PROVIDER MANUAL: RESIDENTIAL TREATMENT SERVICES PROVIDER RATES BULLETIN 2025-1

November 15, 2025

2026 RATES: COST LIMITS / ADJUSTMENTS

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 2026 rates.

(1) Salary Cost Limit

The Salary Cost Limits remain the same as they were in rate year 2025 for rate year 2026. The tiers and their relative cost limits are as follows:

Tier	2025 Cost Limit	2026 Cost Limit
Less than $1 million in revenue	$133,997	$133,997
Between $1 million & $5 million	$167,497	$167,497
Greater than $5 million in revenue	$234,495	$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 31.99%.

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.

Data is used to calculate the median and standard deviation. The actual calculated limit is determined by taking the average Fringe Benefits and Payroll Taxes percentage plus one standard deviations and rounding to four decimals.

The limit was calculated as follows:

- Determine each RTSP's Fringe Benefit and Payroll Tax Percentage. This is calculated by taking the reported total allowable Fringe Benefit & Payroll Tax expenses and dividing by the reported total allowable Salary & Wages.
- Determining the median percentage of the Fringe Benefit and Payroll Tax Percentage.
- 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 relation to the median.
- Recalculate the median and standard deviation after excluding outliers.

Based on the calculation, the median Fringe Benefits and Payroll Taxes percentage was 22.37% and the standard deviation was 9.62%.

Accordingly, the actual calculated limit equals 31.99% [22.37% + 9.62%].

(3) Administrative Cost Limit

The cost limit for Administrative Costs is 43.18%.

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.

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Data is used to calculate the median 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 RTSP's Administrative Percentage. This is 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 median percentage of the Administrative Percentage.
- 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 median.
- Determine the z-Score of the individual RTPS.

Based on the calculation, the median Administrative Percentage was 29.96% and the standard deviation was 13.22%.

Accordingly, the actual calculated limit equals 43.18% [29.96% + 13.22%].

(4) Profit Margin

The Profit Margin is **6.03%**. This percentage was calculated by determining the average profit margin from for-profit vendors that administer Indiana-based programs for the last 5 years. If a cost report was not submitted for the 2026 rate setting, no profit margin will be added. The average profit margins DCS calculated through 2026 were as follows:

Rate Year	Cost Year	Profit Margin
2022	2020	6.74%
2023	2021	10.56%
2024	2022	5.16%
2025	2023	8.17%
2026	2024	-0.47%
Average		6.03%

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) Staffing Ratio Cost Limit

The Staffing Ratio Cost Limit is a minimum staffing requirement to ensure that adequate staffing is maintained to care for the children in the program.

The Staffing Ratios continue to be 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 2023 Staffing Ratio Limit for CCI (Open Residential) programs, the 2.7 represents the 2023 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 for the cost reporting period:

Utilization	3,000
Days of Operation	365
License Type	Private Secure
Program Service Category Type	Developmental and Intellectual Disabilities

Indiana Department of Child Services | 302 W Washington Street, Indianapolis, IN 46204 | 317-234-KIDS
www.in.gov/DCS | Child Support Bureau Kidsline: (800) 840-8757 | Child Abuse & Neglect Hotline: (800) 800-5556

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 [*B*]

$Allowed\ Base\ Direct\ Care\ Workers\ by\ Shift \times (1 + ((2023\ Staffing\ Ratio\ for\ Base\ Level\ License\ Type - 2023\ Staffing\ Ratio\ for\ higher\ intensive\ Program\ Service\ Category) \div 2023\ Staffing\ Ratio\ for\ Base\ Level\ License\ Type) = Direct\ Care\ Program\ Adjustment$

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

***Additional Direct Care [*C*]**

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

$Additional\ Direct\ Care$ $3.0000 \times 0.5000 = 1.5000$

Additional Direct Care for Private Secure Facility [*D*]

$If\ License\ Type\ is\ PSF,$

$Allowed\ Based\ Direct\ Care\ Workers\ by\ Shift \times 1.0000 = Additional\ Direct\ Care\ for\ Private\ Secure\ Facility$ $3.0000 \times 1.0000 = 3.0000$

Supervisor [*E*]

$(Direct\ Care\ Worker\ Subtotal\ i.e.\ B + C + D) \div 5 = Direct\ Care\ Supervisor$ $(3.7778 + 1.5000 + 3.0000) \div 5 =$

1.6556

Case Manager [*F*]

$((Utilization \div Days\ of\ Operation) \div Case\ Manager\ Ratio) \div FTEs\ for\ 1 - 8\ hours\ shift\ per\ year = Case\ Manager\ FTE$ $((3{,}000 \div 365) \div 24) \div 4.2 = 0.0815$

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

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

For this example, the staffing ratio would be adjusted from 3.000 to 0.8207. Thus, preventing any adjustment when the reported ratio is above 0.8207. Previously, the program would have been adjusted if the reported ratio was below 3.000.

(6) Rate Adjustments

Cost of Living Adjustment (COLA)

There are no COLA adjustments in the 2026 rates.

Rate Year Adjustment

There are no Rate Year Adjustments in the 2026 rates.

Stabilization Factor

The rate Stabilization Factor is a means to limit the variability in rates. The maximum Stabilization Factor is **11.14%**.

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 0.1858% 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 at least 15.01% 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.

If % decrease is 15.00% or less, no stabilization factor is applied.

If % decrease is greater than 15.01% or more, equation below shows how the stabilization factor is applied:

$$(\text{Lesser of } 11.14\% \text{ or } \% \text{ Decrease} - 15.00\%)$$

*To illustrate how the stabilization factor is applied, assume Cost Report A had a rate of $100 in 2025, which decreased by 20% to $80 in 2026. The decrease exceeds the 15% threshold by 5%. Because this 5% is less than the maximum allowable stabilization factor of 11.14%, a 5% stabilization factor will be applied to Cost Report A.

Operating Margin Adjustment

During a prior 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.