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**PROVIDER MANUAL:  
RESIDENTIAL TREATMENT SERVICES PROVIDER RATES BULLETIN 2019-1**

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**COST LIMITS/ADJUSTMENTS FOR 2020 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 2020 rates.

**(1) Salary Cost Limit**

The Salary Cost Limits have remained unchanged between 2019 and 2020 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 2020 Rates is **42%**. The actual calculated limit was 41.05%, but was rounded up to the nearest percent upon finalization. The 41.05% is derived from the mean (25.87%) plus two standard deviations (15.18%) 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 2020 remained unchanged from 2019. The limits are:

Child Caring Institution

Emergency Shelter	2.7
Open Residential	4.4
Open Residential plus Emergency Shelter	2.7
Staff Secure / Intensive Residential	2.7
Short-Term Diagnostic and Evaluation	2.7
Sexually Maladaptive Youth	2.7
Developmental and Intellectual Disabilities	2.0
Drug and Alcohol	2.7
Teen Mom and Baby	3.1
Independent Living / Residential Step Down	4.4
Stabilization and Diagnostic Services	2.7

Group Home

Emergency Shelter	3.3
Open Residential	4.4
Open Residential plus Emergency Shelter	3.3
Short-Term Diagnostic and Evaluation	2.7
Sexually Maladaptive Youth	2.7
Developmental and Intellectual Disabilities	2.0
Drug and Alcohol	4.4
Teen Mom and Baby	3.1
Independent Living / Residential Step Down	4.4

Private Secure Facility

Secure Treatment	2.7
Short-Term Diagnostic and Evaluation	2.7
Sexually Maladaptive Youth	2.7
Developmental and Intellectual Disabilities	2.0
Drug and Alcohol	2.7
Sex Trafficking	2.7

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, Sex Trafficking, Stabilization and Diagnostic Services, 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 2018 was 67.80%. The limit itself was rounded down and set at **67%**.

#### **(5) Administrative Cost Limit**

The limit for Administrative Costs for 2020 Rates is **41%**. The actual calculated limit was 40.10%, but was rounded up to the nearest percent upon finalization. The 40.10% is derived from the mean (29.48%) plus one standard deviation (10.62%) 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 2020 Rates for RTSPs was **7.08%**. 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 2013 through 2020 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	11.57%
2019	2017	10.07%
2020	2018	6.13%
<b>Average</b>		<b>7.08%</b>

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 2020 RTSP Rates was calculated to be **4.90%**. The COLA for 2020 Rates is based on a two year adjustment period. The 4.90% 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 RTSP Cost Reports was 71.38%. According to Table 6 of the Employment Cost Index for total compensation<sup>1</sup>, for private industry workers, by bargaining status and census region and division for the Midwest region, reported ECI figures for 2017 and 2018 were as follows:

<u>2017 ECI Indexes</u>		<u>2018 ECI Indexes</u>	
Quarter 1	126.8	Quarter 1	129.8
Quarter 2	127.4	Quarter 2	130.6
Quarter 3	128.0	Quarter 3	131.6
Quarter 4	128.5	Quarter 4	132.3
<b>Average</b>	<b>127.675</b>	<b>Average</b>	<b>131.075</b>

<sup>1</sup> Includes wages, salaries, and employer costs for employee benefits.

Upon calculation of the annual averages, the percentage difference was calculated arriving at the 2017 – 2018 ECI of 2.66%. Weighting the ECI of 2.66% by the percentage of personnel costs of 71.38% yields a weighted personnel portion for a one year COLA of 1.9008%. The following equation shows how the 1.9008% was calculated:

$$\left( \frac{(Average\ 2018\ ECI) - (Average\ 2017\ ECI)}{(Average\ 2017\ ECI)} \right) \times \% \text{ of Personnel Costs} = \text{Weighted Personnel 1 yr COLA}$$

$$\left( \frac{(131.075) - (127.675)}{(127.675)} \right) \times 71.38\% = 1.9008\%$$

The percentage of non-personnel costs as they relate to total reported costs for the sorted RTSP Cost Reports was 28.62%. 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 2017 and 2018 were as follows:

<u>2017 CPI Indexes</u>		<u>2018 CPI Indexes</u>	
January	228.279	January	232.028
February	228.633	February	232.512
March	228.824	March	232.931
April	229.682	April	233.913
May	229.705	May	235.065
June	229.780	June	235.455
July	229.820	July	235.346
August	230.443	August	235.276
September	231.030	September	235.524
October	230.660	October	235.680
November	231.084	November	234.292
December	230.548	December	233.458
<b>Average</b>	<b>229.874</b>	<b>Average</b>	<b>234.290</b>

Upon calculation of the annual averages, the percentage difference was calculated arriving at the 2017 – 2018 CPI of 1.92%. Weighting the CPI of 1.92% by the percentage of non-personnel costs of 28.62% yields a weighted non-personnel portion for a one year COLA of 0.5499%. The following equation shows how the 0.5499% was calculated:

$$\left( \frac{(\text{Annual 2018 CPI}) - (\text{Annual 2017 CPI})}{(\text{Annual 2017 CPI})} \right) \times \% \text{ of Non - Personnel Costs} = \text{Weighted Non - Personnel 1 yr COLA}$$

$$\left( \frac{(234.290) - (229.874)}{(229.874)} \right) \times 28.62\% = 0.5499\%$$

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 4.90%. The following equation shows how the 4.90% was calculated:

$$(\text{Weighted Personnel 1 yr COLA} + \text{Weighted Non - Personnel 1 yr COLA}) \times 2 = 2020 \text{ Applied COLA}$$

$$(1.9008\% + 0.5499\%) \times 2 = 4.90\%$$

### ***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 2019 and 2020. 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 2020, Salary and Wages plus Fringe Benefits and Payroll Taxes as a percentage of Reported Costs averaged 0.1901% per day. Multiplying this percentage by the sixty (60) day factor allows a maximum stabilization factor of **11.41%** that could be applied to a single cost report. The stabilization factor is only applied to non-budgeted cost reports, and will yield a 2020 rate that is no higher than it had been the prior year. The equation for how the stabilization factor is calculated is shown below.

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

To show how the stabilization factor is applied, assume Cost Report A's rate was \$100 in 2019 and decreased by 5% to \$95 in 2020. Based on all non-budgeted cost reports that contained a rate decrease from 2019 to 2020, this cost report ranked in the 25<sup>th</sup> 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 2.85%.

$$(0.1901\% \times 60) \times 25\% = 2.85\%$$

### ***Rate Year Adjustment***

For 2020, the Rate year Adjustment includes two parts:

$$3\text{rd Year COLA} + \text{Operating Margin} = 2020 \text{ Rate Year Adjustment}$$

- **3<sup>rd</sup> Year COLA:** which is in place to assist agencies with the ability to plan for unexpected expenses that may occur in the upcoming year. The 3<sup>rd</sup> Year COLA is calculated in the same

manner as the COLA, however only one year of a COLA is used instead of two. The 3<sup>rd</sup> Year COLA for 2020 is **2.45%**. The 3<sup>rd</sup> Year COLA calculation is identified below:

$$(Weighted\ Personnel\ 1\ yr\ COLA + Weighted\ Non - Personnel\ 1\ yr\ COLA) = 3rd\ Year\ COLA$$

$$(1.9008\% + 0.5499\%) = 2.45\%$$

- **Operating Margin:** only applies to Public and Private 501(c)(3) vendor types. The Operating Margin is calculated by subtracting the identified 3<sup>rd</sup> Year COLA from the calculated Profit Margin as identified above. The Operating Margin for 2020 is **4.63%**. The Operating Margin calculation is identified below:

$$Profit\ Margin - 3rd\ Year\ COLA = Operating\ Margin$$

$$7.08\% - 2.45\% = 4.63\%$$