South Dakota Department of Social Services

Transition Age Youth Program

Recommendations Report

DRAFT

Report Limitations

The findings and recommendations presented in this report are based on the most current information available as of the date of the report. Currently only one provider provides this service. Therefore, it should be noted that all cost analysis is based solely on one provider and may fluctuate if any other providers start participating in the program.

Four years of invoices were analyzed during this review. The fiscal impact is based on state fiscal year 2025 to mirror the 2025 cost report that was used to determine costs. Financial amounts do not represent final reimbursement amounts, nor do they constitute official DSS policy.

The final reimbursement methodologies, base rates, and fiscal impacts will be determined through DSS's formal rate-setting process.

Executive Summary

The South Dakota Department of Social Services (DSS) conducted a comprehensive review of the reimbursement methodology for the Transition Age Youth (TAY) Program as part of its statutory rate review cycle. The purpose of this review was to evaluate whether the current rate structure adequately supports the cost-of-service delivery while maintaining fiscal responsibility.

The TAY Program provides critical support services to youth transitioning into adulthood, a population with complex behavioral health and social service needs. Ensuring appropriate reimbursement is essential to maintain provider capacity, workforce stability, and continued access to services.

The current reimbursement rate, established during the State Fiscal Year (SFY) 2020 review, is based on a per diem structure at 90% cost. Analysis of the most recent cost report (SFY 2025) indicates that the current rate covers approximately 91% of allowable costs which aligns with current methodology.

To evaluate options, DSS modeled multiple reimbursement scenarios, including varying levels of cost coverage and wage adjustments. These scenarios assessed fiscal impact and alignment with market conditions.

Based on this analysis, DSS recommends maintaining a cost-based reimbursement structure but setting reimbursement at 100 percent of allowable costs.

DRAFT

This approach results in a recommended rate of $187.01 per day, representing an increase of $16.15 per day over the current rate.

This recommendation:

- Supports provider sustainability
- Maintains fiscal responsibility relative to higher-cost scenarios

DSS recognizes that this analysis is based on a single provider and recommends ongoing monitoring and future rate evaluation as additional data becomes available.

<u>Current Methodology</u>

Program is paid on a per diem basis for services. The current payment is based on 90% allowable cost and methodology determined during a review in SFY 2020.

<u>Methodology Review</u>

Provider Reimbursement and Audits (PRA) conducted a rate analysis to evaluate the appropriateness of the current reimbursement methodology for the TAY program. This review included a comparison of Lutheran Social Services (LSS) invoice data to submitted cost reports to assess cost coverage, consistency, reimbursement trends, and wage comparisons. The analysis includes:

- Review of 4 years of invoices
- SFY25 cost report validation
- Unit-based cost comparison
- Wage benchmarking (BLS + BH cost reports)
- Scenario modeling of reimbursement options

<u>Cost Report Analysis</u>

The 2025 cost report was used for this review. While previous years' cost reports were used for comparison and determining trends, the 2025 cost report was used for fiscal analysis. The PRA team reached out for follow-up responses with LSS to clarify reported costs, staffing structure, and program operations relevant to the TAY program. The cost report includes information on the following expenditures, revenues and units. Costs include:

- Administrative
- Personnel Services
- Benefits and Taxes
- Fees and Contract Services
- Travel
- Supplies
- Equipment

DRAFT

- Depreciation

Unallowable costs, including bad debt, marketing, and non-program-related expenses, were excluded in accordance with standard DSS cost principles.

These costs were compared to units paid to determine current cost coverage. It was determined in FY25, the current cost coverage was 89%

	Paid Amounts	FY25 Cost Report
Total Expenditures	$574,243.12	$639,959.00
Units	3,452	3,422
Cost per Unit	$166.35	$187.01

<u>Wage Determination</u>
PRA requested and analyzed staffing and wage information from LSS, including staff qualifications, position types, FTE allocations, and wage data. Reported FY25 wages were compared to state average market wages from the U.S. Bureau of Labor Statistics (BLS) and to South Dakota Behavioral Health provider wage averages derived from submitted cost reports. The analysis was conducted to provide additional context regarding staffing patterns and market comparisons during the rate review process.

Comparison results showed some variation between TAY program wages and broader statewide market averages. However, provider-reported wage data indicated that TAY program wages are generally comparable to wages reported by similarly situated Behavioral Health provider types and positions within South Dakota. While certain positions fell below broader market averages, the overall analysis did not identify material variances from comparable provider-reported wages.

Wage benchmarking was reviewed as part of the overall rate analysis; however, the recommended reimbursement methodology remains based on reported allowable program costs and does not incorporate additional prospective wage adjustments.

FY25 SD Behavioral Health Cost Report Wages

Cost Report Titles	Compared Category	LSS Provider Avg - FY25	SD BH Avg – FY25	% Above /Below State Avg
Program Manager/Director	Social and Community Service Managers	$36.06	$29.56	22%
Child Care Supervisor/Case Manager	Mental Health and Substance Abuse Social Workers	$24.04	$23.84	1%

DRAFT

Child Care Worker/Residential Worker	Community Health Workers	$20.00	$21.17	-6%
Nurse/PA/CNP	Registered Nurses	$33.00	$29.11	13%

DRAFT

Fiscal Impact

PRA evaluated the financial impact of multiple reimbursement scenarios, including reimbursement at 100 percent, 95 percent, and 90 percent of allowable costs, as well as the current methodology, both with and without wage adjustments.

Adjusting Base Rate Based on Cost							
Scenario	**Rate ($/day)**	**Increase from Current ($/day)**	**Estimated Annual Fiscal Impact ($) by 90% occupancy**	**Estimated Annual Fiscal Impact ($) based on FY25 Units**	**Estimated Total Expenditures by 90% Occupancy**	**Estimated Total Expenditures based on FY25 Units**	**Cost Coverage**
Reimburse at 100% of Reported Cost	$187.01	$16.15	$63,675.72	$55,276.08	$737,205.84	$639,959.00	100%
Reimburse at 95% of Reported Cost	$177.66	$6.80	$26,815.43	$23,278.13	$700,345.55	$607,961.05	95%
Reimburse at 90% of Reported Cost	$168.31	$(2.55)	$(10,044.87)	$(8,719.82)	$663,485.25	$575,963.10	90%
Reimburse at Current Rate - 91%	$170.86	$-	$-	$-	$673,530.12	$584,682.92	91%

Results indicate that:

- Increasing reimbursement to 100% of cost better aligns payments with the actual cost of delivering services.
- Maintaining current rates results in continued underfunding.

Recommendation

PRA recommends maintaining a cost-based reimbursement methodology and increasing reimbursement to 100 percent of allowable costs, without incorporating additional wage adjustments.

This approach balances three key priorities:

- Alignment of reimbursement with documented allowable program costs
- Methodological consistency through use of a cost-based reimbursement structure
- Fiscal responsibility through reliance on reported program expenditures rather than projected market adjustments

Based on this approach, the modeled rate is $187.01 per day, representing an increase of $16.15 per day over the current rate.

A reimbursement level of 100 percent of allowable costs was selected to align payments with actual costs of delivering Transition Age Youth services. This approach supports provider sustainability and helps ensure continued access to high-quality services for this population.

As part of the review process, PRA analyzed wage information using both statewide labor market data and South Dakota Behavioral Health provider-reported wage information. While some variances existed when compared to broader statewide market averages, provider-reported wage data indicated that TAY program wages were generally comparable to similarly situated provider positions within South Dakota. Based on this analysis, additional prospective wage adjustments were not incorporated into the recommended reimbursement methodology.

This recommendation represents a data-informed analysis to support the DSS rate-setting process and does not constitute a final rate determination. Any rate adjustments are subject to the availability of state funding. Final reimbursement rates will be established through the formal DSS rate-setting and budget process.

Recommendation	Rate ($/day)	Increase from Current ($/day)
Reimburse at 100% of Reported Cost	$187.01	$16.15

DRAFT