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**PROVIDER MANUAL:  
RESIDENTIAL TREATMENT SERVICES PROVIDER RATES BULLETIN 2014-3**

October 29, 2014

COST LIMITS/ADJUSTMENTS FOR 2015 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 2015 rates.

**(1) Salary Cost Limit**

The Salary Cost Limits have remained unchanged between 2014 and 2015 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 2015 Rates was calculated to be **41.95%** of reported net salaries and wages. This percentage is derived from the mean (25.114%) plus two standard deviations (16.834%) 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. 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.



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### **(3) Staffing Ratio Cost Limit**

The Staffing Ratios for 2015 rates are:

#### Child Caring Institution

Emergency Shelter	2.90
Open Residential	4.60
Open Residential plus Emergency Shelter	2.90
Staff Secure / Intensive Residential	2.90
Short-Term Diagnostic and Evaluation	2.90
Sexually Maladaptive Youth	2.90
Developmental and Intellectual Disabilities	2.20
Drug and Alcohol	2.90
Teen Mom and Baby	3.30
Independent Living / Residential Step Down	4.60

#### Group Home

Emergency Shelter	3.50
Open Residential	4.60
Open Residential plus Emergency Shelter	3.50
Short-Term Diagnostic and Evaluation	2.90
Sexually Maladaptive Youth	2.90
Developmental and Intellectual Disabilities	2.20
Drug and Alcohol	4.60
Teen Mom and Baby	3.30
Independent Living / Residential Step Down	4.60

#### Private Secure Facility

Secure Treatment	2.90
Short-Term Diagnostic and Evaluation	2.90
Sexually Maladaptive Youth	2.90
Developmental and Intellectual Disabilities	2.20
Drug and Alcohol	2.90

DCS Licensing Rule is the basis for how these ratios were determined. 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 has remained unchanged between 2014 and 2015 Rates at **80.00%**. The occupancy percentage was determined based on analysis by the DCS Rate Setting Department with consultation of various third parties and review of industries such as but not limited to Nursing Home Facilities and Hotels.

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

The limit for Administrative Costs for 2015 Rates was calculated to be **35.38%** of direct program costs. This percentage is the mean (24.574%) plus one standard deviation (10.805%) of 1) Indiana-based providers, 2) non-budgeted cost reports, and 3) non-outlying data points of all submitted RTSP cost reports. 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 2015 Rates for RTSPs was **4.20%**. 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 from 2012 through 2015 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	<b>5.41%</b>
<b>Average</b>		<b>4.20%</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 2015 RTSP Rates was calculated to be **2.90%**. The COLA for 2015 Rates is based on a two year adjustment period. The 2.90% 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 70.09%. 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 2012 and 2013 were as follows:

<u>2012 ECI Indexes</u>		<u>2013 ECI Indexes</u>	
Quarter 1	114.7	Quarter 1	116.2
Quarter 2	115.3	Quarter 2	117.0
Quarter 3	115.7	Quarter 3	117.4
Quarter 4	<u>115.9</u>	Quarter 4	<u>117.8</u>
<b>Average</b>	<b>115.400</b>	<b>Average</b>	<b>117.100</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 2012 – 2013 ECI of 1.47%. Weighting the ECI of 1.47% by the percentage of personnel costs of 70.09% yields a weighted personnel portion for a one year COLA of 1.0326%. The following equation shows how the 1.0326% was calculated:

$$\left( \frac{(Average\ 2013\ ECI) - (Average\ 2012\ ECI)}{(Average\ 2012\ ECI)} \right) \times \% \text{ of Personnel Costs} = \text{Weighted Personnel 1 yr COLA}$$

$$\left( \frac{(117.100) - (115.400)}{(115.400)} \right) \times 70.09\% = 1.0326\%$$

The percentage of non-personnel costs as they relate to total reported costs for the sorted RTSP Cost Reports was 29.91%. 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 2012 and 2013 were as follows:

<b>2012 CPI Indexes</b>		<b>2013 CPI Indexes</b>	
January	216.368	January	219.282
February	216.855	February	221.599
March	218.975	March	222.121
April	219.405	April	221.931
May	219.145	May	223.049
June	219.017	June	223.775
July	218.956	July	222.902
August	220.462	August	223.046
September	221.125	September	223.252
October	220.375	October	222.171
November	219.483	November	221.718
December	<u>219.033</u>	December	<u>221.194</u>
<b>Average</b>	<b>219.100</b>	<b>Average</b>	<b>222.170</b>

Upon calculation of the annual averages, the percentage difference was calculated arriving at the 2012 – 2013 CPI of 1.40%. Weighting the CPI of 1.40% by the percentage of non-personnel costs of 29.91% yields a weighted non-personnel portion for a one year COLA of 0.4191%. The following equation shows how the 0.4191% was calculated:

$$\left( \frac{(Annual\ 2013\ CPI) - (Annual\ 2012\ CPI)}{(Annual\ 2012\ CPI)} \right) \times \% \text{ of Non - Personnel Costs} = \text{Weighted Non - Personnel 1 yr COLA}$$

$$\left( \frac{(222.170) - (219.100)}{(219.100)} \right) \times 29.91\% = 0.4191\%$$

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 2.90%. The following equation shows how the 2.90% was calculated:

$$(\text{Weighted Personnel 1 yr COLA} + \text{Weighted Non - Personnel 1 yr COLA}) \times 2 = \text{2015 Applied COLA}$$

$$(1.0326\% + 0.4191\%) \times 2 = 2.90\%$$

### **(8) 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 2014 and 2015. 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 Net Eligible costs calculated in the cost based rate. For 2015, Salary and Wages plus Fringe Benefits and Payroll Taxes as a percentage of Net Eligible Costs averaged 0.2221% per day. Multiplying this percentage by the sixty (60) day factor allows a maximum stabilization factor of 13.33% that could be applied to a single cost report. The equation for how the stabilization factor is calculated is shown below.

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

To show how the stabilization factor is applied, assume Cost Report A's rate was \$100 in 2014 and decreased by 5% to \$95 in 2015. Based on all non-budgeted cost reports that contained a rate decrease from 2014 to 2015, 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 3.33%.

$$(0.2221\% \times 60) \times 25\% = 3.33\%$$