per sq. ft.	182	182	182	182
Limited sq. ft. per bed	126	126	248	0
Square feet per bed				
Unlimited median sq. ft. per bed	700.75	700.75	700.75	700.75
Unlimited maximum sq. ft. per bed	2,283.98	2,283.98	2,283.98	2,283.98
Unlimited minimum sq. ft. per bed	196.86	196.86	196.86	196.86
Limited median sq. ft. per bed	700.75	700.75	650.37	700.75
Limited maximum sq. ft. per bed	900.00	1,541.99	1,171.00	2,283.98
Limited minimum sq. ft. per bed	196.86	196.86	196.86	196.86

Table A-4, continued

Square Feet per Bed Recognized	100% of 0 - 800 25% of 801 - 1200 0% of 1201+		100% of 0 - 800 50% of 801+		100% of 0 - 600 50% of 601 - 1200 0% of 1201+		100% of All (No Limit)	
Change in Property Rate	# of NFs	Medicaid Revenue	# of NFs	Medicaid Revenue	# of NFs	Medicaid Revenue	# of NFs	Medicaid Revenue
$-500 to $-15	0	$0	0	$0	0	$0	0	$0
$-15 to $-12	0	$0	0	$0	0	$0	0	$0
$-12 to $-9	3	($847,704)	2	($668,429)	4	($1,109,769)	2	($668,429)
$-9 to $-6	7	($859,313)	8	($968,754)	8	($1,125,443)	7	($846,614)
$-6 to $-3	7	($417,910)	7	($417,910)	10	($647,022)	7	($417,910)
$-3 to $0	35	($718,128)	31	($674,462)	34	($596,781)	32	($679,854)
$0 to $3	54	$1,281,263	55	$1,248,093	56	$1,345,342	53	$1,227,246
$3 to $6	57	$3,225,842	52	$3,041,179	63	$3,923,372	50	$2,805,009
$6 to $9	71	$7,462,715	65	$7,013,298	76	$7,053,830	64	$6,798,737
$9 to $12	40	$5,725,726	45	$6,207,372	41	$5,799,161	35	$5,301,001
$12 to $15	39	$5,927,749	36	$5,302,785	32	$5,145,996	41	$6,055,188
$15 to $18	19	$4,088,978	22	$4,909,590	14	$3,217,818	14	$3,182,934
$18 to $21	12	$3,078,002	17	$4,140,950	11	$1,950,545	18	$4,502,718
$21 to $24	9	$2,051,048	7	$1,434,202	6	$1,679,436	12	$2,919,571
$24 to $27	4	$783,722	4	$1,257,913	1	$141,149	7	$2,188,601
$27 to $30	2	$132,239	5	$1,358,381	4	$894,419	5	$1,389,875
$30 to $33	2	$763,198	2	$805,613	0	$0	4	$1,199,523
$33 to $36	2	$56,272	2	$260,801	3	$499,717	3	$1,604,867
$36 to $39	1	$461,006	0	$0	0	$0	3	$973,302
$39 to $42	1	$25,374	3	$568,503	1	$179,104	1	$15,048
$42 to $45	0	$0	0	$0	1	$26,320	1	$202,569
$45 to $48	0	$0	0	$0	0	$0	1	$576,978
$48 to $51	0	$0	1	$30,306	0	$0	2	$418,107
$51 to $54	0	$0	0	$0	0	$0	1	$12,547
$54+	0	$0	1	$0	0	$0	2	$0
Total	365	$32,220,080	365	$34,849,429	365	$28,377,195	365	$38,761,014