NORTH CAROLINA GENERAL ASSEMBLY

JOINT LEGISLATIVE OVERSIGHT COMMITTEE ON HEALTH AND HUMAN SERVICES

SUBCOMMITTEE ON MEDICAID REFORM/DIVISION OF MEDICAL ASSISTANCE (DMA) REORGANIZATION

Co-chairs:
Representative Justin Burr
Senator Ralph Hise

FINAL REPORT
TO THE
FULL COMMITTEE

DECEMBER 2, 2014

TRANSMITTAL LETTER

December 2, 2014

To Members of the Joint Legislative Oversight Committee on Health and Human Services:

The Joint Legislative Oversight Committee on Health and Human Services, Subcommittee on Medicaid Reform/Division of Medical Assistance (DMA) Reorganization, respectfully submits the following final report.

Representative Justin Burr
Co-Chair

Senator Ralph Hise
Co-Chair

SUBCOMMITTEE MEMBERSHIP

Senate Members	House Members
Senator Ralph Hise, Chair	**Representative Justin Burr, Chair**
Senator Louis Pate	**Representative Mark Hollo**
Senator Fletcher Hartsell	**Representative Marilyn Avila**
Senator Floyd McKissick	**Representative Nelson Dollar**
	Representative Donny Lambeth
	Representative William Brisson

Committee Staff:	
Susan Fanning, Senate Clerk	Dina Long, House Clerk
Susan Jacobs, Fiscal Research	Steve Owen, Fiscal Research
Denise Thomas, Fiscal Research	Deborah Landry, Fiscal Research
Ryan Blackledge, Legislative Drafting	Karlynn O'Shaughnessy, Fiscal Research
Jennifer Hillman, Research	Theresa Matula, Research
Amy Jo Johnson, Research	

SUBCOMMITTEE PROCEEDINGS

The Joint Legislative Oversight Committee on Health and Human Services, Subcommittee on Medicaid Reform/Division of Medical Assistance (DMA) Reorganization, was created pursuant to G.S. 120-208.2(d), to study issues related to Medicaid reform and reorganization of the Division of Medical Assistance (DMA) in the Department of Health and Human Services. The Subcommittee was specifically authorized to study the items outlined below.

1) Efforts by the Department of Health and Human Services to: (1) consult with stakeholder groups, study and recommend options for Medicaid reform that will provide greater budget predictability and (2) to not commit the State toward any particular course on Medicaid reform including not submitting any reform-related State plan amendments, waivers, or grant application nor enter into any contracts related to implementing Medicaid reform, as required by S.L. 2014-100 (SB 744), Section 12H.1.
2) The Program Evaluation Division Report, *Options for Creating a Separate Department of Medicaid Require Transition Planning*, (March, 2013) and any subsequent report updates.
3) House Bill 1181 North Carolina Medicaid Modernization, Third Edition, and House Bill 1181 North Carolina Medicaid Modernization, Sixth Edition.
4) Any other studies and recommended options to improve Medicaid budget predictability and the overall operations of the Medicaid program.

The Subcommittee met 4 times from September 24, 2014 until December 2, 2014. This section of the report provides a brief overview of the subcommittee proceedings. Detailed minutes and copies of handouts from each meeting are on file in the legislative library. Handouts from the meetings are also available at the Joint Legislative Oversight Committee website. (http://www.ncleg.net/gascripts/DocumentSites/browseDocSite.asp?nID=144)

Overview of Topics and Presenters

September 24, 2014

- **Subcommittee Charge**
  - Ryan Blackledge, Legislative Drafting Division, NCGA
- **Medicaid Budget Trends**
  - Steve Owen, Fiscal Research Division, NCGA
- **Options for Creating a Separate Department of Medicaid Require Transition Planning**
  - Carol Shaw, Program Evaluation Division, NCGA
- **2011 Report – North Carolina Health Benefits Management Plan**
  - Ed Fischer, Mercer Government Human Services Consulting
- **Historical Medicaid Reform Legislation**
  Ryan Blackledge, Legislative Drafting Division, NCGA

October 6, 2014

- **Florida Medicaid Program Overview**
  - Justin Senior, Deputy Secretary for Medicaid, Florida Agency for Health Care Administration
- **Ohio Medicaid Program Overview**
  - John McCarthy, Medicaid Director, Ohio Department of Medicaid
- **Virginia Medicaid Program Overview**
  - Cynthia Jones, Medicaid Director, Virginia Department of Medical Assistance Services
- **Panel Discussion and Questions from Members**
  - Justin Senior, Deputy Secretary for Medicaid, Florida Agency for Health Care Administration
  - John McCarthy, Medicaid Director, Ohio Department of Medicaid
  - Cynthia Jones, Medicaid Director, Virginia Department of Medical Assistance Services

October 20, 2014

- **Public Comment**
  - Dr. John Morrow, NC Association of Local Health Directors
  - John Nash, The Arc North Carolina
  - Ken Jones, Eastpoint LME/MCO
  - Katherine Pereira, North Carolina Nurses Association
  - John McMillan, PhRMA
  - Leza Wainwright, East Carolina Behavioral Health LME/MCO
  - Rob Thompson, NC Child
  - Nicholle Karim, National Alliance on Mental Illness North Carolina (NAMI)

- Elizabeth Hudgins, NC Pediatric Society; and Dr. Robert Gwyther, NC Academy of Family Physicians
- Ed Turlington, Brooks Pierce for United Healthcare of North Carolina
- Cody Hand, North Carolina Hospital Association
- Chip Baggett, North Carolina Medical Society (NCMS)
- AARP North Carolina
- Jeff Myers, Medicaid Health Plans of America

The Subcommittee met at 9:00 a.m. on December 2, 2014. Senator Hise presided over the meeting which included presentation of a draft report. The Subcommittee approved the report for presentation to the Joint Legislative Oversight Committee on Health and Human Services.

SUBCOMMITTEE FINDINGS AND RECOMMENDATIONS

The findings and recommendations below are based on information provided to the Subcommittee.

FINDING 1: REFORM OF THE MEDICAID AND HEALTH CHOICE PROGRAMS IS NEEDED TO ADDRESS THE RISING OVERALL COSTS OF THE PROGRAMS

The efficient and effective delivery of Medicaid and Health Choice services is of vital importance to Medicaid and Health Choice beneficiaries, the Department of Health and Human Services, Members of the General Assembly, and the citizens of the State. The Medicaid and Health Choice budget represents a significant portion of the State budget, and reliable forecasting is imperative to sustainable funding. The Subcommittee on Medicaid Reform/Division of Medical Assistance (DMA) Reorganization reviewed legislation considered during the 2014 Session, heard from three states on their approaches to reform and Medicaid service delivery, and received comments from stakeholders. The Subcommittee received a Medicaid budget analysis from Steve Owen of the Fiscal Research Division demonstrating that the current fee-for-service Medicaid model will continue a trend of constantly increasing Medicaid costs. Medicaid Directors from Florida, Ohio, and Virginia presented examples of how increased care management in their states has helped to control Medicaid costs.

RECOMMENDATION 1: REFORM OF THE MEDICAID AND HEALTH CHOICE PROGRAMS IS NEEDED TO ADDRESS THE RISING OVERALL COSTS OF THE PROGRAMS

The Subcommittee on Medicaid Reform/Division of Medical Assistance (DMA) Reorganization, Joint Legislative Oversight Committee on Health and Human Services, recommends that the Joint Legislative Oversight Committee recommend that the General Assembly support the enactment of legislation by the General Assembly during the 2015 Session to accomplish reform of the Medicaid and Health Choice programs to a new health care system that will, within three years if feasible, achieve all of the following features:

- **Shared Financial Risk**. The new health care system should share the financial risk between the State and providers and contractors by shifting 100% of the utilization risk to providers or other contractors within three years if feasible, while the State should continue to bear the risk for changes in the number of eligible beneficiaries.

- **Defined, Measureable Goals for Health Outcomes, Quality of Care, Patient Satisfaction, and Cost**. The new health care system should define measurable goals for health outcomes, quality of care, patient satisfaction, and cost, based on appropriate local, national, and industry standards. The goals should be designed to allow the program to measure progress toward the goals, to increase comparability of services, and to achieve greater budget predictability for the State. Payment methodologies should reflect a relationship between reimbursement and the defined goals.

- **Accountability for Coordinated Care, Positive Health Outcomes, and Controlling Costs**. The new health care system should operate like a health insurance company in that the program is held accountable for ensuring coordinated care across the entire health care continuum and for producing positive health outcomes while controlling utilization costs. In order to hold the program accountable, the General Assembly should delegate the authority to control *all* payment rates, policies, and methodologies, as well as the scope and level of covered services provided, within the budget approved by the General Assembly. The program should not be held accountable for the growth and mix of the population of eligible beneficiaries, and the General Assembly should retain control of Medicaid and Health Choice eligibility criteria and thresholds.

- **Regional Access to Care**. The new health care system should ensure continuity of access to care across the State and address local needs through regional, financially sustainable organizations. The program should assure an adequate supply of appropriate providers within reasonable proximity of all beneficiaries, and should address the unique needs of both urban and rural communities. To this end, preference should be given to provider-led organizations that can achieve all of the reform goals.

- **Administrative Efficiencies**. Administrative policies and procedures utilized by the new health care system should minimize duplication, minimize consumption of the total Medicaid dollar, and support effective monitoring, enforcement, and decision-making. Administrative policies and procedures should be designed to achieve the most efficient program administration possible at the lowest reasonable cost to the State, thereby increasing the overall value of the Medicaid and Heath Choice program dollars spent.