**Section 144.325 Capital Rate Calculation**

a) Capital rates for ICF/MR facilities with four or six beds will be calculated by the Department according to this Section, which provides calculation methods for rates for various capital categories. Rate charts will be prepared each year based upon these provisions. The rate for an individual facility will be selected based upon the following criteria:

1) New construction or remodeled building. If the facility is a remodeled building the base cost will be used to assign it to a category.

2) Base Year

3) Location

b) The terms used in this Section 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 the Department of Public Aid's rule at 89 Ill. Adm. Code 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 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 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.

3) "Capital Days" are used to convert all capital items to per diem amounts. A 93% occupancy standard is used in the rate calculation.

4) Building Base Cost refers to the cost to purchase the building to be first licensed as an ICF/DD-16 facility with four or six beds. Only costs associated with arms-length transactions between unrelated parties will be considered. The allowable cost of subsequent improvements to the building will be included in the building base cost. The building base cost will not change due to sales or leases of the facility.

5) "Square feet per bed" is defined as 445 square feet per bed for a four bed facility and 365 square feet per bed for a six bed facility.

6) "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 average residential one story construction. Factors are included for wood frame, wood siding, central air, and two bathrooms.

7) Location. The facilities will be separated into one of the following location groups:

A) Group 1 – Cook, DuPage, Will and Lake counties.

B) Group 2 – Counties 175,000 to 1,000,000 population.

C) Group 3 – Counties below 175,000 population.

8) New building construction refers to construction of a complete building for the purpose of being licensed and operated as an ICF/DD-16 facility with four or six beds.

9) Remodeled buildings refer to buildings which previously existed for some other function and were remodeled to be licensed and operated as an ICF/DD-16 facility with four or six beds.

c) The rates will be calculated for facilities constructed during the current rate year according to the following steps. These steps will result in six different rate categories. There is a four bed rate and a six bed rate within each of three different location categories.

1) Preliminary Cost Per Bed – The new construction cost per square foot is multiplied by the square feet per bed to get a preliminary cost per bed.

2) Revised Cost Per Bed

A) The preliminary cost per bed is multiplied by a 120% adjustment factor and is then further increased by factors for a two car garage and for sprinklers as follows:

i) Garage – The R.S. Means Company, Inc. projected cost for an attached two car garage is divided by four or six beds whichever is applicable to obtain a cost per bed.

ii) Sprinklers – A $6,200 sprinkler cost is divided by four or six beds whichever is applicable to obtain a cost per bed.

B) The result of this step is a revised cost per bed for new construction.

3) Localized Cost Per Bed

A) The revised cost per bed is multiplied by a locality adjustor for the applicable area of the State in which the facility is located. A separate locality adjustor is calculated for the following areas:

i) Cook, DuPage, Will and Lake counties.

ii) Counties 175,000 to 1,000,000 population (excluding DuPage, Will and Lake Counties).

iii) Counties below 175,000 population.

B) The locality adjustors are calculated as the average of all locality factors for each area in the most recent R.S. Means Company, Inc. publication.

C) The result of this step is the localized cost per bed.

4) Total Projected Investment Per Bed – Land is added to the localized cost per bed to arrive at the total projected investment per bed. Land is based upon $25,000 for facilities located in the Cook, DuPage, Will and Lake counties. Counties with a population of 175,000 to 1,000,000 will use a $18,750 total land cost. Counties with a population below 175,000 will use a $12,500 total land cost. The total land cost is divided by four or six beds to determine the land cost per bed.

5) The total projected investment per bed is divided by 339 client days (365 days X 93% = 339) to arrive at a per diem investment.

6) The per diem investment is multiplied by a 11% rate of return and further increased by $3.01 per diem for equipment, working capital costs and vehicles to obtain the rate.

7) The rates for facilities with a base year which is older than the current rate year will be calculated using the same steps as newly constructed facilities in subsection (c) of this Section except for the localized cost per bed in subsection (c)(3). The localized cost per bed is discounted by a 3% obsolescence for each year between the base year and the current year.

8) A table will be prepared by the Department which will list all applicable rates for each rate year. The rate for any facility will be looked up based upon the base year, bed size and location of the facility.

9) Rates for Remodeled or Existing Construction

A) To recognize the potentially wide range of investment in existing facilities to be converted into small scale ICF/MR facilities with four or six beds, modifications have been made to the calculation of total projected investment for subsection (c)(4) of this Section.

B) The buildings which were remodeled will be separated into four categories using the lower of the actual land and building purchase price plus remodeling cost per bed, or the appraisal cost of land and building per bed. This assignment to categories is based upon comparison of the facility's cost (lower of actual or appraisal) to the result of the following percentages of the projected investment from subsection (c)(4) of this Section: (Equipment cost is not included in this comparison.)

i) Category 1 – 77.5% and above

ii) Category 2 – 62.5% to 77.4%

iii) Category 3 – 47.5% to 62.4%

iv) Category 4 – 47.4% and less

C) The total projected investment from subsection (c)(4) of this Section will be multiplied by the following category percentages as applicable, and rates calculated based upon the remaining provisions in subsection (c):

i) Category 1 – 85%

ii) Category 2 – 70%

iii) Category 3 – 55%

iv) Category 4 – 40%

d) Rented facilities will have the capital rates calculated by the same procedures as are used for owned facilities.

e) Property Taxes

1) For four and six bed facilities which can show they will be required to pay property taxes, the Department will have the median property tax rate for their geographic area added to the capital rate.

2) In subsequent years the property tax portion of the capital rate will be calculated in accordance with the Department of Public Aid's rule at 89 Ill. Adm. Code 140.578(b).

f) Combined Rate

1) Small scale ICF/MR facilities are separately licensed facilities. However, reimbursement for capital costs is based on the sixteen person capacity of a set of four 4-person facilities, or one 4-person plus two 6-person facilities (see the Department of Public Aid's rule at 89 Ill. Adm. Code 140.561(b)). The set of small facilities used in computing the capital rate will be identified in the provider agreements.

2) A separate capital rate will be calculated for each licensed facility in the set of four facilities or one 4-person plus two 6-person facilities. These rates will be combined to arrive at one average capital rate for the set. The averaging of the capital rates will be weighted according to the number of licensed beds in each of the four facilities in the set.

(Source: Amended at 22 Ill. Reg. 9287, effective May 15, 1998)