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**PROVIDER MANUAL:
RESIDENTIAL TREATMENT SERVICES PROVIDER RATES BULLETIN 2016-2**

October 24, 2017

COST LIMITS/ADJUSTMENTS FOR 2018 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 2018 rates.

(1) Salary Cost Limit

The Salary Cost Limits have remained unchanged between 2017 and 2018 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 2018 Rates is **42%**. The actual calculated limit was 41.27%, but was rounded up to the nearest percent upon finalization. The 41.27% is derived from the mean (25.67%) plus two standard deviations (15.60%) 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.



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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 2018 remained unchanged from 2017. 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 is 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 2016 was 70.86%. The limit itself was rounded down and set at **70%**.

(5) Administrative Cost Limit

The limit for Administrative Costs for 2018 Rates is **40%**. The actual calculated limit was 39.80%, but was rounded up to the nearest percent upon finalization. The 39.80% is derived from the mean (28.56%) plus one standard deviation (11.24%) 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 2018 Rates for RTSPs was **6.78%**. 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 through 2018 were as follows:

<u>Rate Year</u>	<u>Cost Year</u>	<u>Profit Margin</u>
2012	2010	7.47%
2013	2011	3.54%
2014	2012	0.37%
2015	2013	5.41%
2016	2014	9.23%
2017	2015	9.90%
2018	2016	<u>11.57%</u>
Average		6.78%

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 2018 RTSP Rates was calculated to be **3.87%**. The COLA for 2018 Rates is based on a two year adjustment period. The 3.87% 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 69.97%. According to Table 6 of the Employment Cost Index for total compensation¹, for private industry workers, by bargaining status and census region and division for the Midwest region, reported ECI figures for 2015 and 2016 were as follows:

<u>2015 ECI Indexes</u>		<u>2016 ECI Indexes</u>	
Quarter 1	121.2	Quarter 1	123.4
Quarter 2	121.4	Quarter 2	124.5
Quarter 3	122.1	Quarter 3	125.3
Quarter 4	<u>122.5</u>	Quarter 4	<u>125.7</u>
Average	121.800	Average	124.725

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

Upon calculation of the annual averages, the percentage difference was calculated arriving at the 2015 – 2016 ECI of 2.40%. Weighting the ECI of 2.40% by the percentage of personnel costs of 69.97% yields a weighted personnel portion for a one year COLA of 1.6804%. The following equation shows how the 1.6804% was calculated:

$$\left(\frac{(Average\ 2016\ ECI) - (Average\ 2015\ ECI)}{(Average\ 2015\ ECI)} \right) \times \% \text{ of Personnel Costs} = \text{Weighted Personnel 1 yr COLA}$$

$$\left(\frac{(124.725) - (121.800)}{(121.800)} \right) \times 69.97\% = 1.6804\%$$

The percentage of non-personnel costs as they relate to total reported costs for the sorted RTSP Cost Reports was 30.03%. 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 2015 and 2016 were as follows:

<u>2015 CPI Indexes</u>		<u>2016 CPI Indexes</u>	
January	221.545	January	223.301
February	222.301	February	223.196
March	223.550	March	224.621
April	223.797	April	225.609
May	224.732	May	226.478
June	225.946	June	227.828
July	225.853	July	226.777
August	225.830	August	227.101
September	225.184	September	227.636
October	225.050	October	227.358
November	224.009	November	226.673
December	<u>222.722</u>	December	<u>226.794</u>
Average	224.210	Average	226.114

Upon calculation of the annual averages, the percentage difference was calculated arriving at the 2015 – 2016 CPI of 0.85%. Weighting the CPI of 0.85% by the percentage of non-personnel costs of 30.03% yields a weighted non-personnel portion for a one year COLA of 0.2551%. The following equation shows how the 0.2551% was calculated:

$$\left(\frac{(Annual\ 2016\ CPI) - (Annual\ 2015\ CPI)}{(Annual\ 2015\ CPI)} \right) \times \% \text{ of Non - Personnel Costs} = \text{Weighted Non - Personnel 1 yr COLA}$$

$$\left(\frac{(226.114) - (224.210)}{(224.210)} \right) \times 30.03\% = 0.2551\%$$

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 3.87%. The following equation shows how the 3.87% was calculated:

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

$$(1.6804\% + 0.2551\%) \times 2 = 3.87\%$$

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 2017 and 2018. 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 2018, Salary and Wages plus Fringe Benefits and Payroll Taxes as a percentage of Reported Costs averaged 0.1865% per day. Multiplying this percentage by the sixty (60) day factor allows a maximum stabilization factor of **11.19%** that could be applied to a single cost report. The stabilization factor is only applied to non-budgeted cost reports, and will yield a 2018 rate that is no higher than it had been the prior year. The equation for how the stabilization factor is calculated is shown below.

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

To show how the stabilization factor is applied, assume Cost Report A's rate was \$100 in 2017 and decreased by 5% to \$95 in 2018. Based on all non-budgeted cost reports that contained a rate decrease from 2017 to 2018, 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 2.80%.

$$(0.1865\% \times 60) \times 25\% = 2.80\%$$

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 2018 is **1.94%**. The Rate Year Adjustment calculation is identified below:

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

$$(1.6804\% + 0.2551\%) = 1.94\%$$