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PROVIDER MANUAL: CHILD PLACING AGENCY RATES BULLETIN 2012-3

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COST CAPS FOR 2013 RATES – LCPAS

Pursuant to rule found at 465 IAC 2-17 DCS annually sets cost-based rates for LCPAs. This annual rate setting is done pursuant to the methods stated in the rule. As a result of settlement negotiations between DCS and IARCCA regarding the current IARCCA lawsuit regarding 2012 rate setting, DCS has opted to make certain adjustments to various ratios and caps for 2013. The following describes those adjustments and the anticipated effects of those adjustments.

1) Administrative Cost Cap

For 2012 rates, DCS initially established the total administrative cost cap for LCPA providers at 95%, the median administrative cost rate for all LCPAs in Indiana. DCS uses the definition of administrative costs as set forth in the Indiana Code (465 IAC 2-16) and gives full consideration to the costs and activities included in its definition of administrative costs in establishing the administrative cost caps. Based upon this method, DCS is confident that with acceptable volume of placement, LCPA providers can operate in a fiscally sound fashion with this administrative cap.

However, IARCCA, on behalf of LCPAs has contended that the allocation of 20.52% of case management staff assigned to the cost study silo to administrative expenses by the RMTS unfairly penalizes providers. DCS and IARCCA have discussed this issue and the general issue of administrative cost cap relief in the context of ongoing settlement of IARCCA's legal action against DCS regarding 2012 rates.

To achieve this relief for 2013 rates, DCS modified its calculation of the administrative cap to remove the RMTS allocation of case management costs from total administration costs and added those costs to direct operating expense. See the example below.

Assumptions:

Total administrative costs as reported before RMTS allocation = \$200,000
Total direct operating costs as reported before RMTS allocation = \$600,000
RMTS allocation of direct care costs to administrative expenses = \$50,000

2012 Rate Setting Methodology: Protecting our children, families and future



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$$\begin{aligned} \text{Calculated administrative cost ratio} &= (\$200,000 + \$50,000) / (\$600,000 - \$50,000) \\ &= 45.5\% \end{aligned}$$

This ratio of 45.5% was compared to the administrative cost cap in establishing the disallowance of administrative costs in excess of the cap.

2013 Rate Setting Methodology:

$$\begin{aligned} \text{Calculated administrative cost ratio} &= (\$200,000) / (\$600,000) \\ &= 33.3\% \end{aligned}$$

This ratio of 33.3% was compared to the administrative cost cap in establishing the disallowance of administrative costs in excess of the cap.

This change in calculation significantly reduced LCPA administrative cost rates.

Because it is not possible to accurately estimate the elimination of the RMTS allocation on 2013 rates DCS, working with IARCCA, sought to target complete LCPA administrative cap relief for 2013 via the settlement discussions. Pursuant to these settlement discussions, for 2013 rates, DCS established the administrative cost cap for LCPAs at 125.0%, 63.56 percentage points above the median administrative cost rate of 61.44% for all LCPAs.

2) Caseload Cap

For 2013 rates, the LCPA caseload cap will remain at 6.9:1.

DCS licensing rules have established acceptable caseload ratios ranging from 8.0:1 to 12.0:1. The minimum ratio of 8.0:1 anticipates is predicated on a caseload of foster children with a high level of needs. DCS has established its caseload cap at a caseload below 8.0:1, the lower end of the range.

3) Fringe Benefit Cap

In the context of settlement discussions and in its discretion pursuant to rule, DCS established a fringe benefit cap of 35%. This 2013 cap is 8.85 percentage points above the median fringe benefit rate of 26.15% for all LCPAs and residential providers in Indiana.

4) Cost of Living Adjustment

A review of Bureau of Labor statistics over the past year and a half for various types of job categories yielded an annual weighted average cost increase of 0.30% utilizing the same job categories as in 2012.

Furthermore, in 2013, DCS will factor in non-labor costs, utilizing the Midwest CPI, yielding the following calculation:



| | <u>Mix</u> | <u>Cost Index</u> | <u>Weighted Average</u> |
|-----------------|------------|-------------------|-------------------------|
| Labor | 85% | 0.31% | 0.26% |
| Non-Labor | 15% | 3.22% | 0.48% |
| Cola Adjustment | | | 0.75% |

DCS will apply a 0.75% cost of living adjustment to 2013 rates.

5) Profit Margin (for for-profit organizations only)

For 2013 rates, the allowable profit margin for for-profit organizations remains unchanged at 7.47%



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