PROVIDER MANUAL: RESIDENTIAL TREATMENT SERVICES PROVIDER RATES BULLETIN 2024-1

October 31, 2024

2025 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 2025 rates.

(1) Salary Cost Limit

The Salary Cost Limits remain the same as they were in rate year 2024 for rate year 2025. The tiers and their relative cost limits are as follows:

Tier	2024 Cost Limit	2025 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 45%. The actual calculated limit was 44.44% 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.

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 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 average [mean] percentage of the Fringe Benefit and Payroll Tax Percentage. This is calculated as a simple average of the individual RTSP 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 relation to the average [mean].
- Determine the z-Score for each RTSP. 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 24.98% and the standard deviation was 9.73%.

Accordingly, the actual calculated limit equals 44.44% [24.98% + 9.73% + 9.73%].

(3) Administrative Cost Limit

The cost limit for Administrative Costs is 47%. The actual calculated limit was 46.13% 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 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 average [mean] percentage of the Administrative Percentage. This is calculated as a simple average of the individual RTSP 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 RTPS.
- 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 33.34% and the standard deviation was 12.79%.

Accordingly, the actual calculated limit equals 46.13% [33.34% + 12.79%].

(4) Profit Margin

The Profit Margin is **7.47%**. 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 2025 were as follows:

Rate Year	Cost Year	Profit Margin	Cumulative Average
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%
2025	2023	8.17%	7.47%
Average		**7.47%**	

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) ÷ 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

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*]

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

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

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

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

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)

The COLA is **6.56%**. The actual calculated COLA was 6.5608% 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 3.41%. This was determined utilizing the indexes from 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. The ECI % change is calculated by taking the difference between the June 2024 index and the average 2023 index and dividing it by the average 2023 index.

2023 ECI Indexes	
March	154.6
June	156.4
September	157.5
December	158.5
Average	156.75

2024 ECI Indexes	
March	160.7
June	**162.1**

ECI % Change	
June 2024	162.1
Average 2023	156.75
Difference [162.1 – 156.75]	5.35
ECI % Change [5.35 / 156.8]	**3.41%**

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

- Determine the CPI-U % change. The CPI-U % change is 2.84% This was determined utilizing the indexes from 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 2024 index and average 2023 index and dividing it by the average 2023 index.

2023 CPI-U Indexes	
January	277.332
February	278.672
March	280.330
April	281.927
May	282.656
June	283.741
July	284.640
August	285.122
September	285.276
October	284.981
November	284.539
December	283.908
Average	**282.760**

2024 CPI-U Indexes	
January	284.731
February	286.346
March	288.301
April	289.718
May	290.355
June	**290.779**

CPI-U % Change	
June 2024	290.779
Average 2023	282.760
Difference [290.779 – 282.760]	8.019
CPI-U % Change [8.019 282.760]	**2.84%**

- Determine the percentage of personnel costs as they relate to total reported costs. The percentage of personnel cost is 77.01%. 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 22.99%. 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	3.41%
% of personnel costs	77.01%
Weighted ECI [3.41% * 77.01%	2.63%

CPI-U	
CPI-U % Change	2.84%
% of non-personnel costs	22.99%
Weighted CPI-U [2.84% *22.99%]	0.65%

COLA	
Weighted ECI	2.63%
Weighted CPI-U	0.65%
1-Year COLA	3.28%
2-Year COLA [1-Year COLA * 2]	**6.56%**

Rate Year Adjustment

The Rate Year Adjustment is **3.28%**. 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 rounded to 2 decimals.

Stabilization Factor

The rate Stabilization Factor is a means to limit the variability in rates. The maximum Stabilization Factor is **11.15%**.

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 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 2023 and decreased by 5% to $95 in 2024. Based on all non-budgeted cost reports that contained a rate decrease from 2023 to 2024, 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%.

$$(0.1858\% \times 60) \times 25\% = 2.79\%$$

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.