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PROVIDER MANUAL:
CHILD PLACING AGENCY RATES BULLETIN 2013-1

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COST LIMITS/ADJUSTMENTS FOR 2014 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.

(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:

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 2014 Rates was calculated to be **31.37%** of reported net salaries and wages. This percentage is derived from the mean (22.44%) plus one standard deviation (8.93%) of (1) Indiana-based providers, (2) non-budgeted cost reports, and (3) non-outlying data points of all submitted CPA 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.

(3) Caseload Ratio Cost Limit

The Caseload Ratio cost limit was calculated separately for each CPA cost report. The utilization information that was conveyed through the cost report by each CPA was used to calculate the weighted category of supervision for each completed cost report. The caseload ratio was calculated per the following three steps:

Step 1

A weighted licensing ratio was calculated for each cost report. The weighted licensing ratio for each CPA cost report was calculated by obtaining the percentage breakdown for each of the four (4) different categories of supervision identified per each cost report. Each percentage was then multiplied by the corresponding licensing standard per the table below, and then summed to arrive at the weighted licensing ratio for each cost report.

Categories of Supervision	Licensing Standard
Category of Supervision 1 (Foster Care)	18 : 1
Category of Supervision 2 (Foster Care with Services)	12 : 1
Category of Supervision 3 (Therapeutic)	10 : 1
Category of Supervision 4 (Therapeutic Plus)	8 : 1

Example

Assume a cost report had a total of 1,000 days of utilization, and identified utilization per the categories of supervision as follows: Category of Supervision 1 = 400 days, Category of Supervision 2 = 300 days, Category of Supervision 3 = 200 days, and Category of Supervision 4 = 100 days. The percentage of utilization per each category of supervision is 40%, 30%, 20%, and 10% respectively. The corresponding licensing standard is then multiplied by this obtained percentage of utilization as follows: $(18 \times 40\%) + (12 \times 30\%) + (10 \times 20\%) + (8 \times 10\%) = 13.6000$. Once each individual CPA cost report's weighted licensing ratio was calculated, the average weighted licensing ratio for all CPAs was calculated (excluding budgeted reports); this calculated figure for 2014 Rates was 13.2614.

Step 2

After the calculation of the weighted licensing ratio of each CPA and the average weighted licensing ratio for all CPAs, an allowance was calculated to provide CPAs additional staff resources to ensure management of caseloads in accordance with licensing standards. Additional staff was added at a 5:1 ratio and then subsequently applied to the lowest ratio allowed per DCS Licensing Rules, i.e. 8:1. Therefore, for every 5 case management staff to manage Category of Supervision 4 cases at an 8:1 ratio, the cost of an additional 1 staff is allowed. This additional staffing allowance effectively lowers the allowable caseload ratio for Category of Supervision 4 to 6.6667. The following calculation illustrates how this was derived:

$$\frac{Number\ of\ Cases}{\left(\dfrac{\left(\dfrac{Number\ of\ Cases}{Licensing\ Standard: Category\ of\ Supervison\ 4}\right)}{Additional\ Staff\ Allowance\ Ratio}\right) + \dfrac{Number\ of\ Cases}{Licensing\ Standard: Category\ of\ Supervision\ 4}}$$
$$= Modified\ Caseload\ Ratio: Category\ of\ Supervision\ 4$$

$$\frac{1}{\left(\frac{\left(\frac{1}{8:1}\right)}{5:1}\right)+\frac{1}{8:1}} = 6.6667$$

This modified caseload ratio for Category of Supervision 4 calculated above was then represented as a percentage of the average weighted licensing ratio of all CPA Cost Reports (13.2614). The following equation shows this calculation:

$$\frac{Modified\ Caseload\ Ratio\ for\ Category\ of\ Supervision\ 4}{Average\ Weighted\ Licensing\ Ratio\ per\ All\ Non-budgeted\ CPA\ Cost\ Reports} = Modified\ Caseload\ Ratio\ Percentage$$

$$\frac{6.6667}{13.2614} = 50.27\%$$

<u>Step 3</u>
In order to calculate the final caseload ratio limit, each CPA cost report's weighted licensing ratio was multiplied by the modified caseload percentage (50.27%).

Example
Assuming the weighted licensing ratio per the example in Step 1 of this section (13.6000), the calculated caseload ratio would have been 6.8367. The following shows how this would be calculated:

$$Weighted\ Licensing\ Ratio\ per\ Cost\ Report \times Modified\ Caseload\ Percentage = Caseload\ Ratio\ Limit$$

$$13.6000 \times 50.27\% = 6.8367$$

(4) <u>Administrative Cost Limit</u>

The limit for Administrative Costs for 2014 Rates was calculated to be **<u>85.54%</u>** of reported net salaries and wages. This percentage is the mean (61.67%) plus one standard deviation (23.87%) of (1) Indiana-based providers, (2) non-budgeted cost reports, and (3) non-outlying data points of all submitted CPA cost reports. Non-outlying data points were determined based on the plotting of all data points per a normal distribution (bell-shaped) curve.

(5) <u>Profit Margin</u>

The profit margin built into the 2014 Rates for CPAs was **<u>3.79%</u>**. 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.

(6) Rate Adjustments

Cost of Living Adjustment (COLA)
The COLA for 2014 CPA Rates was calculated to be **3.85%**. 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 CPA Cost Reports, as stated in the previous paragraph, was 69.22%. According to Table 10 of the Employment Cost Index Historical Listing – Volume III July 2013[a], 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 (69.22%) generates a weighted personnel portion for a one year COLA at 1.2988%. The following equation shows how the 1.2988% was calculated:

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

$$\left(\frac{\left(\frac{114.7 + 115.3 + 115.6 + 115.9}{4}\right) - \left(\frac{112.2 + 113.3 + 113.6 + 113.9}{4}\right)}{\left(\frac{112.2 + 113.3 + 113.6 + 113.9}{4}\right)}\right) \times 69.22\% = 1.2988\%$$

The percentage of non-personnel costs as they relate to total reported costs for the sorted CPA Cost Reports, as stated in the first paragraph of this section, was 30.78%. 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 (30.78%) generates a weighted non-personnel portion for a one year COLA at 0.6246%. The following equation shows how the 0.6246% was calculated:

$$\left(\frac{(Annual\ 2012\ CPI) - (Annual\ 2011\ CPI)}{(Annual\ 2011\ CPI)}\right) \times \%\ of\ Non-Personnel\ Costs = Weighted\ Non-Personnel\ 1\ yr\ COLA$$

$$\left(\frac{(219.100) - (214.743)}{(214.743)}\right) \times 30.78\% = 0.6246\%$$

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 3.85%. The following equation shows how the 3.85% was calculated:

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

$$(1.2988\% + 0.6246\%) \times 2 = 3.84\%$$

Sources:

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

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