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**PROVIDER MANUAL:
RESIDENTIAL TREATMENT SERVICES PROVIDER RATES BULLETIN 2013-1**

October 11, 2013

COST LIMITS/ADJUSTMENTS FOR 2014 RATES

Pursuant to 465 IAC 2-16 DCS annually sets cost-based rates for Residential Treatment Services Providers (“RTSPs”). Annual rates are set pursuant to the methodology stated in the rule. The following is a description of each of the cost limits/adjustments.

(1) Salary Cost Limit

The Salary Limits have remained unchanged between 2013 and 2014 Rates, and are determined based on total revenue of the contracted vendor. Salary cost limits are applied based on the tier in which revenues are classified. The tiers and their relative cost limits are as follows:

<u>Tier</u>	<u>Cost Limit</u>
(1): Less than \$1 million in revenue	\$100,000
(2): Between \$1 million & \$5 million	\$125,000
(3): Greater than \$5 million in revenue	\$175,000

These cost limits were determined based on analysis by the DCS Rate Setting Department with consultation of various third parties and review of the CWLA 2009 Salary Study.

(2) Fringe Benefits and Payroll Taxes Cost Limit

The cost limit for Fringe Benefits and Payroll Taxes for 2014 Rates was calculated to be **28.55%** of reported net salaries and wages. This percentage is derived from the mean (23.08%) plus one standard deviation (5.47%) of (1) Indiana-based providers, (2) non-budgeted cost reports, and (3) non-outlying data points of all submitted RTSP Cost Reports.

Data was plotted per a normal distribution (bell-shaped) curve once all non-budgeted/Indiana-based provider cost reports were identified from the complete data list. Outlying data points were determined and subsequently removed from the analysis at which point the mean and standard deviation were calculated.



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(3) Staffing Ratio Cost Limit

The Staffing Ratios have remained unchanged between 2013 and 2014 Rates at the following:

Child Caring Institution

Emergency Shelter	2.90
Open Residential	4.60
Open Residential plus Emergency Shelter	2.90
Staff Secure / Intensive Residential	2.90
Short-Term Diagnostic and Evaluation	4.60
Sexually Maladaptive Youth	3.00
Developmental and Intellectual Disabilities	2.20
Drug and Alcohol	2.90
Teen Mom and Baby	3.30
Independent Living / Residential Step Down	4.60

Group Home

Emergency Shelter	3.50
Open Residential	4.60
Open Residential plus Emergency Shelter	3.50
Short-Term Diagnostic and Evaluation	4.60
Sexually Maladaptive Youth	3.00
Developmental and Intellectual Disabilities	2.20
Drug and Alcohol	4.60
Teen Mom and Baby	3.30
Independent Living / Residential Step Down	4.60

Private Secure Facility

Secure Treatment	2.90
Short-Term Diagnostic and Evaluation	2.90
Sexually Maladaptive Youth	3.00
Developmental and Intellectual Disabilities	2.20
Drug and Alcohol	2.90

DCS Licensing Rule is the basis for how these ratios were determined. The basis was calculated assuming the lowest (highest staffed) allowable licensing ratios. Additional staffing was factored in for Staff Secure, CCI – Drug and Alcohol, Developmental and Intellectual Disabilities, Sexually Maladaptive Youth, and Teen Mom and Baby programs per consultation by programmatic staff. Outside of these programs, additional staff allowance was added to all other programs per the following manner: (1) a supervisor was added per six (6) direct care workers, (2) a case manager was added per twenty-four (24) cases(children), and (3) additional direct care staff added per programmatic staff consult.

(4) Occupancy Cost Limit

The Occupancy Limit has remained unchanged between 2013 and 2014 Rates at **80.00%**. The occupancy percentage was determined based on analysis by the DCS Rate Setting Department with consultation of various third parties and review of industries such as but not limited to Nursing Home Facilities and Hotels.



(5) Administrative Cost Limit

The limit for Administrative Costs for 2014 Rates was calculated to be **30.34%** of reported net salaries and wages. This percentage is the mean (21.72%) plus one standard deviation (8.62%) of (1) Indiana-based providers, (2) non-budgeted cost reports, and (3) non-outlying data points of all submitted RTSP cost reports. Non-outlying data points were determined based on the plotting of all data points per a normal distribution (bell-shaped) curve.

(6) Profit Margin

The profit margin built into the 2014 Rates for RTSPs was **3.79%**. This percentage was calculated by taking the historic (since inception of the DCS Rate Rules, i.e. 2012) average of DCS obtained profit margins for for-profit vendors that administer Indiana-based programs. The average profit margins DCS calculated for 2012, 2013, and 2014 were 7.47%, 3.54%, and 0.37% respectively. The period in which the profit margins were calculated relate to the period in which costs were reported on the DCS Cost Report.

(7) Rate Adjustments

Cost of Living Adjustment (COLA)

The COLA for 2014 RTSP Rates was calculated to be **3.84%**. The COLA for 2014 Rates is based on a two year adjustment period. The 3.84% is derived from weighting the Midwest - Employment Cost Index (ECI) and the Midwest Region (All Items) - Consumer Price Index (CPI) by personnel and non-personnel costs respectively, and then doubling the one year COLA to arrive at a two year COLA. The percentages of personnel/non-personnel costs were calculated by analyzing data from (1) Indiana-based providers and (2) non-budgeted cost reports only.

The percentage of personnel costs as they relate to total reported costs for the sorted RTSP Cost Reports, as stated in the previous paragraph, was 71.58%. According to Table 10 of the Employment Cost Index Historical Listing – Volume III July 2013³, reported quarterly ECI figures for 2011 were: 112.2 for Q1, 113.3 for Q2, 113.6 for Q3, and 113.9 for Q4; resulting in an average 2011 ECI of 113.250. The reported ECI figures for 2012 were: 114.7 for Q1, 115.3 for Q2, 115.6 for Q3, and 115.9 for Q4; resulting in an average 2012 ECI of 115.375. Once these annual averages were calculated, the percentage difference was then calculated arriving at the 2011 – 2012 ECI of 1.88%. Weighting the ECI of 1.88% by the percentage of personnel costs (71.58%) generates a weighted personnel portion for a one year COLA at 1.3431%. The following equation shows how the 1.3431% was calculated:

$$\left(\frac{(Average\ 2012\ ECI) - (Average\ 2011\ ECI)}{(Average\ 2011\ ECI)} \right) \times \% \text{ of Personnel Costs} = \text{Weighted Personnel 1 yr COLA}$$

$$\left(\frac{\left(\frac{114.7 + 115.3 + 115.6 + 115.9}{4} \right) - \left(\frac{112.2 + 113.3 + 113.6 + 113.9}{4} \right)}{\left(\frac{112.2 + 113.3 + 113.6 + 113.9}{4} \right)} \right) \times 71.58\% = 1.3431\%$$



The percentage of non-personnel costs as they relate to total reported costs for the sorted RTSP Cost Reports, as stated in the first paragraph of this section, was 28.42%. According to the Consumer Price Index – All Urban Consumers for the Midwest Region All Items^b, reported annual CPI figure for 2011 was 214.743. The reported annual CPI figure for 2012 was 219.100. Once these annual figures obtained, the percentage difference was then calculated arriving at the 2011 – 2012 CPI of 2.03%. Weighting the CPI of 2.03% by the percentage of non-personnel costs (28.42%) generates a weighted non-personnel portion for a one year COLA at 0.5767%. The following equation shows how the 0.5767% was calculated:

$$\left(\frac{(\text{Annual 2012 CPI}) - (\text{Annual 2011 CPI})}{(\text{Annual 2011 CPI})} \right) \times \% \text{ of Non - Personnel Costs}$$

$$= \text{Weighted Non - Personnel 1 yr COLA}$$

$$\left(\frac{(219.100) - (214.743)}{(214.743)} \right) \times 28.42\% = 0.5767\%$$

Once the weighted portion of the personnel and non-personnel COLAs were determined, the two figures were added together and then doubled to arrive at a weighted two year COLA of 3.84%. The following equation shows how the 3.84% was calculated:

$$(\text{Weighted Personnel 1 yr COLA} + \text{Weighted Non - Personnel 1 yr COLA}) \times 2 = \text{COLA}$$

$$(1.3431\% + 0.5767\%) \times 2 = 3.84\%$$

Sources:

a <ftp://ftp.bls.gov/pub/suppl/eci.echistrynaics.txt>

b <http://data.bls.gov/cgi-bin/surveymost?cu>



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