

**LME/MCO Fund Balance Transfers
Cardinal Innovations Risk Reserve Fund Balance Transfer
Quarter Ending September 30, 2022**

Session Law 2021-62, SECTION 3.5.A(e)



Report to

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

**The Joint Legislative Oversight Committee on
Medicaid**

The Fiscal Research Division

By

North Carolina Department of Health and Human Services

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Table of Contents

Page

Background.....3

Formulas Developed for Transferring Risk Reserve and Other Funds (Fund Balance)3

Funds Transferred During the Previous Quarter.....3

Appendix A.....4

Background

Session Law 2021-62, Section 3.5A (see Appendix A) requires the Department of Health and Human Services (DHHS) to report quarterly on any funds transferred during the previous quarter. This requirement begins on January 15, 2022 and ends on April 15, 2026.

DHHS satisfied this requirement during the fiscal quarter ending March 31, 2022.

Formulas Developed for Transferring Risk Reserve and Other Funds (Fund Balance)

Section 3.5A(a) directs that “the amount of risk reserve and other funds to be transferred shall be determined by the Department of Health and Human Services (DHHS) in accordance with a formula or formulas developed in accordance with [the] section.” Section 3.5A(b) further directs that any formula developed under this section must do each of the following:

1. Consider the stability of both the area authority from which the county is disengaging and the area authority with which the county is realigning.
2. Support the ability for each area authority to carry out its responsibilities under State law and...support the successful operation of BH IDD tailored plans under G.S. 108D-60.
3. Assure that the area authority from which the county is disengaging retains sufficient funds to pay any outstanding liabilities to health care providers, staff related expenses, and other liabilities.

DHHS developed formulas to govern the transfer of Risk Reserve and Fund Balance consistent with this legislative directive and with the benefit of significant feedback from the LME/MCOs, and met the Section 3.5A(d) directive to post the formula on the DHHS website. A copy of the formulas appears in Appendix B of this report, or may be accessed through the County Disengagement webpage or at <https://medicaid.ncdhhs.gov/providers/programs-and-services/behavioral-health-idd/lme-mco-contracts-and-reports>. The formulas both utilize Calendar Year (CY) 2019 Service Expenditures as the primary source for equitably, proportionally allocating the amount of risk reserve to be shifted based on each beneficiary population that is shifting between LME/MCOs. CY 2020 service expenditures were not chosen due to the unusual changes in utilization and costs patterns caused by the COVID pandemic. The Fund Balance formula further adjusts proportional allocations based on a “rurality” factor (as used by the Division of Mental Health in the distribution of State “single-stream” funding) that accounts for the differential challenges of rural counties.

There were no adjustments or changes to the formulas developed and posted on August 10, 2021.

Funds Transferred During the Previous Quarter

Zero funds were transferred during the previous quarter.

Appendix A: S.L. 2021-62, Section 3.5A

TRANSFER OF AREA AUTHORITY FUND BALANCES/COUNTY DISENGAGEMENT

SECTION 3.5A.(a) When a county disengages from one area authority and realigns with another area authority under G.S. 122C-115, a portion of the risk reserve and other funds of the area authority from which the county is disengaging shall be transferred to the area authority with which the county is realigning. The amount of risk reserve and other funds to be transferred shall be determined by the Department of Health and Human Services (DHHS) in accordance with a formula or formulas developed in accordance with this section.

SECTION 3.5A.(b) Any formula developed by DHHS under this section shall consider the stability of both the area authority from which the county is disengaging and the area authority with which the county is realigning. The formula shall support the ability for each area authority to carry out its responsibilities under State law and shall support the successful operation of BH IDD tailored plans under G.S. 108D-60. The formula shall assure that the area authority from which the county is disengaging retains sufficient funds to pay any outstanding liabilities to health care providers, staff-related expenses, and other liabilities.

SECTION 3.5A.(c) Upon the Secretary's approval of a disengagement under G.S. 122C-115(a3), the area authority from which the county is disengaging and the area authority with which the county is realigning shall provide DHHS with all financial information requested by DHHS that is necessary to determine the amount of funds to be transferred using the formula or formulas developed under this section.

SECTION 3.5A.(d) Prior to finalizing any formula developed under this section, DHHS shall post the proposed formula on its website and provide notice of the proposed formula to all area authorities, the Joint Legislative Oversight Committee on Health and Human Services, the Joint Legislative Oversight Committee on Medicaid and NC Health Choice, and the Fiscal Research Division. DHHS shall accept public comment on the proposed formula. DHHS shall post the final version of the formula on its website no later than August 1, 2021.

SECTION 3.5A.(e) No later than October 15, 2021, DHHS shall report to the Joint Legislative Oversight Committee on Health and Human Services, the Joint Legislative Oversight Committee on Medicaid and NC Health Choice, and the Fiscal Research Division on any formulas developed under this section and any funds transferred during the previous quarter. Beginning January 15, 2022, and quarterly thereafter through April 15, 2026, DHHS shall report to the Joint Legislative Oversight Committee on Health and Human Services, the Joint Legislative Oversight Committee on Medicaid and NC Health Choice, and the Fiscal Research Division on any funds transferred as a result of disengagements during the previous quarter. A final quarterly report shall be due June 30, 2026, for the quarter ending on that date.

SECTION 3.5A.(f) Notwithstanding any provision of law to the contrary, the development and application of the formula or formulas under this section shall be exempt from the rulemaking requirements under Article 2A of Chapter 150B of the General Statutes and the contested case provisions of Chapter 150B of the General Statutes.

SECTION 3.5A.(g) This section is effective when it becomes law and applies to disengagements approved by DHHS with an effective date on or after September 1, 2021.

SECTION 3.5A.(h) This section shall expire on June 30, 2026.