Calculating Rate Increases

1. Determine average percentage of direct service (DS) cost for each category using survey. For example, service category #1 is 80% DS and category #2 is 70% DS.

2. Apply these percentages to total expenditures for all providers in each category to determine total DS cost.
   a. Category #1 total expenditures = $1,000,000,000
      i. Multiply by 80% = $800,000,000 in total DS costs
   b. Category #2 total expenditures = $1,000,000,000
      i. Multiply by 70% = $700,000,000 in total DS costs

3. Total DS costs for all categories ($800 M + $700 M = $1.5 billion)

4. Determine percent increase for DS costs which will apply to all categories equally.
   a. Divide amount available for DS increase by total DS costs. Example $150,000,000/$1,500,000,000 = 10%

5. Determine overall service rate increase for each category by multiplying percent increase for DS by percentage of DS costs
   a. Category #1 – 10% X 80% = 8%
   b. Category #2 – 10% X 70% = 7%

6. Another way to look at it is to determine the dollar amount needed for a 10% increase for DS in each category.

<table>
<thead>
<tr>
<th>Service Category</th>
<th>Total Expenditures</th>
<th>DS Costs</th>
<th>DS Increase</th>
<th>Rate increase (DS increase/total expenditures)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category 1</td>
<td>$1,000,000,000</td>
<td>$800,000,000</td>
<td>$80,000,000</td>
<td>8%</td>
</tr>
<tr>
<td>Category 2</td>
<td>$1,000,000,000</td>
<td>$700,000,000</td>
<td>$70,000,000</td>
<td>7%</td>
</tr>
</tbody>
</table>