

New York State Department of Health

Division of Health Facility Planning

Subject: RHCF Bed CAPS

EXECUTIVE SUMMARY

Per Department policy, RHCF Bed CAPS (the CAPS) represent the maximum Total Project Cost per bed (TPC includes hard and soft costs related to construction) allowed by the CON program for nursing home construction, for the purposes of Medicaid capital reimbursement. The CAPS are applicable only to new construction, and major renovation and expansion where beds are located within the construction. These thresholds, developed in 1983 and adjusted annually to account for inflation, were “frozen” at the 2006 figures in late 2004, to allow the Department to review and analyze the CAPS system. This was done at the recommendation of the Governor’s Workgroup on Health Care Reform due to overall concerns regarding Medicaid spending (capital remains a “pass-thru” for the purpose of setting Medicaid reimbursement rates, based on the lower of approved costs or the CAPS). Since then, the number of major nursing home capital projects approved by the Department has decreased dramatically. While a significant factor in this reduction of review and approval can also be attributed to increased provider equity requirements, growing evidence suggests that the frozen CAPS no longer reflect current or future actual costs of construction.

The Construction Standards Advisory Group (CSAG), an ad hoc group of volunteer stakeholders in the state’s health care construction industry, assisted the Department in a technical review of the CAPS. A CSAG subcommittee consisting of Department staff, private architects and engineers, contractors, nursing home operators, health care consultants, and association representatives researched the issue for nearly a year, and submitted information and data that forms the basis of these revisions.

These revisions include the following major components:

- The utilization of published construction industry cost standards to determine the basis for annual CAP projections (vs. previous simplistic inflation assumptions),
- A proposal for revised geographic regions more reflective of actual construction costs and less of physical proximity,
- A consensus agreement that a modern nursing home must provide at least 625 square feet per resident to be in substantial compliance with applicable codes

and regulations, including the current 713-2 Standards of Construction for New Nursing Homes,

- A recommendation that the most equitable CAPS should not include widely variable costs associated with asbestos abatement, and
- A recommendation for Department approval to exceed these CAPS for projects that propose desirable, cost effective innovation (as determined by the Department) or significantly reduce the number of unnecessary nursing home beds.

This new policy utilizes the “frozen” 2006 bed CAP to calculate updated CAPS based upon revised geographic regions of like economic characteristics, as well as a phase-in of unprecedented volatility in the construction industry during the 2-year freeze and beyond. The new policy also takes into consideration additional costs necessary to accommodate new building code requirements, as well as the Department’s enhanced functional and program expectations. Careful review of capital cost is but one element of a refined CON review seeking innovation that is focused on the needs of the resident within an institutional setting, while considering the breadth of available non-institutional services in general and in the proximate service area.

The resulting recommendation results in a CAP methodology that is updated/current and more attuned to actual market conditions, based upon an increase in space and cost factors to reflect same. The difficulty of projecting costs for Certificate of Need (CON) projects with the start of construction one or more years in the future is also acknowledged. These RHCF Bed CAPS are considered the Department’s best effort at estimating the cost of construction (including hard and soft costs) at CON approval, and represent the maximum capital cost that will be recognized for Medicaid reimbursement purposes (under the current reimbursement system). While any subsequent increases in project cost will continue to be subject to the Department’s regulations for processing as appropriate; the applicant remains ultimately responsible for managing project development within the approved CON capital budget.

Further details regarding this update are included in the attachments listed below.

Attachments

- A-1: Proposed CAP Regions
- A-2: Proposed CAP Regions - Map
- B: Proposed Regional per bed CAPS

**NYSDOH RHCf Bed CAPS
Geographic Regions**

RHCf Bed Cap Region	Counties	Regional Cap Index
NYC: - Manhattan	New York	1.30
- NYC Outer Boroughs - Long Island - Westchester	* Bronx, Kings, Richmond & Queens * Nassau & Suffolk * Westchester	1.0
Hudson Valley	Dutchess, Orange, Putnam, Rockland, Sullivan & Ulster	0.91
- Capital Region - Finger Lakes - Western NY URBAN	* Albany, Saratoga & Schenectady * Monroe * Erie & Niagara	0.76
Central NY URBAN	* Onondaga	0.72
- Capital Region - Finger Lakes - Western NY	* Columbia, Greene, Rensselaer, Warren & Washington * Genesee , Livingston, Ontario, Orleans, Seneca, Wayne, Wyoming & Yates * Allegany, Cattaraugus & Chatauqua	0.68
- Central NY - Mohawk Valley - Southern Tier - North Country	* Cayuga, Cortland & Oswego * Fulton, Herkimer, Madison, Montgomery, Oneida & Schoharie * Broome, Chemung, Chenango, Delaware, Otsego, Schuyler, Steuben, Tioga & Tompkins * Clinton, Essex, Franklin, Hamilton, Jefferson, Lewis, St. Lawrence	0.65

Region	2006 CAP <i>Frozen</i>	2007 CAP	2008 CAP	2009 CAP	2010 CAP
NYC Outer Boroughs LI & Westchester Base CAP from 2007	\$195,000	\$234,000 (1)	\$281,000 (2)	\$332,000 (3)	\$352,000 (4)
NYC-Manhattan <i>130% of Base CAP</i>	\$203,000	\$304,000	\$365,000	\$432,000	\$458,000
Hudson Valley <i>91% of Base CAP</i>	\$177,000	\$213,000	\$256,000	\$302,000	\$320,000
Capital, Finger Lakes & WNY URBAN <i>76% of Base CAP</i>	\$149,000	\$178,000	\$214,000	\$252,000	\$268,000
CNY URBAN (Onondaga) <i>72% of Base CAP</i>	\$149,000	\$168,000	\$202,000	\$239,000	\$253,000
Capital Region, Finger Lakes, & Western NY <i>68% of Base CAP</i>	\$149,000	\$160,000	\$191,000	\$226,000	\$239,000
Central NY, Mohawk Valley, Southern Tier & North Country <i>65% of Base CAP</i>	\$149,000	\$152,000	\$183,000	\$216,000	\$229,000

- **Cost figures (CAPS) are Total Project Cost per bed**
- **Annual CAPS are based upon mid-point of estimated construction period**

NOTES:

1. Phase-in @ 20% = 10% 2004 escalation + 10% 2005 escalation (actual)
2. Phase-in @ 20% = 10% 2006 escalation + 10% 2007 escalation (actual)
3. Phase-in @ 18% = 10% 2008 escalation + 8% 2009 escalation (projected)
4. 6% 2010 escalation (projected)