HOUSE APPROPRIATIONS PRESENTATION

House Bill 1090, Fair Rental Value

HISTORICAL PROPERTY RATE SETTING

- Current property rates are set based on accounting standards based depreciation on allowable capital assets and debt financing costs
- Building and fixed equipment capital assets are subject to a per bed maximum allowable cost which limits what a facility can spend
- Depreciation on capital assets is calculated based on a straight-line method over an estimated useful life set based on AHA guidelines
- Interest expense is based on the payment terms of the allowable debt and includes the amortization of debt financing costs
- The allowable depreciation and interest are divided by actual cost report year days or 90% occupancy days, whichever is higher, to get to the rate per day

HISTORICAL PROPERTY RATE SETTING

- Current system provides for high rates in the earlier years after a major project, and decreasing rates as it ages
- Current system only repays facilities for cost of capital projects over future years which discourages renovations as it will always require debt
- Current system does not provide funding to build reserves for future projects which leads to large projects having to be funded with debt which increases overall cost

PROPOSED FAIR RENTAL VALUE (FRV)

- Property rate would be based on a % return on the fair value of all allowable capital assets to determine the Fair Rent
- Building and fixed equipment costs are still subject to a per bed limit that is based on RS Means cost per square foot multiplied by an allowable square footage per bed license (entire facility space)
- Equipment is limited to $15,000 per bed license and land and land improvements are limited to 10% of the building limits
- FRV is adjusted annually for based on the effective age and a replacement factor
- Effective age decreases annually, but can be limited by capital renovations made which encourages ongoing maintenance
- The Fair Rent is then divided by actual cost report year days or 90% occupancy days, whichever is higher, to get to the rate per day

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PROPOSED FAIR RENTAL VALUE (FRV)

- FRV will provide a more stable property rate
  - Early year rates will not be as high as current system, estimated cap is $62.14 vs $86 currently the high rate
  - Rate will remain consistent over time as long as the facility maintains the buildings
- FRV will provide revenue streams that will help facilities reserve for future projects and encourages renovations over time without having to utilize debt to fund the entire project
- See Attachment 3 for calculation examples of new projects

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FRV FOUR YEAR PHASE IN

- 71 facilities are estimated to see an increase in their property rates due to the transition from historical property rate setting to FRV
- These 71 facilities will see an average estimated impact of $7 per day increase in total on their rates that will increase the estimated Medicaid spending by $8,619,000
- FRV proposed rate setting will phase this increase in over 4 years at an estimated cost of $2,155,000 in each of the fiscal years 2023-2026
- Information is included as Attachment 1

FRV HOLD HARMLESS

- 8 existing facilities are estimated to have property rates as set under the current property rate rules that will exceed the 1/1/23 FRV rates based on 2020 rate data
- The Medicaid cost for these facilities is already included in the current DHS budget, there is no new money needed to keep them under the current property rate system
- If these 8 facilities were forced to move their rates down to FRV on 1/1/23, it would reduce revenues by an estimated $1,500,000 based on the estimated FRV vs current 2021 property rates
  - This could lead to debt obligation issues
- Of these 8, 3 will transition to FRV in year 1 with all but 1 transitioning by year 8
- Missouri Slope will be new in 2021 and is also not expected to transition to FRV as the interest rate on the debt is too high
- See information provided in Attachment 2 and 3

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QUESTIONS?

Thank you for the opportunity to share this information with you.

Bradley W DeJong, CPA
Partner, Director of Senior Living Services
Eide Bailly LLP
Fargo, ND