PROVIDER MANUAL:
CHILD PLACING AGENCY RATES BULLETIN 2014-1

October 29, 2014

COST LIMITS/ADJUSTMENTS FOR 2015 RATES

Pursuant to 465 IAC 2-17 DCS annually sets cost-based rates for Child Placing Agencies ("CPAs"). 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 2015 rates.

**(1)  Salary Cost Limit**

The Salary Cost Limits have remained unchanged between 2014 and 2015 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 2015 Rates was calculated to be **35.98%** of reported net salaries and wages. This percentage is derived from the mean (21.317%) plus two standard deviations (14.665%) of 1) Indiana-based providers, 2) non-budgeted cost reports, and 3) non-outlying data points of all submitted CPA 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.

*Protecting our children, families and future*

## (3)  Caseload Ratio Cost Limit

The Caseload Ratio cost limit was calculated separately and applied individually for each CPA cost report.  The equation that calculates the cost limit contains three variables specific to each child placing agency and four constants applied universally across all CPAs.

*Variables*
1) Utilization:  Total number of billable days per child that have been placed through the child placing agency identified on the DCS Cost Report.
2) Time Study Full Time Equivalents (FTEs):  Total number of FTEs identified in §3.1 Salary and Wages and §3.3 Contracted Services of the submitted DCS Cost Report.
3) Average # of Foster Homes:  The average number of foster homes an agency maintained per quarter from CY 2013 DCS Data.

*Constants*
1) Days of Operation:  Total number of operating days in the reporting year, i.e. 365 in 2013.
2) Caseworker Ratio:  The caseworker ratio is set at 8:1.  This allows for one caseworker FTE per eight cases.
3) Supervisor Ratio:  The supervisor ratio is set at 5:1 and allows for one supervisor FTE for every five caseworker FTEs.
4) Foster Home Ratio:  This ratio is set at 30:1 and allows for one FTE for every thirty (30) foster homes an agency maintains.

The equation showing the calculation of the Caseload Ratio Cost Limit is as follows:

$$1 - \left( \frac{\left( \frac{1}{\frac{\left(\frac{1}{Caseworker\ Ratio}\right)}{Supervisory\ Ratio} + \frac{1}{Caseworker\ Ratio}} \right) - \left( \frac{\left(\frac{Utilization}{Days\ of\ Operation}\right)}{Time\ Study\ FTEs - \left(\frac{Average\ \#\ of\ Foster\ Homes}{Foster\ Home\ Ratio}\right)} \right)}{\left( \frac{1}{\frac{\left(\frac{1}{Caseworker\ Ratio}\right)}{Supervisory\ Ratio} + \frac{1}{Caseworker\ Ratio}} \right)} \right)$$

numerator of entire expression:

$$\frac{\left( \frac{\left(\frac{Utilization}{Days\ of\ Operation}\right)}{Time\ Study\ FTEs} \right)}{}$$

*Example*
Assume the following variables for a 2013 calendar year cost reporting period:

1) Utilization:                1,000
2) Days of Operation:          365
3) Time Study FTEs:            2.0000
4) Caseworker Ratio:           8:1
5) Supervisor Ratio:           5:1
6) Average # of Foster Homes:  10
7) Foster Home Ratio:          30:1

$$\frac{\left(\frac{\left(\frac{1,000}{365}\right)}{2.0000}\right)}{1 - \left(\frac{\left(\left(\frac{1}{\left(\frac{\left(\frac{1}{8:1}\right)}{5:1}\right) + \frac{1}{8:1}}\right) - \left(\frac{\left(\frac{1,000}{365}\right)}{2.0000 - \left(\frac{10}{30:1}\right)}\right)\right)}{\left(\frac{1}{\left(\frac{\left(\frac{1}{8:1}\right)}{5:1}\right) + \frac{1}{8:1}}\right)}\right)} = Caseload\ Ratio\ Cost\ Limit$$

$$\frac{(1.36986301)}{1 - \left(\frac{(6.66666667) - (1.64383562)}{(6.66666667)}\right)} = 5.5556$$

### (4) Administrative Cost Limit

The limit for Administrative Costs for 2015 Rates was calculated to be **93.20%** of direct program costs. This percentage is the mean (65.252%) plus one standard deviation (27.945%) of 1) Indiana-based providers, 2) non-budgeted cost reports, and 3) non-outlying data points of all submitted CPA cost reports. 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.

### (5) Profit Margin

The Profit Margin built into the 2015 Rates for CPAs was **4.20%**. 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 2015 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% |
| **Average** | | **4.20%** |

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

### (6) Rate Adjustments

*Cost of Living Adjustment (COLA)*
The COLA for 2015 CPA Rates was calculated to be **2.90%**. The COLA for 2015 Rates is based on a two year adjustment period. The 2.90% 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 CPA Cost Reports was 66.03%. 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 2012 and 2013 were as follows:

| 2012 ECI Indexes | | 2013 ECI Indexes | |
|---|---|---|---|
| Quarter 1 | 114.7 | Quarter 1 | 116.2 |
| Quarter 2 | 115.3 | Quarter 2 | 117.0 |
| Quarter 3 | 115.7 | Quarter 3 | 117.4 |
| Quarter 4 | 115.9 | Quarter 4 | 117.8 |
| **Average** | **115.400** | **Average** | **117.100** |

Upon calculation of the annual averages, the percentage difference was calculated arriving at the 2012 – 2013 ECI of 1.47%. Weighting the ECI of 1.47% by the percentage of personnel costs of 66.03% yields a weighted personnel portion for a one year COLA at 0.9727%. The following equation shows how the 0.9727% was calculated:

$$\left( \frac{(Average\ 2013\ ECI) - (Average\ 2012\ ECI)}{(Average\ 2012\ ECI)} \right) \times \%\ of\ Personnel\ Costs = Weighted\ Personnel\ 1\ yr\ COLA$$

$$\left( \frac{(117.100) - (115.400)}{(115.400)} \right) \times 66.03\% = 0.9727\%$$

The percentage of non-personnel costs as they relate to total reported costs for the sorted CPA Cost Reports was 33.97%. 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 2012 and 2013 were as follows:

| 2012 CPI Indexes | | 2013 CPI Indexes | |
|---|---|---|---|
| January | 216.368 | January | 219.282 |
| February | 216.855 | February | 221.599 |
| March | 218.975 | March | 222.121 |
| April | 219.405 | April | 221.931 |
| May | 219.145 | May | 223.049 |
| June | 219.017 | June | 223.775 |
| July | 218.956 | July | 222.902 |
| August | 220.462 | August | 223.046 |
| September | 221.125 | September | 223.252 |
| October | 220.375 | October | 222.171 |
| November | 219.483 | November | 221.718 |
| December | 219.033 | December | 221.194 |
| **Average** | **219.100** | **Average** | **222.170** |

Upon calculation of the annual averages, the percentage difference was calculated arriving at the 2012 – 2013 CPI of 1.40%. Weighting the CPI of 1.40% by the percentage of non-personnel costs of 33.97% yields a weighted non-personnel portion for a one year COLA of 0.4760%. The following equation shows how the 0.4760% was calculated:

$$\left(\frac{(Annual\ 2013\ CPI) - (Annual\ 2012\ CPI)}{(Annual\ 2012\ CPI)}\right) \times \%\ of\ Non-Personnel\ Costs = Weighted\ Non-Personnel\ 1\ yr\ COLA$$

$$\left(\frac{(222.170) - (219.100)}{(219.100)}\right) \times 33.97\% = 0.4760\%$$

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 2.90%. The following equation shows how the 2.90% was calculated:

$$(Weighted\ Personnel\ 1\ yr\ COLA + Weighted\ Non-Personnel\ 1\ yr\ COLA) \times 2 = 2015\ Applied\ COLA$$

$$(0.9727\% + 0.4760\%) \times 2 = 2.90\%$$

## (7) 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 2014 and 2015. 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 Net Eligible costs calculated in the cost based rate. For 2015, Salary and Wages plus Fringe Benefits and Payroll Taxes as a percentage of Net Eligible Costs averaged 0.2221% per day. Multiplying this percentage by the sixty (60) day factor allows a maximum stabilization factor of 13.33% that could be applied to a single cost report. The equation for how the stabilization factor is calculated is shown below.

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

To show how the stabilization factor is applied, assume Cost Report A's rate was $100 in 2014 and decreased by 5% to $95 in 2015. Based on all non-budgeted cost reports that contained a rate decrease from 2014 to 2015, 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 3.33%.

$$(0.2221\% \times 60) \times 25\% = 3.33\%$$