



Michael R. Pence, Governor  
Mary Beth Bonaventura, Director

**Indiana Department of Child Services**  
Room E306 – MS47  
302 W. Washington Street  
Indianapolis, Indiana 46204-2738

317-234-KIDS  
FAX: 317-234-4497

[www.in.gov/dcs](http://www.in.gov/dcs)

**Child Support Hotline: 800-840-8757**  
**Child Abuse and Neglect Hotline: 800-800-5556**

## **PROVIDER MANUAL: CHILD PLACING AGENCY RATES BULLETIN 2015-1**

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### **COST LIMITS/ADJUSTMENTS FOR 2016 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 2016 rates.

#### **(1) Salary Cost Limit**

The Salary Cost Limits have remained unchanged between 2015 and 2016 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 2016 Rates is **37%**. The actual calculated limit was 36.19%, but was rounded up to the nearest percent upon finalization. The 36.19% is derived from the mean (21.685%) plus two standard deviations (14.416%) 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. 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.



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### (3) Caseload Ratio Cost Limit

The methodology used to calculate the Caseload Ratio Cost Limit was unchanged between 2015 and 2016 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 Equivalents (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 2014 DCS Data.

#### *Constants*

- 1) Days of Operation: Total number of operating days in the reporting year, i.e. 365 in 2014.
- 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:

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

#### *Example*

Assume the following variables for a 2014 calendar year cost reporting period:

- |                               |        |
|-------------------------------|--------|
| 1) Utilization:               | 1,000  |
| 2) Days of Operation:         | 365    |
| 3) Time Study FTEs:           | 2,0000 |
| 4) Caseworker Ratio:          | 8:1    |
| 5) Supervisor Ratio:          | 5:1    |
| 6) Average # of Foster Homes: | 10     |
| 7) Foster Home Ratio:         | 30:1   |

$$\frac{\left(\frac{1,000}{365}\right)}{2.0000} = \text{Caseload Ratio Cost Limit}$$

$$1 - \frac{\left(\frac{1}{\left(\frac{1}{\left(\frac{1}{5:1}\right)} + \frac{1}{8:1}\right)}\right) - \left(\frac{1,000}{365}\right) \left(\frac{10}{30:1}\right)}{\left(\frac{1}{\left(\frac{1}{\left(\frac{1}{5:1}\right)} + \frac{1}{8:1}\right)}\right)}$$

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

**(4) Administrative Cost Limit**

The cost limit for Administrative Costs for 2016 Rates is **94%**. The actual calculated limit was 93.35%, but was rounded up to the nearest percent upon finalization. The 93.35% is derived from the mean (67.311%) plus one standard deviation (26.041%) 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 2016 Rates for CPAs was **5.20%**. 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 2016 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	<u>9.23%</u>
<b>Average</b>		<b>5.20%</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.

**(6) Rate Adjustments**

***Cost of Living Adjustment (COLA)***

The COLA for 2016 CPA Rates was calculated to be **3.75%**. The COLA for 2016 Rates is based on a two year adjustment period. The 3.75% 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 64.99%. 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 2013 and 2014 were as follows:

<u>2013 ECI Indexes</u>		<u>2014 ECI Indexes</u>	
Quarter 1	116.2	Quarter 1	118.4
Quarter 2	117.0	Quarter 2	119.5
Quarter 3	117.4	Quarter 3	120.0
Quarter 4	<u>117.8</u>	Quarter 4	<u>120.3</u>
<b>Average</b>	<b>117.100</b>	<b>Average</b>	<b>119.550</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 2013 – 2014 ECI of 2.09%. Weighting the ECI of 2.09% by the percentage of personnel costs of 64.99% yields a weighted personnel portion for a one year COLA at 1.3598%. The following equation shows how the 1.3598% was calculated:

$$\left( \frac{(Average\ 2014\ ECI) - (Average\ 2013\ ECI)}{(Average\ 2013\ ECI)} \right) \times \% \text{ of Personnel Costs} = \text{Weighted Personnel 1 yr COLA}$$

$$\left( \frac{(119.550) - (117.100)}{(117.100)} \right) \times 64.99\% = 1.3598\%$$

The percentage of non-personnel costs as they relate to total reported costs for the sorted CPA Cost Reports was 35.01%. 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 2013 and 2014 were as follows:

January	219.282	January	222.247
February	221.599	February	223.493
March	222.121	March	225.485
April	221.931	April	226.214
May	223.049	May	226.565
June	223.775	June	227.588
July	222.902	July	226.997
August	223.046	August	226.587
September	223.252	September	226.913
October	222.171	October	225.793
November	221.718	November	224.396
December	<u>221.194</u>	December	<u>222.821</u>
<b>Average</b>	<b>222.170</b>	<b>Average</b>	<b>225.425</b>

Upon calculation of the annual averages, the percentage difference was calculated arriving at the 2013 – 2014 CPI of 1.47%. Weighting the CPI of 1.47% by the percentage of non-personnel costs

of 35.01% yields a weighted non-personnel portion for a one year COLA of 0.5129%. The following equation shows how the 0.5129% was calculated:

$$\left(\frac{(Annual\ 2014\ CPI) - (Annual\ 2013\ CPI)}{(Annual\ 2013\ CPI)}\right) \times \% \text{ of Non - Personnel Costs} = \text{Weighted Non - Personnel 1 yr COLA}$$

$$\left(\frac{(225.425) - (222.170)}{(222.170)}\right) \times 35.01\% = 0.5129\%$$

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 3.75%. The following equation shows how the 3.75% was calculated:

$$(\text{Weighted Personnel 1 yr COLA} + \text{Weighted Non - Personnel 1 yr COLA}) \times 2 = \text{2016 Applied COLA}$$

$$(1.3598\% + 0.5129\%) \times 2 = 3.75\%$$

### ***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 2015 and 2016. 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 2016, Salary and Wages plus Fringe Benefits and Payroll Taxes as a percentage of Reported Costs averaged 0.3031% per day. Multiplying this percentage by the sixty (60) day factor allows a maximum stabilization factor of 18.19% that could be applied to a single cost report. The equation for how the stabilization factor is calculated is shown below.

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

To show how the stabilization factor is applied, assume Cost Report A's rate was \$100 in 2015 and decreased by 5% to \$95 in 2016. Based on all non-budgeted cost reports that contained a rate decrease from 2015 to 2016, 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 4.55%.

$$(0.3031\% \times 60) \times 25\% = 4.55\%$$

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

The Rate Year Adjustment is new for 2016. 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 2016 is **1.87%**. The Rate Year Adjustment calculation is identified below:

$$(\text{Weighted Personnel 1 yr COLA} + \text{Weighted Non - Personnel 1 yr COLA}) = \text{2016 Rate Year Adjustment}$$

$$(1.3598\% + 0.5129\%) = 1.87\%$$