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PROVIDER MANUAL:
RESIDENTIAL TREATMENT SERVICES PROVIDER RATES BULLETIN 2016-1

November 4, 2016

COST LIMITS/ADJUSTMENTS FOR 2017 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 for 2017 rates.

(1) Salary Cost Limit

The Salary Cost Limits have remained unchanged between 2016 and 2017 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:

Tier	Cost Limit
(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 2017 Rates is **41%**. The actual calculated limit was 40.13%, but was rounded up to the nearest percent upon finalization. The 40.13% is derived from the mean (25.46%) plus two standard deviations (14.67%) of 1) Indiana-based providers, 2) non-budgeted cost reports, and 3) non-outlying data points of all submitted RTSP cost reports, rounded to four decimals.

Outlying data points were determined by calculating the z-score of all data points within the sample, and then removed for the purpose of this analysis. Remaining non-outlying data points were used to calculate the mean and standard deviation used in the calculation of the Fringe Benefits and Payroll Taxes Cost Limit. Outlying data points were identified by calculated z-scores of absolute value three (3) or greater.

(3) **Staffing Ratio Cost Limit**

The Staffing Ratios for 2017 remained unchanged from 2016. The limits are:

Child Caring Institution

Emergency Shelter	2.70
Open Residential	4.40
Open Residential plus Emergency Shelter	2.70
Staff Secure / Intensive Residential	2.70
Short-Term Diagnostic and Evaluation	2.70
Sexually Maladaptive Youth	2.70
Developmental and Intellectual Disabilities	2.00
Drug and Alcohol	2.70
Teen Mom and Baby	3.10
Independent Living / Residential Step Down	4.40

Group Home

Emergency Shelter	3.30
Open Residential	4.40
Open Residential plus Emergency Shelter	3.30
Short-Term Diagnostic and Evaluation	2.70
Sexually Maladaptive Youth	2.70
Developmental and Intellectual Disabilities	2.00
Drug and Alcohol	4.40
Teen Mom and Baby	3.10
Independent Living / Residential Step Down	4.40

Private Secure Facility

Secure Treatment	2.70
Short-Term Diagnostic and Evaluation	2.70
Sexually Maladaptive Youth	2.70
Developmental and Intellectual Disabilities	2.00
Drug and Alcohol	2.70

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

(4) **Occupancy Cost Limit**

The Occupancy Cost Limit has changed and will be set at the average monthly occupancy levels per the same period in which costs were gathered. The average occupancy of all providers for calendar year 2015 was 69.59%. The limit itself was rounded down and set at **69%**.

(5) Administrative Cost Limit

The limit for Administrative Costs for 2017 Rates is **37%**. The actual calculated limit was 36.85%, but was rounded up to the nearest percent upon finalization. The 36.85% is derived from the mean (26.48%) plus one standard deviation (10.37%) of 1) Indiana-based providers, 2) non-budgeted cost reports, and 3) non-outlying data points of all submitted RTSP cost reports, rounded to four decimals. Data points with a z-score of absolute value of three were determined to be outliers and were removed from the analysis prior to the calculation of the mean and standard deviation.

(6) Profit Margin

The Profit Margin built into the 2016 Rates for RTSPs was **5.99%**. 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 from 2012 through 2017 were as follows:

Rate Year	Cost Year	Profit Margin
2012	2010	7.47%
2013	2011	3.54%
2014	2012	0.37%
2015	2013	5.41%
2016	2014	9.23%
2017	2015	9.90%
Average		**5.99%**

The period in which the profit margins were calculated relate to the period in which costs were reported through the DCS Cost Reporting Process.

(7) Rate Adjustments

Cost of Living Adjustment (COLA)

The COLA for 2017 RTSP Rates was calculated to be **2.29%**. The COLA for 2017 Rates is based on a two year adjustment period. The 2.29% 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 was 69.58%. According to Table 6 of the Employment Cost Index for total compensation[1], for private industry workers, by bargaining status and census region and division for the Midwest region, reported ECI figures for 2014 and 2015 were as follows:

2014 ECI Indexes		2015 ECI Indexes	
Quarter 1	118.4	Quarter 1	121.2
Quarter 2	119.5	Quarter 2	121.4
Quarter 3	120.0	Quarter 3	122.1
Quarter 4	120.3	Quarter 4	122.5
Average	**119.550**	**Average**	**121.800**

[1] Includes wages, salaries, and employer costs for employee benefits.

Upon calculation of the annual averages, the percentage difference was calculated arriving at the 2014 – 2015 ECI of 1.88%. Weighting the ECI of 1.88% by the percentage of personnel costs of 69.58% yields a weighted personnel portion for a one year COLA of 1.3095%. The following equation shows how the 1.3095% was calculated:

$$\left(\frac{(Average\ 2015\ ECI) - (Average\ 2014\ ECI)}{(Average\ 2014\ ECI)}\right) \times \%\ of\ Personnel\ Costs = Weighted\ Personnel\ 1\ yr\ COLA$$

$$\left(\frac{(121.800) - (119.550)}{(119.550)}\right) \times 69.58\% = 1.3095\%$$

The percentage of non-personnel costs as they relate to total reported costs for the sorted RTSP Cost Reports was 30.42%. According to Table 10 of the Consumer Price Index for All Urban Consumers (CPI-U): Selected areas, all items index for the Midwest urban region, reported CPI figures for 2014 and 2015 were as follows:

2014 CPI Indexes		2015 CPI Indexes	
January	222.247	January	221.545
February	223.493	February	222.301
March	225.485	March	223.550
April	226.214	April	223.797
May	226.565	May	224.732
June	227.588	June	225.946
July	226.997	July	225.853
August	226.587	August	225.830
September	226.913	September	225.184
October	225.793	October	225.050
November	224.396	November	224.009
December	222.821	December	222.722
Average	**225.425**	**Average**	**224.210**

Upon calculation of the annual averages, the percentage difference was calculated arriving at the 2014 – 2015 CPI of 1.47%. Weighting the CPI of -0.54% by the percentage of non-personnel costs of 30.42% yields a weighted non-personnel portion for a one year COLA of -0.1640%. The following equation shows how the -0.1640% was calculated:

$$\left(\frac{(Annual\ 2015\ CPI) - (Annual\ 2014\ CPI)}{(Annual\ 2014\ CPI)}\right) \times \%\ of\ Non-Personnel\ Costs = Weighted\ Non-Personnel\ 1\ yr\ COLA$$

$$\left(\frac{(224.210) - (225.425)}{(225.425)}\right) \times 30.42\% = -0.1640\%$$

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 2.29%. The following equation shows how the 2.29% was calculated:

$$(Weighted\ Personnel\ 1\ yr\ COLA + Weighted\ Non-Personnel\ 1\ yr\ COLA) \times 2 = 2017\ Applied\ COLA$$

$$(1.3095\% + -0.1640\%) \times 2 = 2.29\%$$

Stabilization Factor

The rate stabilization factor is a means to limit the variability in rates, while providing incentive to those providers whose rates have declined between 2016 and 2017. The maximum allowable stabilization factor that can be applied to a single cost report was based on sixty (60) days' worth of Salary and Wages plus Fringe Benefits & Payroll Taxes cost as a percentage of reported costs on a given cost report. For 2017, Salary and Wages plus Fringe Benefits and Payroll Taxes as percentage of Reported Costs averaged 0.1923% per day. Multiplying this percentage by the sixty (60) day factor allows a maximum stabilization factor of 11.54% that could be applied to a single cost report. The stabilization factor is only applied to non-budgeted cost reports. The equation for how the stabilization factor is calculated is shown below.

$$(Average\ Daily\ Salary\ and\ Wages +\ Fringe\ Benefits\ \&\ Payroll\ Taxes\ \%\ of\ Reported\ Cost \times \#\ of\ covered\ payroll\ days) \times Percentile\ of\ Rate\ Decrease = Stabilization\ Factor$$

To show how the stabilization factor is applied, assume Cost Report A's rate was $100 in 2016 and decreased by 5% to $95 in 2017. Based on all non-budgeted cost reports that contained a rate decrease from 2016 to 2017, this cost report ranked in the 25th percentile of all cost reports with a rate decrease. Applying the formula from above, the rate tied to this cost report would get a Stabilization Factor of 2.88%.

$$(0.1923\% \times 60) \times 25\% = 2.88\%$$

Rate Year Adjustment

The purpose of the Rate Year Adjustment is to help agencies with the ability to plan for unexpected expenses that may occur in the upcoming year. The Rate Year Adjustment is calculated in the same manner as the COLA, however only one year of a COLA is used instead of two. The Rate Year Adjustment for 2017 is **1.15%**. The Rate Year Adjustment calculation is identified below:

$$(Weighted\ Personnel\ 1\ yr\ COLA + Weighted\ Non-Personnel\ 1\ yr\ COLA) = 2017\ Rate\ Year\ Adjustment$$

$$(1.3095\% + -0.1640\%) = 1.15\%$$