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PROVIDER MANUAL: CHILD PLACING AGENCY RATES BULLETIN 2017-1

October 24, 2017

COST LIMITS/ADJUSTMENTS FOR 2018 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 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 **37%**. The actual calculated limit was 36.95%, but was rounded up to the nearest percent upon finalization. The 36.95% is derived from the mean (22.43%) plus two standard deviations (14.52%) 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.



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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) Caseload Ratio Cost Limit

The methodology used to calculate the Caseload Ratio Cost Limit was unchanged between 2017 and 2018 rates. 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 Equivalentents (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 2015 DCS Data.

Constants

- 1) Days of Operation: Total number of operating days in the reporting year, i.e. 366 in 2016.
- 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:

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

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

Example

Assume the following variables for a 2016 calendar year cost reporting period:

- | | |
|-----------------------|-------|
| 1) Utilization: | 1,000 |
| 2) Days of Operation: | 366 |
| 3) Time Study FTEs: | 2,000 |

- 4) Caseworker Ratio: 8:1
- 5) Supervisor Ratio: 5:1
- 6) Average # of Foster Homes: 10
- 7) Foster Home Ratio: 30:1

$$\frac{\left(\frac{\left(\frac{1,000}{366}\right)}{2.0000}\right)}{1 - \frac{\left(\frac{1}{\left(\frac{\left(\frac{1}{\left(\frac{1}{5:1}\right)} + \frac{1}{8:1}\right)}\right) - \left(\frac{\left(\frac{1,000}{366}\right)}{2.0000 - \left(\frac{10}{30:1}\right)}\right)}{\left(\frac{1}{\left(\frac{\left(\frac{1}{\left(\frac{1}{5:1}\right)} + \frac{1}{8:1}\right)}\right)}\right)}\right)} = \text{Caseload Ratio Cost Limit}$$

$$\frac{(1.36612022)}{1 - \frac{\left(\frac{(6.66666667) - (1.63934426)}{(6.66666667)}\right)} = 5.5556$$

(4) Administrative Cost Limit

The cost limit for Administrative Costs for 2018 Rates is **86%**. The actual calculated limit was 85.11%, but was rounded up to the nearest percent upon finalization. The 85.11% is derived from the mean (64.65%) plus one standard deviation (20.46%) 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. 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 2018 Rates for CPAs 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:

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%
2018	2016	11.57%
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.

(6) Rate Adjustments

Cost of Living Adjustment (COLA)

The COLA for 2018 CPA Rates was calculated to be **3.65%**. The COLA for 2018 Rates is based on a two year adjustment period. The 3.65% 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 62.99%. 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	122.5	Quarter 4	125.7
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 62.99% yields a weighted personnel portion for a one year COLA at 1.5127%. The following equation shows how the 1.5127% was calculated:

$$\left(\frac{(Average\ 2016\ ECI) - (Average\ 2015\ ECI)}{(Average\ 2015\ ECI)} \right) \times \% \text{ of Personnel Costs} = \text{Weighted Personnel 1 yr COLA}$$
$$\left(\frac{(124.725) - (121.800)}{(121.800)} \right) \times 62.99\% = 1.5127\%$$

The percentage of non-personnel costs as they relate to total reported costs for the sorted CPA Cost Reports was 37.01%. 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 37.01% yields a weighted non-personnel portion for a one year COLA of 0.3143%. The following equation shows how the 0.3143% was calculated:

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

$$\left(\frac{(226.114) - (224.210)}{(224.210)} \right) \times 37.01\% = 0.3143\%$$

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 3.65%. The following equation shows how the 3.65% was calculated:

$$(\text{Weighted Personnel 1 yr COLA} + \text{Weighted Non - Personnel 1 yr COLA}) \times 2 = \text{2018 Applied COLA}$$

$$(1.5127\% + 0.3143\%) \times 2 = 3.65\%$$

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.

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

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 intended 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 **1.83%**. The Rate Year Adjustment calculation is identified below:

$$(Weighted Personnel 1 yr COLA + Weighted Non - Personnel 1 yr COLA) = 2018 Rate Year Adjustment$$

$$(1.5127\% + 0.3143\%) = 1.83\%$$