

South Dakota Long Term Services and Supports Rate Study

Presented to:

**South Dakota Department of Human Services
Division of Long Term Services and Supports**

Presented by:

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A. Executive Summary

In this report, Guidehouse presents the results of our 2023 rate study for Community Living Homes (CLH), Structured Family Caregiving (SFC), Adult Day and Meals services on behalf of South Dakota Department of Human Services, Medicaid, and State Long Term Services and Supports (LTSS). The comprehensive rate study involved the tasks described under South Dakota's Codified Laws (SDCL) for Rate Setting for Community-Based Health and Human Services¹. One of the major goals of the rate study was to develop a payment methodology that would be transparent and representative of current and expected costs to providers related to delivering quality services.

Stakeholder Engagement

At the inauguration of the rate study, Guidehouse discussed the goals and background context of the rate study with stakeholders, providing detailed information on the history of the current reimbursement system. We also explained the need to revise the current payment methodology, identify current and anticipated provider costs, and account for changes in wages and inflation due to the changing labor market. Guidehouse conducted stakeholder engagement meetings in an effort devised to inform, test, correct, and validate the provider cost and service delivery assumptions used in the development of benchmark rates for the proposed revisions to the current payment system.

Data and Methods

The rate study process drew on a wide array of data sources to develop rate assumptions and benchmark rate recommendations for each of the individual services. Guidehouse relied on objective, publicly available data sources, standard administrative cost reporting, as well as additional provider-reported costs specifically collected via provider cost and wage surveys ("provider surveys"). Guidehouse conducted the survey process to achieve the following goals:

- Collect data from LTSS service providers to identify actual costs and wages;
- Seek input on data not available through other sources;
- Receive uniform inputs across all providers to develop standardized rate model components where appropriate;
- Develop rate model inputs that are reflective of actual service delivery;
- Solicit general feedback from providers to understand service "pain-points" that could be addressed in rate updates.

The objectives of the study were to ensure appropriate and transparent rate methodology using more current labor assumptions as well as taking into account publicly available information that could enhance provider reported information and allow for the development of rates that could be sustainable into the future.

For each service, multiple data sources and calculations were used to define key cost assumptions. Cost assumptions for base wages, benefits, and staffing patterns were obtained

¹ South Dakota Legislature, Rate Setting for Community-Based Health and Human Services (Chapter 28-22) Available online: Codified Law 28-22 | South Dakota Legislature (sdlegislature.gov)

from the provider surveys, and indirect costs including administrative and program support cost factors were based on a combination of cost reports, survey data and national trends. Guidehouse researched additional data points such as inflationary metrics and supplemental pay estimates obtained from industry data collected by the federal Bureau of Labor Statistics (BLS).

Rate Model Recommendations

The approach used to establish the Department's benchmark rates is an "independent rate build-up" methodology commonly applied by states for setting rates for HCBS populations. It is an approach recognized as compliant with specific CMS regulations and guidelines and congruent with Medicaid rate setting principles more generally.

In alignment with this independent rate build-up approach, the study identified appropriate cost assumptions for each value component used in the rate models, allowing rates to be built from the bottom up and calculated according to the relevant unit of service. This modular approach requires a comprehensive analysis of the types of costs incurred by delivering a service and then representing these costs through a reasonable standard cost assumption, which serve as "building blocks" added together to form a cost-based rate for the service as a whole.

These rate recommendations include:

- **Baseline Wage Assumptions** – The Department should adjust wage assumptions based on the full time equivalent (FTE) average wage included in the provider surveys while accounting for additional inflation to adjust wages to time of rate implementation.
- **Other Compensation Adjustments** – Wage updates should include additional adjustments to compensation, including supplemental pay based on 2018-2023 Bureau of Labor Statistics (BLS) Employer Costs for Employee Compensation (ECEC) data and inflation metrics based on the State Fiscal Year (SFY) 2023 BLS Current Employment Statistics (CES) metric in combination with provider survey responses. Employee-related expense (ERE) percentages were calculated based on a combination of survey information and information reported in the federal Agency for Healthcare Research and Quality's Medical Expenditure Panel Survey (MEPS).
- **Indirect Costs (Administrative and Program Support Costs)** – The Department should update rates to reflect changes in indirect costs. A combination of provider cost surveys, cost reports and national trends were leveraged to determine **25 percent** for an administrative add-on, with an additional **10.1 percent** for program support for residential services and **14.5 percent** for Adult Day. These combined factors provide an allotment for indirect costs totaling an additional **35.1 percent and 39.5 percent** of direct care costs for these services. Specific overhead costs were further detailed for Meals to allow for flexibility in food costs, capital and equipment, and delivery costs.
- **Re-distribution of Tiers** – Guidehouse evaluated the current distribution of participants within the three-tier structure for Community Living Homes and Structured Family Caregiving services by observing the resource utilization group score (RUG) to Tier mapping. The recommendation is to change the mapping for specific RUGs to shift a portion of participants into higher tiers and account for hierarchical considerations of the

assessment tool.

- **Occupancy Adjustment** – The Department should consider occupancy levels as a factor in the rate for residential services. Multiple sources were leveraged to determine a fair and reasonable occupancy adjuster to account for situations in which homes are unable to bill for a resident's bed day and are unable to fill the bed, resulting in lost revenue. Provider surveys, workgroup feedback, and industry standards were evaluated to determine an occupancy adjuster of **95 percent**. This adjustment is in addition to the bed hold policy currently in place.
- **Statewide Meals Rate** – The Department should consider transitioning to a statewide rate for both waiver, State-funded and Title III meals to encourage consistent cost, while allowing the State to respond more proactively to changing costs by evaluating and adjusting individual rate components in the future. Instead of relying on historical costs reported in cost reports, the State would be able to adjust rate component assumptions such as food costs, inflation and wages of staff based on labor market conditions. In addition, Guidehouse recommends the Department further review the potential to increase funding related to Title III to ensure the aging population can continue to access this critical resource.
- **Stipend Increases**- Guidehouse's recommendation is to keep the costs for staff to provide coaching and support to the caregiver consistent among rate tiers but increase the percentage of the rate the State requires to be passed through to the caregiver.

Fiscal Impact Analysis

Based on the reimbursement benchmarks developed from the service rate models, Guidehouse conducted a fiscal impact analysis to support the proposed benchmark rate recommendations.

These services include a combination of funding sources with varied federal match percentages and therefore different percentages of State funds are required. Structured Family Caregiving and Community Living Homes receive a federal match percentage of 58.6 percent. Adult Day has a combination of Title III funds that includes either 85 percent or 75 percent federal share, as well as an Adult Day service that receives the 58.6 percent federal match.

Funding for Meals varies. Meals supplied through the Home and Community-Based Options and Person-Centered Excellence (HOPE) waiver receive the same 58.6 percent as the other services; however there are additional Meals that are 100 percent State-funded through the KIND program. In addition, the Title III funding authorized by the Older Americans Act (OAA) includes either 100 percent or 85 percent federal match.

To understand the overall fiscal impact to the State, all of these funding sources need to be considered. Analysis indicated that if the proposed benchmark rates were implemented based on utilization from SFY 2023 the system would require an additional **\$1.02 million**—which includes not just State but also federal dollars—to reimburse providers at the benchmark rates recommended by Guidehouse. These projected expenditures represent a **6.9 percent** increase from the current rates in effect as of July 1st, 2023. However, when considering the Federal Medical Assistance Percentage (FMAP), the State share of the increased cost would be **\$435,667**. These dollar estimates include the funds required for LTSS under DHS. Table 1

reflects the overall fiscal impact for DHS based on the proposed benchmark rates when considering federal and State share. However, Title III funding is currently capped at roughly \$6 million for Meals with an increasing number of meals being delivered. Therefore, this analysis does not include the potential for additional funds if the number of meals delivered continue to increase. In addition, the dollar estimates provided for the HOPE waiver and State-funded Meals include a hold harmless provision for the first year if the State moves to a statewide rate. This hold harmless provision would reduce the impact to the providers that are currently being reimbursed at a rate higher than the proposed benchmark rate.

Table 1: Overall Fiscal Impact- Federal and State Share

Service	Utilization Paid at SFY24 Rates	Utilization Paid at Benchmark Rates	Change	Difference
Total	\$14,721,857	\$15,744,059	6.9%	\$1,022,202
Adult Day	\$128,558	\$128,558	0.0%	\$0
Adult Day – Title III	\$1,029,048	\$1,029,048	0.0%	\$0
Structured Family Caregiving	\$7,026,675	\$7,992,695	13.7%	\$966,021
Community Living Homes	\$46,852	\$73,376	56.6%	\$26,524
Meals – HOPE Waiver	\$406,890	\$416,113	2.3%	\$9,223
Meals – State-Funded	\$45,530	\$65,964	44.9%	\$20,434
Meals - Title III	\$6,044,362	\$6,044,362*	0.0%	\$0
*Dollar amount indicates budget-neutral funding for Title III Meals. Section F.3 outlines budget-neutral rates.				

Table 2 reflects the fiscal impact for the State share portion. As noted in the section above there is a combination of federal funding depending on service and funding source. The specific State share percentages are reflected in Table 2 below. Due to the larger federal share in Title III, the State portion is smaller. However, State-funded Meals are fully funded by the State and do not receive any additional funding therefore the fiscal impact between Tables 1 and 2 are the same. The combination of the waiver and non-waiver services results in an overall impact of **\$435,667**.

Table 2: Overall Fiscal Impact - State Share

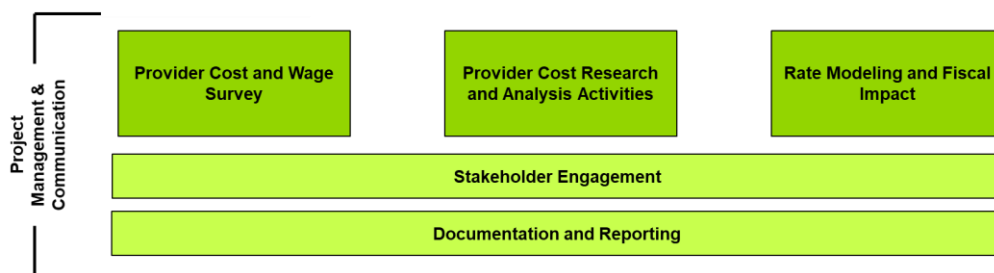
Service	State Share	Utilization Paid at SFY24 Rates	Utilization Paid at Benchmark Rates	Change	Difference
Total	-	\$4,033,915	\$4,469,582	10.8%	\$435,667
Adult Day	41.45%	\$53,287	\$53,287	0.0%	\$0
Adult Day – Title III	Combination of 15% and 25%	\$169,253	\$169,253	0.0%	\$0
Structured Family Caregiving	41.45%	\$2,912,557	\$3,312,972	16.4%	\$400,416
Community Living Homes	41.45%	\$19,420	\$30,414	9.7%	\$10,994
Meals – HOPE Waiver	41.45%	\$168,656	\$172,479	29.9%	\$3,823
Meals – State-Funded	100%	\$45,530	\$65,964	44.9%	\$20,434
Meals – Title III	Combination of 0% and 15%	\$665,212	\$665,212*	0.0%	\$0
*Dollar amount indicates budget-neutral funding for Title III Meals. Section F.3 outlines budget-neutral rates.					

B. Introduction and Background

Guidehouse contracted with South Dakota’s Department of Human Services (DHS) Division of Long Term Services and Supports (LTSS) to conduct a comprehensive rate study for Medicaid and State LTSS services and Title III services as described under Rate-Setting for Community-Based Health and Human Services in South Dakota’s Codified Law (SDCL) Chapter 28-22². As depicted in Figure 1 below, the engagement scope included the following study elements:

- **Provider Cost and Wage Surveys:** Gathering data from providers for rate review and rebasing efforts.
- **Additional Cost Research and Analysis:** Performing research on other state, regional, and national data sources to inform rate development.
- **Rate Modeling and Fiscal Impact:** Developing rate models through research and cost analysis on the current model and alternative models for in-home services and assessing the fiscal impact of transitioning to new service rates.
- **Stakeholder Engagement:** Facilitating engagement with stakeholders including provider representatives, legislature representatives, and State staff to solicit feedback throughout the rate development process.

Figure 1: Overview of Project Initiatives



The study utilized a multitude of data sources, survey data collection, and avenues for stakeholder feedback to develop rate structure recommendations more responsive to desired and lasting service delivery changes as well as future planning and budgeting needs, as further described in this report. Findings and recommendations from the rate study are compared to existing provider rates to anticipate and analyze the potential implications of implementing Guidehouse’s proposed reimbursement benchmarks and rate adjustments.

² South Dakota Legislature, Rate Setting for Community-Based Health and Human Services (Chapter 28-22) Available online: Codified Law 28-22 | South Dakota Legislature (sdlegislature.gov)

C. Stakeholder Engagement

To support the development of cost-based rates for the State's LTSS, DHS worked with Guidehouse, providers, and other stakeholders throughout the rate development process. DHS convened a rate study Advisory Workgroup that met five times throughout the process to support the rate study. DHS further specialized the Workgroup meetings by holding three of the five Advisory Workgroup meetings with four sub-Workgroups, related to a specific service line: Community Living Homes, Adult Day Services, Structured Family Caregiving, and Meals. Table 3 describes the composition of these groups, their respective roles, and discussion topics.

Table 3: Rate Workgroup Composition and Roles

Advisory Workgroup	
Composition:	<ul style="list-style-type: none"> • Membership representative of associations and providers directly impacted by rate changes • Provider representatives who reflect the full range of services included within the rate study scope • Members have a strong understanding of provider finances, reporting capabilities, and service costs
Role:	<ul style="list-style-type: none"> • Provide subject matter expertise on provider survey and rate methodology development • Review and validate rate model factors and assumptions, including wages, benefits, administration, program support and staffing • Provide insight into how current services are delivered • Provide recommendations for consideration in the Final Report
Discussion Topics:	<ul style="list-style-type: none"> • Provider survey design, administration, and results • Peer state selection for comparison • Rate build-up approach and rate components • Benchmark wages and adjustments, including supplemental pay and inflation factor • Staffing levels and supervision ratios • Final rate models, current service utilization landscape, and fiscal impact of proposed rates • Considerations for implementation and future analysis

D. Data Sources

D.1. Overview of Data Sources

Cost assumptions developed throughout the rate study relied on a wide variety of data sources. Guidehouse drew from both DHS provider data as well as national and regional standards to arrive at cost assumptions. Our approach for this study was to establish assumptions based on provider-reported and State-recommended data when available and appropriate, as well as extensive industry data that reflect wider labor markets for similar populations.

Guidehouse conducted a cost and wage survey process to obtain the cost of delivering services from providers including employee salaries and wages, provider fringe benefits, and additional service-specific costs. The provider cost and wage surveys, in particular, furnished valuable and detailed information on baseline hourly wages, wage growth rate, provider staffing patterns, and provider fringe benefits, as well as staff productivity where applicable for the services included in the rate study. Guidehouse also analyzed trends in the detailed claims data for services in the rate study scope to determine the fiscal impact of implementing the reimbursement benchmarks resulting from the rate rebasing process.

Although a majority of cost assumptions used for rate development were derived from provider-reported survey data and provider cost reports, publicly available sources were required for supplemental, administrative, and program support cost data and for benchmarking purposes to establish a comprehensive rate for some services.

We describe the key features of the provider cost and wage surveys as well as the other sources used in the rate development process in the section below.

D.2. Provider Cost & Wage Survey

Guidehouse prepared multiple, detailed provider surveys based on the landscape of long-term services and supports provided in South Dakota. The aim of the survey was to collect provider cost data across multiple services and programs that would serve as the basis for the rate studies. Additionally, Guidehouse aimed to utilize the survey to:

- Capture provider cost data to provide cost foundation for rate studies;
- Receive uniform inputs across all providers to develop standardized rate model components;
- Measure changes in direct care worker wages over time;
- Establish baseline cost assumptions for comparing and standardizing services operating in different programs and with different State Plan and/or waiver authorities;
- Determine cost basis for evaluating rate equity for services;
- Gather needed data to understand billable vs. non-billable time and staffing patterns per service;

- Investigate differences in costs among frontier/rural/suburban areas;
- Understand occupancy patterns of residential services.

D.2.1. Survey Design and Development

Guidehouse designed these surveys with input from DHS staff and Advisory Workgroup members, as well as drawing on knowledge gained from conducting similar surveys in other states. Guidehouse and the Department worked with the Advisory Workgroups to develop, review, update and release the surveys. Multiple surveys were designed in Microsoft Excel dependent on the service. Since these services all have nuanced service delivery the surveys were developed with those nuances in mind. The surveys for Adult Day, Structured Family Caregiving and Community Living homes included seven (7) sections or worksheets on topics outlined in Table 4 below. In addition, a separate Meals survey was developed including two (2) total tabs to capture the differences in meals delivered between congregate and home delivery. This survey also looked to capture the costs of the food, supplies, kitchen staff and volunteer hours. During the Advisory Workgroup meeting in June 2023, Guidehouse provided an overview of the surveys including the objectives, topics, and questions on each worksheet within the survey document and solicited feedback from stakeholders. With the aim of collecting annual wage, benefit, and service delivery data from the fourth quarter of Fiscal Year 2023, Guidehouse collected information on the survey components highlighted in Table 4.

**Table 4: Provider Cost and Wage Survey Organization and Data Elements
(SFC, CLH, Adult Day)**

Survey Topics	Survey Data Points and Metrics	Example Rate Study Data Point(s)
Organizational Information	Provider identification, contact information, and organizational details	-
Services	Services delivered and the staff providing the service	Staff that are responsible for delivering the service
Costs	Total costs associated with provider overhead, wages and taxes	Costs for administrative staff
Wages	Job types, staff types, hourly wages, supplemental pay, and training time	Baseline wages for rate build-up, training assumptions
Service Delivery and Staffing Patterns	Billable vs. Non-Billable time, supervisor and staffing patterns, transportation, occupancy metrics, and number of members served	Billable time adjustment, staffing ratio

Survey Topics	Survey Data Points and Metrics	Example Rate Study Data Point(s)
Provider Benefits	Benefits that organizations offer full-time and part-time employees who deliver services – health, vision and dental insurance, retirement, unemployment benefits and workers’ compensation, holiday, sick time, and paid time off	Benefits package or Employee Related Expenses (ERE)
Additional Information	Clarifying comments in addition to the information covered in other worksheets or sections	-

D.2.2. Survey Administration and Support

The surveys were released via e-mail on July 17, 2023 to the entire provider community in scope for the rate study. To conduct successful and accurate surveys, Guidehouse facilitated a live provider training webinar available to all providers on July 20, 2023, following the release of the surveys. In the training session, Guidehouse introduced the surveys, provided an overview of the survey tool and each worksheet tab, and addressed provider questions. A link to the recording of the webinar was shared with providers.

Additionally, Guidehouse offered ongoing support and resources in helping providers to complete the surveys, through a dedicated electronic e-mail inbox which providers could access to receive answers to their specific questions as well as a live technical assistance webinar held a few weeks prior to the survey deadline. Providers were allowed two weeks to complete the surveys, with a final survey deadline of July 31, 2023.

D.2.3. Provider Cost and Wage Survey Participation

In total, Guidehouse received survey submissions for **56 percent** of all providers eligible to complete the survey. When evaluating by amount of MMIS Medicaid claims represented, **81 percent** of total expenditures were represented in the survey responses. Table 5 includes a detailed view of the survey response rates by providers and provider expenditure perspectives in comparison to Medicaid claims data. This data does not represent all utilization that is present within the non-waiver for Title III or State-funded services.

Table 5: Survey Response Rates

Service	Percent of Providers with Survey Response	Percent of Expenditures with Survey Response
Adult Day	100%	100%
Meals	60%	87%
Community Living Homes and Structured Family Caregiving	33%	81%

D.2.4. Provider Cost and Wage Survey Review and Validation

After receiving the survey responses, Guidehouse compiled responses and conducted the following quality checks to prepare the data for analysis:

- **Completeness:** Checked the completion status in all worksheets within individual survey workbooks to determine whether follow up was required to resolve any issues and missing data. Guidehouse followed up with providers individually within a week of receiving the survey responses if clarification or correction was required.
- **Outliers:** Reviewed quantitative data points (e.g., wages, productivity, benefits, number of clients and caseloads, staffing patterns) reported across all organizations to identify potential outliers. If any outlier data points were excluded or assumptions were made for rate model inputs, the assumptions were reviewed with the Department and the Advisory Workgroup and are documented as such in this report. Additionally, Guidehouse performed outreach to individual providers to confirm submissions and accepted amendments to data provided.

It is important to note cost survey processes are not subject to auditing processes, as an established administrative cost reporting process would be. Providers' self-reported data were not audited for accuracy, although outliers were examined and excluded when warranted, and additional quality control checks were conducted to ensure data completeness. The absence of an additional auditing requirement is ultimately a strength rather than a weakness of the cost survey approach, as it allows providers to report their most up-to-date labor costs, a key concern for rate development at a moment of heightened inflation.

The survey data reported by providers was utilized to develop several key rate components including baseline hourly wages, Employee Related Expenses (ERE), and administrative and program support cost factors. Section F further outlines how the survey data was utilized for rate setting purposes.

D.3. Provider Cost Reports

Data from SFY 2022 (7/1/2021-6/30/2022) South Dakota Long Term Services and Supports Provider Cost Reports (“Cost Reports”) were used to inform the rate methodology determination process and the rate models for Adult Day and Meals. The 2022 cost reports were used to account for the most recently available administrative and program support costs in calculating the Administrative and Program Support cost factors. Specifically related to Meals, these cost reports were also leveraged to understand the individual cost components related to food cost, average donation contributions and total meals delivered for Waiver and Title III.

D.4. Claims Data

Guidehouse developed a detailed claims data request to be able to analyze the Medicaid claims utilization for three (3) State Fiscal Years (SFY 2021-SFY 2023). This request included all detailed claims for the procedure codes related to Community Living Homes, Structured Family Caregiving, Meals and Adult Day.

We requested key fields such as provider detail, payment information, service identifying fields and units of measure. After reviewing claims information, we recognized that the MMIS claims data was only accounting for the Medicaid portion of the services provided and was not inclusive of the LTSS State-funded services. Therefore, additional data summaries were requested to account for these services to ensure the entire mix of services was being accurately accounted for. Analyzing these trends is an important consideration to determine fiscal impact accurately. We want to ensure we are capturing a normal utilization year to properly project overall fiscal impact. The claims data was also leveraged to understand the mix of the population within each of the three tiers.

Title III meals are not included in claims data, therefore supplemental data was requested from the State to understand the total number of meals delivered by provider. These meal numbers were utilized to compare against the total funding provided within Title III and determine trends in meal delivery over time.

D.5. Other Data Sources

Cost assumptions developed throughout the study rely on a wide variety of data sources. The objectives of the rate study aim to establish benchmark rates based on a combination of publicly available resources as well as understanding the necessary cost requirements required to promote access to quality services going forward. As will be detailed in greater depth in the sections that follow, Guidehouse’s provider cost and wage surveys furnished the majority of our rate assumptions on employee wages, provider fringe benefit offerings, staff productivity, staff-to-client ratios, and transportation requirements for the array of services.

While cost surveys are a rich and valuable source of information on provider costs, these tools cannot validate in themselves whether the costs reported are reasonable or adequate in the face of future service delivery challenges. Considering the possibility that historical costs may

not be truly representative of the resources required to provide services in the near future or are not comparable to or competitive with the industry as a whole, Guidehouse evaluates cost survey data against external data benchmarks whenever feasible. As a result, the cost assumptions used by Guidehouse frequently draw on national and regional standards, at least for comparison purposes, that reflect wider labor markets as well as median costs typical of broader industries, to benchmark South Dakota reported information from the provider cost and wage survey. Table 6 summarizes some of the additional public data sets used to inform cost assumptions used in Guidehouse's benchmark rate recommendations.

Table 6: Other Data Sources

Bureau of Labor Statistics, Occupational Employment and Wage Statistics (BLS OEWS)	Federal wage data available annually by state, intra-state regions, and metropolitan statistical areas (MSA). Used for wage geographic and industry wage comparisons and establishing benchmark wage assumptions for most wages.
Bureau of Labor Statistics, Costs for Employee Compensation Survey (CECS)	Federal data on employee benefits cost, analyzing groups of benefit costs including insurance, retirement benefits, paid time off, and other forms of non-salary compensation. Used for reference in establishing benchmark ERE assumptions.
Bureau of Labor Statistics, Provider Price Index (PPI)	Federal index of inflation across multiple industries for Medicaid populations. Updated monthly and includes data series for Home Health Care Services, Nursing Care Facilities, Residential Developmental Disability Homes, Assisted Living Facilities for the Elderly, Other Residential Care Facilities, Services for the Elderly and Persons with Disabilities, and Continuing Care Retirement Communities and Assisted Living Facilities for the Elderly were used for reference to understand annual inflation for provider costs and for recommendations on recurring rate update.
Agency for Healthcare Research and Quality, Medical Expenditure Panel Survey-Insurance Component (MEPS-IC)	Federal data on health insurance costs, including South Dakota-specific data regarding multiple aspects of health insurance (employer offer, employee take-up, premium and deductible levels, etc.) Used for reference in estimating health care costs for benchmark ERE assumptions.

Other State Medicaid Fee Schedules and Reimbursement Methodologies	Data from other states on reimbursement levels for cognate services as well as overall service design. Used for peer state comparison and well as development of best-practice recommendations for improving supported employment service delivery.
Internal Revenue Service	The Internal Revenue Service is the revenue service for the United States federal government, which is responsible for collecting taxes and administering the Internal Revenue Code, the main body of the federal statutory tax law.
USDA Food Plans	USDA produces data related to various levels of food plans. Each food plan has an associated cost based on national average prices of the foods and beverages in each food plan at the time of publication plus adjustments each month to reflect inflation using the Consumer Price Index.

E. Peer State Comparisons

E.1. Overview

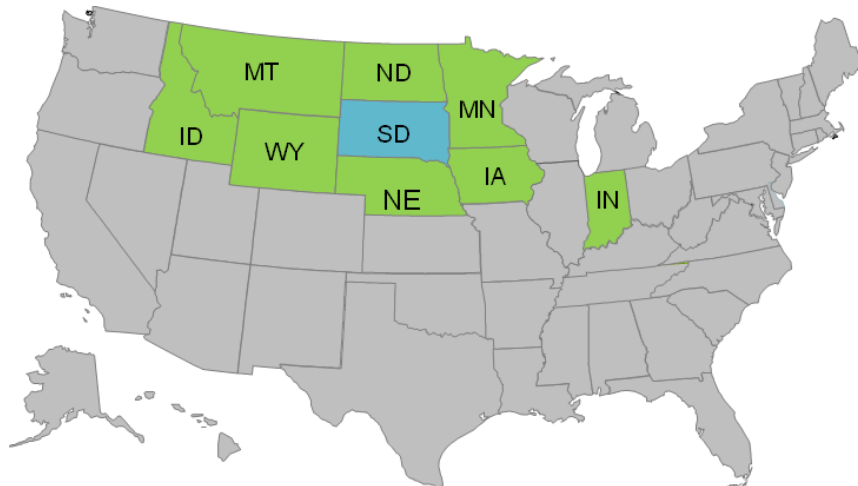
Guidehouse's recommendations for the current study are comprised of existing approaches used in other states, and Guidehouse's experience conducting similar studies and analyses in these states. Guidehouse gathered peer state data sources to assist the development of the rate build-up methodologies. Peer state service rates were also used to compare and validate final rate pricing across similar services where applicable. It is helpful to compare South Dakota's waiver rates to similar waiver rates in other states to understand whether current rates represent an outlier, or whether differences can be explained by distinctive service definitions or economic conditions in the state.

Guidehouse appreciates that South Dakota is unique among other states geographically, demographically, and culturally. Therefore, we were selective in identifying these peer states and the services within the states. We not only identified comparable states but then reviewed each service definition prior to comparison to help confirm the applicability and adequacy of comparison. These services also do not normally have an equivalent Medicare or commercial benchmark to use as a fair comparison, which in turn makes finding a Medicaid equivalent even more important. Title III Meals were evaluated based on the total funding available within each state compared to the total number of meals delivered to determine a comparable per meal unit rate. In addition, Guidehouse calculated the split between the total number of congregate meals versus home-delivered meals to be able to adjust peer states to match the South Dakota-specific mix. This mix adjustment creates an equitable comparison between South Dakota and the peer states.

With the initial review of the peer state comparison, there was not an immediately clear pattern of systematic underfunding across most of the services. Rather, the apparent overall trend is that South Dakota's rates usually fall at the lower end in comparison to other states' rates with the exception of Adult Day.

E.2. Peer State Comparison Approach

First, Guidehouse identified states that seemed similar to South Dakota by demographics, geography, Medicaid program design, and scope of services offered for this specific population. As seen in the map shown in Figure 2, Guidehouse researched the initial peer states marked in light green.

Figure 2: Peer States for Rate Comparison


E.3. Peer State Comparison Results

Of the peer states assessed, only Indiana offers a program similar to South Dakota's Structured Family Caregiving. Both states use three (3) acuity tiers, but Indiana defines the care delivered as basic services, enhanced services, or intensive services. Additionally, each of Indiana's tier reimbursements are lower than South Dakota's tier counterparts, with the largest difference between the states' highest tiers. While South Dakota reimburses care to individuals with tier 2 acuity at \$107.52 per day, Indiana reimburses care for Level 3 Structured Family Caregiving at \$81.58 a day. Table 7 shows the comparison with Indiana and the percent difference between Indiana and South Dakota.

Table 7: Peer State Rates – Structured Family Caregiving

State	Structured Family Caregiving – Base Tier	Structured Family Caregiving – Tier 1	Structured Family Caregiving – Tier 2
South Dakota	\$76.80	\$96.00	\$107.52
Indiana	\$60.50	\$71.04	\$81.58
Percent Difference	21.22%	26.00%	24.13%

South Dakota's Adult Day program reimbursement structures are similar to Iowa, Idaho, and Minnesota. Each reimburse per 15 minutes of service delivery. South Dakota's rate of \$3.53 for

a 15-minute unit is over double Iowa and Idaho's and even with Minnesota's. Nebraska's standard Adult Day rate is also lower than South Dakota's by about \$1, but Nebraska also has separate rates for Adult Day services that include specialized care, health aide services, and RN services. Nebraska's specialized Adult Day rate is also lower than South Dakota's standard rate, but its aide service and RN service rates are substantially higher than South Dakota's. Wyoming and Montana's Adult Day programs are structured as Social and/or Health Models. Montana only offers a Social Model and reimburses for Adult Day services over \$1 less per 15 minutes than South Dakota. Wyoming's Social Model rate is only \$1.68 per 15 minutes, while its Health Model is reimbursed at a rate of \$2.13 per 15 minutes. Table 8 shows how the peer states compare to South Dakota's 15-minute rate.

Table 8: Peer State Rates – Adult Day

State	Adult Day
South Dakota	\$3.53
North Dakota	-
Wyoming	\$1.68 - Social Model \$2.13 - Health Model
Montana	\$2.28 - Social Model
Idaho	\$1.50
Indiana	\$2.82 - Level 1 \$3.40 - Level 2 \$3.91 - Level 3 \$2.64 - Level 1 \$3.18 - Level 2 \$3.66 - Level 3
Iowa	\$1.58
Nebraska	\$2.49 - General \$2.81 - Specialized \$8.43 - Aide \$13.49 - RN
Minnesota	\$3.53
Average - Comparison States	\$2.41
South Dakota Comparison to Peer State Average	31.73%

South Dakota's peer states reimburse Meal providers through their Waiver programs between \$5.86 (Montana) and \$10.65 (Wyoming) per meal, compared to South Dakota's average rate of \$7.59. Idaho, Indiana, and Montana all reimburse Meal providers less than South Dakota, but Iowa, Minnesota, North Dakota, and Wyoming reimburse Meals providers at higher rates. Wyoming is the only state that differentiates its Meal service between hot and frozen meals. It's hot meals are reimbursed at the highest rate of all the peer states examined, but its frozen meals rate is also higher than South Dakota's average waiver rate of \$7.59. The Meals rates are in comparison to the HOPE waiver meal rate, understanding that the Title III rates are lower and dependent on Title III budget constraints. Table 9 displays the Meal rates for the peer states and how they compare to average HOPE waiver meal rate in South Dakota.

Table 9: Peer State Rates – Meals

State	Meals
South Dakota	\$7.59
North Dakota	\$9.49
Wyoming	\$10.65 – Hot \$7.88 - Frozen
Montana	\$5.86
Idaho	\$7.06
Indiana	\$6.00
Iowa	\$8.75
Nebraska	-
Minnesota	\$8.06
Average - Comparison States	\$7.97
South Dakota Comparison to Peer State Average	-4.99%

E.4. Peer State Title III Meals

As noted in the peer state comparisons above, Title III-funded services are evaluated differently due to unique program requirements and sources of funding. In order to compare the Title III Meals rates nationally and to peer states the grant funding available was compared against the total meals delivered that is documented within the Meals on Wheels America fact sheets representing data from 2018-2019³. However, within each state and nationally there is a different mix between the number of congregate meals and home delivered meals compared to the overall total meals delivered. Based on the most recent full year period available (June 2022- July 2023) 42.9 percent of Title III meals delivered were congregate with 57.1 percent being home delivered within South Dakota.

Additionally, the number of meals being delivered has increased over time. Trends were calculated for South Dakota specifically using the Meals on Wheels of America reported numbers compared to the most recent full year period the state records. These trend percentages were applied to the comparable peer state and national numbers reported by Meals on Wheels of America to determine the estimated meals equivalent to June 2022 to July 2023. Table 10 displays the South Dakota-specific numbers related to overall funding and the resulting budget-neutral rate. The following tables display the corresponding funding and meal volumes for the national and peer states of Minnesota and North Dakota. The per meal unit rate displayed within the tables is using a combination of federal, state and NSIP funding divided by the total meals delivered. South Dakota is above the national budget-neutral rate of \$3.83 but slightly below North Dakota at \$3.96 and below Minnesota at \$4.69.

Table 10: South Dakota Title III Meals Per Unit Rate

South Dakota					
Title III Meals	FY2023 Grant Funding	MOWA Meals	Meals Reported by State	Congregate vs Home Delivered Split	Per Unit Rate
Congregate	\$2,639,490	773,549	672,256	42.9%	\$3.93
Home-Delivered	\$1,795,258	512,047	895,344	57.1%	\$2.01
Total	\$4,434,748	1,285,596	1,567,600		\$2.83
NSIP	\$944,402				
Total + NSIP	\$5,379,150				\$3.43
State Share	\$665,212				
Including State Share (15%)	\$6,044,362				\$3.86

³ [Fact Sheets \(mealsonwheelsamerica.org\)](https://www.mealsonwheelsamerica.org/fact-sheets)

Table 11 outlines the FY 2023 Title III grant funding nationally with the corresponding MOWA numbers, mix adjusted for South Dakota-specific congregate and home delivered split with South Dakota-specific trend. This results in a national unit rate of \$3.83, which is .7 percent lower than South Dakota.

Table 11: National Title III Meals Per Unit Rate

National					
Title III Meals	FY2023 Grant Funding	MOWA Meals	Mix Adjusted Meals	Estimated Meals Using South Dakota Trends	Per Unit Rate
Congregate	\$527,898,010	73,337,377	95,765,848	83,225,711	\$6.34
Home-Delivered	\$359,051,620	149,974,193	127,545,722	223,021,123	\$1.61
Total	\$886,949,630	223,311,570	223,311,570	306,246,835	\$2.90
NSIP	\$152,580,044				
Total + NSIP	\$1,039,529,674				\$3.39
Including State Share (15%)	\$1,172,572,119				\$3.83

Table 12 outlines the FY 2023 Title III grant funding for North Dakota with the corresponding MOWA numbers, adjusted for South Dakota-specific congregate and home delivered split with trend. This results in a North Dakota unit rate of \$3.96, which is 2.6 percent higher than South Dakota. The North Dakota Title III grant funding and the NSIP funding amounts are the same as South Dakota's however, the total number of meals delivered in North Dakota are below the total meals delivered in South Dakota resulting in a slightly higher per unit meal rate within North Dakota.

Table 12: North Dakota Title III Meals Per Unit Rate

North Dakota					
Title III Meals	FY2023 Grant Funding	MOWA Meals	Mix Adjusted Meals	Estimated Meals Using South Dakota Trends	Per Unit Rate
Congregate	\$2,639,490	546,066	466,386	405,314	\$6.51
Home-Delivered	\$1,795,258	541,475	621,155	1,086,127	\$1.65
Total	\$4,434,748	1,087,541	1,087,541	1,491,441	\$2.97
NSIP	\$798,910				
Total + NSIP	\$5,233,658				\$3.51
Including State Share (15%)	\$5,898,870				\$3.96

Table 13 outlines the FY 2023 Title III grant funding for Minnesota with the corresponding MOWA numbers, adjusted for South Dakota-specific congregate and home delivered split with trend. This results in a Minnesota unit rate of \$4.69, which is 21.6 percent higher than South Dakota.

Table 13: Minnesota Title III Meals Per Unit Rate

Minnesota					
Title III Meals	FY2023 Grant Funding	MOWA Meals	Mix Adjusted Meals	Estimated Meals Using South Dakota Trends	Per Unit Rate
Congregate	\$8,659,165	1,362,366	1,237,714	1,075,640	\$8.05
Home-Delivered	\$5,969,674	1,523,796	1,648,448	2,882,408	\$2.07
Total	\$14,628,839	2,886,162	2,886,162	3,958,048	\$3.70
NSIP	\$1,732,646				
Total + NSIP	\$16,361,485				\$4.13
Including State Share (15%)	\$18,555,811				\$4.69

These numbers are estimates, since nationally and within each state the number of meals delivered could deviate from the trends within South Dakota. However, this allows for a reasonable comparison related to the interaction between total funding available and the meals delivered specifically for Title III.

F. Rate Methodologies and Components

F.1. Service Array

The current LTSS service array within this rate study examined four (4) services, Community Living Homes, Adult Day, Structured Family Caregiving and Meals. All services are reimbursed based on their reimbursement rate that can be found on the State fee schedules. Community Living Homes and Structured Family Caregiving are billed via per diem rates. Adult Day services are billed in 15-minute increments. Meals are reimbursed per meal with variation depending on funding source due to limited funds for Title III.

F.2. Rate Build Up Approach

Guidehouse employed an independent rate build-up approach to develop payment rates for covered services. The independent rate build-up strategy allows for fully transparent models that take into account the numerous cost components that need to be considered when building a rate. The foundation of the independent rate build-up is direct care worker wages and benefits, which comprise the largest percentage of costs for these services while also considering the service design and additional overhead costs that are necessary to be able to provide the service. This approach:

- Uses a variety of data sources to establish rates for services that are:
“...consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available under the plan at least to the extent that care and services are available to the general population in the geographic area.”
-1902(a)30(A) of the Social Security Act (SSA)
- Relies primarily on credible data sources and reported cost data (i.e., costs are not audited, nor are rates compared to costs after a reporting period and adjusted to reflect those costs)
- Makes additional rate adjustments to reflect State-specific policy goals – for example, incentivizing specific kinds of services

The rate build-up approach is commonly used by states for setting rates and is an approach recognized as compliant with CMS regulations and guidelines. This approach also yields a transparent rate methodology, allowing DHS to clearly delineate the components that contribute to rates and make adjustments as needed.

The values for each component of the rate models were calculated and rates were built from the bottom up for each of the services included in the rate study. Guidehouse determined each cost component associated with the direct care provided for a service (for example, direct service professional wages and benefits), identified the corresponding payment amount(s), and added on payment amounts reflecting administration and program support costs required to deliver the service.

Many of the service rate benchmarks we propose follow a series of general assumptions for the

components of each rate, adjusted according to the specific context and goals for providing each service. This rate build-up approach is based on a core set of wage assumptions for direct care staff, supplemented by estimates of the cost of other supporting staff, activities and materials needed to support direct care provision. In this section of the report, we describe in detail the methodology for calculating various components used in the rate models. In addition, we describe the data sources used to determine the component. The section is divided into the following areas:

- Staff Wages
- Employment Related Expenditures (ERE)
- Supervision
- Administrative Expenses
- Program Support Expenses
- Occupancy Adjusters
- Staffing Ratios
- Billable vs Non-Billable Time

F.2. General Cost Assumptions

The methodology for developing a rate for a unit of service – or a rate model – varies across types of services but generally includes certain key components. A rate model starts with the wage for the primary staff person providing a service—for example, a Certified Nursing Assistant, Caregiver, Cook or Case Manager, depending on the service—and then building upon that wage with fixed or variable cost factors to account for additional program support costs.

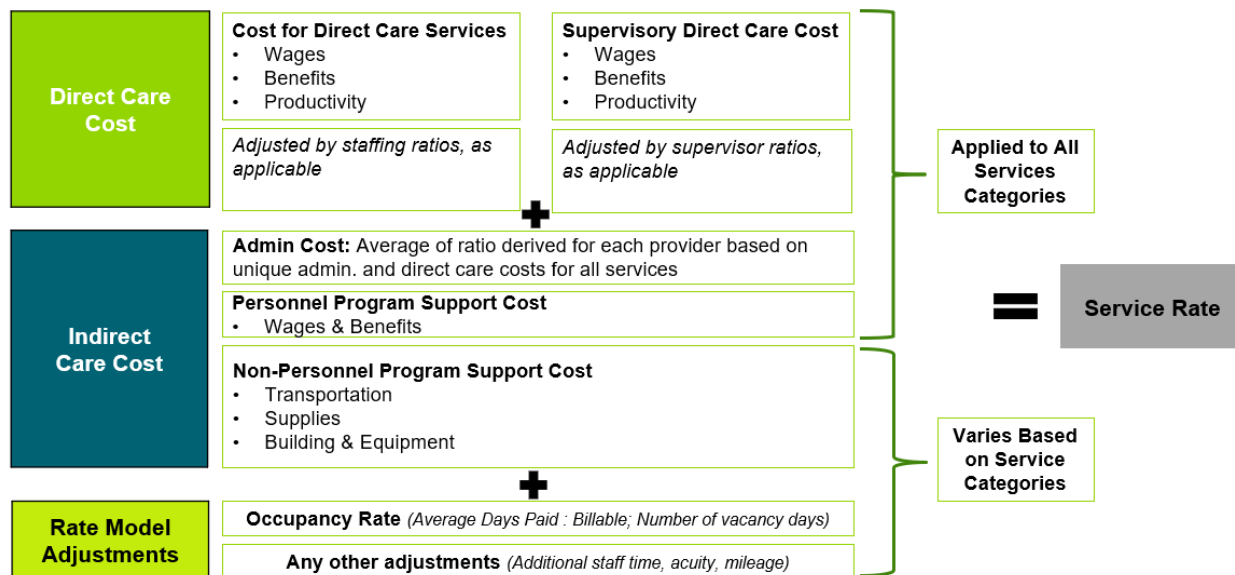
Typical components of a rate methodology or rate model include:

- Direct Care Compensation Costs
 - Staff Wage Costs
 - Employment Related Expenditures (ERE)
 - Supervision Costs
- Administrative Expenses
- Program Support Expenses
- Staffing Ratios
- Occupancy Adjusters
- Staffing Ratios
- Building and Equipment Costs
- Food Costs

Together, these components sum to a unit rate designed to reimburse a provider organization for all inputs required for quality service delivery. This approach is often called an “independent rate build-up” approach because it involves several distinct rate components whose costs are captured independently through a variety of potential data sources. These costs are essentially “stacked” together into a collective cost per unit that defines the rate needed for cost coverage.

Figure 3 illustrates the “building block” structure of Guidehouse’s rate development methodology. Although individual rates may incorporate different building blocks, each rate model follows a similar process for identifying the component blocks for inclusion, based on the service requirements and specific adjustments needed to align overall costs with the appropriate billing logic and units of service.

Figure 3: Overview of Rate Components



This figure represents various costs that can be considered when developing a rate. The different cost components schematized here are discussed in further detail in the following sub-sections of the report.

F.2.1. Staff Wages

Wages for direct care staff are the largest driver in the final rate and are therefore a critical element to derive from the provider cost and wage survey. It is key to align the appropriate staff type with their corresponding wage to feed into the rate models for services. To best understand the landscape of wages in South Dakota, Guidehouse used information from the provider cost and wage survey reported by providers that deliver these services as well as industry-wide data sources.

As part of the cost and wage surveys, each responding provider reported average hourly or “baseline” wages in addition to overtime, shift differential and other forms of supplemental pay for the survey time period of April 2023- June 2023. To account for rapidly changing wage increases most of the surveys also asked if providers had increased their wages since the end of the survey time period, and if so, by how much to help estimate the impact of wage growth. The staff types with the highest number of Full-Time Equivalents (FTE) reported in the survey were Certified Medication Assistant, accounting for 40 percent of total FTEs since this rate study

also include assisted living facilities that account for a large portion of the labor market. By including assisted living facilities the FTE responses were more robust and helps to build consistency in wages across multiple markets. However, the mix of FTE's varied based on the service. Caregiver was utilized for CLH's, Certified Nursing Assistants and Licensed Practical Nurses were included for Adult Day and SFC primarily leverages Case Managers in combination of the stiped requirements. Meals includes a mix of staff types necessary to operate a kitchen. Table 14 represents the distribution of FTE's with the corresponding FTE weighted average wage, lowest wage, and highest wage. The baseline wages represented in Table 14 do not include inflationary factors or supplemental pay.

Table 14: Average Hourly Wage Reported in Cost and Wage Survey, Weighted by FTEs

Job Type	Number of Providers	FTEs	FTE Weighted Wage	Lowest	Highest
Certified Medication Assistant	24	150.96	\$15.66	\$10.80	\$28.00
Cook	19	44.81	\$16.01	\$11.47	\$26.25
Certified Nurse's Assistant	13	42.98	\$18.88	\$14.00	\$24.21
Caregiver	7	39.77	\$14.94	\$10.80	\$20.40
Case Manager	4	35.35	\$25.35	\$21.00	\$29.48
Housekeeper	9	16.32	\$14.49	\$10.80	\$20.50
Licensed Practical Nurse	14	14.51	\$22.79	\$19.50	\$36.00
Dining Aide	6	13.72	\$13.64	\$10.95	\$16.00
Home Companion/ Personal Care Aide	3	6.70	\$16.14	\$15.00	\$19.03

For all direct care staff types, Guidehouse applied a weighting of reported wages by the number of FTEs, then comparing that wage to benchmark wages reported by the Bureau of Labor Statistics, Occupational Employment and Wage Statistics (BLS OEWS) specific to South

Dakota for early-2023. The BLS OEWS does not have every single job type but it has jobs that are fairly comparable to those reported for these services that were able to be leveraged as appropriate benchmark wages. For example, Certified Medication Assistant staff in the cost and wage survey was most closely related to the BLS job classification of “Home Health and Personal Care Aides”. An inflationary factor was applied to the BLS OEWS information due to the database reflecting wages from May 2022 to be able to compare to the wages reported from the survey time period of April-June 2023. BLS benchmarks are used to confirm that potentially deflated wages due to an underfunded system are not used in prospective rate development. Since the wages reported in the survey were consistently higher than those in the publicly available data, Guidehouse decided to use the information collected in the survey to determine appropriate wage assumptions for most services. This assumption was also reviewed by the Advisory Workgroup members and with DHS staff.

F.2.1.1. Inflationary Increases in Wages

National data was referenced in tandem with survey data to understand how wages and costs have trended over recent years. Inflationary factors were evaluated from 2022 to the preliminary numbers in 2023. Inflationary metrics are evaluated by analyzing entire sets of services and not applying individual inflationary metrics per service. Therefore, various inflationary metrics were evaluated across industries, employment categories and ultimately compared to information reported by South Dakota providers to determine a reasonable prospective rate adjustment. The inflation metrics are also intended to capture a larger portion of the labor market. By including assisted living facilities, the wages and inflation reported within the surveys was more representative of the wages within South Dakota and not a smaller subset of the labor pool. This allows for consistency in wages and ultimately can correct rate inequities that occur over time due to evaluating services in a silo. Table 15 includes the most recent growth rate from each source and how that compared to the information reported by providers.

- **BLS Current Employment Statistics (CES):** The BLS publishes CES data which looks at earnings. Guidehouse reviewed four different employment categories to see the variability. Across Assisted Living Facilities for the Elderly Staff, 2022-2023 trends document an annual growth rate in earnings of **3.1 percent**. Staff in Continuing Care Retirement Communities showed an inflation rate of 4.7 percent, Services for the Elderly and Persons with Disabilities showed an inflation rates **6.5 percent** and Other Residential recorded an inflation of 5.4 percent.
- **BLS Producer Price Index (PPI):** The BLS also publishes PPI data that examines costs to producers. Guidehouse reviewed inflation metrics for three industries that were generally reflective of this population. The PPI inflation ranged from **4.7 percent to 6.2 percent**.
- **Provider Cost and Wage Survey:** Responding provider organizations recorded wages during Q2 of CY2023 to establish a baseline. Additionally, providers recorded the average percentage increase to hourly wages after the end of the survey time period. Across job types, the average increase was **3.1 percent**, which aligned with the BLS inflation.

Table 15: Sources of Growth Rates in Relevant Costs and Wages

Source	Time Period	Growth Rate
Bureau of Labor Statistics (BLS) Current Employment Statistics (CES) Average for Assisted Living Facilities for the Elderly	2022-2023	3.1%
Bureau of Labor Statistics (BLS) Current Employment Statistics (CES) Average for Continuing Care Retirement Communities and Assisted Living Facilities for the Elderly	2022-2023	4.7%
Bureau of Labor Statistics (BLS) Current Employment Statistics (CES) Average for Services for the Elderly and Persons with Disabilities	2022-2023	6.5%
Bureau of Labor Statistics (BLS) Current Employment Statistics (CES) Average for Other Residential Care Facilities	2022-2023	5.4%
Bureau of Labor Statistics (BLS) Producer Price Index (PPI) Average for Home Health Care services – Medicaid patients	2023	5.7%
Bureau of Labor Statistics (BLS) Producer Price Index (PPI) Average for Nursing Care Facilities – Medicare and Medicaid Patients	2023	4.7%
Bureau of Labor Statistics (BLS) Producer Price Index (PPI) Average for Residential Developmental Disability Homes	2022-2023	6.2%
South Dakota DHS Provider Cost and Wage Survey	2022-2023	3.1%

Since wage growth is the primary driver of LTSS cost growth, Guidehouse determined that the CES inflation factor was more representative of the economic conditions faced by providers. The CES inflation is applied to wages and therefore a more appropriate inflationary metric to include other than PPI that is an overall industry inflation. To align potential growth in costs

during 2023 and to account for economic and labor conditions that may reflect the future cost of service delivery, our wage assumptions include a wage adjustment from the survey and BLS benchmarks of **3.1 percent** from July 1, 2023 – June 30, 2024. This inflation factor assumes consistent wage growth from the previous year based on economic conditions as well as including consistent inflation across a mix of services. The transparent model development allows inflation to be re-evaluated dependent on labor conditions.

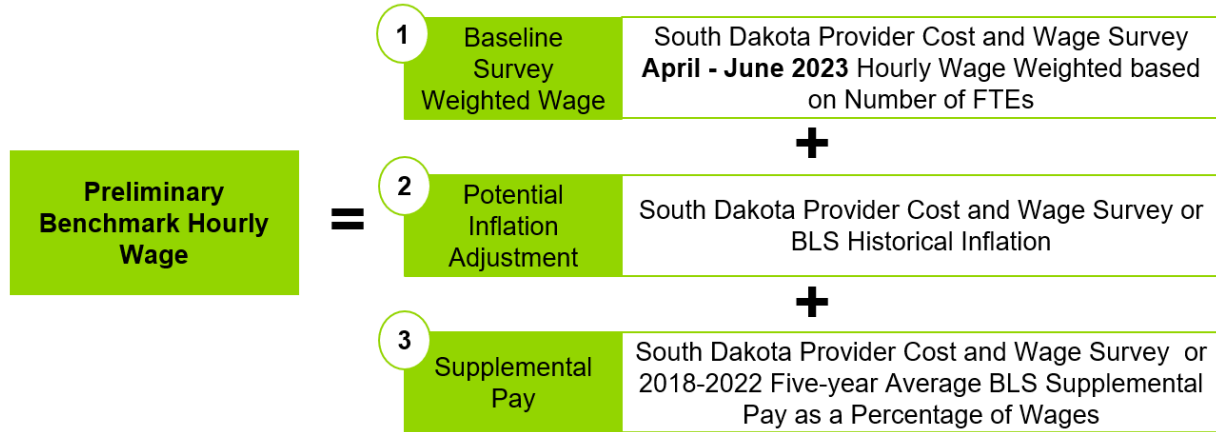
F.2.1.2. Supplemental Pay

Supplemental pay – inclusive of costs such as overtime wages, holiday pay, and other supplemental compensation *on top of* compensation from regularly-earned wages – was reported in the cost and wage survey. Supplemental pay reported in the survey showed inconsistent values and several high outliers. After the most significant outliers were removed, supplemental pay values still remained artificially high due to temporary factors that may not reflect long-term wage trends. As such, the surveyed value was not used in favor of benchmark values to reflect wage trends more accurately.

As a national benchmark the BLS Employer Costs for Employee Compensation (ECEC) quarterly data series for the Health Care and Social Assistance industry, which divides costs into hourly wages as well as expense categories related to mandatory taxes and benefits, insurance, retirement, paid time off, supplemental pay, and other benefits. In the first calendar year quarter of 2023 (CY2023 Q1) – the closest available time period to that requested in the cost and wage survey – supplemental pay for the selected labor category equaled **3.76 percent** of the average hourly wage, which has remained relatively stable over the past five-year period from 2019 through Q1 2023. Guidehouse determined to use the five-year average supplemental pay percentage of **3.76 percent** to account for a longer trend history that accounts for market fluctuations and the impact of COVID-19 on the rates. The BLS ECEC data includes all supplemental cost components integral to overall compensation, and the data provides consistent and periodic trends that can be used to project a future state.

F.2.1.3. Final Wage Adjustments

Guidehouse calculated the benchmark wage assumptions by adjusting the CY2023 Q2 survey wages by the **3.1 percent** indicated within the survey which correlates to the CES inflationary metric and inflation metric reported in the provider cost and wage surveys and then adding the additional supplemental pay percentage of **3.76 percent**. This wage build up is demonstrated in Figure 4.

Figure 4: Calculation of Wage Adjustment Factors


For example, using the Cook weighted baseline wage from 2023 of \$16.01 (as discussed above), an inflationary wage adjustment of 3.1 percent was applied which amounts to \$0.50, or a total of \$16.51 to create a wage reflective of July 2024. Inflating the wages to 2024, an additional 3.76 percent supplemental percent is added to increase the wage by \$0.60, which brings the projected hourly wage in July 2024 to \$17.13. Table 16 completes this calculation for each job type.

Table 16: Benchmark Wage Recommendations

Job Type	Baseline Wage	Inflation Adjusted Wage (3.1%)	Inflated Wage + Supplemental Pay
Certified Medication Assistant	\$15.66	\$16.15	\$16.75
Cook*	\$16.01	\$16.51	\$17.13
Certified Nurse's Assistant*	\$18.88	\$19.47	\$20.20
Caregiver*	\$14.94	\$15.40	\$15.98
Case Manager*	\$25.35	\$26.14	\$27.12
Housekeeper	\$14.49	\$14.94	\$15.50

Job Type	Baseline Wage	Inflation Adjusted Wage (3.1%)	Inflated Wage + Supplemental Pay
Licensed Practical Nurse*	\$22.79	\$23.50	\$24.38
Dining Aide	\$13.64	\$14.06	\$14.59
Home Companion/ Personal Care Aide	\$16.14	\$16.64	\$17.27
Food Preparation Workers*	\$13.84	\$14.27	\$14.80
First-Line Supervisors of Food Preparation and Serving Workers*	\$19.47	\$20.07	\$20.82
<i>*Indicates the job types that were used in rate model development</i>			

This methodology results in a total of 3.1 percent inflation with 3.76 percent inflation to account for wages at time of proposed rate implementation on July 1st, 2024.

F.2.2. Employee-Related Expenses

Employee-related expenses, or fringe benefits, are costs to the provider beyond wages and salaries, such as unemployment taxes, health insurance, and paid time off (PTO). These fall into three distinct categories of benefits. These ERE or fringe benefits include legally required benefits, paid time off, and other benefits such as health insurance.

- Legally-required benefits** include federal and state unemployment taxes, federal insurance contributions to Social Security and Medicare, and workers' compensation. Employers in South Dakota pay a federal unemployment tax (**FUTA**) of 6.00 percent of the first \$7,000 in wages and state unemployment tax (**SUTA**) of 1.00 to 1.20 percent of the first \$15,000 in 2023 wages. Generally, if an employer pays wages subject to the unemployment tax, the employer may receive a credit of up to 5.40 percent of FUTA taxable wages, yielding an effective FUTA of 0.60 percent. Employers pay a combined 7.65 percent rate of the first \$142,800 in wages for Social Security and Medicare contributions as part of Federal Insurance Contributions Act (**FICA**) contributions. Per the cost and wage survey, employers in South Dakota pay an average effective tax of 1.60 percent toward workers' compensation insurance.
- Paid time off (PTO) components of ERE** include holidays, sick days, vacation days, and personal days. The median aggregate number of paid days off per year, per the cost and wage survey, was 35 days total. As PTO benefits only apply to full-time workers, the daily value of this benefit is multiplied by a part time adjustment factor, which represents the proportion of the workforce which works full-time for the provider organizations

responding to the cost and wage survey.

- **Other benefits in ERE** include retirement, health insurance, and dental and vision insurance. Other benefits are also adjusted by a part time adjustment factor, as well as a take-up rate specific to each benefit type which represents the proportion of employees who utilize the benefit.

Not all providers who responded to the provider cost and wage surveys have historically offered a “full” or competitive benefits package. To determine competitive contributions for benefits which are not legally required, the paid time off components were analyzed in aggregate and data on other benefits only from providers *who contribute to their full-time employees’ benefits*. Analyzing these contributions and take-up rates for providers offering “other benefits” yielded median annual contributions per employee.

Benefits information reported in the survey was compared to the publicly available Medical Expenditure Panel Survey (MEPS). MEPS is a set of large-scale surveys of families and individuals, their medical providers, and employers across the United States. MEPS is the most complete source of data on the cost and use of health care and health insurance coverage which is also state-specific. During this comparison the average monthly premium reported in the State of South Dakota was \$883.68. This premium came in lower than the average of \$901.25 reported in the survey. Guidehouse ultimately decided to use the MEPS information over the survey data, both because this source is grounded in a wider response base, and because it provides a more representative standard for determining competitive insurance offerings for South Dakota employers overall. Therefore, the information provided within the cost and wage survey was used to develop the assumptions for vision insurance, dental insurance, and other benefits, while the data from Medical Expenditure Panel Survey (MEPS) was utilized for determining a take-up rate and monthly premium assumption for health insurance.

Calculating each ERE component as a percentage of the annual wage assumption for Certified Nursing Assistants, or \$39,268 per year, yielded a competitive fringe benefit package of **36.84 percent** of wages as outlined in Table 17.

Table 17: Components of ERE for a Certified Nursing Assistant

Component	Value / Calculation	
Annual Wage	\$39,268 (\$18.88 x 2080 hours)	
FUTA	0.60% of up to \$7,000	\$42 (0.11%)
SUTA	1.1% of up to \$15,000	\$165 (0.42%)
FICA	7.65% of up to \$142,800	\$3,004 (7.65%)
Workers' Compensation	1.60%	\$628 (1.60%)

Component	Value / Calculation	
Legally Required Benefits	-	\$3,839 (9.78%)
Daily Wage	\$18.88 x 8 hours	\$151.03
Part-Time Adjustment Factor	86.30%	
Paid Time Off	35 days	
Paid Time Off	\$151.03 x 86.30% x 35 days	\$4,562 (11.62%)
Part-Time Adjustment Factor	86.30%	
Retirement Take Up Rate	88.14%	
Health Insurance Take-up Rate	53.00%	
Dental Insurance Take-Up Rate	49.04%	
Vision Insurance Take Up Rate	45.63%	
Other Benefits Take Up Rate	98.00%	
Retirement	3.58%	\$1,070 (2.72%)
Health Ins.	\$884/mo.	\$4,850 (12.35%)
Dental Ins.	\$116/yr.	\$49 (0.13%)
Vision Ins.	\$56/yr.	\$22 (0.06%)
Other Benefits	\$86/yr.	\$73 (0.19%)
Other Benefits	-	\$6,064 (15.44%)
Total ERE per Certified Nursing Assistant	Legally Required Benefits + Paid Time Off + Other Benefits	\$14,466 (36.84% of Annual Wage Assumption)

As wages rise, costs of contributing to certain legally required benefits and other benefits do not necessarily become more expensive. As wages increase, the proportion of ERE to wages decreases; therefore, individual ERE percentages were developed based on job type utilizing the baseline wage.

As an example of how the ERE percentage decreases with a higher wage within Table 18 we display the numbers for the remaining job types:

- Caregiver
- Cook
- Licensed Practical Nurse
- Case Manager

Table 18: Employee-Related Expenses across Job Types

Component	Caregiver	Cook	Licensed Practical Nurse	Case Manager
Hourly Wage	\$14.94	\$16.01	\$22.79	\$25.35
Annual Wages – FY2023	\$31,078	\$33,306	\$47,399	\$52,731
Legally Required Benefits	\$3,082 (9.92%)	\$3,288 (9.87%)	\$4,591 (9.69%)	\$5,085 (9.64%)
Paid Time Off Benefits	\$3,610 (11.62%)	\$3,869 (11.62%)	\$5,506 (11.62%)	\$5,506 (11.62%)
Other Benefits	\$5,841 (18.80%)	\$5,902 (17.72%)	\$6,286 (13.26%)	\$6,431 (12.20%)
Total ERE per Staff	\$12,533 (40.33%)	\$13,059 (39.21%)	\$16,384 (34.57%)	\$17,642 (33.46%)
Hourly Wage with ERE	\$20.97	\$22.29	\$30.66	\$33.83

F.2.3. Supervision

While direct care staff deliver services, other staff are often present to supervise, usually multiple staff at one time. Wages for supervisors are often higher, but proportionate, to the wages of the direct care staff they supervise and are therefore included in independent rate models as a separate component to the primary staff wage. The supervision cost component captures the cost of supervising direct care staff. It should be noted that supervision costs are distinct from administrative costs related to higher-level management of personnel. Supervision is time spent in direct oversight of and assistance with care provision and is frequently conducted by staff who are themselves providing direct care as a part of their role.

The cost and wage survey included questions regarding the number of direct care staff supervised by one supervisor and the total number of hours a supervisor spends, on average, directly supervising staff. For the majority of services, the average number of staff supervised by one supervisor ranged from three to ten. Developing this add-on accounts for the costs of

employing supervisors to help assure appropriate delivery of services. Table 19 displays examples of how supervisor costs are calculated depending on the supervisor span of control related to the number of residents they are responsible for overseeing. Depending on the type of model, supervision hours can vary based on how many staff they oversee or how many participants they are responsible for. However, **Appendix A** displays the individual rate models and the supervisory assumptions included. For The “Annual Supervision Hours” is the total hours that supervisors spend annually on supervisory activities. These hours were calculated by taking a full time FTE assuming 2080 working hours in a year and dividing by 20 clients. Survey responses showed a wide variety in supervisory hours depending on the service. These hours were validated with the advisory workgroup to confirm reasonableness. These hours are in addition to additional administrative and program support staff.

Table 19: Supervision

Line Description	Clinical Director
Hourly Supervisor Wage	\$47.56
Supervisor ERE	29.22%
Hourly Supervisor Compensation	\$61.46
Annual Supervision Hours	104
Annual Supervisor Compensation	\$6,391.83

In comparison, for Adult Day supervision is calculated based on the combination of the “Supervision Hours per Week”, the average hours reported in the survey that supervisors spend in a week on supervisory activities and “Supervisor Span of Control”, the average number of staff that a supervisor oversees. Table 20 outlines the calculation of how this combination of cost components adds the appropriate supervision costs.

Table 20: Adult Day Supervision

Line Description	Nurse Manager
Hourly Supervisor Wage	\$32.64
Supervisor ERE	32.79%
Hourly Supervisor Compensation	\$43.34

Line Description	Nurse Manager
Supervision Hours per Week	15 (per week)
Supervisor Span of Control	5
Supervision Hours per Staff per Hour	0.08
Supervision Cost per Staff per Hour	\$3.25
Hourly Total Compensation	\$51.03

F.2.4. Administrative Expenses

Administrative expenses reflect costs associated with operating a provider organization, such as costs for administrative employees' salaries and wages along with non-payroll administration expenses, such as licenses, property taxes, liability, and other insurance. Rate models typically add a component for administrative expenses to spread costs across the reimbursements for all services an organization may deliver; our recommended rates reflect this methodology by establishing a percentage add-on for each service rate.

To determine an administrative add-on, Guidehouse calculated the ratio of administrative costs to direct care wages by summing administrative costs reported in the South Dakota collected SFY 2022 cost reports, then dividing by total direct care wages and benefits inflated according to new wage and fringe assumptions for direct care workers for the time period captured in the survey.⁴ Administrative costs include several categories:

- **Payroll Administrative Expenses:** *Employees and contracted employees who perform administrative activities or maintenance activities earn salaries and benefits, which count toward payroll expenses in the calculation of total administrative costs.*
- **Non-Payroll Administrative Expenses:** *Costs including office equipment and overhead comprise non-payroll administrative expenses, net of bad debt and costs related to advertising or marketing.*

Administrative percentages calculated from the cost reports were higher than industry trends. Guidehouse found that roughly 45% of providers reported administrative percentages over 40 percent. Based on these observations Guidehouse determined that leveraging national standards and best practices to standardize administrative cost expectations and control for any

⁴ The calculation to determine median and average administrative expense ratios excluded providers that did not report administrative or direct care costs or reported costs such the ratio of administrative costs to direct care costs was above 45%.

unique facility and system financial reporting structures would be beneficial when making rate recommendations. As such, a benchmark ratio of **25 percent** was recommended for rate calculations, which adds a dollar amount to a unit rate by multiplying the direct care related expenses by the average administrative percentage. However, the Meals rate calculation displays an indirect cost percentage of 15 percent overall. This is due to isolating specific cost components that would normally be categorized as an indirect cost and separating them in the model to allow additional transparency into assumptions related to items such as support staff, transportation, building and equipment costs. Table 21 illustrates the application of the administrative percentage to the direct care related cost to create the annual add-on before calculating the per diem rate.

Table 21: Administrative Add-On

Line Description	Structured Family Caregiving
Total Direct Care Costs	\$10,156.13
Administrative Overhead Percentage	25.0%
Administrative Overhead Factor	\$2,539.03 (Annual)

F.2.5. Program Support Expenses

Program support expenses reflect costs associated with delivering services, but which are not related to either direct care or administration, but still have an impact on the quality of care. These costs are specific to the program but are not billable and may include costs related to program support staff, supplies, transportation and building expenses. Similar to the calculation for administrative costs, the program support percentage is calculated based on cost data reported in the provider surveys, cost reports and national benchmarks. Also similar to the calculation for administrative costs program support costs reported by providers were calculated in relation to direct care costs reported in the provider surveys and cost reports and found to be substantially higher than national and State comparisons. Cost reports were analyzed to determine the residential service program support by including the program support staff and supply line items. After isolating that food costs were included in the supply line for the residential services within the cost reports Guidehouse was able to remove food since this would be included in a separate room and board payment to determine the additional program support percentage of **10.1 percent**. Additionally, Adult Day program costs included an additional 4.4 percent equaling **14.5 percent** for the additional building and equipment costs. Similar to the administrative cost calculation, the Meals rate models further isolated specific program support costs and outlined them in additional detail in the rate model buildup. Therefore, there is a **15 percent** indirect cost percentage included on top of the other overhead costs associated with Meals for food costs and building and equipment. Table 22 illustrates the application of the program support percentage to the direct care related cost to create the indirect cost add-on.

Table 22: Program Support Add-On

Line Description	Structured Family Caregiving
Total Direct Care Costs	\$10,156.13
Program Support Percentage	10.1%
Program Support Factor	\$1,048.00 (Annual)

F.2.6. Staffing Ratios

Staffing ratios are a key component for each of the services within the scope of this rate study. However, how staffing ratios are included vary between Structured Family Caregiving, Adult Day, and Community Living Homes. These staffing ratios are translated into hours per client to be built into the cost assumptions. Structured Family Caregiving is driven partly by a case management model where case managers are responsible for caseload of people with the annual wage of the case manager then being divided amongst their caseloads. Caseload assumptions were set at **20** to account for the variability in acuity level and need within the tier structure. This also allows for additional check-ins, in person sessions, assessments and additional training for the family member caregiver.

Community Living Homes determines the number of residents and then estimates a time assumption for each resident. These hour assumptions increase depending on the tier that the resident has been placed in. The staffing ratios for this service are defined by the State's definition that a Community Living Home is a family-style residence with up to four (4) adults that is licensed by the South Dakota Department of Health.

Adult Day is delivered primarily in a group setting with a Certified Nursing Assistant as the primary staff type. Specific questions were asked in the provider cost and wage survey related to group sizes. The total costs of the staff to deliver the service is calculated and then divided by the determined group size since the provider is able to bill for each participant within the group session. The provider cost and wage survey combined with confirmation of the advisory workgroup resulted in a group size assumption of **5.5** participants for Adult Day. Adult Day also included additional consideration for nursing time due to the nature of the service delivery. The Certified Nursing Assistant is the primary staff type but then a quarter time Licensed Practical nurse was included within the total cost to account for the needs of this population. There were also additional considerations to include personal care within the Adult Day rate. However, after discussion with the workgroup it was determined to still allow for personal care to be billed separately but to keep the additional LPN assumptions and the supervisor to be a Nurse Manager. The costs of this team and the indirect costs are then divided by the group size assumption of 5.5 to determine the final rate.

F.2.7 Billable vs Non-Billable Time

While direct care staff can only bill for the time during which they are delivering services, they perform other tasks as part of their workday. Productivity factors account for this “non-billable” time, such as time spent keeping records or in training, by upwardly adjusting compensation (wages and ERE) to cover the full workday.

Consider a simple example to illustrate this process:

A direct care staff person is paid \$16 per hour and works an 8-hour day. The cost to the provider for the day is \$128 (\$16 * 8 hours). However, if half of the staff member’s 8-hour day (4 hours) was spent on activities that are non-billable, the provider would only be able to bill for 4 hours of the staff member’s time. Therefore, a productivity adjustment would have to be made to allow the provider to recoup the full \$128 for the staff cost. The adjusted wage rate per billable hour would need to be \$32 resulting in a productivity adjustment of 2.0.

While this is an exaggerated example (a typical productivity adjustment is around 1.4 for many of the services in scope for this study), it demonstrates the importance of including a productivity factor to fully reimburse for direct support time.

Provider organizations reported the average number of billable hours (out of an assumed 8-hour workday) through the cost and wage survey, which we translated into a productivity factor for staff delivering each service. This adjustment applies only to Adult Day for this scope of services and is applied to the CNA and LPN time. Providers reports a billable time adjustment of roughly **75 percent**. This percentage equates to 6 billable hours per each direct care staff member’s 8-hour day. Dividing 8 by 6 (or equivalent, 1 divided by 75.0 percent or .750) yields a productivity adjustment of **1.33**, which is then multiplied by ERE-adjusted wages to get productivity-adjusted compensation. Table 23 displays the productivity and productivity adjustment for each direct care job type. This adjuster was also confirmed by the advisory workgroup members as realistic for their staff. However, this adjustment does not account for “occupancy” or “no-shows” which is included as an additional adjustment within the rate model.

Table 23: Productivity by Job Type

Job Type	Productivity	Productivity Adjustment
Adult Day	75%	1.33

F.2.8 Occupancy Adjustment

Adult Day also accounts for an occupancy adjustment to allow consideration for participants who schedule but then are unable to attend, resulting in a loss of revenue for the provider since they cannot fill the spot. Within the provider cost and wage survey the question was asked about the “Average number of no-show days within the quarter”. This was intended to capture the impact of these no-shows on provider reimbursement. There was wide variability reported in

the provider cost and wage survey for the total number of no-shows within a quarter. After discussion with the advisory workgroup and the State a no-show adjuster aligned with industry standards of roughly 92 percent, which corresponds to roughly 20, 15-minute units.

F.3. Meals

Development of Meal rates included some of the same rate components discussed in the sections above related to wages and ERE; however, there are specific details only included in the creation of Meal rates. Food Costs are a large driving factor in the overall Meal rates. In addition, there are additional cost factors related to building and equipment costs, delivery and travel costs and the combination of wages to build a team of kitchen staff that can cook the necessary number of meals to serve the population. The provider cost and wage survey combined with provider-specific cost report data was leveraged to compare against national data and industry standards. The rural landscape of South Dakota presents challenges related to transportation, and therefore additional costs are included to account for the cost. There is also the additional consideration related to the funding sources available for waiver and State-funded Meal rates versus Title III.

HOPE Waiver and State-Funded Meal Rates

Rate component assumptions were developed by first analyzing the information provided within the provider cost wage survey compared with the cost report information. After reviewing the raw food costs reported within the South Dakota-specific information, Guidehouse ultimately used the raw costs reported by the USDA Low-Cost Plan for Males 51-70 of \$3.09, since these costs were higher and representative of a larger sample size than limiting to the South Dakota Meals providers. Wages and benefits for Cooks were calculated based on the information provided within the provider cost and wage survey, but the wage was consistent with BLS information. BLS was utilized to understand the wages related to the additional kitchen staff required to prep the food and assist in kitchen operations.

Additionally, the building and equipment costs related to operating a kitchen were calculated based on industry standards observed in other states and average cost per square foot reported within South Dakota for commercial kitchen space. As discussed within the administrative costs section, an additional **15 percent** was included to allow for the administrative staff required to operate the business. This is derived from cost report data accounting for outliers. **Appendix A** outlines how these various details were incorporated to determine a proposed benchmark rate of **\$9.09** per meal. When comparing this rate against peer states, South Dakota would be the second highest out of the seven (7) peer states. This rate also receives a FMAP where the state is responsible for a smaller portion of the provider rate.

Title III Meal Rates

The proposed rate calculation for Title III meal rates is the same as HOPE waiver because the cost of a meal does not change depending on the funding source. The cost of the food and the salaries to pay staff remain unchanged. However, the financing mechanisms used for Title III are different than Medicaid programs like HOPE waiver. Although Title III also draws on a combination of state and federal funding, unlike Medicaid, federal funding for Title III is fixed and

does not vary with changes in utilization or cost. Another major difference between these programs is that the cost of the Title III meal is divided among donations, a 25 percent provider contribution, NSIP funding and 75 percent state funding, whereas with HOPE waiver these additional financial sources are not required. The 25/75 percent split is determined by first subtracting the donations and NSIP dollars from the cost-based rate. The 25 percent provider portion is based on the cost-based rate, net of donations and NSIP. The 75 percent state portion is based on this same cost-based rate, net of donations and NSIP. Therefore, the cost of the meal does not change but there are additional funding considerations that makeup the rate.

While Guidehouse's benchmarking for Title III represents what the rate would be if paid by cost, these benchmarks are not necessarily recommendations for implementation, since federal funding formulas do not typically track to cost or intend to meet cost, as they do in Medicaid. For this reason, Guidehouse has also included in the study a "budget-neutral" benchmark rate, which takes account of traditional funding levels available for financing the Title III rate. The budget-neutral benchmark is not a recommendation for implementation, but an analysis to inform the Department's budget planning under current funding levels.

Donation information was collected within cost reports and analyzed over the previous two years to look at the trend in donation patterns. Additionally, average donations were included in a report distributed by the Administration for Community Living (ACL)⁵. It is important to consider that these donation amounts are averages and can vary geographically and between congregate and home delivery settings. The weighted average was calculated across all providers that fell within 2.5 standard deviations of the mean. One provider was excluded due to the variation in donations which resulted in an average donation amount of \$3.28. However, if all providers were included the weighted average donation amount is \$2.64, just short of the ACL reported average. Table 24 displays average donation amounts per meal and the comparison to the information reported in South Dakota's FY21 cost reports and the donation amount reported in the ACL report.

Table 24: Average Donation Amounts Per Meal

Source	Average Donation	Percent Difference from FY22 Cost Report
South Dakota FY22 Cost Reports	\$3.28	
South Dakota FY21 Cost Reports	\$3.14	-4.3%
ACL Report	\$2.68	-18.3%

It is important to note that the donation amounts are not guaranteed and a meal cannot be denied if a participant does not provide a donation. Therefore, it is an important component to the final rate determination but funding is a critical piece when ensuring the aging population can continue to receive Meals within the community. Table 25 shows the current funding

⁵ [The Title III-C Nutrition Services Program: Understanding Participants' Monetary Contributions \(acl.gov\)](https://acl.gov/sites/default/files/2021-03/Title-III-C-Nutrition-Services-Program-Understanding-Participants-Monetary-Contributions.pdf)

through Title III, including state and federal dollars, combined with Nutrition Services Incentive Program (NSIP) of the Older American Act (OAA) and how that translated to a budget-neutral rate considering the total Meals delivered in the previous year.

Table 25: Budget-Neutral Rate

Total Title III (State + Federal)	NSIP	Total Title III Meals Delivered	Budget-Neutral Rate (Funding/Meals)
\$5,099,960	\$944,402	1,567,600	\$3.86

G. Benchmark Rates and Final Recommendations

G.1. Rate Considerations

Wages

The general Guidehouse recommendation is to use the wages reported in the provider cost and wage survey for all job types. There was a range of staff reported within the survey; however, there were job types that were reported as the majority by FTE's depending on service. Those staff were as follows:

- Community Living Homes: Caregiver
- Structured Family Caregiving: Case Manager
- Meals: Cook and Kitchen Support Staff
- Adult Day: Certified Nursing Assistant and Licensed Practical Nurse

The wages and benefits are key components in developing service rates and the benchmark metrics have a significant impact on the final rates. Guidehouse identified the standardized benchmark wages and benefits used in developing the rates to be competitive based on comparison to industry data and feedback from stakeholders in the advisory workgroups. Additionally, the due diligence conducted to arrive at the benchmark wages reveals the recommended wages align with industry wages found using BLS within South Dakota as well as utilizing the healthcare premiums found within MEPS to best align with statewide healthcare premiums.

Tier Re-distribution (Community Living Homes and Structured Family Caregiving)

Guidehouse evaluated the current distribution of participants within the three-tier structure for these residential services by observing the resource utilization group score (RUG) to Tier mapping. The recommendation is to change the mapping for specific RUGs to shift a portion of participants into higher tiers. The decision was made that for RUGs score that included combination of different categories should be included in higher tiers such as combinations of

ADLs and IADLs. Since the RUGs score are assigned in a hierarchical manner using the Home Care Assessment tool, we wanted to ensure that there was a reasonable distribution of higher tiers earlier within the hierarchy. The changes are:

- Participants with clinically complex ADL scores of 4 or 5 and an IADL score of at least 1 would move from the **Base Tier to Tier 1**.
- Participants with Cognitive Performance Scale scores of 3 or more and the above ADL and IADL scores would fall into **Tier 2 instead of Tier 1**.
- Participants that receive at least 120 minutes of rehabilitative therapy weekly, have an ADL score between 4 and 10, and have an IADL score of at least 1 would fall into **Tier 2 instead of Tier 1**.
- Participants who are assessed to need Extensive Care or Special Care would move from **Tier 1 to Tier 2**.

Table 26 shows the impact of the redistribution on the current participants within the Structured Family Caregiving service.

Table 26: Tier Re-Distribution

Tier	Current Distribution	Proposed Distribution
Base	45.7%	58.8%
Tier 1	52.0%	26.5%
Tier 2	2.3%	14.7%

These changes resulted in a larger portion of participants being shifted into tier 2 from tier 1. There is also an impact moving a larger number of units into the base tier. However, when analyzing single assessments there is an inverse impact observed indicating that there are more assessments performed resulting in larger shifts than actual claims utilization.

Tier Structure

Extensive research was conducted to compare South Dakota's three-tier rate structure to other comparable states. After researching it was determined that the current three tiers are the most appropriate to reduce administrative burden and align with the acuity of the population. It is understood that there is not a perfect methodology when utilizing individualized care plans and assessment tools however, it is important to balance increasing complexity with better outcomes. Workgroup feedback indicated that developing population-specific reimbursement rates such as traumatic brain injury or behavioral health, are not necessary as long as the tier distribution is appropriate to assign the higher acuity participants into higher tiers. Therefore, the recommendation is to keep the tier structure with the proposed re-distribution of RUGs score to tiers. A possible consideration for DHS is to explore participants historical and current claims data to understand if the tier assignment correlates to higher acuity and ultimately higher utilization of services.

Stipend-Structured Family Caregiving

Annual stipends were determined using a market-based approach that considers stipend value based on its ability to attract families to participate. There was a market scan of adult foster care/host family and other similar services across the country to confirm that the proposed stipends are consistent with other programs. In addition, stipends were further compared against information reported by the National Alliance and AARP to determine relative differences between low and high need and to verify stipend resources are roughly aligned with typical weekly hours of caregiving. The recommendation is to keep the case management costs associated with this service consistent between the tiers but increase the percentage passed through to the caregiver to account for the increasing care needs by the caregiver. Table 27 displays the proposed stipend amounts and the corresponding percent of proposed benchmark recommended assuming the non-stipend portion of the rate remains stable between the tiers. The overall rate shows increased in the proposed rate but the stipend increase shows a much larger increase between tiers.

Table 27: Structured Family Caregiving Stipend Details

Rate Category	Base	Tier 1	Tier 2
Annual Stipend	\$16,360.84	\$21,814.45	\$27,268.06
Daily Stipend	\$44.82	\$59.77	\$74.71
Stipend Percent of Rate	51.3%	58.4%	63.7%
Proposed Benchmark Rate	\$87.41	\$102.36	\$117.30
Current Rate	\$76.80	\$96.00	\$107.52
Percent Difference - Rate	13.8%	6.6%	9.1%
Current Stipend	\$38.40	\$48.00	\$53.76
Percent Difference - Stipend	16.7%	24.5%	39.0%

Statewide Rate – Meals

South Dakota is the only state amongst the seven peer states that currently has provider-specific meal rates. Based on the current methodology rates are established reflecting provider costs from spending in previous years, without checks on expenditures, whereas statewide rates incentive providers to find efficiencies in delivery. Provider-specific rates are typically due to differences in the needs of the client population served and the need for “acuity adjustment” in provider costs. However, dietary needs for the client population are relatively invariant and do not justify differences in meal costs. Guidehouse’s recommendation is to consider transitioning to a statewide rate to encourage consistent cost and allow the State the ability to better index costs to inflation adjust individual rate components accordingly into the future. Instead of relying on historical costs reported in cost reports the State can adjust components such as food costs,

inflation and wages of staff based on labor market conditions. This allows DHS to present the inclusion of data driven trends and leverage national trends during budget discussions.

Title III Funding - Meals

Title III funding continues to be a challenge for states across the country. Guidehouse is currently working with DHS to begin conversations with ACL Administration for Community Living to review other Title III reimbursement opportunities available outside of the rate structure. In addition, other organizations, and resources such as Meals on Wheels America, National Association of Nutrition and Aging Services Program and Nutrition and Aging Resource Center are being explored as outlets for innovative ways to enhance funding. Title III funding historically was not intended to be a 100% payer source but was established as a supplemental program. As the eligible population continues to grow and to age, the ability to increase this additional funding source is a key area of interest nationwide. Historically, additional state-only funding was utilized to maintain the program under increased strain, but DHS will need to consider potential obstacles and the cost-benefit of pursuing opportunities.

Benchmark Rates

Benchmark rates for each service across all programs, outlined in Table 28, were developed using the independent rate build-up approach. **Appendix A** includes the rate models for individual services along with the appropriate sources and calculations for each rate component that contributes to the benchmark service rate. The proposed benchmark rates resulted in an increase ranging from 0 percent to 46.4 percent.

Table 28: Proposed Benchmark Rates and Budget Neutral Meals Rate

Code	Description	SFY24 Rate	Proposed Benchmark Rate	Percent Difference
T2033	Structured Family Caregiving - Base	\$76.80	\$87.41	13.8%
T2033 - U1	Structured Family Caregiving - Tier 1	\$96.00	\$102.36	6.6%
T2033 - U2	Structured Family Caregiving - Tier 2	\$107.52	\$117.30	9.1%
T2033	Community Living Home - Base	\$47.10	\$68.95	46.4%
T2033 - U1	Community Living Home - Tier 1	\$58.87	\$86.19	46.4%
T2033 - U2	Community Living Home - Tier 2	\$65.95	\$94.80	43.7%
S5100	Adult Day (Waiver and Title III)	\$3.53	\$3.53	0.0%
S5170	Meals - Waiver and State-Funded (Average)*	\$8.89	\$9.09	2.3%
S5170	Meals - Title III**	Varies by provider	\$3.86	N/A
* Weighted average by volume of meals delivered				
**Budget Neutral Rate, details within section F.3 Meals				

H. Fiscal Impact Estimates

H.1. Fiscal Impact Overview

As a part of the process of determining final rate recommendations, Guidehouse analyzed how proposed rate benchmarks would affect projected expenditures in an effort to estimate the fiscal impact of increased rates for the State of South Dakota as well as providers delivering services across the State. This analysis was conducted exclusively for the purposes of the rate study, to assess the implications of increasing funding for services to the levels identified by study rate benchmarks. However, as we note in the sub-sections below, our analysis includes several simplifying assumptions that, while warranted for projection purposes, may not reflect eventual service utilization or future Medicaid/State federal financial participation to be used in eventual budgeting for implementation. Moreover, these assumptions represent Guidehouse's best judgment based on the utilization data available, but do not necessarily reflect State legislative or executive decision-making, nor do they indicate additional commitments to future financing.

In the following sub-sections, Guidehouse describes the data sources for our utilization assumptions, including the service periods reflected in the data as well as any service exclusions or other limitations that frame the data set. The analysis also considers factors that influenced utilization assumptions and our approach to addressing these factors, including COVID-19 service impacts, utilization patterns sensitive to reimbursement increase, or adjustments to utilization stemming from proposed changes to service definition. With these caveats in mind, the report presents the fiscal impact to the services overall as well as split by department, detailing projected total and "State share" expenditures.

Fiscal impact is also influenced by the redistribution of participants between tiers, moving participants from lower-level tiers to higher level. This change has a compounding effect on the fiscal impact because rates for residential services are increasing at each tier level while participants are also moving into a higher reimbursement tier at the same time.

H.2. Baseline Data and Service Periods

Guidehouse determined SFY 2023 to be the most representative base year when understanding utilization of the services within scope. Ideally, the most recent year of claims utilization is key when estimating the prospective impact of rate changes. Based on historical trends the most recent year showed steady month-over-month utilization, which allowed us to determine that this steady utilization would stay consistent and allow for reasonable projections of expenditures.

Since State expenditures during SFY 2023 were not paid at current rates, Guidehouse adjusted the expenditure baseline grounded in SFY 2023 by repricing this utilization to reflect current rates. This adjustment is noted in fiscal impact tables in the "Paid at SFY24" columns, which indicates what the Department *would have paid* in SFY 2023 if reimbursing claims at the rates currently effective. To establish the payment baseline, Guidehouse priced each unit of service included in the data at the current rate without mimicking all the claims adjudication nuances

that can yield a final payment amount below the Medicaid allowed amount, such as reductions due to third party liability or other determinations. Expenditures calculated at Guidehouse's benchmark rates follow suit, allowing proportionate comparison for assessing financial impact. The fiscal impact numbers also account for the State-funded services as well as Medicaid services. This distinction is outlined since the State-funded claims do not receive Federal Medical Assistance Percentage (FMAP) but will still be costs to the State.

H.3. Other Projection Assumptions

For the most part, the analysis' utilization assumptions reflect historical service volume, and Guidehouse did not attempt to adjust utilization patterns based on anticipated changes stemming from rate increases.

While it is possible some services experiencing substantial rate increases may see higher utilization due to the monetary incentives driven by the increased rates to deliver these services, it is too soon to predict whether rate adequacy alone is sufficient to address workforce shortages that may have contributed previously to depressed utilization or challenges to access to care. It is our understanding that workforce challenges as well as lower rates of reimbursement may have caused some providers not to be able to deliver the volume of services demanded. With increased rates, providers may be in a position to hire and retain more staff than current levels, resulting in a greater volume of services delivered than historical utilization trends. Given the uncertain economic climate, the complexity of the dynamics operating in the current labor market, and the difficulty in gauging consumer and provider behavior post-COVID, Guidehouse declined to apply speculative adjustments to utilization projections specifically to model potential upticks in utilization influenced by a rate increase.

The analysis identifies fiscal impact in terms of both total expenditure increases and the additional State share dollars needed to fund services at the proposed benchmark rate. Projected State share impacts are also subject to simplified federal participation assumptions that may deviate from actual Federal Medical Assistance Percentage (FMAP) levels depending on several factors, including time of implementation and the persistence of the federal emergency declaration, as well as the relative proportion of Medicaid expansion and non-expansion beneficiaries receiving services.

In SFY 2024, South Dakota Medicaid FMAP will be 58.55 percent, which means the federal government will cover 58.55 percent of expenditures for standard Medicaid services, including HOPE waiver services, with South Dakota's State share covering the remaining 41.45 percent of reimbursement costs. This 58.55 percent is a blended percentage calculated by the State to estimate aggregate federal participation across multiple services and populations. It is a blend of the State share of the FMAP for 1 quarter of FFY2023 (July – Sept) and 3 quarters of FFY2024 (Oct – Jun) to align with State Fiscal Year.

The Older Americans Act (OAA) Title III Nutrition Program provides funding for Meals for adults aged 60 and older. These funding levels are set during the annual appropriations process and Congregate and Home Delivered Nutrition Services and the Nutrition Services Incentive Program (NSIP) are each their own line items in budget and appropriations bills. To receive

funds through Title III states are required to contribute 15 percent in addition to the funding amount. However, NSIP is a 100 percent federally funded dollar amount. Table 29 displays the current South Dakota federal funds through Title III with the corresponding State share.

Table 29: Older Americans Act (OAA) Title III Funding Amounts

Category	Congregate Meals	Home Meals	Total Title III	NSIP	Total Title III + NSIP ⁶
Federal Share (NSIP- 100% C1/C2- 85%)	\$2,639,490	\$1,795,258	\$4,434,748	\$944,402	\$5,379,150
State Share (NSIP- 0% C1/C2- 15%)	\$395,924	\$269,289	\$665,212	\$0	\$665,212
Total	\$3,035,414	\$2,064,547	\$5,099,960	\$944,402	\$6,044,362

The Title III and NSIP are set amounts provided to the State. From June 2022 to July 2023 there have been 1,567,600 meals delivered through Title III. Assuming the same number of meals will be delivered in the upcoming year this would result in a meal rate of \$3.86, this is the total funding of \$6,044,362 divided by the number of meals of 1,567,600. This presents a challenge to the State, because the funding is limited, but there has been a growing demand for meals for this population. Because of its unique requirements and funding sources, Title III should be evaluated separately from the Medicaid program and its budget.

H.4. Fiscal Impact Across All Services

Comparisons between current rates and the benchmarks developed by Guidehouse included only the reimbursement rate included in the DHS effective fee schedules, without considering other payments the Department may make to providers as a part of total reimbursement.

Table 30 shows the fiscal impact of funding rate changes to the full rate benchmark for all services included in the rate study, and also analyzed by program. The table includes a projection of expenditures if service utilization were to be paid at benchmark rates (the column labeled “**Utilization Paid at Benchmark Rates**”, which is compared to a set of baseline current expenditures “**Utilization Paid at SFY24 Rates**” to identify the overall fiscal impact, a figure that reflects new expenditures needed to finance benchmark rates (representing the “Difference” between benchmark and current spending). The “Utilization Paid at SFY24 Rates” column represents claims paid at current fee schedule rates.

⁶ [FY2023 OAA Title III Annual Grant Awards \(Without Transfers\) \(acl.gov\)](#)

Table 30: Total Fiscal Impact (Federal + State Share)

Service	Utilization Paid at SFY24 Rates	Utilization Paid at Benchmark Rates	Change	Difference
Total	\$14,721,857	\$15,744,059	6.9%	\$1,022,202
Adult Day	\$128,558	\$128,558	0.0%	\$0
Adult Day – Title III	\$1,029,048	\$1,029,048	0.0%	\$0
Structured Family Caregiving	\$7,026,675	\$7,992,695	13.7%	\$966,021
Community Living Homes	\$46,852	\$73,376	56.6%	\$26,524
Meals – HOPE Waiver	\$406,890	\$416,113	2.3%	\$9,223
Meals – State-Funded	\$45,530	\$65,964	44.9%	\$20,434
Meals - Title III	\$6,044,362	\$6,044,362*	0.0%	\$0

**Dollar amount indicates budget-neutral funding for Title III Meals.*

Analysis suggests the system would require an additional **\$1.02 million**—which includes not just State but also federal dollars—to reimburse providers at the benchmark rates recommended by Guidehouse.

While the fiscal impact analysis indicates the system would require \$1.02 million annually to increase reimbursement to the benchmark rates, the additional dollars the State of South Dakota would need to raise represents a substantially lower proportion of those total funds. The collective impact of these State share reductions is a price tag of **\$435,667** for the State of South Dakota, assuming full funding of the benchmark rates. Table 31 details the State fiscal impact across all services, with expenditure breakdowns by population and corresponding State share percentages.

Table 31: Total Fiscal Impact (State Share)

Service	State Share	Utilization Paid at SFY24 Rates	Utilization Paid at Benchmark Rates	Change	Difference
Total	-	\$4,033,915	\$4,469,582	10.8%	\$435,667
Adult Day	41.45%	\$53,287	\$53,287	0.0%	\$0
Adult Day – Title III	Combination of 15% and 25%	\$169,253	\$169,253	0.0%	\$0
Structured Family Caregiving	41.45%	\$2,912,557	\$3,312,972	16.4%	\$400,416
Community Living Homes	41.45%	\$19,420	\$30,414	9.7%	\$10,994
Meals – HOPE Waiver	41.45%	\$168,656	\$172,479	29.9%	\$3,823
Meals – State-Funded	100%	\$45,530	\$65,964	44.9%	\$20,434

Service	State Share	Utilization Paid at SFY24 Rates	Utilization Paid at Benchmark Rates	Change	Difference
Meals – Title III	Combination of 0% and 15%	\$665,212	\$665,212*	0.0%	\$0
<i>*Dollar amount indicates budget-neutral funding for Title III Meals.</i>					

These rate changes create an aggregate fiscal impact of roughly **10.8 percent** for Medicaid services. However, the figures currently include budget-neutral assumptions for Title III and a hold harmless provision if the State moves to a statewide Meals rate for HOPE waiver and the State-funded Meals. This figure is an estimate based on the proposed benchmark rates within this report. Depending on budgetary constraints there is the possibility that the full rates may not be able to be implemented. Overall, this rate study was intended to inform DHS of the various cost components and service delivery that should be considered when developing rates to support provider costs.

Appendix A: Rate Models

Adult Day		
Wages	Hourly Wage - <i>Certified Nursing Assistant</i>	\$20.20
	ERE (% of Wages)	36.84%
	Hourly Compensation	\$27.64
Additional Staff	Hourly Wage - <i>Licensed Practical Nurse</i>	\$24.38
	ERE (% of Wages)	34.57%
	Hourly Compensation	\$32.81
	FTE	0.25
	Hourly Compensation - FTE Adjusted	\$8.20
Billable Time	Billable Time Percentage	75.0%
	Productivity Adjustment	1.33
	Hourly Compensation after Adjustment	\$47.78
Supervision	Hourly Supervisor Wage - <i>Nurse Manager</i>	\$32.64
	Supervisor ERE	32.79%
	Hourly Supervisor Compensation	\$43.34
	Supervision Hours per Week	15
	Supervisor Span of Control	5.0
	Supervision Hours per Staff per Hour	0.08
	Supervision Cost per Staff per Hour	\$3.25
	Hourly Total Compensation	\$51.03
Occupancy	Days Billable	260
	Days Paid	239.2
	Occupancy Adjustment	1.09
	Hourly Total Compensation after Adjustment	\$55.47
Group Size	Number of Clients per Staff	5.5
	Hourly Compensation per Staff per Client	\$10.09
Indirect Costs	Administrative Overhead Percent	25.0%
	Administrative Overhead Hourly Factor	\$2.52
	Program Support	14.5%
	Program Support Hourly Factor	\$1.46
Rate	Hourly Rate	\$14.07
	Per 15 Min Rate*	\$3.52
	Current Rate	\$3.53
	Percent Change	0%
* Rate model resulted in rate of \$3.52, recommendation is to keep existing rate		

Community Living Homes				
Rate Component	Tier	Base	Tier 1	Tier 2
Wages	Caregiver Hours per Day per Individual	2	2.5	2.75
	Hourly Wage - Caregiver	\$15.98	\$15.98	\$15.98
	ERE (% of Wages)	39.56%	39.56%	39.56%
	Hourly Caregiver Compensation	\$22.31	\$22.31	\$22.31
	<i>Annual Caregiver Cost</i>	<i>\$16,284.75</i>	<i>\$20,355.93</i>	<i>\$22,391.53</i>
Supervision	Annual Supervisor Hours - <i>Residential Manager</i>	0.1	0.13	0.14
	Hourly Supervisor Wage	\$29.10	\$29.10	\$29.10
	ERE (% of Wages)	32.92%	32.92%	32.92%
	Hourly Supervisor Compensation	\$38.68	\$38.68	\$38.68
	<i>Annual Supervisor Cost</i>	<i>\$1,411.77</i>	<i>\$1,764.71</i>	<i>\$1,941.18</i>
	Total Personnel Cost	\$17,696.52	\$22,120.64	\$24,332.71
Indirect Costs	Program Support Percentage	10.1%	10.1%	10.1%
	Annual Program Support Costs	\$1,787.35	\$2,234.19	\$2,457.60
	Administration Percentage	25.0%	25.0%	25.0%
	Annual Administration Costs	\$4,424.13	\$5,530.16	\$6,083.18
Occupancy	Total Annual Cost	\$23,907.99	\$29,884.99	\$32,873.49
	Occupancy Rate	95.0%	95.0%	95.0%
	Occupancy Adjustment	1.05	1.05	1.05
	Adjusted Total Annual Cost	\$25,166.31	\$31,457.88	\$34,603.67
Rate	Per Diem Rate	\$68.95	\$86.19	\$94.80
	Current Rate	\$47.10	\$58.87	\$65.95
	Percentage Difference	46.4%	46.4%	43.7%

Structured Family Caregiving		
Staff Wages	FTE Hours Per Year - <i>Case Manager</i>	2080
	Case Manager Caseload	20
	Annual Hours per Participant	104
	Hourly Wage - <i>Case Manager</i>	\$27.12
	ERE (% of Wages)	33.5%
	Annual Case Manager Hours per Participant	\$3,764.29
Supervision	FTE Hours Per Year - <i>Residential Manager</i>	2080
	Number of Clients Per Supervisor	20
	Hours Per Client	104
	Supervisor Hourly Wage	\$47.56
	ERE (% of Wages)	29.2%
	Annual Supervisor Hours per Participant	\$6,391.83
Indirect Costs	Administration	\$2,539.03
	Program Support	\$1,025.77
	Transportation	\$1,048.00
Occupancy	Occupancy	95.0%
	Occupancy Adjuster	1.05
Rate	Annual Total	\$15,507.37
	Provider Rate	\$42.49
Stipend – Base	Daily Stipend	\$44.82
	Days per Year	365
	Annual Stipend	\$16,360.84
	Total Rate - Base	\$87.31
	Current Rate - Base	\$76.80
	Percent Change	13.7%
Stipend – Tier 1	Daily Stipend	\$59.77
	Days per Year	365
	Annual Stipend	\$21,814.45

	Total Rate - Tier 1	\$102.26
	Current Rate - Tier 1	\$96.00
	Percent Change	6.5%
Stipend - Tier 2	Daily Stipend	\$74.71
	Days per Year	365
	Annual Stipend	\$27,268.06
	Total Rate- Tier 2	\$117.20
	Current Rate - Tier 2	\$107.52
	Percent Change	9.0%

Meals – Waiver and State-Funded		
Food Costs	Per Person per Month Food Costs	\$281.70
	Per Person Annual Food Costs	\$3,380.40
	Total Individual Meals per Year	1095.00
	Cost per Meal	\$3.09
	Meals Prepared per Day per Kitchen	721.0
	Daily Food Costs	\$2,225.82
Wages	Cooks	\$17.03
	Number of Cooks	4
	Total Daily Wages	\$545.08
	ERE (as Percent of Wages)	39.7%
	Total Daily Compensation	\$761.61
	Other Food Prep and Delivery Staff	\$14.37
	Number of Other Staff	10
	Total Daily Wages	\$1,149.66
	ERE (as Percent of Wages)	42.2%
	Total Daily Compensation	\$1,635.12
	Hours per Day	8
	Daily Staff Compensation (Wages + ERE)	\$2,396.73
Supervision	Supervisor Wage	\$20.52
	Supervisor Benefits	36.8%
	Hourly Supervisor Compensation	\$28.08
	Hours per Day	8
	Daily Supervisor Compensation	\$224.65
Capital	Square Feet per Kitchen	500
	Cost per Square Feet- Annually	\$18.48
	Total Building and Equipment Costs	\$9,240.00
	Daily Capital Costs	\$25.32
Delivery	Number of Miles per Day	1261.8
	IRS Mileage Rate	\$0.655
	Daily Mileage Costs	\$826.45
Total Costs	Total Daily Costs	\$5,698.96
	Total Daily Meals	721
	Meal Cost	\$7.90
Indirect	Indirect Costs- Additional	15.0%
	Indirect Costs per Meal- Additional	\$1.19
Rate	Proposed Benchmark Rate - Per Meal	\$9.09