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PROVIDER MANUAL: CHILD PLACING AGENCY RATES BULLETIN 2023-1

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2024 RATES: COST LIMITS / ADJUSTMENTS and FOSTER PARENT PER DIEM

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 2024 rates.

(1) Salary Cost Limit

The Salary Cost Limits are being increased by 3.85%. This increase represents the Midwest – Employment Cost Index (ECI) percentage change as calculated for the Cost of Living Adjustment (COLA). 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	Previous Cost Limit	ECI % Change	Updated Cost Limit
Less than \$1 million in revenue	\$129,029	3.85%	\$133,997
Between \$1 million & \$5 million	\$161,287	3.85%	\$167,497
Greater than \$5 million in revenue	\$225,802	3.85%	\$234,495

The original base for the salary cost limits were determined based on analysis by the DCS Rate Setting Department with consultation of various third parties and review of the Child Welfare League of America (CWLA) 2009 Salary Study.

(2) Fringe Benefits and Payroll Taxes Cost Limit

The cost limit for Fringe Benefits and Payroll Taxes is 41%. The actual calculated limit was 40.69% but was rounded up to the nearest percent.

In determining the actual calculated limit, non-budgeted cost report data submitted for Indiana-based providers is utilized. Cost report data where a DCS desk audit was still in process were excluded. Additionally, outlying data is excluded. Outlying data is determined based on a calculated z-score.



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Remaining non-outlying data is used to calculate the average [mean] and standard deviation. The actual calculated limit is determined by taking the average Fringe Benefits and Payroll Taxes percentage plus two standard deviations and rounding to four decimals.

The limit was calculated as follows:

- Determine each CPA's Fringe Benefit and Payroll Tax Percentage. This was calculated by taking the reported total allowable Fringe Benefit & Payroll Tax costs and dividing by the reported total allowable Salary & Wages.
- Determining the average [mean] percentage of the Fringe Benefit and Payroll Tax Percentage. This was calculated as a simple average of the individual CPA percentages.
- Determine the standard deviation percentage of the Fringe Benefit and Payroll Tax Percentage. The standard deviation is a measure of how dispersed the data is in related to the average [mean].
- Determine the z-Score for each CPA. The z-score is a measure of how many standard deviations the value is from the average [mean].
- Remove outlying data where the z-score is three (3) or greater.
- Recalculate the average and standard deviation after excluding outliers.

Based on the calculation, the average Fringe Benefits and Payroll Taxes percentage was 24.67% and the standard deviation was 8.01%.

Accordingly, the actual calculated limit equals 40.69% [24.67% + 8.01% + 8.01%].

(3) Administrative Cost Limit

The cost limit for Administrative Costs is 115%. The actual calculated limit was 114.18% but was rounded up to the nearest percent.

In determining the actual calculated limit, non-budgeted cost report data submitted for Indiana-based providers is utilized. Cost report data where a DCS desk audit was still in process were excluded. Additionally, outlying data is excluded. Outlying data is determined based on a calculated z-score with an absolute value of three (3) or greater.

Remaining non-outlying data is used to calculate the average [mean] and standard deviation. The actual calculated limit is determined by taking the average Administrative Percentage plus one standard deviation and rounding to four decimals.

The limit was calculated as follows:

- Determine each CPA's Administrative Percentage. This was calculated by taking the reported total allowable Administrative costs and dividing by the reported total allowable Direct costs after removal of Unallowable and Administrative costs.
- Determining the average [mean] percentage of the Administrative Percentage. This was calculated as a simple average of the individual CPA's percentages.
- Determine the standard deviation percentage of the Administrative Percentage. The standard deviation is a measure of how dispersed the data is in related to the average [mean].
- Determine the z-Score of the individual CPA.
- Remove outlying data points based on an absolute value z-score of three (3) or
- Recalculate the average and standard deviation after excluding outliers.

Based on the calculation, the average Administrative Percentage was 86.86% and the standard deviation was 27.32%.

Accordingly, the actual calculated limit equals 114.18% [86.86% + 27.32%].

(4) Profit Margin

The Profit Margin is **7.41%**. This percentage was calculated by determining the average profit margin from for-profit vendors that administer Indiana-based programs since the 2012 inception of the DCS Rate Rules. The average profit margins DCS calculated for 2012 through 2024 were as follows:

<u>Rate Year</u>	<u>Cost Year</u>	<u>Profit Margin</u>	<u>Cumulative Average</u>
2012	2010	7.47%	7.47%
2013	2011	3.54%	5.51%
2014	2012	0.37%	3.79%
2015	2013	5.41%	4.20%
2016	2014	9.23%	5.20%
2017	2015	9.90%	5.99%
2018	2016	11.57%	6.78%
2019	2017	10.07%	7.20%
2020	2018	6.13%	7.08%
2021	2019	10.21%	7.39%
2022	2020	6.74%	7.33%
2023	2021	10.56%	7.60%
2024	2022	5.16%	7.41%
Average		7.41%	

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

(5) Caseload Ratio Cost Limit

The methodology used to calculate the Caseload Ratio Cost Limit is unchanged. 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 Equivalent (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 2022 DCS Data.

Constants:

- 1) Days of Operation: Total number of operating days in the reporting year, i.e. 365 in 2022.
- 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:

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

Example:

Assume the following variables for the cost reporting period:

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

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

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

(6) Rate Adjustments

Cost of Living Adjustment (COLA)

The COLA is 7.86%. The actual calculated COLA was 7.8628% but was rounded to two decimals. The COLA is intended to account for the period of time between the cost report period and the period in which rates are in effect. As such, a 1-year COLA is calculated and multiplied by two (2).

The COLA is determined utilizing a combination of the Midwest - Employment Cost Index (ECI), the Midwest Region (All Items) - Consumer Price Index (CPI), and cost report data. Non-budgeted cost report data submitted for Indiana-based providers is utilized. Cost report data where a DCS desk audit was still in process were excluded.

The COLA was calculated as follows:

- Determine the ECI % change. The ECI % change is 3.85%. This was determined utilizing the indexes from 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. The ECI % change is calculated by taking the difference between the June 2023 index and the average 2022 index and dividing it by the average 2022 index.

2022 ECI Indexes	
March	147.9
June	149.9
September	151.8
December	152.8
Average	150.6

2023 ECI Indexes	
March	154.6
June	156.4

ECI % Change	
June 2023	156.4
Average 2022	150.6
Difference [156.4 – 150.6]	5.8
ECI % Change [5.8 / 150.6]	3.85%

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

- Determine the CPI-U % change. The CPI-U % change is 4.16%. This was determined utilizing the indexes from Table 10 of the Consumer Price Index for All Urban Consumers (CPI-U): Selected areas, all items index for the Midwest urban region. This is determined by taking the difference between the June 2023 index and average 2022 index and dividing it by the average 2022 index.

2022 CPI-U Indexes	
January	261.657
February	263.988
March	267.312
April	268.639
May	272.673
June	277.072
July	276.525
August	275.875
September	276.549
October	276.908
November	276.436
December	275.182
Average	272.401

2023 CPI-U Indexes	
January	277.332
February	278.672
March	280.330
April	281.927
May	282.656
June	283.741

CPI-U % Change	
June 2023	283.741
Average 2022	272.401
Difference [283.741 – 272.401]	11.34
CPI-U % Change [11.34 / 272.401]	4.16%

- Determine the percentage of personnel costs as they relate to total reported costs. The percentage of personnel cost is 74.29%. This was determined by summing for all providers the reported allowable personnel costs [less excess of cap] and dividing it by the reported allowable direct costs [less of cap].

- Determine the percentage of non-personnel costs as they relate to total reported costs. The percentage of non-personnel cost is 25.71%. This was determined by summing for all providers the reported allowable non-personnel direct costs [less excess of cap] and dividing it by the reported allowable direct costs [less of cap]. Non-personnel costs include direct costs for child/resident, operating, occupancy, and travel.
- Determine the COLA. This was derived by weighting the ECI by the percentage of personnel costs and the CPI-U by the percentage of non-personnel costs and then summing together.

ECI	
ECI % change	3.85%
% of personnel costs	74.29%
Weighted ECI [3.85% * 74.29%]	2.8611%

CPI-U	
CPI-U % Change	4.16%
% of non-personnel costs	25.71%
Weighted CPI-U [4.16% * 25.71%]	1.0703%

COLA	
Weighted ECI	2.8611%
Weighted CPI-U	1.0703%
1-Year COLA	3.9314%
2-Year COLA [1-Year COLA * 2]	7.8628%

Rate Year Adjustment

The Rate Year Adjustment is 3.93%. The intended purpose of the Rate Year Adjustment is to help agencies with the ability to plan for the unexpected expenses that may occur in the upcoming year. The Rate Year Adjustment is equal to the 1-Year COLA round to two decimals.

Stabilization Factor

The rate Stabilization Factor is a means to limit the variability in rates. The maximum Stabilization Factor is 31.27%.

The maximum stabilization factor that can be applied to a single cost report is 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. As expected, overall salary costs have increased and this increase is represented in this averaged percentage for the year. Salary and Wages plus Fringe Benefits and Payroll Taxes as a percentage of Reported Costs averaged 0.5212% per day. Multiplying this percentage by the sixty (60) day factor equates to the maximum stabilization factor.

To be eligible for a stabilization factor, a program or set of programs included in the cost report data resulted in a calculated rate lower than the prior year. The stabilization factor is only applied to non-budgeted cost reports. Additionally, the application of a stabilization factor will not result in a rate that is higher than it had been the prior year.

The equation for how the stabilization factor is calculated is shown below:

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

To show how the stabilization factor is applied, assume Cost Report A's rate was \$100 in 2022 and decreased by 5% to \$95 in 2023. Based on all non-budgeted cost reports that contained a rate decrease from 2022 to 2023, this 5% decrease 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 7.82%.

$$(0.5212\% \times 60) \times 25\% = 7.82\%$$

Operating Margin Adjustment

During the recent legislative session, additional funds were appropriated for an operating margin for non-profit organizations. As such, an operating margin adjustment has been applied of 2.8%. This percentage was calculated based upon a fiscal estimate using actual rates [before rate adjustments] and actual utilization. The percentage has decreased from the original 3.2% due to higher base rates as well as increased utilization.

(7) Foster Parent Per Diem

The Foster Parent Per Diem adjustment is 4.16%. This corresponds to the CPI-U percentage change as calculated under the same methodology utilized to calculate the COLA adjustment. The Foster Parent Per Diem adjustment percentage is applied to the Foster Care rate of the previous year. Then the difference between the current year rate and the prior year rate is applied to the higher CANS levels.

The Foster Parent Per Diem rates for 2024 are as follows:

Program (Age 0-4)	2023 Rates	Increase	2024 Rates
Foster Care	\$23.95	4.16%	\$24.95
Foster Care with Services	\$31.72	\$1.00	\$32.72
Therapeutic Foster Care	\$43.86	\$1.00	\$44.86
Therapeutic Plus	\$67.61	\$1.00	\$68.61
Increase = Difference between 2024 and 2023 rate (\$24.95 - \$23.95 = \$1.00)			
Program (Age 5-13)	2023 Rates	Increase	2024 Rates
Foster Care	\$25.99	4.16%	\$27.07
Foster Care with Services	\$33.71	\$1.08	\$34.79
Therapeutic Foster Care	\$45.85	\$1.08	\$46.93
Therapeutic Plus	\$69.60	\$1.08	\$70.68
Increase = Difference between 2024 and 2023 rate (\$27.07 - \$25.99 = \$1.08)			
Program (Age 14-18)	2023 Rates	Increase	2024 Rates
Foster Care	\$30.00	4.16%	\$31.25
Foster Care with Services	\$37.62	\$1.25	\$38.87
Therapeutic Foster Care	\$49.76	\$1.25	\$51.01
Therapeutic Plus	\$73.51	\$1.25	\$74.76
Increase = Difference between 2024 and 2023 rate (\$31.25 - \$30.00 = \$1.25)			

To further enhance Foster Parent Per Diem rates, an additional 5.5% will be applied for the upcoming January 1, 2024 rates. The 5.5% was applied to the base Foster Care Rate at each age group which was effective January 1, 2023. Then the higher levels received the same increase. This methodology is the same as the standard increase each year.

Program	2023 Rates	Increase	Additional Increase
Foster Care (Age 0-4)	\$23.95	5.5%	\$1.32
Foster Care (Age 5-13)	\$25.99	5.5%	\$1.43
Foster Care (Age 14-18)	\$30.00	5.5%	\$1.65

Combining the standard increase and the additional increase results in final Foster Care Per Diem rates as follows:

Program (Age 0-4)	2024 Rates	Additional Increase	Final 2024 Rates
Foster Care	\$24.95	\$1.32	\$26.27
Foster Care with Services	\$32.72	\$1.32	\$34.04
Therapeutic Foster Care	\$44.86	\$1.32	\$46.18
Therapeutic Plus	\$68.61	\$1.32	\$69.93
Program (Age 5-13)			
Foster Care	\$27.07	\$1.43	\$28.50
Foster Care with Services	\$34.79	\$1.43	\$36.22
Therapeutic Foster Care	\$46.93	\$1.43	\$48.36
Therapeutic Plus	\$70.68	\$1.43	\$72.11
Program (Age 14-18)			
Foster Care	\$31.25	\$1.65	\$32.90
Foster Care with Services	\$38.87	\$1.65	\$40.52
Therapeutic Foster Care	\$51.01	\$1.65	\$52.66
Therapeutic Plus	\$74.76	\$1.65	\$76.41