

**LME/MCO Fund Balance Transfers
Quarter Ending March 31, 2024**

N.C.G.S. 122C-115.6



Report to

The Joint Legislative Oversight Committee on Medicaid

**The Joint Legislative Oversight Committee on
Health and Human Services**

and

The Fiscal Research Division

By

North Carolina Department of Health and Human Services

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Reporting Requirements

G.S. 122C-115.6(f), enacted by Session Law 2023-134, Section 9G.7A(a1) (see Appendix A), requires the Department of Health and Human Services (DHHS) to report quarterly on any Local Management Entity/Managed Care Organization (LME/MCO) funds transferred as a result of county alignments during the previous quarter. This requirement begins on July 15, 2023. This requirement replaces an analogous report required by Session Law 2021-62, Section 3.5A, which was repealed by Session Law 2023-134, Section 9G.7A(a18).

Background:

In efforts to improve delivery of care, stabilize the public behavioral health system, and launch NC Medicaid Managed Care Behavioral Health and Intellectual/Developmental Disabilities (I/DD) Tailored Plan, the North Carolina General Assembly in October directed the Secretary for the North Carolina Department of Health and Human Services to reduce the number of LME/MCOs to a total of no more than five, and at least four.

As of February 1, 2024, Eastpointe and Trillium Health Resources have consolidated into one entity, and Sandhills Center has dissolved, at the direction of the North Carolina General Assembly and DHHS Secretary Kody H. Kinsley. Trillium will now support the counties that Eastpointe, Sandhills and Trillium previously served, with the exception of three counties:

- 1) Partners Health Management will serve Davidson County
- 2) Alliance Health will serve Harnett County
- 3) Vaya Health will serve Rockingham County.

As a result of the Eastpointe and Trillium Health Resources consolidation, and the dissolution of Sandhills Center, DHHS governed the transfer of \$155,124,574 in Fund Balance and Risk Reserve during QE March 31, 2024.

Calculations:

The following information meets the requirements of G.S. 115.6(a), which directs the DHHS to develop a formula or formulas to govern distribution of Risk Reserve and Fund Balance when a county or counties move from one LME/MCO and is/are received by another. In response to this directive, NCDHHS has developed the following set of formulas:

- 1) Risk Reserve distribution.
- 2) Fund Balance distribution.

While county movement between LME/MCOs could result from a variety of scenarios, such as LME/MCO merger or dissolution and assumption, these formulas will apply in all cases.

Risk Reserve: This formula is intended to preserve for the receiving LME/MCO an amount of risk reserve that is proportionately and approximately sized to reflect the service liability moving

from the “prior”¹ LME/MCO. Risk reserve is generated as a percentage of capitation revenue, which is determined in large part by the historical cost of serving a particular cohort of LME/MCO members. The formula for determining and distributing the risk reserve for identified counties that are moving therefore uses service costs – specifically, the percentage of the LME/MCO’s total state fiscal year (SFY) 2023 Medicaid service costs attributable to members of the county in question (excluding expenditures for populations required to enroll in Standard Plan PHPs). This data is actual (i.e., final) and serves as a reasonable basis for estimating the “steady state” population and service cost liability moving between LME/MCOs.

Fund Balance: This formula is intended to account for all outstanding liabilities of a dissolving or merging LME/MCO and equitably apportion un-obligated fund balance associated with any county moving to a different LME/MCO² by focusing on the following two key considerations:

- 1) Ensuring that any dissolving or merging LME/MCO liabilities will be paid from the available fund balance first, so that no additional state funds will be required.
- 2) Providing for an equitable allocation to the receiving LME/MCO of any remaining fund balance associated with counties of the dissolving or merging LME/MCO, recognizing both that fund balance is used for one-time investments in LME/MCOs and that smaller counties face different infrastructure challenges than larger counties.

G.S. 122C-115.6(c) requires that a dissolving or merging LME/MCO will provide financial statements to DHHS by a date to be established by the Department. DHHS will evaluate the financial statements and any supplemental information needed to determine the amount of fund balance that must be set aside to meet all of the dissolving or merging LME/MCO’s obligations and any remaining fund balance that will be available to transfer to receiving LME/MCOs with counties moving into the receiving LME/MCO.

Finally, the Department will apply the formula to allocate the available fund balance that will transfer with each county associated with the dissolving or merging LME/MCO. The remaining fund balance will be allocated proportionally using SFY 2023 member months (limited to Behavioral Health I/DD Tailored Plan populations) and a rurality adjustment. The rurality adjustment uses the same methodology that the Division of Mental Health, Developmental Disabilities and Substance Use Services (DMH/DD/SUS) uses to make Single Stream Fund

¹ The term “prior” here refers to either an LME/MCO that is dissolving or being assumed, either wholly or in part. In the case where two LME/MCOs merge and one or more existing LME/MCOs remains as the named entity, the LME/MCOs that do not remain would be considered “prior” LME/MCOs. In the case where two or more LME/MCOs merge and operate under a wholly new name, and any county does not move to be part of this merged/new entity, the Department will need to work with the involved entities to clarify which entities shall be considered as prior; this designation will determine how the formulas are applied to apportion risk reserve and fund balance to any county moving to an LME/MCO different from the merged/new entity.

² In the case of a wholly assumed or merged LME/MCO, the receiving or “surviving” LME/MCO will simply receive the full fund balance associated with the merging LME/MCO. In a case where one or more counties moves to a different (i.e., third party) LME/MCO, the portion of fund balance associated with that county would move with the county. The formula discussed here addresses this latter case.

allocations. This approach makes graduated adjustments to counties' relative shares based on how rural they are (as measured by population density). Once the funds have been allocated by county according to this formula, the Department will direct the transfer of the fund balance associated with any county moving from a dissolving LME/MCO or, in the case of a merger or assumption, moving to a third LME/MCO. The Department will require that those funds move with the county. The tables below reflect the dollar amounts transferred.

Funds Transferred During the Previous Quarter

Fund Balance:

County of Realignment	MCO Receiving County	Realignment Effective Date	Date of Funds Transfer	Amount	Date of Approval
Harnett	Alliance	2/1/2024		\$328,354	2/16/2024
Rockingham	Vaya	2/1/2024		\$236,414	2/16/2024
Davidson	Partners	2/1/2024		\$399,631	2/16/2024
Anson, Guilford, Hoke, Lee, Montgomery, Moore, Randolph, Richmond	Trillium	2/1/2024		\$2,540,060	2/16/2024
Total Fund Balance Transferred				\$3,504,459	

Risk Reserve:

County of Realignment	MCO Receiving County	Realignment Effective Date	Date of Funds Transfer	Amount	Date of Approval
Harnett	Alliance	2/1/2024		\$5,375,388	1/26/2024
Rockingham	Vaya	2/1/2024		\$5,555,443	1/26/2024
Davidson	Partners	2/1/2024		\$8,229,097	1/26/2024
Anson, Guilford, Hoke, Lee, Montgomery, Moore, Randolph, Richmond	Trillium	2/1/2024		\$62,758,668	1/26/2024
(EP Counties) Duplin, Edgecombe, Greene, Lenoir, Robeson, Sampson, Scotland, Wayne, Wilson, Warren	Trillium	1/1/2024	3/20/2024	\$69,701,519	1/26/2024
Total Risk Reserve Transferred				\$151,620,115	

Total Fund Balance and Risk Reserve Transfers:

Total RR & FB		\$155,124,574
County of Realignment	MCO Receiving County	Amount
Harnett	Alliance	\$5,703,742
Rockingham	Vaya	\$5,791,857
Davidson	Partners	\$8,628,728
Anson, Guilford, Hoke, Lee, Montgomery, Moore, Randolph, Richmond	Trillium	\$135,000,248

Appendix A: Session Law 2023-134-62, Section 9G.7A(a1)

AGENCY REQUESTED CHANGES/BEHAVIORAL HEALTH

SECTION 9G.7A.(a1) Part 2 of Article 4 of Chapter 122C of the General Statutes is amended by adding the following new sections to read:

...

"§ 122C-115.6. Transfer of area authority fund balance upon county realignment.

...

(f) Beginning July 15, 2023, and quarterly thereafter, the Department shall report to the Joint Legislative Oversight Committee on Health and Human Services, the Joint Legislative Oversight Committee on Medicaid, and the Fiscal Research Division on any funds transferred as a result of county realignments during the previous quarter.

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