**Section 356.50 Determining Rate Reimbursement Levels**

This Section applies to those situations where the Department promulgates standard or individual rates identified in Section 356.30(b)(2) and (3).

a) Forms – Financial reporting forms shall be used in establishing rates of reimbursement, regardless of the type of service provided.

b) For-Profit Agencies – Contracts with for-profit agencies must clearly identify any profit factor that must directly correspond to units of services provided. Profit will be categorized as an administrative cost and will be limited to 9% of the total contract amount. Profit will also be included in calculating the overall administrative cost standard.

c) Reasonable Cost Standards – Reasonable cost standards shall be applied to certain categories of costs except that program and transportation costs may be exempted if warranted by the special needs of the clientele. The reasonable cost standards establish reimbursement ceilings for categories of costs. The standards are derived from the median costs of all agencies providing similar services. Fringe benefits above 25% of salaries shall not be reimbursed by the Department. Administrative costs may not exceed 20% of the costs for other services. Reimbursement may exceed the reasonable cost standards if a higher rate is negotiated as a result of a rate appeal or rate enhancement that clearly demonstrates that costs in excess of the standards are the result of a necessary level of resources purchased in a prudent manner. However, administrative costs may not exceed 20% of the costs of other services.

d) Revenues to be Offset – Revenues to be offset shall include grants, other non-purchase-of-service revenue from other governmental agencies, revenues from the school lunch program, and revenues from local education agencies. All revenues to be offset shall be reported by the provider. These revenues will be considered as part of the resources available to the provider in determining reasonable costs. The Department will not reimburse a provider for the proportion of services or administrative charges that have been paid, wholly, or in part, by such revenues.

e) Units of Service and Provider Capacity – Reimbursement rates shall be determined on the basis of actual units of service provided or the median utilization for all agencies providing similar services, whichever is greater. However, significant deviations from the utilization level may be used in rate-setting if unusual circumstances beyond the control of the provider directly caused a significant change in occupancy rates.

f) Special Provisions for Calculating Individual Rate Reimbursement including Child Care Institutions, Group Homes, Maternity Centers, and Shelter Programs – For State Fiscal Year 2000 (from July 1, 1999 through June 30, 2000), the rates for all child care institutions, group homes, maternity centers, independent living, specialized foster care, treatment foster care and shelter programs will be calculated as outlined in this Section except that programs that would receive reductions will be held harmless at State Fiscal Year 1999 levels if both Fiscal Year 1998 cost reports and a program budget for State Fiscal Year 2000 are submitted within 30 days after notice to the program. If a program fails to submit a cost report within the 30-day period, the rate will be adjusted to 80% of the applicable State Fiscal Year 1999 rate. If a program files a cost report but not a budget, the rate will not be held harmless and will be adjusted downward based on the rate calculation methodology, but in no instance shall the rate be less than 80% of the program's State Fiscal year 1999 rate. This rate adjustment for State Fiscal Year 2000 applies regardless of the other provisions of this Part.

1) The Department will conduct a joint rate calculation with the Illinois Department of Human Services.

2) Reimbursement rates shall be determined on the basis of actual units of service provided, or the median utilization level for all similar providers, whichever is greater. The maximum utilization level that will be used to determine reimbursement rates shall be 98% of licensed or approved program capacity. For the purpose of establishing the median utilization level, residential programs will be grouped into two categories:

A) Child Care Institutions and Group Homes; and

B) Maternity Homes and approved Shelter programs.

3) The reasonable cost standards for support and ownership costs shall be 120% of the median costs of all similar providers. Providers shall be deemed dissimilar, and subject to an adjusted cost standard if one or more of the following conditions has occurred on or after July 1, 1983:

A) the provider has built an entirely new building used directly by clients of the program,

B) the provider has renovated a building used directly by program clients and the annual depreciation and/or interest costs are $20,000 or more, or

C) the provider has entered a first-time lease for a building used directly by program clients.

4) These costs shall be demonstrated by an annual audit cost report and accompanying notes as prescribed by 89 Ill. Adm. Code 357.120 (Purchase of Service Fiscal Reports and Records). The reasonable cost standards shall include a geographic differential factor to reflect the differences in costs due to geographic location when such cost differentials exist. The existence of such differentials is determined by measurement of the audited costs reported by providers and the application of generally accepted statistical tests to these costs. Any geographic differential factor that results from these tests is included in the Department's rate notices sent to providers.

5) Historical costs, except depreciation, interest and amortization of allowable pre-operating expenses shall be increased by inflation adjustment factor to reflect the increases in costs caused by general inflation. The maximum increase in a facility's reimbursement rate shall be 150% of the inflation adjustment factor for the most current year. The percentage limitation shall be applied to the most recent rate unless that rate declined due to a combination of both reduced utilization and reduced costs. In such case, the next most recent rate shall be used to determine the allowable maximum increase. This limitation will not be applied to cost increases mandated by regulatory agencies or program changes approved by the Department Director.

6) New programs not having historical costs shall have a rate set via a process that begins with completion of a projected historical cost budget in the same format used to set historical cost rates. The Regional Office developing the contract shall negotiate costs based on a comparison of the budget with levels of staffing generally needed for similar programs; with prevailing wage rates; and with levels of supply, ownership, support and other costs common to similar programs. The Department shall review the results and shall engage in further negotiations when an examination of submitted data determines an anomaly or disparity in the data in comparison to other data submitted by other providers. A new start rate shall then be set using the reasonable cost standards applying to the particular program under the terms of this Part with one exception: To allow for the phase-in placement of clients, the divisor applied to costs will be the greater of:

A) the number five percentage points lower than the median utilization level applying to ongoing programs of the same type; or

B) the projected utilization agreed to by the Department and the provider.

g) The Department will adopt Day Care Rates developed by the Illinois Department of Human Services for similar day care services.

(Source: Amended at 29 Ill. Reg. 8696, effective June 8, 2005)