



STATE OF NORTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES

ROY COOPER
GOVERNOR

KODY H. KINSLEY
SECRETARY

June 8, 2022

SENT VIA ELECTRONIC MAIL

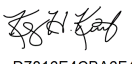
Mr. Mark Trogon, Director
Fiscal Research Division
Suite 619, Legislative Office Building
Raleigh, NC 27603-5925

Dear Director Trogon:

Session Law 2018-5, Section 11F.10.(c) requires the Department of Health and Human Services to submit a quarterly report detailing the solvency ranges and comparisons for each LME/MCO. The report is due to the Joint Legislative Oversight Committee on Medicaid and NC Health Choice, the Joint Legislative Oversight Committee on Health and Human Services, and the Fiscal Research Division. Pursuant to the provisions of law, the Department is pleased to submit the attached reports for October 2021, January and April 2022.

Should you have any questions regarding this report, please contact John Furnari, Program/Policy Analyst, at John.Furnari@dhhs.nc.gov.

Sincerely,

DocuSigned by:

D7816E4CBA6F4A8...
Kody H. Kinsley
Secretary

cc: Mark Collins Joyce Jones Lisa Wilks Jessica Meed
Theresa Matula Katherine Restrepo Amy Jo Johnson Luke MacDonald
Nathan Babcock reports@ncleg.gov

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STATE OF NORTH CAROLINA
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June 8, 2022

SENT VIA ELECTRONIC MAIL

The Honorable Jim Burgin, Chair
Joint Legislative Oversight Committee on
Health and Human Services
North Carolina General Assembly
Room 620, Legislative Office Building
Raleigh, NC 27603

The Honorable Donny Lambeth, Chair
Joint Legislative Oversight Committee on
Health and Human Services
North Carolina General Assembly
Room 303, Legislative Office Building
Raleigh, NC 27603

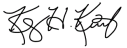
The Honorable Larry Potts, Chair
Joint Legislative Oversight Committee on
Health and Human Services
North Carolina General Assembly
Room 307B1, Legislative Office Building
Raleigh, NC 27603

Dear Chairmen:

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June 8, 2022

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The Honorable Jim Perry, Chair
Joint Legislative Oversight Committee on
Medicaid and NC Health Choice
North Carolina General Assembly
Room 311, Legislative Office Building
Raleigh, NC 27603

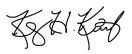
The Honorable Donny Lambeth, Chair
Joint Legislative Oversight Committee on
Medicaid and NC Health Choice
North Carolina General Assembly
Room 303, Legislative Office Building
Raleigh, NC 27603

Dear Chairmen:

Session Law 2018-5, Section 11F.10.(c) requires the Department of Health and Human Services to submit a quarterly report detailing the solvency ranges and comparisons for each LME/MCO. The report is due to the Joint Legislative Oversight Committee on Medicaid and NC Health Choice, the Joint Legislative Oversight Committee on Health and Human Services, and the Fiscal Research Division. Pursuant to the provisions of law, the Department is pleased to submit the attached reports for October 2021, January and April 2022.

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**LME/MCO Solvency Ranges
Quarter Ending June 30, 2021**

Session Law 2018-5, Section 11F.10(c)



Report to

**The Joint Legislative Oversight Committee on
Medicaid and NC Health Choice,**

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

and

The Fiscal Research Division

By

North Carolina Department of Health and Human Services

June 8, 2022

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Reporting Requirements:

Session Law 2018-5; Senate Bill 99, SECTION 11F.10.(b) Part 2 of Article 4 of Chapter 122C of the General Statutes is amended by adding a new section to read:

"§ 122C-125.2. LME/MCO solvency ranges; formula; corrective action plan.

(a) Beginning on September 1, 2018, the Department shall calculate on a quarterly basis a solvency range for each LME/MCO as a sum of the following figures to produce upper and lower range values:

- (1) Incurred but not reported claims figure. – The incurred but not reported claims figure shall be calculated by multiplying an LME/MCO's service spending for the preceding 12 months by six and eight-tenths percent (6.8%). If an LME/MCO experiences extenuating circumstances supported by actuarial documentation, then the Department may utilize a percentage other than six and eight-tenths (6.8%) for that LME/MCO.
- (2) Net operating liabilities figure. – The net operating liabilities figure shall be calculated by subtracting noncash current accounts receivable from the nonclaims current liabilities, as reported on the LME/MCO's most recent balance sheet. If the noncash accounts receivables are greater than the nonclaim liabilities, then the value for the net operating liabilities figure is zero.
- (3) Catastrophic or extraordinary events range. – The catastrophic or extraordinary events range shall be calculated as the range between a lower figure and an upper figure. The lower figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by four and fifteen-hundredths percent (4.15%). The upper figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by eight and three-tenths percent (8.3%).
- (4) Required intergovernmental transfers figure. – The required intergovernmental transfers figure is the amount of funds needed by an LME/MCO to make any intergovernmental transfers required by law over the subsequent 24 months.
- (5) Projected operating loss figure. – The projected operating loss figure is the projected net loss for an LME/MCO over the subsequent 24 months. In projecting the net loss for an LME/MCO, the Department shall use the net loss of the LME/MCO in the preceding 12 months adjusted for any changes in single-stream funding, intergovernmental transfers, or other factors known to the Department that will impact the LME/MCO's net loss over the subsequent 24 months. If a net profit is projected for an LME/MCO, then this figure is zero.
- (6) Reinvestment plan figure. – The reinvestment plan figure is the amount required for all qualifying expenditures contained in an LME/MCO's reinvestment plans over the subsequent 36 months. To

qualify as an expenditure under this subdivision, the expenditure must be related to one of the following:

- a. An initiative that supports specific goals or health status outcomes of the State in relation to the State's behavioral health needs.
- b. An initiative that meets a State behavioral health need, as defined in law or by the Department.
- c. Funding for infrastructure that supports the effective and efficient operation of the LME/MCO.
- d. Funding for a facility within the LME/MCO catchment area that is necessary to meet to the needs of the population served by the LME/MCO.
- e. New or expanded initiatives and programmatic improvements to the State behavioral health system.
- f. Working capital to be utilized to fund changes in rates, operations, or programs.

(b) Upon calculation of the solvency range for each LME/MCO required by subsection (a) of this section, the Department shall compare the cash balance of each LME/MCO to its solvency range. For purposes of this subsection, the cash balance shall consist of the total of the LME/MCO's cash and investment balances, including its Medicaid Risk Reserve, as reported on the LME/MCO's most recent balance sheet. Upon comparison of an LME/MCO's cash balance to its solvency range, the Department shall take one of the following actions:

- (1) If an LME/MCO's cash balance is five percent (5%) or more below the lower solvency range figure or five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the comparison results. Within 30 days from providing notice to the LME/MCO, the Department shall develop, in collaboration with the LME/MCO, a corrective action plan for the LME/MCO. The corrective action plan must include specific actions, which may include changes to the LME/MCO's reinvestment plan, utilization management, and capitation or provider rates, to bring the LME/MCO's cash balance within the solvency range, as well as a time line for implementation of these actions.
- (2) If an LME/MCO's cash balance is neither five percent (5%) or more below the lower solvency range figure nor five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the LME/MCO's solvency range for the quarter and the Department's comparison of the LME/MCO's cash balance to this solvency range. No further action shall be required.

Background:

The General Assembly has asserted that a viable State- and federally-funded behavioral health system is critical to accomplishing the State's goals for behavioral health, meeting the needs of covered populations, and achieving the desired outcomes detailed in the Department of Health and Human Services' (Department) Strategic Plan for Improvement of Behavioral Health Services. To better assess the viability of the State's behavioral health system, the General Assembly developed a method, outlined in G.S. 122C-125.2, designed to measure the financial standing of local management entities/managed care organizations (LME/MCOs). This method utilizes standard calculations of each LME/MCO's statutorily defined "cash balance" and "solvency range" to evaluate the LME/MCO's financial position.

The General Assembly directed the Department to report quarterly on the statutory solvency calculation for each LME/MCO, identifying which, if any, LME/MCOs have a cash balance that is 5% or more outside its solvency range. Further, the General Assembly directed the Department to develop, in collaboration with an LME/MCO that is 5% or more outside its solvency range, a Corrective Action Plan (CAP) for bringing the LME/MCO back within the range.

The CAP provides an opportunity for the LME/MCO to document how it will address being outside the solvency range. This CAP may include changes to the LME/MCO reinvestment plan, utilization management, and/or capitation or provider rates, to bring the LME/MCO's cash balance within solvency range. Each CAP will include a timeline for implementation of the identified actions. The CAP Process is as follows:

1. The Department notifies the LME/MCO of non-compliance with the solvency standard.
2. The LME/MCO submits the proposed CAP to the Department within 30 days of receiving notice.
3. Either the Department accepts the CAP and the LME/MCO is placed on a quarterly review cycle or the Department provides feedback to help the LME/MCO produce an acceptable CAP.
4. Once the CAP is approved, the Department reviews on a quarterly basis the LME/MCO's progress toward implementing the CAP.
5. The Department sends a letter to the LME/MCO acknowledging completion of the CAP and closing the review or the LME/MCO is placed on monthly monitoring until the CAP is resolved.

Executive Summary:

The results of the most recent solvency calculations indicate that the following LME/MCO's are outside the allowable solvency range and are therefore required to submit a proposed CAP using a standard Department-supplied template (see attached Appendix A).

LME/MCOs that are 5% or more above the upper solvency range figure:

- Alliance Health
- Cardinal Innovations
- Vaya Health

It is important to note that these quarterly calculations reflect the effects of supplemental COVID-19 funding, utilization fluctuations, and other factors related to the pandemic. Due to the Public Health Emergency rates were temporarily increased for COVID-19 related services to offset an anticipated surge in expenses. This expected expense fluctuation led to the implementation of a risk corridor arrangement between each LME/MCO and the Department. Under risk corridor arrangements, states and plans agree to share gains or losses (at percentages

specified in plan contracts) if aggregate spending falls above or below specified thresholds (two-sided risk corridor). The Department will also continue to monitor the CAP submissions.

Note: At this time adjustments have been made in intergovernmental transfer figures to account for Cardinal's county disengagements/entity dissolution.

Calculations:

The results of each statutorily required calculation are presented in tables 1-7, which follow the brief description section below. ***Unless noted, each calculation has been completed exactly as specified in the statutory reporting requirement.*** Where the statute provides Department discretion, as in the projection of operating loss (#5), the report describes the Department's methodology.

As directed in subsection (a) of the reporting requirement, the upper and lower bounds of the solvency range for each LME/MCO is calculated as the sum of the figures calculated in steps 1-6.

1) Incurred but not reported claims figure. (Table 1) – The incurred but not reported claims figure shall be calculated by multiplying an LME/MCO's service spending for the preceding 12 months by six and eight-tenths percent (6.8%). If an LME/MCO experiences extenuating circumstances supported by actuarial documentation, then the Department may utilize a percentage other than six and eight-tenths (6.8%) for that LME/MCO.

(2) Net operating liabilities figure. (Table 2) – The net operating liabilities figure shall be calculated by subtracting noncash current accounts receivable from the nonclaims current liabilities, as reported on the LME/MCO's most recent balance sheet. If the noncash accounts receivables are greater than the nonclaim liabilities, then the value for the net operating liabilities figure is zero.

(3) Catastrophic or extraordinary events range. (Table 3) – The catastrophic or extraordinary events range shall be calculated as the range between a lower figure and an upper figure. The lower figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by four and fifteen-hundredths percent (4.15%). The upper figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by eight and three-tenths percent (8.3%).

(4) Required intergovernmental transfers figure. (Table 4) – The required intergovernmental transfers figure is the amount of funds needed by an LME/MCO to make any intergovernmental transfers required by law over the subsequent 24 months (*note: the General Assembly specifies these amounts in session law*).

(5) Projected operating loss figure. (Table 5) – The projected operating loss figure is the projected net loss for an LME/MCO over the subsequent 24 months. In projecting the net loss for an LME/MCO, the Department shall use the prior 12 months net loss of the LME/MCO adjusted for any changes in single-stream funding, intergovernmental transfers, or other factors known to the Department that will impact the LME/MCO's net loss over the subsequent 24 months. If a net profit is projected for an LME/MCO, then this figure is zero.

Notes on Department Methodology for Projected Operating Loss: In the initial five quarterly legislative solvency reports, the Department took a conservative approach to forecasting future LME/MCO expenditures by assuming that, going forward, each LME/MCO would expend 100% of its projected Medicaid revenue, net of the required risk reserve. This approach derived from an understanding that the Department funded each LME/MCO with actuarially sound per member per month (PMPM) capitated rates developed and certified by contracted professional actuaries, Mercer Government Human Services Consulting, and approved by the Centers for Medicaid and Medicare Services (CMS) to support LME/MCO services for Medicaid beneficiaries for each given funding period (typically a State fiscal year, but occasionally for portions of a year). Per federal Code of Federal Regulations (CFR) 438.4, "Actuarially sound capitation rates are projected to provide for all reasonable,

appropriate, and attainable costs that are required under the terms of the contract and for the operation of the MCO.” In other words, the funding provided for a given year should enable each LME/MCO to operate at “break even” (i.e., operate without a loss) going forward.¹

Beginning with the January 15, 2020 report, in light of observed sustained LME/MCO expenditure trends, the Department has shifted to using an LME/MCO-specific “expenditure adjustment factor” that provides more insight into each entity’s projected future Medicaid expenditures. The factor, which is calculated from each LME/MCO’s financial statements, is a ratio of Medicaid expenditures to revenues for the 12 months immediately preceding the quarter that is the subject of the legislative report. The factors for the LME/MCOs for this quarter’s report are as follows:

- Alliance Behavioral Healthcare – 93.16%
- Cardinal Innovations – 94.81%
- Eastpointe Human Services – 92.04%
- Partners Behavioral Health – 94.98%
- Sandhills Center – 94.07%
- Trillium Health Resources – 99.68%
- Vaya Health – 94.81%

The percentage is applied to the projected revenue for the following year to forecast the projected operating expense and resulting loss/profit. The Department notes that the actual operating loss in the subsequent 24 months is likely to vary, particularly in months 12-24, from this projection that is based on data from a point in time. As noted elsewhere in this report, management choices and unforeseen circumstances affecting membership and service intensity could lead actual LME/MCO financial performance, particularly in months 12-24, to vary significantly from the projection.

(6) Reinvestment plan figure. (Table 6) – The reinvestment plan figure is the amount required for all qualifying expenditures contained in an LME/MCO's reinvestment plans over the subsequent 36 months.

(b) Solvency Range. (Table 7) - Upon calculation of the solvency range for each LME/MCO required by subsection (a) of this section, the Department shall compare the cash balance of each LME/MCO to its solvency range. For purposes of this subsection, the cash balance shall consist of the total of the LME/MCO's cash and investment balances, including its Medicaid Risk Reserve, as reported on the LME/MCO's most recent balance sheet. Upon comparison of an LME/MCO's cash balance to its solvency range, the Department shall take one of the following actions:

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¹ To the extent that management choices and/or unforeseen circumstances in a given year led to an LME/MCO operating at a loss (i.e., expending >98% of their Medicaid revenue), the entity would need to use fund balances or other funds (such as liquidated long-term investments) to make up for the operating loss. Availability of such additional resources has varied over time and across LME/MCOs.

(2) If an LME/MCO's cash balance is neither five percent (5%) or more below the lower solvency range figure nor five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the LME/MCO's solvency range for the quarter and the Department's comparison of the LME/MCO's cash balance to this solvency range. No further action shall be required.

Incurred But Not Reported (IBNR)

LME/MCO's service spending for the preceding 12 months assuming a 6.80% average IBNR

	<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	\$ 29,244,408	\$ 7,077,545	\$ 36,321,953
Cardinal Innovations	\$ 53,291,749	\$ 9,211,277	\$ 62,503,025
Eastpointe Human Services	\$ 17,380,675	\$ 3,323,836	\$ 20,704,511
Partners Behavioral Health	\$ 21,726,408	\$ 4,277,055	\$ 26,003,464
Sandhills Center	\$ 19,775,490	\$ 3,769,942	\$ 23,545,432
Trillium Health Resources	\$ 30,620,154	\$ 7,457,501	\$ 38,077,655
Vaya Health	\$ 22,549,421	\$ 6,368,446	\$ 28,917,867

Net Operating Liabilities

LME/MCO's current liabilities excluding IBNR minus noncash current accounts receivable.

If the noncash accounts receivables are greater than the nonclaim liabilities in total, then this figure appears as zero.

	<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Sum</u>	<u>Total</u>
Alliance Behavioral Healthcare	\$21,318,132	\$ 7,082,896	\$ 28,401,028	\$28,401,028
Cardinal Innovations	\$20,197,928	\$ 171,609	\$ 20,369,537	\$20,369,537
Eastpointe Human Services	\$ 5,774,742	\$ 1,397,185	\$ 7,171,927	\$ 7,171,927
Partners Behavioral Health	\$22,972,127	\$ 4,385,670	\$ 27,357,797	\$27,357,797
Sandhills Center	\$ 83,128	\$ 2,929,598	\$ 3,012,726	\$ 3,012,726
Trillium Health Resources	\$ 1,454,526	\$ (5,151,882)	\$ (3,697,356)	\$ -
Vaya Health	\$ 8,570,013	\$ 3,192,276	\$ 11,762,289	\$11,762,289

Catastrophic Events Range

LME/MCO's service spending for the preceding 12 months multiplied by 4.15% and 8.30% to calculate an upper and lower range respectively

		<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	4.15% EER Lower Figure	\$ 17,847,690	\$ 4,319,384	\$ 22,167,074
	8.30% EER Lower Figure	\$ 35,695,380	\$ 8,638,769	\$ 44,334,148
Cardinal Innovations	4.15% EER Lower Figure	\$ 32,523,641	\$ 5,621,588	\$ 38,145,229
	8.30% EER Lower Figure	\$ 65,047,282	\$ 11,243,176	\$ 76,290,457
Eastpointe Human Services	4.15% EER Lower Figure	\$ 10,607,324	\$ 2,028,517	\$ 12,635,841
	8.30% EER Lower Figure	\$ 21,214,647	\$ 4,057,035	\$ 25,271,682
Partners Behavioral Health	4.15% EER Lower Figure	\$ 13,259,499	\$ 2,610,262	\$ 15,869,761
	8.30% EER Lower Figure	\$ 26,518,998	\$ 5,220,523	\$ 31,739,522
Sandhills Center	4.15% EER Lower Figure	\$ 12,068,865	\$ 2,300,774	\$ 14,369,639
	8.30% EER Lower Figure	\$ 24,137,730	\$ 4,601,547	\$ 28,739,277
Trillium Health Resources	4.15% EER Lower Figure	\$ 18,687,300	\$ 4,551,269	\$ 23,238,569
	8.30% EER Lower Figure	\$ 37,374,600	\$ 9,102,538	\$ 46,477,138
Vaya Health	4.15% EER Lower Figure	\$ 13,761,779	\$ 3,886,625	\$ 17,648,404
	8.30% EER Lower Figure	\$ 27,523,558	\$ 7,773,250	\$ 35,296,808

Intergovernmental Transfers

Funds needed by an LME/MCO to make any intergovernmental transfers required by law over the subsequent 24 months

		<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	2021-2022	\$4,514,298	\$ -	\$4,514,298
	2022-2023	\$4,514,298	\$ -	\$4,514,298
Cardinal Innovations	2021-2022	\$ -	\$ -	\$ -
	2022-2023	\$ -	\$ -	\$ -
Eastpointe Human Services	2021-2022	\$1,636,054	\$ -	\$1,636,054
	2022-2023	\$1,636,054	\$ -	\$1,636,054
Partners Behavioral Health	2021-2022	\$3,517,806	\$ -	\$3,517,806
	2022-2023	\$3,517,806	\$ -	\$3,517,806
Sandhills Center	2021-2022	\$2,457,528	\$ -	\$2,457,528
	2022-2023	\$2,457,528	\$ -	\$2,457,528
Trillium Health Resources	2021-2022	\$2,961,231	\$ -	\$2,961,231
	2022-2023	\$2,961,231	\$ -	\$2,961,231
Vaya Health	2021-2022	\$2,941,300	\$ -	\$2,941,300
	2022-2023	\$2,941,300	\$ -	\$2,941,300

Projected Operating Loss

LME/MCO's net profit/(loss), adjusted to include any known changes including single stream funding allocations and IGT payments for the subsequent 24 month period.

If a net profit is projected for an LME/MCO for either funding stream or in total, then this figure will appear as zero.

		<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	Net Operating Loss over prior 12 months	\$ -	\$ -	\$ -
	Net Operating Loss over subsequent 24 month	\$ -	\$ -	\$ -
Cardinal Innovations	Net Operating Loss over prior 12 months	\$ -	\$ (7,004,440)	\$ (7,004,440)
	Net Operating Loss over subsequent 24 month	\$ -	\$ (14,008,881)	\$ (14,008,881)
Eastpointe Human Services	Net Operating Loss over prior 12 months	\$ -	\$ (2,360,327)	\$ (2,360,327)
	Net Operating Loss over subsequent 24 month	\$ -	\$ (4,720,654)	\$ (4,720,654)
Partners Behavioral Health	Net Operating Loss over prior 12 months	\$ -	\$ (483,115)	\$ (483,115)
	Net Operating Loss over subsequent 24 month	\$ -	\$ (966,230)	\$ (966,230)
Sandhills Center	Net Operating Loss over prior 12 months	\$ -	\$ -	\$ -
	Net Operating Loss over subsequent 24 month	\$ -	\$ -	\$ -
Trillium Health Resources	Net Operating Loss over prior 12 months	\$ -	\$ (1,956,325)	\$ (1,956,325)
	Net Operating Loss over subsequent 24 month	\$ -	\$ (3,912,649)	\$ (3,912,649)
Vaya Health	Net Operating Loss over prior 12 months	\$ -	\$ (1,562,670)	\$ (1,562,670)
	Net Operating Loss over subsequent 24 month	\$ -	\$ (3,125,340)	\$ (3,125,340)

Reinvestment Plan

Amount required for all expenditures over the next 3 years related to specific initiatives noted in the LME/MCO's reinvestment plans

		<u>Projected Spend</u>
Alliance Behavioral Healthcare	0-12 months	\$ 12,692,000
	13-24 months	\$ 16,230,448
	25-36 months	\$ 500,000
		<u>\$ 29,422,448</u>
Cardinal Innovations	0-12 months	\$ 5,781,215
	13-24 months	\$ -
	25-36 months	\$ -
		<u>\$ 5,781,215</u>
Eastpointe Human Services	0-12 months	\$ 14,740,907
	13-24 months	\$ 13,039,751
	25-36 months	\$ 13,039,751
		<u>\$ 40,820,410</u>
Partners Behavioral Health	0-12 months	\$ 11,794,326
	13-24 months	\$ 8,875,775
	25-36 months	\$ 6,278,501
		<u>\$ 26,948,602</u>
Sandhills Center	0-12 months	\$ 15,960,897
	13-24 months	\$ 28,522,898
	25-36 months	\$ 32,075,898
		<u>\$ 76,559,693</u>
Trillium Health Resources	0-12 months	\$ 3,648,320
	13-24 months	\$ 3,648,320
	25-36 months	\$ 3,648,320
		<u>\$ 10,944,960</u>
Vaya Health	0-12 months	\$ 1,405,000
	13-24 months	\$ 4,705,000
	25-36 months	\$ 12,805,000
		<u>\$ 18,915,000</u>

Solvency Measures Summary

Comparison of an LME/MCO's cash balance to its solvency range; if cash balance is $\pm 5\%$ of the upper or lower solvency range, a corrective action plan must be developed

		<u>Solvency Range</u>	<u>Cash/Investments /Risk Reserve</u>	<u>Threshold \$ ($\pm 5\%$)</u>	<u>Threshold % ($\pm 5\%$)</u>	
Alliance	Lower Range	\$116,312,503	\$190,445,484	\$110,496,878	63.7%	OK
	Upper Range	\$138,479,577	\$190,445,484	\$145,403,556	37.5%	CONCERN
Cardinal	Lower Range	\$140,807,887	\$221,883,888	\$133,767,493	57.6%	OK
	Upper Range	\$178,953,116	\$221,883,888	\$187,900,772	24.0%	CONCERN
Eastpointe	Lower Range	\$86,053,343	\$96,434,289	\$81,750,676	12.1%	OK
	Upper Range	\$98,689,184	\$96,434,289	\$103,623,643	-2.3%	OK
Partners	Lower Range	\$97,145,854	\$112,001,116	\$92,288,561	15.3%	OK
	Upper Range	\$113,015,615	\$112,001,116	\$118,666,396	-0.9%	OK
Sandhills	Lower Range	\$117,487,489	\$126,682,132	\$111,613,115	7.8%	OK
	Upper Range	\$131,857,128	\$126,682,132	\$138,449,984	-3.9%	OK
Trillium	Lower Range	\$76,173,833	\$98,592,567	\$72,365,142	29.4%	OK
	Upper Range	\$99,412,402	\$98,592,567	\$104,383,022	-0.8%	OK
Vaya	Lower Range	\$80,368,899	\$144,562,769	\$76,350,454	79.9%	OK
	Upper Range	\$98,017,303	\$144,562,769	\$102,918,168	47.5%	CONCERN

Appendix A
LME/MCO Solvency
Corrective Action Plan Review

PLAN NAME:	
REVIEW PERFORMED:	

CORRECTIVE ACTION PLANS OVERVIEW:

This Corrective Action Plan template has three sections. The first is where you document what you know about the area in need of improvement. The second section is where you map out, step-by-step, how you are going to accomplish your goal of correcting the problem or making other improvements. The third section is where you can write down the results of the Corrective Action Plan.

This form can be printed and completed manually or downloaded as a Microsoft Word document and completed electronically. This document is not protected. Table cells will automatically expand to accommodate any amount of text. Additional rows will be added if you hit the “TAB” key in the last cell of the last row of tables.

CORRECTIVE ACTION PLAN (CAP) PROCESS:

Step 1: The LME/MCO receives notification from the Department regarding non-compliance.

Step 2: The LME/MCO submits the CAP to the Department.

Step 3: Either the Department accepts the CAP and the LME/MCO is placed on a quarterly routine review cycle or an additional CAP is requested if information is lacking or incorrect.

Step 4: The Department sends a letter closing the review or the LME/MCO is placed on accelerated monitoring.

SECTION I: DEFINING THE ISSUE

Use this section to clearly define the problem or deficiency, how the activity should be done, where to go for information, and a broad overview of how you are going to make an improvement for that issue. Use one CAP for each individual problem or deficiency.

CORRECTIVE ACTION PLAN – DEFINING THE ISSUE	
Provide a clear, descriptive statement of each non-conformance problem / deficiency.	
What is the corrective action(s), including supporting documentation?	
How will ongoing compliance be maintained? Identify preventative measures that will be taken to improve or prevent occurrences of noncompliance.	

SECTION II: DEFINING THE STEPS FOR IMPROVEMENT

List the specific steps you will take to correct the problem and when they should be completed.

- The Milestone should be a specific task to complete. Each Milestone should progress logically toward the completion of the desired goal.
- Although multiple people might work on a single step, there should be one person responsible for ensuring the step is done on time.
- Designate a Due Date for the Milestone that is realistic and attainable.
- Comments can be made at the time the CAP is developed and can be made as the work is done to mark progress.
- If done electronically (i.e. in Word), you can add rows to this table by hitting the “Tab” key while in the lower right-hand cell.

CORRECTIVE ACTION PLAN: DEFINING THE STEPS FOR IMPROVEMENT				
#	Milestone	Responsible [Name(s) & Title(s)]	Date Due	Comments

SECTION III: EVALUATING THE PROCESS

Once all milestones have been met, evaluate the process. Look for proof that the milestones were, in fact, completed, that the cause of the problem has been identified, and that the problem has been addressed.

CORRECTIVE ACTION PLAN: EVALUATING THE PROCESS		
X	Results	Comments
	Acceptance <div>Financial Analyst _____ Date _____</div> <div>Associate Director _____ Date _____</div> <div>Chief Financial Officer _____ Date _____</div>	
	Provisional Acceptance <div>Financial Analyst _____ Date _____</div> <div>Associate Director _____ Date _____</div> <div>Chief Financial Officer _____ Date _____</div>	

**LME/MCO Solvency Ranges
Quarter Ending September 30, 2021**

Session Law 2018-5, Section 11F.10(c)



Report to

**The Joint Legislative Oversight Committee on
Medicaid and NC Health Choice,**

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

and

The Fiscal Research Division

By

North Carolina Department of Health and Human Services

June 8, 2022

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Reporting Requirements:

Session Law 2018-5; Senate Bill 99, SECTION 11F.10.(b) Part 2 of Article 4 of Chapter 122C of the General Statutes is amended by adding a new section to read:

"§ 122C-125.2. LME/MCO solvency ranges; formula; corrective action plan.

(a) Beginning on September 1, 2018, the Department shall calculate on a quarterly basis a solvency range for each LME/MCO as a sum of the following figures to produce upper and lower range values:

- (1) Incurred but not reported claims figure. – The incurred but not reported claims figure shall be calculated by multiplying an LME/MCO's service spending for the preceding 12 months by six and eight-tenths percent (6.8%). If an LME/MCO experiences extenuating circumstances supported by actuarial documentation, then the Department may utilize a percentage other than six and eight-tenths (6.8%) for that LME/MCO.
- (2) Net operating liabilities figure. – The net operating liabilities figure shall be calculated by subtracting noncash current accounts receivable from the nonclaims current liabilities, as reported on the LME/MCO's most recent balance sheet. If the noncash accounts receivables are greater than the nonclaim liabilities, then the value for the net operating liabilities figure is zero.
- (3) Catastrophic or extraordinary events range. – The catastrophic or extraordinary events range shall be calculated as the range between a lower figure and an upper figure. The lower figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by four and fifteen-hundredths percent (4.15%). The upper figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by eight and three-tenths percent (8.3%).
- (4) Required intergovernmental transfers figure. – The required intergovernmental transfers figure is the amount of funds needed by an LME/MCO to make any intergovernmental transfers required by law over the subsequent 24 months.
- (5) Projected operating loss figure. – The projected operating loss figure is the projected net loss for an LME/MCO over the subsequent 24 months. In projecting the net loss for an LME/MCO, the Department shall use the net loss of the LME/MCO in the preceding 12 months adjusted for any changes in single-stream funding, intergovernmental transfers, or other factors known to the Department that will impact the LME/MCO's net loss over the subsequent 24 months. If a net profit is projected for an LME/MCO, then this figure is zero.
- (6) Reinvestment plan figure. – The reinvestment plan figure is the amount required for all qualifying expenditures contained in an LME/MCO's reinvestment plans over the subsequent 36 months. To

qualify as an expenditure under this subdivision, the expenditure must be related to one of the following:

- a. An initiative that supports specific goals or health status outcomes of the State in relation to the State's behavioral health needs.
- b. An initiative that meets a State behavioral health need, as defined in law or by the Department.
- c. Funding for infrastructure that supports the effective and efficient operation of the LME/MCO.
- d. Funding for a facility within the LME/MCO catchment area that is necessary to meet to the needs of the population served by the LME/MCO.
- e. New or expanded initiatives and programmatic improvements to the State behavioral health system.
- f. Working capital to be utilized to fund changes in rates, operations, or programs.

(b) Upon calculation of the solvency range for each LME/MCO required by subsection (a) of this section, the Department shall compare the cash balance of each LME/MCO to its solvency range. For purposes of this subsection, the cash balance shall consist of the total of the LME/MCO's cash and investment balances, including its Medicaid Risk Reserve, as reported on the LME/MCO's most recent balance sheet. Upon comparison of an LME/MCO's cash balance to its solvency range, the Department shall take one of the following actions:

- (1) If an LME/MCO's cash balance is five percent (5%) or more below the lower solvency range figure or five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the comparison results. Within 30 days from providing notice to the LME/MCO, the Department shall develop, in collaboration with the LME/MCO, a corrective action plan for the LME/MCO. The corrective action plan must include specific actions, which may include changes to the LME/MCO's reinvestment plan, utilization management, and capitation or provider rates, to bring the LME/MCO's cash balance within the solvency range, as well as a time line for implementation of these actions.
- (2) If an LME/MCO's cash balance is neither five percent (5%) or more below the lower solvency range figure nor five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the LME/MCO's solvency range for the quarter and the Department's comparison of the LME/MCO's cash balance to this solvency range. No further action shall be required.

Background:

The General Assembly has asserted that a viable State- and federally-funded behavioral health system is critical to accomplishing the State's goals for behavioral health, meeting the needs of covered populations, and achieving the desired outcomes detailed in the Department of Health and Human Services' (Department) Strategic Plan for Improvement of Behavioral Health Services. To better assess the viability of the State's behavioral health system, the General Assembly developed a method, outlined in G.S. 122C-125.2, designed to measure the financial standing of local management entities/managed care organizations (LME/MCOs). This method utilizes standard calculations of each LME/MCO's statutorily defined "cash balance" and "solvency range" to evaluate the LME/MCO's financial position.

The General Assembly directed the Department to report quarterly on the statutory solvency calculation for each LME/MCO, identifying which, if any, LME/MCOs have a cash balance that is 5% or more outside its solvency range. Further, the General Assembly directed the Department to develop, in collaboration with an LME/MCO that is 5% or more outside its solvency range, a Corrective Action Plan (CAP) for bringing the LME/MCO back within the range.

The CAP provides an opportunity for the LME/MCO to document how it will address being outside the solvency range. This CAP may include changes to the LME/MCO reinvestment plan, utilization management, and/or capitation or provider rates, to bring the LME/MCO's cash balance within solvency range. Each CAP will include a timeline for implementation of the identified actions. The CAP Process is as follows:

1. The Department notifies the LME/MCO of non-compliance with the solvency standard.
2. The LME/MCO submits the proposed CAP to the Department within 30 days of receiving notice.
3. Either the Department accepts the CAP and the LME/MCO is placed on a quarterly review cycle or the Department provides feedback to help the LME/MCO produce an acceptable CAP.
4. Once the CAP is approved, the Department reviews on a quarterly basis the LME/MCO's progress toward implementing the CAP.
5. The Department sends a letter to the LME/MCO acknowledging completion of the CAP and closing the review or the LME/MCO is placed on monthly monitoring until the CAP is resolved.

Executive Summary:

The results of the most recent solvency calculations indicate that the following LME/MCO's are outside the allowable solvency range and are therefore required to submit a proposed CAP using a standard Department-supplied template (see attached Appendix A).

LME/MCOs that are 5% or more above the upper solvency range figure:

- Alliance Health
- Cardinal Innovations
- Partners Health Management
- Vaya Health

It is important to note that these quarterly calculations reflect the effects of supplemental COVID-19 funding, utilization fluctuations, and other factors related to the pandemic. Due to the Public Health Emergency rates were temporarily increased for COVID-19 related services to offset an anticipated surge in expenses. This expected

expense fluctuation led to the implementation of a risk corridor arrangement between each LME/MCO and the Department. Under risk corridor arrangements, states and plans agree to share gains or losses (at percentages specified in plan contracts) if aggregate spending falls above or below specified thresholds (two-sided risk corridor). The Department will also continue to monitor the CAP submissions.

Note: At this time adjustments have been made to intergovernmental transfer figures to account for Cardinal's county disengagements/entity dissolution. Cardinal entity operations will cease as of January 1, 2022. For report completion, subsequent projections disregard this and assume business operations continue.

Calculations:

The results of each statutorily required calculation are presented in tables 1-7, which follow the brief description section below. ***Unless noted, each calculation has been completed exactly as specified in the statutory reporting requirement.*** Where the statute provides Department discretion, as in the projection of operating loss (#5), the report describes the Department's methodology.

As directed in subsection (a) of the reporting requirement, the upper and lower bounds of the solvency range for each LME/MCO is calculated as the sum of the figures calculated in steps 1-6.

(1) Incurred but not reported claims figure. (Table 1) – The incurred but not reported claims figure shall be calculated by multiplying an LME/MCO's service spending for the preceding 12 months by six and eight-tenths percent (6.8%). If an LME/MCO experiences extenuating circumstances supported by actuarial documentation, then the Department may utilize a percentage other than six and eight-tenths (6.8%) for that LME/MCO.

(2) Net operating liabilities figure. (Table 2) – The net operating liabilities figure shall be calculated by subtracting noncash current accounts receivable from the nonclaims current liabilities, as reported on the LME/MCO's most recent balance sheet. If the noncash accounts receivables are greater than the nonclaim liabilities, then the value for the net operating liabilities figure is zero.

(3) Catastrophic or extraordinary events range. (Table 3) – The catastrophic or extraordinary events range shall be calculated as the range between a lower figure and an upper figure. The lower figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by four and fifteen-hundredths percent (4.15%). The upper figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by eight and three-tenths percent (8.3%).

(4) Required intergovernmental transfers figure. (Table 4) – The required intergovernmental transfers figure is the amount of funds needed by an LME/MCO to make any intergovernmental transfers required by law over the subsequent 24 months (*note: the General Assembly specifies these amounts in session law*).

(5) Projected operating loss figure. (Table 5) – The projected operating loss figure is the projected net loss for an LME/MCO over the subsequent 24 months. In projecting the net loss for an LME/MCO, the Department shall use the prior 12 months net loss of the LME/MCO adjusted for any changes in single-stream funding, intergovernmental transfers, or other factors known to the Department that will impact the LME/MCO's net loss over the subsequent 24 months. If a net profit is projected for an LME/MCO, then this figure is zero.

Notes on Department Methodology for Projected Operating Loss: In the initial five quarterly legislative solvency reports, the Department took a conservative approach to forecasting future LME/MCO expenditures by assuming that, going forward, each LME/MCO would expend 100% of its projected Medicaid revenue, net of the required risk reserve. This approach derived from an understanding that the Department funded each LME/MCO with actuarially sound per member per month (PMPM) capitated rates developed and certified by contracted professional actuaries, Mercer Government Human Services Consulting, and approved by the Centers for

Medicaid and Medicare Services (CMS) to support LME/MCO services for Medicaid beneficiaries for each given funding period (typically a State fiscal year, but occasionally for portions of a year). Per federal Code of Federal Regulations (CFR) 438.4, “Actuarially sound capitation rates are projected to provide for all reasonable, appropriate, and attainable costs that are required under the terms of the contract and for the operation of the MCO.” In other words, the funding provided for a given year should enable each LME/MCO to operate at “break even” (i.e., operate without a loss) going forward.¹

Beginning with the January 15, 2020 report, in light of observed sustained LME/MCO expenditure trends, the Department has shifted to using an LME/MCO-specific “expenditure adjustment factor” that provides more insight into each entity’s projected future Medicaid expenditures. The factor, which is calculated from each LME/MCO’s financial statements, is a ratio of Medicaid expenditures to revenues for the 12 months immediately preceding the quarter that is the subject of the legislative report. The factors for the LME/MCOs for this quarter’s report are as follows:

- Alliance Behavioral Healthcare – 94.76%
- Cardinal Innovations – 95.45%
- Eastpointe Human Services – 90.66%
- Partners Behavioral Health – 95.31%
- Sandhills Center – 94.02%
- Trillium Health Resources – 97.42%
- Vaya Health – 95.27%

The percentage is applied to the projected revenue for the following year to forecast the projected operating expense and resulting loss/profit. The Department notes that the actual operating loss in the subsequent 24 months is likely to vary, particularly in months 12-24, from this projection that is based on data from a point in time. As noted elsewhere in this report, management choices and unforeseen circumstances affecting membership and service intensity could lead actual LME/MCO financial performance, particularly in months 12-24, to vary significantly from the projection.

(6) Reinvestment plan figure. (Table 6) – The reinvestment plan figure is the amount required for all qualifying expenditures contained in an LME/MCO's reinvestment plans over the subsequent 36 months.

(b) Solvency Range. (Table 7) - Upon calculation of the solvency range for each LME/MCO required by subsection (a) of this section, the Department shall compare the cash balance of each LME/MCO to its solvency range. For purposes of this subsection, the cash balance shall consist of the total of the LME/MCO's cash and investment balances, including its Medicaid Risk Reserve, as reported on the LME/MCO's most recent balance sheet. Upon comparison of an LME/MCO's cash balance to its solvency range, the Department shall take one of the following actions:

(1) If an LME/MCO's cash balance is five percent (5%) or more below the lower solvency range figure or five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the comparison results. Within 30 days from providing notice to the LME/MCO, the Department shall develop, in collaboration with the LME/MCO, a corrective action plan for the LME/MCO. The corrective action plan must include specific actions, which may include changes to the LME/MCO's reinvestment plan,

¹ To the extent that management choices and/or unforeseen circumstances in a given year led to an LME/MCO operating at a loss (i.e., expending >98% of their Medicaid revenue), the entity would need to use fund balances or other funds (such as liquidated long-term investments) to make up for the operating loss. Availability of such additional resources has varied over time and across LME/MCOs.

utilization management, and capitation or provider rates, to bring the LME/MCO's cash balance within the solvency range, as well as a timeline for implementation of these actions.

(2) If an LME/MCO's cash balance is neither five percent (5%) or more below the lower solvency range figure nor five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the LME/MCO's solvency range for the quarter and the Department's comparison of the LME/MCO's cash balance to this solvency range. No further action shall be required.

Incurred But Not Reported (IBNR)

LME/MCO's service spending for the preceding 12 months assuming a 6.80% average IBNR

	<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	\$ 29,787,619	\$ 7,209,280	\$ 36,996,898
Cardinal Innovations	\$ 52,480,823	\$ 8,472,422	\$ 60,953,245
Eastpointe Human Services	\$ 17,181,656	\$ 3,397,876	\$ 20,579,532
Partners Behavioral Health	\$ 22,429,194	\$ 4,250,530	\$ 26,679,724
Sandhills Center	\$ 19,951,299	\$ 3,815,923	\$ 23,767,222
Trillium Health Resources	\$ 30,679,987	\$ 7,457,501	\$ 38,137,488
Vaya Health	\$ 22,950,000	\$ 6,539,059	\$ 29,489,058

Net Operating Liabilities

LME/MCO's current liabilities excluding IBNR minus noncash current accounts receivable.

If the noncash accounts receivables are greater than the nonclaim liabilities in total, then this figure appears as zero.

	<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Sum</u>	<u>Total</u>
Alliance Behavioral Healthcare	\$22,244,958	\$ 11,659,661	\$ 33,904,619	\$33,904,619
Cardinal Innovations	\$49,555,532	\$ 391,161	\$ 49,946,693	\$49,946,693
Eastpointe Human Services	\$ 4,874,875	\$ 1,041,172	\$ 5,916,047	\$ 5,916,047
Partners Behavioral Health	\$27,824,729	\$ 4,829,391	\$ 32,654,120	\$32,654,120
Sandhills Center	\$ 4,023,922	\$ (1,479,031)	\$ 2,544,891	\$ 2,544,891
Trillium Health Resources	\$ 4,098,636	\$ 1,276,377	\$ 5,375,013	\$ 5,375,013
Vaya Health	\$10,505,316	\$ 924,097	\$ 11,429,413	\$11,429,413

Catastrophic Events Range

LME/MCO's service spending for the preceding 12 months multiplied by 4.15% and 8.30% to calculate an upper and lower range respectively

		<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	4.15% EER Lower Figure	\$ 18,179,208	\$ 4,399,781	\$22,578,989
	8.30% EER Lower Figure	\$36,358,417	\$ 8,799,562	\$45,157,979
Cardinal Innovations	4.15% EER Lower Figure	\$32,028,738	\$ 5,170,669	\$37,199,407
	8.30% EER Lower Figure	\$64,057,475	\$10,341,338	\$74,398,813
Eastpointe Human Services	4.15% EER Lower Figure	\$ 10,485,863	\$ 2,073,704	\$12,559,567
	8.30% EER Lower Figure	\$20,971,727	\$ 4,147,408	\$25,119,135
Partners Behavioral Health	4.15% EER Lower Figure	\$13,688,405	\$ 2,594,074	\$16,282,479
	8.30% EER Lower Figure	\$27,376,810	\$ 5,188,147	\$32,564,957
Sandhills Center	4.15% EER Lower Figure	\$12,176,161	\$ 2,328,835	\$14,504,996
	8.30% EER Lower Figure	\$24,352,321	\$ 4,657,671	\$29,009,992
Trillium Health Resources	4.15% EER Lower Figure	\$18,723,816	\$ 4,551,269	\$23,275,084
	8.30% EER Lower Figure	\$37,447,631	\$ 9,102,538	\$46,550,169
Vaya Health	4.15% EER Lower Figure	\$14,006,250	\$ 3,990,749	\$17,996,999
	8.30% EER Lower Figure	\$28,012,500	\$ 7,981,498	\$35,993,998

Intergovernmental Transfers

Funds needed by an LME/MCO to make any intergovernmental transfers required by law over the subsequent 24 months

		<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	2021-2022	\$4,514,298	\$ -	\$4,514,298
	2022-2023	\$4,514,298	\$ -	\$4,514,298
Cardinal Innovations	2021-2022	\$ -	\$ -	\$ -
	2022-2023	\$ -	\$ -	\$ -
Eastpointe Human Services	2021-2022	\$1,636,054	\$ -	\$1,636,054
	2022-2023	\$1,636,054	\$ -	\$1,636,054
Partners Behavioral Health	2021-2022	\$3,517,806	\$ -	\$3,517,806
	2022-2023	\$3,517,806	\$ -	\$3,517,806
Sandhills Center	2021-2022	\$2,457,528	\$ -	\$2,457,528
	2022-2023	\$2,457,528	\$ -	\$2,457,528
Trillium Health Resources	2021-2022	\$2,961,231	\$ -	\$2,961,231
	2022-2023	\$2,961,231	\$ -	\$2,961,231
Vaya Health	2021-2022	\$2,941,300	\$ -	\$2,941,300
	2022-2023	\$2,941,300	\$ -	\$2,941,300

Projected Operating Loss

LME/MCO's net profit/(loss), adjusted to include any known changes including single stream funding allocations and IGT payments for the subsequent 24 month period.

If a net profit is projected for an LME/MCO for either funding stream or in total, then this figure will appear as zero.

		<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	Net Operating Loss over prior 12 months	\$ -	\$ -	\$ -
	Net Operating Loss over subsequent 24 month	\$ -	\$ -	\$ -
Cardinal Innovations	Net Operating Loss over prior 12 months	\$ -	\$ (3,534,115)	\$ (3,534,115)
	Net Operating Loss over subsequent 24 month	\$ -	\$ (7,068,231)	\$ (7,068,231)
Eastpointe Human Services	Net Operating Loss over prior 12 months	\$ -	\$ (5,322,457)	\$ (5,322,457)
	Net Operating Loss over subsequent 24 month	\$ -	\$ (10,644,915)	\$ (10,644,915)
Partners Behavioral Health	Net Operating Loss over prior 12 months	\$ -	\$ (112,846)	\$ (112,846)
	Net Operating Loss over subsequent 24 month	\$ -	\$ (225,692)	\$ (225,692)
Sandhills Center	Net Operating Loss over prior 12 months	\$ -	\$ -	\$ -
	Net Operating Loss over subsequent 24 month	\$ -	\$ -	\$ -
Trillium Health Resources	Net Operating Loss over prior 12 months	\$ -	\$ (13,697,581)	\$ (13,697,581)
	Net Operating Loss over subsequent 24 month	\$ -	\$ (27,395,161)	\$ (27,395,161)
Vaya Health	Net Operating Loss over prior 12 months	\$ -	\$ (3,901,349)	\$ (3,901,349)
	Net Operating Loss over subsequent 24 month	\$ -	\$ (7,802,699)	\$ (7,802,699)

Reinvestment Plan

Amount required for all expenditures over the next 3 years related to specific initiatives noted in the LME/MCO's reinvestment plans

		<u>Projected Spend</u>
Alliance Behavioral Healthcare	0-12 months	\$ 12,692,000
	13-24 months	\$ 16,230,448
	25-36 months	\$ 500,000
		<u>\$ 29,422,448</u>
Cardinal Innovations	0-12 months	\$ 5,781,215
	13-24 months	\$ -
	25-36 months	\$ -
		<u>\$ 5,781,215</u>
Eastpointe Human Services	0-12 months	\$ 14,740,907
	13-24 months	\$ 13,039,751
	25-36 months	\$ 13,039,751
		<u>\$ 40,820,410</u>
Partners Behavioral Health	0-12 months	\$ 11,794,326
	13-24 months	\$ 8,875,775
	25-36 months	\$ 6,278,501
		<u>\$ 26,948,602</u>
Sandhills Center	0-12 months	\$ 15,960,897
	13-24 months	\$ 28,522,898
	25-36 months	\$ 32,075,898
		<u>\$ 76,559,693</u>
Trillium Health Resources	0-12 months	\$ 3,648,320
	13-24 months	\$ 3,648,320
	25-36 months	\$ 3,648,320
		<u>\$ 10,944,960</u>
Vaya Health	0-12 months	\$ 1,405,000
	13-24 months	\$ 4,705,000
	25-36 months	\$ 12,805,000
		<u>\$ 18,915,000</u>

Solvency Measures Summary

Comparison of an LME/MCO's cash balance to its solvency range; if cash balance is $\pm 5\%$ of the upper or lower solvency range, a corrective action plan must be developed

		<u>Solvency Range</u>	<u>Cash/Investments /Risk Reserve</u>	<u>Threshold \$ ($\pm 5\%$)</u>	<u>Threshold % ($\pm 5\%$)</u>	
Alliance	Lower Range	\$122,902,955	\$205,426,416	\$116,757,807	67.1%	OK
	Upper Range	\$145,481,944	\$205,426,416	\$152,756,041	41.2%	CONCERN
Cardinal	Lower Range	\$160,948,790	\$273,616,046	\$152,901,350	70.0%	OK
	Upper Range	\$198,148,196	\$273,616,046	\$208,055,606	38.1%	CONCERN
Eastpointe	Lower Range	\$90,520,471	\$102,533,830	\$85,994,448	13.3%	OK
	Upper Range	\$103,080,039	\$102,533,830	\$108,234,040	-0.5%	OK
Partners	Lower Range	\$102,790,617	\$141,525,554	\$97,651,086	37.7%	OK
	Upper Range	\$119,073,096	\$141,525,554	\$125,026,750	18.9%	CONCERN
Sandhills	Lower Range	\$117,376,802	\$137,511,352	\$111,507,962	17.2%	OK
	Upper Range	\$131,881,798	\$137,511,352	\$138,475,888	4.3%	OK
Trillium	Lower Range	\$105,127,706	\$124,148,932	\$99,871,321	18.1%	OK
	Upper Range	\$128,402,791	\$124,148,932	\$134,822,930	-3.3%	OK
Vaya	Lower Range	\$85,633,169	\$146,396,345	\$81,351,510	71.0%	OK
	Upper Range	\$103,630,168	\$146,396,345	\$108,811,676	41.3%	CONCERN

Appendix A
LME/MCO Solvency
Corrective Action Plan Review

PLAN NAME:	
REVIEW PERFORMED:	

CORRECTIVE ACTION PLANS OVERVIEW:

This Corrective Action Plan template has three sections. The first is where you document what you know about the area in need of improvement. The second section is where you map out, step-by-step, how you are going to accomplish your goal of correcting the problem or making other improvements. The third section is where you can write down the results of the Corrective Action Plan.

This form can be printed and completed manually or downloaded as a Microsoft Word document and completed electronically. This document is not protected. Table cells will automatically expand to accommodate any amount of text. Additional rows will be added if you hit the “TAB” key in the last cell of the last row of tables.

CORRECTIVE ACTION PLAN (CAP) PROCESS:

Step 1: The LME/MCO receives notification from the Department regarding non-compliance.

Step 2: The LME/MCO submits the CAP to the Department.

Step 3: Either the Department accepts the CAP and the LME/MCO is placed on a quarterly routine review cycle or an additional CAP is requested if information is lacking or incorrect.

Step 4: The Department sends a letter closing the review or the LME/MCO is placed on accelerated monitoring.

SECTION I: DEFINING THE ISSUE

Use this section to clearly define the problem or deficiency, how the activity should be done, where to go for information, and a broad overview of how you are going to make an improvement for that issue. Use one CAP for each individual problem or deficiency.

CORRECTIVE ACTION PLAN – DEFINING THE ISSUE	
Provide a clear, descriptive statement of each non-conformance problem / deficiency.	
What is the corrective action(s), including supporting documentation?	
How will ongoing compliance be maintained? Identify preventative measures that will be taken to improve or prevent occurrences of noncompliance.	

SECTION II: DEFINING THE STEPS FOR IMPROVEMENT

List the specific steps you will take to correct the problem and when they should be completed.

- The Milestone should be a specific task to complete. Each Milestone should progress logically toward the completion of the desired goal.
- Although multiple people might work on a single step, there should be one person responsible for ensuring the step is done on time.
- Designate a Due Date for the Milestone that is realistic and attainable.
- Comments can be made at the time the CAP is developed and can be made as the work is done to mark progress.
- If done electronically (i.e. in Word), you can add rows to this table by hitting the “Tab” key while in the lower right-hand cell.

CORRECTIVE ACTION PLAN: DEFINING THE STEPS FOR IMPROVEMENT				
#	Milestone	Responsible [Name(s) & Title(s)]	Date Due	Comments

SECTION III: EVALUATING THE PROCESS

Once all milestones have been met, evaluate the process. Look for proof that the milestones were, in fact, completed, that the cause of the problem has been identified, and that the problem has been addressed.

CORRECTIVE ACTION PLAN: EVALUATING THE PROCESS		
X	Results	Comments
	Acceptance <div>Financial Analyst _____ Date _____</div> <div>Associate Director _____ Date _____</div> <div>Chief Financial Officer _____ Date _____</div>	
	Provisional Acceptance <div>Financial Analyst _____ Date _____</div> <div>Associate Director _____ Date _____</div> <div>Chief Financial Officer _____ Date _____</div>	

**LME/MCO Solvency Ranges
Quarter Ending December 31, 2021**

Session Law 2018-5, Section 11F.10(c)



Report to

**The Joint Legislative Oversight Committee on
Medicaid and NC Health Choice,**

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

and

The Fiscal Research Division

By

North Carolina Department of Health and Human Services

June 8, 2022

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Reporting Requirements:

Session Law 2018-5; Senate Bill 99, SECTION 11F.10.(b) Part 2 of Article 4 of Chapter 122C of the General Statutes is amended by adding a new section to read:

"§ 122C-125.2. LME/MCO solvency ranges; formula; corrective action plan.

(a) Beginning on September 1, 2018, the Department shall calculate on a quarterly basis a solvency range for each LME/MCO as a sum of the following figures to produce upper and lower range values:

- (1) Incurred but not reported claims figure. – The incurred but not reported claims figure shall be calculated by multiplying an LME/MCO's service spending for the preceding 12 months by six and eight-tenths percent (6.8%). If an LME/MCO experiences extenuating circumstances supported by actuarial documentation, then the Department may utilize a percentage other than six and eight-tenths (6.8%) for that LME/MCO.
- (2) Net operating liabilities figure. – The net operating liabilities figure shall be calculated by subtracting noncash current accounts receivable from the nonclaims current liabilities, as reported on the LME/MCO's most recent balance sheet. If the noncash accounts receivables are greater than the nonclaim liabilities, then the value for the net operating liabilities figure is zero.
- (3) Catastrophic or extraordinary events range. – The catastrophic or extraordinary events range shall be calculated as the range between a lower figure and an upper figure. The lower figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by four and fifteen-hundredths percent (4.15%). The upper figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by eight and three-tenths percent (8.3%).
- (4) Required intergovernmental transfers figure. – The required intergovernmental transfers figure is the amount of funds needed by an LME/MCO to make any intergovernmental transfers required by law over the subsequent 24 months.
- (5) Projected operating loss figure. – The projected operating loss figure is the projected net loss for an LME/MCO over the subsequent 24 months. In projecting the net loss for an LME/MCO, the Department shall use the net loss of the LME/MCO in the preceding 12 months adjusted for any changes in single-stream funding, intergovernmental transfers, or other factors known to the Department that will impact the LME/MCO's net loss over the subsequent 24 months. If a net profit is projected for an LME/MCO, then this figure is zero.
- (6) Reinvestment plan figure. – The reinvestment plan figure is the amount required for all qualifying expenditures contained in an LME/MCO's reinvestment plans over the subsequent 36 months. To

qualify as an expenditure under this subdivision, the expenditure must be related to one of the following:

- a. An initiative that supports specific goals or health status outcomes of the State in relation to the State's behavioral health needs.
- b. An initiative that meets a State behavioral health need, as defined in law or by the Department.
- c. Funding for infrastructure that supports the effective and efficient operation of the LME/MCO.
- d. Funding for a facility within the LME/MCO catchment area that is necessary to meet to the needs of the population served by the LME/MCO.
- e. New or expanded initiatives and programmatic improvements to the State behavioral health system.
- f. Working capital to be utilized to fund changes in rates, operations, or programs.

(b) Upon calculation of the solvency range for each LME/MCO required by subsection (a) of this section, the Department shall compare the cash balance of each LME/MCO to its solvency range. For purposes of this subsection, the cash balance shall consist of the total of the LME/MCO's cash and investment balances, including its Medicaid Risk Reserve, as reported on the LME/MCO's most recent balance sheet. Upon comparison of an LME/MCO's cash balance to its solvency range, the Department shall take one of the following actions:

- (1) If an LME/MCO's cash balance is five percent (5%) or more below the lower solvency range figure or five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the comparison results. Within 30 days from providing notice to the LME/MCO, the Department shall develop, in collaboration with the LME/MCO, a corrective action plan for the LME/MCO. The corrective action plan must include specific actions, which may include changes to the LME/MCO's reinvestment plan, utilization management, and capitation or provider rates, to bring the LME/MCO's cash balance within the solvency range, as well as a time line for implementation of these actions.
- (2) If an LME/MCO's cash balance is neither five percent (5%) or more below the lower solvency range figure nor five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the LME/MCO's solvency range for the quarter and the Department's comparison of the LME/MCO's cash balance to this solvency range. No further action shall be required.

Background:

The General Assembly has asserted that a viable State- and federally-funded behavioral health system is critical to accomplishing the State's goals for behavioral health, meeting the needs of covered populations, and achieving the desired outcomes detailed in the Department of Health and Human Services' (Department) Strategic Plan for Improvement of Behavioral Health Services. To better assess the viability of the State's behavioral health system, the General Assembly developed a method, outlined in G.S. 122C-125.2, designed to measure the financial standing of local management entities/managed care organizations (LME/MCOs). This method utilizes standard calculations of each LME/MCO's statutorily defined "cash balance" and "solvency range" to evaluate the LME/MCO's financial position.

The General Assembly directed the Department to report quarterly on the statutory solvency calculation for each LME/MCO, identifying which, if any, LME/MCOs have a cash balance that is 5% or more outside its solvency range. Further, the General Assembly directed the Department to develop, in collaboration with an LME/MCO that is 5% or more outside its solvency range, a Corrective Action Plan (CAP) for bringing the LME/MCO back within the range.

The CAP provides an opportunity for the LME/MCO to document how it will address being outside the solvency range. This CAP may include changes to the LME/MCO reinvestment plan, utilization management, and/or capitation or provider rates, to bring the LME/MCO's cash balance within solvency range. Each CAP will include a timeline for implementation of the identified actions. The CAP Process is as follows:

1. The Department notifies the LME/MCO of non-compliance with the solvency standard.
2. The LME/MCO submits the proposed CAP to the Department within 30 days of receiving notice.
3. Either the Department accepts the CAP and the LME/MCO is placed on a quarterly review cycle or the Department provides feedback to help the LME/MCO produce an acceptable CAP.
4. Once the CAP is approved, the Department reviews on a quarterly basis the LME/MCO's progress toward implementing the CAP.
5. The Department sends a letter to the LME/MCO acknowledging completion of the CAP and closing the review or the LME/MCO is placed on monthly monitoring until the CAP is resolved.

Executive Summary:

The results of the most recent solvency calculations indicate that the following LME/MCO's are outside the allowable solvency range and are therefore required to submit a proposed CAP using a standard Department-supplied template (see attached Appendix A).

LME/MCOs that are 5% or more above the upper solvency range figure:

- Alliance Health
- Eastpointe
- Partners Health Management
- Sandhills
- Trillium Health Resources
- Vaya Health

It is important to note that these quarterly calculations reflect the effects of temporary supplemental COVID-19 funding, utilization fluctuations, and other factors related to the pandemic. To address the Public Health Emergency (PHE), the Department temporarily increased LME/MCO capitation rates to address an anticipated surge in COVID-related service costs/expenditures. To account for the difficulty in predicting actual costs/expenditures during the PHE, the Department also implemented a risk corridor arrangement with each LME/MCO. Under this risk corridor arrangement, the Department and each LME/MCO agree to share gains or losses (at percentages specified contractually) if aggregate spending falls above or below specified thresholds (two-sided risk corridor). The Department will also continue to monitor the CAP submissions.

Calculations:

The results of each statutorily required calculation are presented in tables 1-7, which follow the brief description section below. ***Unless noted, each calculation has been completed exactly as specified in the statutory reporting requirement.*** Where the statute provides Department discretion, as in the projection of operating loss (#5), the report describes the Department's methodology.

As directed in subsection (a) of the reporting requirement, the upper and lower bounds of the solvency range for each LME/MCO is calculated as the sum of the figures calculated in steps 1-6.

1) Incurred but not reported claims figure. (Table 1) – The incurred but not reported claims figure shall be calculated by multiplying an LME/MCO's service spending for the preceding 12 months by six and eight-tenths percent (6.8%). If an LME/MCO experiences extenuating circumstances supported by actuarial documentation, then the Department may utilize a percentage other than six and eight-tenths (6.8%) for that LME/MCO.

(2) Net operating liabilities figure. (Table 2) – The net operating liabilities figure shall be calculated by subtracting noncash current accounts receivable from the nonclaims current liabilities, as reported on the LME/MCO's most recent balance sheet. If the noncash accounts receivables are greater than the nonclaim liabilities, then the value for the net operating liabilities figure is zero.

(3) Catastrophic or extraordinary events range. (Table 3) – The catastrophic or extraordinary events range shall be calculated as the range between a lower figure and an upper figure. The lower figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by four and fifteen-hundredths percent (4.15%). The upper figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by eight and three-tenths percent (8.3%).

(4) Required intergovernmental transfers figure. (Table 4) – The required intergovernmental transfers figure is the amount of funds needed by an LME/MCO to make any intergovernmental transfers required by law over the subsequent 24 months (*note: the General Assembly specifies these amounts in session law*).

(5) Projected operating loss figure. (Table 5) – The projected operating loss figure is the projected net loss for an LME/MCO over the subsequent 24 months. In projecting the net loss for an LME/MCO, the Department shall use the prior 12 months net loss of the LME/MCO adjusted for any changes in single-stream funding, intergovernmental transfers, or other factors known to the Department that will impact the LME/MCO's net loss over the subsequent 24 months. If a net profit is projected for an LME/MCO, then this figure is zero.

Notes on Department Methodology for Projected Operating Loss: In the initial five quarterly legislative solvency reports, the Department took a conservative approach to forecasting future LME/MCO expenditures by assuming that, going forward, each LME/MCO would expend 100% of its projected Medicaid revenue, net of the required risk reserve. This approach derived from an understanding that the Department funded each LME/MCO with actuarially sound per member per month (PMPM) capitated rates developed and certified by contracted

professional actuaries, Mercer Government Human Services Consulting, and approved by the Centers for Medicaid and Medicare Services (CMS) to support LME/MCO services for Medicaid beneficiaries for each given funding period (typically a State fiscal year, but occasionally for portions of a year). Per federal Code of Federal Regulations (CFR) 438.4, “Actuarially sound capitation rates are projected to provide for all reasonable, appropriate, and attainable costs that are required under the terms of the contract and for the operation of the MCO.” In other words, the funding provided for a given year should enable each LME/MCO to operate at “break even” (i.e., operate without a loss) going forward.¹

Beginning with the January 15, 2020 report, in light of observed sustained LME/MCO expenditure trends, the Department has shifted to using an LME/MCO-specific “expenditure adjustment factor” that provides more insight into each entity’s projected future Medicaid expenditures. The factor, which is calculated from each LME/MCO’s financial statements, is a ratio of Medicaid expenditures to revenues for the 12 months immediately preceding the quarter that is the subject of the legislative report. The factors for the LME/MCOs for this quarter’s report are as follows:

- Alliance Behavioral Healthcare – 86.55%
- Cardinal Innovations – 121.58%
- Eastpointe Human Services – 89.05%
- Partners Behavioral Health – 94.03%
- Sandhills Center – 93.13%
- Trillium Health Resources – 93.19%
- Vaya Health – 94.12%

The percentage is applied to the projected revenue for the following year to forecast the projected operating expense and resulting loss/profit. The Department notes that the actual operating loss in the subsequent 24 months is likely to vary, particularly in months 12-24, from this projection that is based on data from a point in time. As noted elsewhere in this report, management choices and unforeseen circumstances affecting membership and service intensity could lead actual LME/MCO financial performance, particularly in months 12-24, to vary significantly from the projection.

(6) Reinvestment plan figure. (Table 6) – The reinvestment plan figure is the amount required for all qualifying expenditures contained in an LME/MCO’s reinvestment plans over the subsequent 36 months.

(b) Solvency Range. (Table 7) - Upon calculation of the solvency range for each LME/MCO required by subsection (a) of this section, the Department shall compare the cash balance of each LME/MCO to its solvency range. For purposes of this subsection, the cash balance shall consist of the total of the LME/MCO’s cash and investment balances, including its Medicaid Risk Reserve, as reported on the LME/MCO’s most recent balance sheet. Upon comparison of an LME/MCO’s cash balance to its solvency range, the Department shall take one of the following actions:

(1) If an LME/MCO’s cash balance is five percent (5%) or more below the lower solvency range figure or five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the comparison results. Within 30 days from providing notice to the LME/MCO, the Department shall develop, in collaboration with the LME/MCO, a corrective action plan for the LME/MCO. The corrective action plan

¹ To the extent that management choices and/or unforeseen circumstances in a given year led to an LME/MCO operating at a loss (i.e., expending >98% of their Medicaid revenue), the entity would need to use fund balances or other funds (such as liquidated long-term investments) to make up for the operating loss. Availability of such additional resources has varied over time and across LME/MCOs.

must include specific actions, which may include changes to the LME/MCO's reinvestment plan, utilization management, and capitation or provider rates, to bring the LME/MCO's cash balance within the solvency range, as well as a timeline for implementation of these actions.

(2) If an LME/MCO's cash balance is neither five percent (5%) or more below the lower solvency range figure nor five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the LME/MCO's solvency range for the quarter and the Department's comparison of the LME/MCO's cash balance to this solvency range. No further action shall be required.

Incurred But Not Reported (IBNR)

LME/MCO's service spending for the preceding 12 months assuming a 6.80% average IBNR

	<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	\$ 31,394,397	\$ 7,428,502	\$ 38,822,898
Cardinal Innovations	\$ 46,205,660	\$ 8,548,584	\$ 54,754,245
Eastpointe Human Services	\$ 16,886,835	\$ 3,407,607	\$ 20,294,442
Partners Behavioral Health	\$ 25,020,165	\$ 4,139,674	\$ 29,159,839
Sandhills Center	\$ 20,432,424	\$ 3,724,476	\$ 24,156,900
Trillium Health Resources	\$ 29,857,543	\$ 7,321,219	\$ 37,178,762
Vaya Health	\$ 23,028,960	\$ 6,305,966	\$ 29,334,926

Net Operating Liabilities

LME/MCO's current liabilities excluding IBNR minus noncash current accounts receivable.

If the noncash accounts receivables are greater than the nonclaim liabilities in total, then this figure appears as zero.

	<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Sum</u>	<u>Total</u>
Alliance Behavioral Healthcare	\$ 15,005,750	\$ 10,063,168	\$ 25,068,918	\$ 25,068,918
Cardinal Innovations	\$169,772,699	\$ (5,927,453)	\$ 163,845,246	\$ 163,845,246
Eastpointe Human Services	\$ 4,656,774	\$ 64,763	\$ 4,721,537	\$ 4,721,537
Partners Behavioral Health	\$ 31,896,355	\$ 3,638,011	\$ 35,534,366	\$ 35,534,366
Sandhills Center	\$ 1,072,867	\$ 34,008	\$ 1,106,875	\$ 1,106,875
Trillium Health Resources	\$ 202,430	\$ 1,824,821	\$ 2,027,251	\$ 2,027,251
Vaya Health	\$ 25,049,354	\$ 2,477,133	\$ 27,526,487	\$ 27,526,487

Catastrophic Events Range

LME/MCO's service spending for the preceding 12 months multiplied by 4.15% and 8.30% to calculate an upper and lower range respectively

		<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	4.15% EER Lower Figure	\$ 19,159,816	\$ 4,533,571	\$23,693,386
	8.30% EER Lower Figure	\$38,319,631	\$ 9,067,142	\$47,386,773
Cardinal Innovations	4.15% EER Lower Figure	\$28,199,043	\$ 5,217,151	\$33,416,193
	8.30% EER Lower Figure	\$56,398,085	\$10,434,302	\$66,832,387
Eastpointe Human Services	4.15% EER Lower Figure	\$ 10,305,936	\$ 2,079,643	\$12,385,578
	8.30% EER Lower Figure	\$20,611,872	\$ 4,159,285	\$24,771,157
Partners Behavioral Health	4.15% EER Lower Figure	\$ 15,269,660	\$ 2,526,419	\$17,796,078
	8.30% EER Lower Figure	\$30,539,319	\$ 5,052,838	\$35,592,157
Sandhills Center	4.15% EER Lower Figure	\$12,469,788	\$ 2,273,026	\$14,742,814
	8.30% EER Lower Figure	\$24,939,576	\$ 4,546,051	\$29,485,628
Trillium Health Resources	4.15% EER Lower Figure	\$18,221,883	\$ 4,468,097	\$22,689,980
	8.30% EER Lower Figure	\$36,443,766	\$ 8,936,194	\$45,379,960
Vaya Health	4.15% EER Lower Figure	\$14,054,439	\$ 3,848,494	\$17,902,932
	8.30% EER Lower Figure	\$28,108,877	\$ 7,696,988	\$35,805,865

Intergovernmental Transfers

Funds needed by an LME/MCO to make any intergovernmental transfers required by law over the subsequent 24 months

		<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	2021-2022	\$4,514,298	\$ -	\$4,514,298
	2022-2023	\$4,514,298	\$ -	\$4,514,298
Cardinal Innovations	2021-2022	\$ -	\$ -	\$ -
	2022-2023	\$ -	\$ -	\$ -
Eastpointe Human Services	2021-2022	\$1,636,054	\$ -	\$1,636,054
	2022-2023	\$1,636,054	\$ -	\$1,636,054
Partners Behavioral Health	2021-2022	\$3,517,806	\$ -	\$3,517,806
	2022-2023	\$3,517,806	\$ -	\$3,517,806
Sandhills Center	2021-2022	\$2,457,528	\$ -	\$2,457,528
	2022-2023	\$2,457,528	\$ -	\$2,457,528
Trillium Health Resources	2021-2022	\$2,961,231	\$ -	\$2,961,231
	2022-2023	\$2,961,231	\$ -	\$2,961,231
Vaya Health	2021-2022	\$2,941,300	\$ -	\$2,941,300
	2022-2023	\$2,941,300	\$ -	\$2,941,300

Note: The intergovernmental transfer (IGT) amounts reflect the pending dissolution of Cardinal Innovations, but do not redistribute the Cardinal IGT (ie, all other IGTs held constant).

Projected Operating Loss

LME/MCO's net profit/(loss), adjusted to include any known changes including single stream funding allocations and IGT payments for the subsequent 24 month period.

If a net profit is projected for an LME/MCO for either funding stream or in total, then this figure will appear

		<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	Net Operating Loss over prior 12 months	\$ -	\$ -	\$ -
	Net Operating Loss over subsequent 24 mont	\$ -	\$ -	\$ -
Cardinal Innovations	Net Operating Loss over prior 12 months	\$ (184,080,312)	\$ (25,484,742)	\$ (209,565,055)
	Net Operating Loss over subsequent 24 mont	\$ -	\$ -	\$ -
Eastpointe Human Services	Net Operating Loss over prior 12 months	\$ -	\$ (4,064,790)	\$ (4,064,790)
	Net Operating Loss over subsequent 24 mont	\$ -	\$ (8,129,579)	\$ (8,129,579)
Partners Behavioral Health	Net Operating Loss over prior 12 months	\$ -	\$ (4,413,021)	\$ (4,413,021)
	Net Operating Loss over subsequent 24 mont	\$ -	\$ (8,826,042)	\$ (8,826,042)
Sandhills Center	Net Operating Loss over prior 12 months	\$ -	\$ -	\$ -
	Net Operating Loss over subsequent 24 mont	\$ -	\$ -	\$ -
Trillium Health Resources	Net Operating Loss over prior 12 months	\$ -	\$ (16,102,352)	\$ (16,102,352)
	Net Operating Loss over subsequent 24 mont	\$ -	\$ (32,204,704)	\$ (32,204,704)
Vaya Health	Net Operating Loss over prior 12 months	\$ -	\$ (7,101,639)	\$ (7,101,639)
	Net Operating Loss over subsequent 24 mont	\$ -	\$ (14,203,278)	\$ (14,203,278)

Reinvestment Plan

Amount required for all expenditures over the next 3 years related to specific initiatives noted in the LME/MCO's reinvestment plans

		<u>Projected Spend</u>
Alliance Behavioral Healthcare	0-12 months	\$ 12,692,000
	13-24 months	\$ 16,230,448
	25-36 months	\$ 500,000
		<u>\$ 29,422,448</u>
Cardinal Innovations	0-12 months	\$ 5,781,215
	13-24 months	\$ -
	25-36 months	\$ -
		<u>\$ 5,781,215</u>
Eastpointe Human Services	0-12 months	\$ 14,740,907
	13-24 months	\$ 13,039,751
	25-36 months	\$ 13,039,751
		<u>\$ 40,820,410</u>
Partners Behavioral Health	0-12 months	\$ 11,794,326
	13-24 months	\$ 8,875,775
	25-36 months	\$ 6,278,501
		<u>\$ 26,948,602</u>
Sandhills Center	0-12 months	\$ 15,960,897
	13-24 months	\$ 28,522,898
	25-36 months	\$ 32,075,898
		<u>\$ 76,559,693</u>
Trillium Health Resources	0-12 months	\$ 3,648,320
	13-24 months	\$ 3,648,320
	25-36 months	\$ 3,648,320
		<u>\$ 10,944,960</u>
Vaya Health	0-12 months	\$ 1,405,000
	13-24 months	\$ 4,705,000
	25-36 months	\$ 12,805,000
		<u>\$ 18,915,000</u>

Solvency Measures Summary

Comparison of an LME/MCO's cash balance to its solvency range; if cash balance is $\pm 5\%$ of the upper or lower solvency range, a corrective action plan must be developed

		Solvency Range	Cash/Investments /Risk Reserve	Threshold \$ ($\pm 5\%$)	Threshold % ($\pm 5\%$)	
Alliance	Lower Range	\$117,007,651	\$278,683,610	\$111,157,268	138.2%	OK
	Upper Range	\$140,701,037	\$278,683,610	\$147,736,089	98.1%	CONCERN
Cardinal	Lower Range	\$257,796,899	\$273,616,046	\$244,907,054	6.1%	OK
	Upper Range	\$291,213,092	\$273,616,046	\$305,773,747	-6.0%	OK
Eastpointe	Lower Range	\$86,351,547	\$118,802,288	\$82,033,969	37.6%	OK
	Upper Range	\$98,737,125	\$118,802,288	\$103,673,981	20.3%	CONCERN
Partners	Lower Range	\$118,264,928	\$206,259,526	\$112,351,681	74.4%	OK
	Upper Range	\$136,061,006	\$206,259,526	\$142,864,057	51.6%	CONCERN
Sandhills	Lower Range	\$116,566,282	\$155,393,962	\$110,737,968	33.3%	OK
	Upper Range	\$131,309,096	\$155,393,962	\$137,874,550	18.3%	CONCERN
Trillium	Lower Range	\$105,045,657	\$150,220,652	\$99,793,374	43.0%	OK
	Upper Range	\$127,735,636	\$150,220,652	\$134,122,418	17.6%	CONCERN
Vaya	Lower Range	\$107,882,623	\$172,063,471	\$102,488,492	59.5%	OK
	Upper Range	\$125,785,556	\$172,063,471	\$132,074,834	36.8%	CONCERN

Appendix A:
LME/MCO Solvency
Corrective Action Plan Review

PLAN NAME:	
REVIEW PERFORMED:	

CORRECTIVE ACTION PLANS OVERVIEW:

This Corrective Action Plan template has three sections. The first is where you document what you know about the area in need of improvement. The second section is where you map out, step-by-step, how you are going to accomplish your goal of correcting the problem or making other improvements. The third section is where you can write down the results of the Corrective Action Plan.

This form can be printed and completed manually or downloaded as a Microsoft Word document and completed electronically. This document is not protected. Table cells will automatically expand to accommodate any amount of text. Additional rows will be added if you hit the “TAB” key in the last cell of the last row of tables.

CORRECTIVE ACTION PLAN (CAP) PROCESS:

Step 1: The LME/MCO receives notification from the Department regarding non-compliance.

Step 2: The LME/MCO submits the CAP to the Department.

Step 3: Either the Department accepts the CAP and the LME/MCO is placed on a quarterly routine review cycle or an additional CAP is requested if information is lacking or incorrect.

Step 4: The Department sends a letter closing the review or the LME/MCO is placed on accelerated monitoring.

SECTION I: DEFINING THE ISSUE

Use this section to clearly define the problem or deficiency, how the activity should be done, where to go for information, and a broad overview of how you are going to make an improvement for that issue. Use one CAP for each individual problem or deficiency.

CORRECTIVE ACTION PLAN – DEFINING THE ISSUE	
Provide a clear, descriptive statement of each non-conformance problem / deficiency.	
What is the corrective action(s), including supporting documentation?	
How will ongoing compliance be maintained? Identify preventative measures that will be taken to improve or prevent occurrences of noncompliance.	

SECTION II: DEFINING THE STEPS FOR IMPROVEMENT

List the specific steps you will take to correct the problem and when they should be completed.

- The Milestone should be a specific task to complete. Each Milestone should progress logically toward the completion of the desired goal.
- Although multiple people might work on a single step, there should be one person responsible for ensuring the step is done on time.
- Designate a Due Date for the Milestone that is realistic and attainable.
- Comments can be made at the time the CAP is developed and can be made as the work is done to mark progress.
- If done electronically (i.e. in Word), you can add rows to this table by hitting the “Tab” key while in the lower right-hand cell.

CORRECTIVE ACTION PLAN: DEFINING THE STEPS FOR IMPROVEMENT				
#	Milestone	Responsible [Name(s) & Title(s)]	Date Due	Comments

SECTION III: EVALUATING THE PROCESS

Once all milestones have been met, evaluate the process. Look for proof that the milestones were, in fact, completed, that the cause of the problem has been identified, and that the problem has been addressed.

	CORRECTIVE ACTION PLAN: EVALUATING THE PROCESS	
X	Results	Comments
	Acceptance <div>Financial Analyst</div> <div>Date</div> <div>Associate Director</div> <div>Date</div> <div>Chief Financial Officer</div> <div>Date</div>	
	Provisional Acceptance <div>Financial Analyst</div> <div>Date</div> <div>Associate Director</div> <div>Date</div> <div>Chief Financial Officer</div> <div>Date</div>	

