**Section 140.570 Capital Rate Component Determination**

a) Capital rates for all long term care facilities – except State Institutions, Specialized Living Centers and campus facilities, shall be reimbursed in the manner described in Sections 140.570 through 140.573. Capital rates for Specialized Living Centers are set forth in 140.579. Campus facilities are reimbursed in accordance with 140.583.

b) The terms used in Sections 140.570 through 140.574 are defined as follows.

1) "Arm's-length transaction" means a transaction between a buyer and a seller both free to act, each seeking his own best economic interest. A transaction between related parties as defined in Section 140.537 is not considered to be an arm's-length transaction.

2) "Base Year" refers to the weighted average year of investment in the actual construction of the building. The Base Year is determined using the components of the building cost, which are included in the Original Building Base Cost, and the corresponding years of acquisition or construction. The year of each component of the total investment is multiplied by the cost of each year's investment. The sum of these products is then divided by the total Original Building Base Cost to yield an average year of construction. Any fractional portion of the Base Year derived from this calculation will be truncated. The Base Year will not change due to sale or lease of the building subsequent to January 1, 1978.

3) "Capital Days" are used to convert all capital items to per diem amounts unless otherwise specified. If a facility's occupancy rate is above 93 percent, then capital days shall be equal to the actual patient days. If occupancy is below 93 percent, then 93 percent of available bed days (the number of licensed beds multiplied by the number of calendar days in a period) shall be the capital days.

4) Building Basis:

A) "Original Building Base Cost" means either the cost of construction or the cost of the latest purchase of the building in an arm's-length transaction prior to January 1, 1978. The allowable cost of subsequent improvements to the building will be included in the original building base cost. The original building base cost will not change due to sales or leases of the facility after January 1, 1978. In the case of a nursing home building constructed after January 1, 1978, the allowable construction cost plus the cost of subsequent improvements will be the original building base cost.

B) If a portion of the building is vacant or is used for functions other than a nursing home, then a portion of the building's original building base cost will not be used in the rate calculation. This cost allocation will be based upon the proportion of the total square feet in the building being used for nursing home functions.

5) "Rate of Return" will be 11.0 percent for base years which are 1979 and later and 9.13 percent for base years which are 1978 and earlier.

6) "Means Construction Index" means the index of changes in construction costs from year-to-year developed from the annual publication Means Building Construction Cost data as published by R.S. Means Company, Inc.

7) "Means New Construction Cost Per Square Foot" is defined as the costs published by the R.S. Means Company, Inc. Data will come from the most recent edition of the Means Square Foot Costs publication. The cost used per square foot for new construction is based upon nursing home construction projections using 40,000 square foot category with face brick with concrete block back-up and steel joists. The Means New Construction Cost Per Square Foot will be adjusted where necessary to ensure an increase of at least a three percent from the previous year but no more than a seven percent increase.

8) "Square Feet Per Bed" is defined as 316 square feet per bed. This was the average for existing long term care facilities in Illinois.

9) "Location". The long term care facilities will be separated into one of the following areas:

Northeast area – HSAs 6, 7, 8, 9

Downstate area – HSAs 1, 2, 3, 4, 5, 10, 11

10) "Uniform Building Value" is calculated using the following steps:

A) The Means New Construction Cost Per Square Foot is multiplied by 316 square feet per bed to obtain a preliminary cost per bed. For example, $68.65 cost per square foot times 316 equals a $21,693 preliminary cost per bed.

B) The preliminary cost per bed is multiplied by an adjustment factor to obtain the revised cost per bed for new construction. The adjustment factor is 1.30 for the northeast area and 1.19 for the downstate area. For example, a $21,693 preliminary cost per bed times the 1.30 factor equals a $28,200 revised cost per bed for the northeast area.

C) The revised cost per bed for new construction will be the uniform building value for any facility for which the base year is the same as the current year. The current year is the calendar year in which the rate year starts. The uniform building value for facilities with a base year which is older than the current year will have the revised cost per bed for new construction discounted by a three percent obsolescence factor for each year between the base year and the current year. The uniform building value will be no lower than ten percent of the revised cost per bed for new construction. For example:

|  |  |  |
| --- | --- | --- |
| Base Year | Factor | Uniform Building Value |
| 1991 | 100% | $28,200 |
| 1990 | 97% | $27,354 |
| 1989 | 94% | $26,508 |
| 1988 | 91% | $25,662 |
| 1987 | 88% | $24,816 |
| 1986 | 85% | $23,970 |
| – |  |  |
| 1975 | 52% | $14,664 |
| – |  |  |
| 1960 | 10% | $ 2,820 |

11) "Building Specific Historical Cost Per Bed" is the inflated original building base cost divided by the number of licensed beds on the cost report used to calculate rates for the rate year. If licensed beds changed during the cost report period, the licensed beds on the last day of the cost report period will be used as the divisor. The original building base cost is inflated based upon the Means Construction Index and the base year.

12) The "ERVWC" factor relates to equipment, rent, vehicle and working capital cost. The ERVWC factor will be the greater of $1.75 per diem or the amount from the following calculation based upon a sample of 50 percent or more of all long term care facilities:

A) Working Capital: Allowable support costs, nursing or program costs and administrative costs will be updated for inflation and be divided by capital days and multiplied by 60 days to yield two months of working capital investment on a per diem basis.

B) The per diem investment in equipment and vehicle will be added to the working capital investment on a per diem basis (the vehicle investment is limited to fifty cents per diem). This total investment is multiplied by 9.13 percent.

C) The result of Step B is added to the per diem equipment rent cost to obtain an ERVWC base factor.

c) Any items of fixed equipment which are no longer in use or are not providing significant value for inpatient long term care purposes must not be reported on the cost report fixed asset schedules for land, buildings, equipment and vehicle. For example, portions of a building not being used for nursing home operations must not be reported. Any assets which were removed from the cost report depreciation schedules prior to the 1986 cost report due to the asset being fully depreciated may not now be included in the building or equipment basis. Also, if a vehicle is used partially for personal purposes or purposes other than operation of the nursing home then this portion of the cost must not be included in the vehicle cost section of the cost report.

d) No asset may be included in the building or equipment basis unless complete documentation for the cost and year of purchase or construction is maintained. This data must be maintained to facilitate efficient audit reviews by representatives of the Department.

(Source: Amended at 20 Ill. Reg. 6929, effective May 6, 1996)