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PROVIDER MANUAL: RESIDENTIAL TREATMENT SERVICES PROVIDER RATES BULLETIN 2012-3

November 21, 2012

COST CAPS FOR 2013 RATES – RESIDENTIAL PROVIDERS

Pursuant to rule found at 465 IAC 2-16 DCS annually sets cost-based rates for Residential Treatment Services Providers ("RTSPs"). 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 RTSPs at 20%. DCS uses the definition of administrative costs as set forth in the Indiana Code (465 IAC 2-16) and DCS gives full consideration to the costs and activities included in its definition of administrative costs in establishing its administrative cost caps.

Based upon this method, DCS is confident that at acceptable levels of occupancy, providers can operate in a fiscally sound fashion with this administrative cap.

RTSPs have argued that the allocation of 6.34% of direct care staff assigned to the cost study silo to administrative expenses by the RMTS unfairly penalizes providers. While the 6.34% represents administrative activities as defined by Title IV-E and were fully considered by DCS in establishing the administrative cost cap, DCS granted relief to residential providers in 2012 to ensure that direct care staff as required by DCS licensing rules are fully reimbursed to providers and not subjected to administrative cost caps.

After reviewing all residential cost reports submitted to DCS for 2012 rates, it has been determined that the 6.34% of costs associated with staff assigned to the RMTS represents 3.2% of total direct costs. Hence, an increase of 3.2 percentage points in the administrative cost cap for 2012 ensured that costs assigned to the time study silo are not unreasonably subjected to the administrative cost cap.

Therefore, for 2012 rates, DCS increased the administrative cost cap from 20.0% to 23.2%.

For 2013 rates, DCS modified its calculation of the administrative cap to remove the RMTS allocation of direct care costs from total administration costs and added those cost to direct operating expense. See the example below.

Assumptions:

Total administrative costs as reported before RMTS allocation = $100,000
Total direct operating costs as reported before RMTS allocation = $600,000
RMTS allocation of direct care costs to administrative expenses = $20,000

2012 Rate Setting Methodology:

Calculated administrative cost ratio = ($100,000 + $20,000) / ($600,000 - $20,000)
= 20.7%

This ratio of 20.7% was compared to the administrative cost cap in establishing the disallowance of administrative costs in excess of the cap.

2013 Rate Setting Methodology:

Calculated administrative cost ratio = ($100,000) / ($600,000)
= 16.7%

This ratio of 16.7% was compared to the administrative cost cap in establishing the disallowance of administrative costs in excess of the cap.

This change in methodology resulted in a decrease in all providers' administrative expense rates. As a result of this change in calculation and the settlement discussions between DCS and IARCCA which sought to provide limited administrative cap relief to RTSPs, DCS adjusted the administrative cost cap for 2013 rates to 20.1%. The anticipated effect of this adjustment is to reduce disallowances for 2013 administrative cap costs by an estimated $513,920.

2) Direct Care Staffing Cap

For 2013, DCS revised the direct care staffing caps as follows:

License Category	2013 Cap	2012 Cap
Group Home	4.6:1	5.9:1
Group Home ESC	3.5:1	4.9:1
CCI	4.6:1	4.9:1
CCI ESC	2.9:1	3.3:1
Private Secure	2.9:1	3.3:1
DD Programs	2.2:1	2.2:1
SMY Programs	3.0:1	3.0:1
Teen Mom – CCI	3.3:1	3.3:1
Teen Mom – Group Home	3.3:1	3.3:1
Staff Secure	2.9:1	4.9:1

The above represent the ratio of the average minimum number of children to each direct care staff over the course of the year.

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) Utilization Cap

DCS defines excess capacity as where the provider's actual average annual occupancy rate, as provided for in the provider's cost report, is less than the minimum acceptable average annual occupancy rate as determined by the department. Occupancy costs associated with unused capacity as defined by the department will be disallowed. Excess capacity is defined as the difference between the provider's actual average annual occupancy rate for a given program and the minimum acceptable average occupancy rate for the provider's particular program as defined by the department.

The utilization cap remains unchanged for 2013, utilizing 80% as the minimum average occupancy.

5) 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:

	Mix	Cost Index	Weighted Average
Labor	80%	0.30%	0.24%
Non-Labor	20%	3.22%	0.64%
Cola Adjustment			0.88%

DCS will apply a 0.88% cost of living adjustment to 2013 rates.

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

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