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**PROVIDER MANUAL:**
**RESIDENTIAL TREATMENT SERVICES PROVIDER RATES BULLETIN 2022-1**

October 15, 2022

## COST LIMITS/ADJUSTMENTS FOR 2023 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 2023 rates.

### (1) Salary Cost Limit

To keep up with rising employee costs, the salary cost limits were elevated for the 2023 rate cycle. The percentage increase in these limits was determined utilizing the change in the average Midwest - Employment Cost Index (ECI)for 2012 in comparison to the average Midwest – ECI for 2022 (through June). 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 | Cost Limit |
|---|---|
| (1): Less than $1 million in revenue | $129,029 |
| (2): Between $1 million & $5 million | $161,287 |
| (3): Greater than $5 million in revenue | $225,802 |

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 CWLA 2009 Salary Study.

### (2) Fringe Benefits and Payroll Taxes Cost Limit

The cost limit for Fringe Benefits and Payroll Taxes for 2023 Rates is **45%**. The actual calculated limit was 44.22% but was rounded up to the nearest percent upon finalization. The 44.22% is derived from the mean (26.91%) plus two standard deviations (17.31%) 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. 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 2023 have been reviewed, adjusted, and are now specific to each cost report and are based on the average children served per day. The ratios adapt to the increase in placements that would warrant that next additional direct care staff. The breakdown of how each cost report's specific Staffing Ratio Limit is as follows:

**Direct Care**: This is how the base of the Staffing Ratio Limit is determined. Cost Reports start with a base ratio of 8:1 for a Group Home (GH), 6:1 for a Child Caring Institution (CCI) and 4:1 for a Private Secure Facility (PSF). Once it is determined what type of license each cost report adheres to, a new ratio is assigned based on reported utilization. For example, if a cost report has an identified license type of CCI, and averages 8 children per day, their base ratio would be 8:2.

**Direct Care Program Adjustment**: Once the base ratio is determined, the allotted direct care staff would increase if the cost report pertained to a program service category type that is beyond the basic level, meaning beyond that of a GH (Open Residential), CCI (Open Residential), and PSF (Secure Treatment). This add-on would be calculated in the following manner. If a cost report is identified as a CCI (Staff Secure/Intensive Residential), an additional 0.3864 FTEs/shift would be added to account for the more involved level of care. The 0.3864 FTEs is calculated by the following equation: $(4.4 - 2.7) \div 4.4 = 0.3864$. In this equation, the 4.4 represents the 2022 Staffing Ratio Limit for CCI (Open Residential) programs, the 2.7 represents the 2022 Staffing Ratio Limit for a CCI (Staff Secure / Intensive Residential).

**Additional Direct Care**: For every 1 direct care worker needed per licensing rules, an additional 0.5 FTE direct care worker will be added to account for responsibilities such as transportation of the youth and one-on-one supervision occurrences. For example, if a cost report allows for 2 direct care staff on a given shift, this piece of our Staffing Ratio Limit calculation will allow an additional 1 FTE to provide the responsibilities listed above, for each shift.

**Additional Direct Care for Private Secure Facility**: Much like the Additional Direct Care section, if a cost report is identified as a Private Secure Facility (PSF), an additional 1 FTE will be added to account for licensing rules that states that 2 staff need to be always present for a Private Secure Facility license type.

**Supervisor**: A supervisor allotment will then be added to our calculation at a ratio of 5:1, meaning 5 direct care workers to every 1 supervisor.

**Case Manager**: A case manager FTE will be accounted for at a ratio of 24:1, meaning for every 24 children, 1 case manager position will be allowed.

*Example*

Assume the following variables:

1. Utilization: 3,000
2. Days of Operation: 365
3. License Type: PSF
4. Program Service Category Type: Developmental and Intellectual Disabilities

### Direct Care

$$(Utilization \div Days\ of\ Operation) \div Licensing\ Requirement = Allowed\ Base\ Direct\ Care\ Workers\ by\ Shift$$

$$(3{,}000 \div 365) \div 4 = 2.0548, rounding\ up\ to\ to\ whole\ FTE = 3.0000$$

### Direct Care Program Adjustment

$$Allowed\ Base\ Direct\ Care\ Workers\ by\ Shift \times (1 + ((2022\ Staffing\ Ratio\ for\ Base\ Level\ License\ Type - 2022\ Staffing\ Ratio\ for\ higher\ intensive\ Program\ Service\ Category) \div 2022\ Staffing\ Ratio\ for\ Base\ Level\ License\ Type) = Direct\ Care\ Program\ Adjustment$$

$$3.0000 \times (1 + ((2.7 - 2.0) \div 2.7)) = 3.7778$$

### Additional Direct Care

$$Allowed\ Based\ Direct\ Care\ Workers\ by\ Shift \times 0.5000 = Additional\ Direct\ Care$$

$$3.0000 \times 0.5000 = 1.5000$$

### Additional Direct Care for Private Secure Facility

$$If\ License\ Type\ is\ PSF,\quad Allowed\ Based\ Direct\ Care\ Workers\ by\ Shift \times 1.0000 = Additional\ Direct\ Care\ for\ Private\ Secure\ Facility$$

$$3.0000 \times 1.0000 = 3.0000$$

### Supervisor

$$(Direct\ Care\ Worker\ Subtotal\ i.e.\ B + C + D) \div 5 = Direct\ Care\ Supervisor$$

$$(3.7778 + 1.5000 + 3.0000) \div 5 = 1.6556$$

### Case Manager

$$((Utilization \div Days\ of\ Operation) \div Case\ Manager\ Ratio) \div FTEs\ for\ 1 - 8\ hours\ shift\ per\ year = Case\ Manager\ FTE$$

$$((3{,}000 \div 365) \div 24) \div 4.2 = 0.0815$$

$$(Utilization \div Days\ of\ Operation) \div (B + C + D + E + F) = Staffing\ Ratio$$

$$(3{,}000 \div 365) \div (3.7778 + 1.5000 + 3.0000 + 1.6556 + 0.0815) = 0.8207$$

## (4) Occupancy Cost Limit

For the 2023 Rate Cycle, the Occupancy Cost limit is dissolved and set at **0%.** This eliminates any disallowances for occupancy-related costs that are factored into the rate setting equation.

## (5) Administrative Cost Limit

The limit for Administrative Costs for 2023 Rates is **51%**. The actual calculated limit was 50.67%, but was rounded up to the nearest percent upon finalization. The 50.67% is derived from the mean (34.83%) plus one standard deviation (15.84%) 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 2023 Rates for RTSPs was **7.60%**. 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 2023 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% |
| 2019 | 2017 | 10.07% |
| 2020 | 2018 | 6.13% |
| 2021 | 2019 | 10.21% |
| 2022 | 2020 | 6.74% |
| 2023 | 2021 | 10.56% |
| **Average** | | **7.60%** |

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 2023 RTSP Rates was calculated to be **12.30%**. The COLA for 2023 Rates is based on a six-month adjustment period. The 12.30% 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 74.98%. According to Table 6 of the Employment Cost Index for total compensation[1], for private industry workers, by bargaining status and census region and division for the Midwest region, reported ECI figures for 2021 and 2022 were as follows:

| 2021 ECI Indexes | | | 2022 ECI Indexes | |
|---|---|---|---|---|
| Quarter 1 | 140.7 | | Quarter 1 | 147.9 |
| Quarter 2 | 141.8 | | Quarter 2 | 149.9 |
| Quarter 3 | 143.5 | | Quarter 3 | |
| Quarter 4 | 145.5 | | Quarter 4 | |
| **Average** | **142.875** | | | |

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

Upon calculation of the annual averages, the percentage difference was calculated arriving at the 2021 – Quarter 2 2022 ECI of 4.92%. Weighting the ECI of 4.92% by the percentage of personnel costs of 74.98% yields a weighted personnel portion for a one-year COLA of 3.6866%. The following equation shows how the 3.6866% was calculated:

$$\left(\frac{(Quarter\ 2\ 2022\ ECI) - (Average\ 2021\ ECI)}{(Average\ 2021\ ECI)}\right) \times \%\ of\ Personnel\ Costs = Weighted\ Personnel\ 1\ yr\ COLA$$

$$\left(\frac{(149.900) - (142.875)}{(142.875)}\right) \times 74.98\% = 3.6866\%$$

The percentage of non-personnel costs as they relate to total reported costs for the sorted RTSP Cost Reports was 25.02%. 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 2021 and 2022 were as follows:

| 2021 CPI Indexes | | | 2022 CPI Indexes | |
|---|---|---|---|---|
| January | 242.552 | | January | 261.657 |
| February | 244.477 | | February | 263.988 |
| March | 246.246 | | March | 267.312 |
| April | 248.169 | | April | 268.639 |
| May | 250.582 | | May | 272.673 |
| June | 253.042 | | June | 277.072 |
| July | 254.671 | | | |
| August | 255.142 | | | |
| September | 255.709 | | | |
| October | 257.793 | | | |
| November | 258.911 | | | |
| December | 259.609 | | | |
| **Average** | **252.242** | | | |

Upon calculation of the annual averages, the percentage difference was calculated arriving at the 2021 – June 2022 CPI of 9.84%. Weighting the CPI of 9.84% by the percentage of non-personnel costs of 25.02% yields a weighted non-personnel portion for a one-year COLA of 2.4631%. The following equation shows how the 2.4631% was calculated:

$$\left(\frac{(June\ 2022\ CPI) - (Annual\ 2021\ CPI)}{(Annual\ 2021\ CPI)}\right) \times \%\ of\ Non-Personnel\ Costs = Weighted\ Non-Personnel\ 1\ yr\ COLA$$

$$\left(\frac{(277.072) - (252.242)}{(252.242)}\right) \times 25.02\% = 2.4631\%$$

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 12.30%. The following equation shows how the 12.30% was calculated:

$$(Weighted\ Personnel\ 1\ yr\ COLA + Weighted\ Non - Personnel\ 1\ yr\ COLA) \times 2 = 2023\ Applied\ COLA$$

$$(3.6866\% + 2.4631\%) \times 2 = 12.30\%$$

### *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 2022 and 2023. 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 2023, Salary and Wages plus Fringe Benefits and Payroll Taxes as a percentage of Reported Costs averaged 0.1903% per day. Multiplying this percentage by the sixty (60) day factor allows a maximum stabilization factor of **11.42%** that could be applied to a single cost report. The stabilization factor is only applied to non-budgeted cost reports and will yield a 2023 rate that is no higher than it had been the prior year. The equation for how the stabilization factor is calculated is shown below.

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

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 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 2.85%.

$$(0.1903\% \times 60) \times 25\% = 2.85\%$$

### *Rate Year Adjustment*

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 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 2023 is **6.15%**. The Rate Year Adjustment calculation is identified below:

$$Weighted\ Personnel\ 1\ yr\ COLA + Weighted\ Non - Personnel\ 1\ yr\ COLA) = 2023\ Rate\ Year\ Adjustment$$

$$3.6866\% + 2.4631\% = 6.15\%$$

## (8) Paycheck Protection Program (PPP) and Cares Act Funding Revenue

The DCS has elected not to net out costs due to revenues received from the PPP and Cares Act Funding streams; however, the Title IV-E Rate does have these revenues netted out of associated costs. To do this, the DCS allowed for the rate system to calculate the Title IV-E Rates as normal in

§7.7 Augmented Rates, allowing PPP and Cares Act Funding Revenue to net out of associated costs. Costs were then added back and allocated to appropriate silos in §7.8 Applied Rates.