

**LME/MCO Solvency Ranges
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
December 12, 2018

Table of Contents

	Page
Reporting Requirements	3
Executive Summary	5
Observations	7
Corrective Action Plan	11
Attachments	13

Reporting Requirements:

Session Law 2018-5; Senate Bill 99, SECTION II.F.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 receivable 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.

....

(c) Beginning on October 15, 2018, the Department shall submit a quarterly 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 detailing the solvency ranges and comparisons required under subsection (b) of this

section for each LME/MCO. The Department shall include in its report a copy of any new corrective action plans developed as a result of those comparisons, as well as any status updates on previously reported corrective action plans.

(d) For any calculation required by this section that is based upon the preceding 12 months, the Department is authorized to make adjustments to that calculation that take into account any changes in an LME/MCO's catchment area that occurred during that 12-month period."

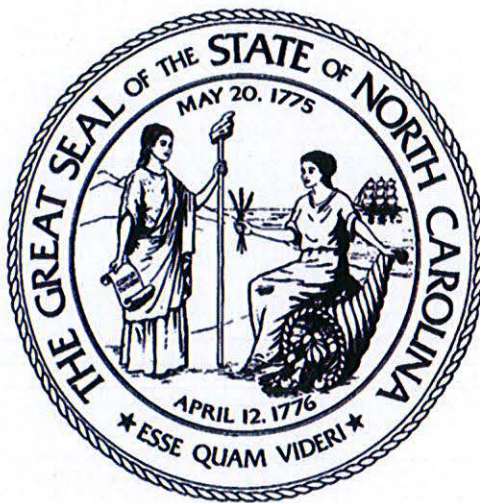


EXECUTIVE SUMMARY

Executive Summary:

Historically, MCO solvency measures have been limited in helping to establish standards in assessing MCO short and intermediate strategic planning. The General Assembly finds that a viable State-funded behavioral health system is critical to accomplishing the State's goals for behavioral health, meeting the needs of the covered populations, and achieving the desired outcomes detailed in the Department of Health and Human Services' Strategic Plan for Improvement of Behavioral Health Services. Integral to assessing the State's behavioral health system is the development of a method to determine the viability of local management entities/managed care organizations (LME/MCOs) and the establishment of short-term and intermediate term solvency standards that provide a uniform analysis of each LME/MCO's financial position, provide a mechanism for ongoing assessment of each LME/MCO's viability, inform the State's funding decisions, and enhance short-term and intermediate term planning by the LME/MCOs.

Beginning August 1, 2013, the Secretary of Health and Human Services must certify whether each LME/MCO is approved to operate the 1915 (b)/(c) Medicaid Waiver are following the requirements of N.C.G.S. § 122C-124.2(b). These certifications are made every six months based upon an internal review by a team comprised of individuals from the Division of Mental Health, Division of Health Benefits and contracted external review by the Carolinas Center for Medical Excellence.



OBSERVATIONS

Reporting Results (Observations/Recommendations):

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.

Observation: The calculation percentage (6.8%) is based upon an average of the of the IBNR and service spending of the LME/MCO entities. The average is fix in the General Statue.

Recommendation: The percentage is fixed within the law and is not adjustable due to variances in service acuity, seasonality, service utilization or members it may not be sensitive to pick up potential issues that need to be addressed quickly. The Division recommends the establishment of plus or minus threshold range for each LME/MCO which would provide more sensitive and the earlier detection of potential issues.

(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%).

Observation: Using the above range percentages, the LME/MCO would have the equivalent of 15 – 30 days of cash on hand to remain within the range.

Recommendation: Consider using 8.3% for the lower figure and 16.6% for the upper figure. Using the lower figure would align with the current contractual requirements which require at a minimum 30 days of cash (Defensive Interval)

(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.

Observation: The required transfer is required by Session Law. The requirement has not been established for SFY 2020, therefore the SFY2019 IGT amounts were used as an estimate for SFY 2020.

(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 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.

Observation: The projected operating expenses for the Medicaid expenditures includes reinvestment spending as per the submitted reinvestment plans. Additionally, when projecting the expenditures for SFY 2020, Medicaid did not use the historical expenditure trend because the trend would not consider the potential changes necessary for required program changes or trend adjustments. To account for such, the Medicaid team considered the ratio of expenses to revenue. When projecting the revenue trend, which does consider the program and trend adjustments, the Medicaid team applied the historical ratio of expenses to revenue to the projected revenue.

(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.

Observation: The reinvestment plans submitted by the LME/MCO are recommendations to their respective Boards and have not yet been approved.

(6b) 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.

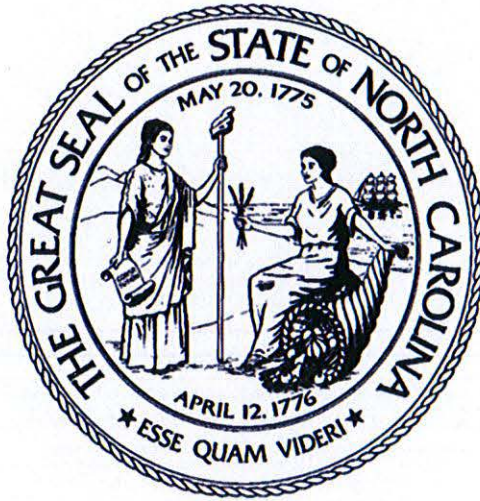
Upon comparison of an LME/MCO's cash balance to its solvency range, the Department shall take one of the following actions:

(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, 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.

Observation: Calculation uses Risk Reserve determining the solvency range.

Recommendation: In accordance with G.S. 122C-124.2(e)(3), the risk reserve's purpose is to pay outstanding liabilities (unpaid claims) to Providers in cases of insolvency and not intended to be used for operating costs. Because these resources are not readily available for payment of non-provider claims and may not be accessed by the LME/MCO without written consent is granted by DHHS, the Risk Reserve should be removed from this calculation.



CORRECTIVE ACTION PLAN

Corrective Action Plan:

The Department is currently in collaboration with the LME/MCO's to develop a corrective action plan which may include changes to the LME/MCO reinvestment plan, utilization management, and capitation or provider rates, to bring the LME/MCO's cash balance within solvency range, as well as a time line for implementation of these actions.

Attachments – Table 1-7

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	\$ 24,642,495	\$ 6,306,686	\$ 30,949,181
Cardinal Innovations	\$ 43,254,895	\$ 8,267,438	\$ 51,522,332
Eastpointe Human Services	\$ 15,181,824	\$ 2,456,988	\$ 17,638,811
Partners Behavioral Health	\$ 16,047,650	\$ 3,454,074	\$ 19,501,724
Sandhills Center	\$ 15,749,405	\$ 3,578,215	\$ 19,327,621
Trillium Health Resources	\$ 23,729,414	\$ 5,089,924	\$ 28,819,338
Vaya Health	\$ 19,455,652	\$ 5,732,380	\$ 25,188,032

Net Operating Liabilities

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

	<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	\$ 1,700,863	\$ 6,213,184	\$ 7,914,047
Cardinal Innovations	\$ 18,312,465	\$ 1,916,610	\$ 20,229,075
Eastpointe Human Services	\$ 7,538,939	\$ 2,239,328	\$ 9,778,267
Partners Behavioral Health	\$ 6,053,209	\$ 6,953,769	\$ 13,006,978
Sandhills Center	\$ (1,408,610)	\$ 542,216	\$ (866,394)
Trillium Health Resources	\$ 5,304,403	\$ 198,785	\$ 5,503,187
Vaya Health	\$ 5,159,826	\$ 2,242,466	\$ 7,402,291

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	\$	15,039,170	\$	3,848,934	\$	18,888,103
	8.30% EER Lower Figure	\$	30,078,340	\$	7,697,867	\$	37,776,207
Cardinal Innovations	4.15% EER Lower Figure	\$	26,398,208	\$	5,045,569	\$	31,443,776
	8.30% EER Lower Figure	\$	52,796,415	\$	10,091,137	\$	62,887,553
Eastpointe Human Services	4.15% EER Lower Figure	\$	9,265,378	\$	1,499,485	\$	10,764,863
	8.30% EER Lower Figure	\$	18,530,756	\$	2,998,970	\$	21,529,726
Partners Behavioral Health	4.15% EER Lower Figure	\$	9,793,786	\$	2,108,001	\$	11,901,787
	8.30% EER Lower Figure	\$	19,587,573	\$	4,216,002	\$	23,803,575
Sandhills Center	4.15% EER Lower Figure	\$	9,611,769	\$	2,183,764	\$	11,795,533
	8.30% EER Lower Figure	\$	19,223,539	\$	4,367,528	\$	23,591,067
Trillium Health Resources	4.15% EER Lower Figure	\$	14,481,922	\$	3,106,351	\$	17,588,272
	8.30% EER Lower Figure	\$	28,963,843	\$	6,212,701	\$	35,176,545
Vaya Health	4.15% EER Lower Figure	\$	11,873,670	\$	3,498,438	\$	15,372,108
	8.30% EER Lower Figure	\$	23,747,339	\$	6,996,876	\$	30,744,216

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	SFY19 \$	3,007,817	\$ -	\$ 3,007,817
	SFY20 \$	3,007,817	\$ -	\$ 3,007,817
Cardinal Innovations	SFY19 \$	4,144,723	\$ -	\$ 4,144,723
	SFY20 \$	4,144,723	\$ -	\$ 4,144,723
Eastpointe Human Services	Nash Adj. \$	(193,943)	\$ -	\$ (193,943)
	SFY19 \$	1,731,831	\$ -	\$ 1,731,831
	SFY20 \$	1,731,831	\$ -	\$ 1,731,831
Partners Behavioral Health	SFY19 \$	1,960,283	\$ -	\$ 1,960,283
	SFY20 \$	1,960,283	\$ -	\$ 1,960,283
Sandhills Center	SFY19 \$	1,918,643	\$ -	\$ 1,918,643
	SFY20 \$	1,918,643	\$ -	\$ 1,918,643
Trillium Health Resources	Nash Adj. \$	193,943	\$ -	\$ 193,943
	SFY19 \$	2,931,104	\$ -	\$ 2,931,104
	SFY20 \$	2,931,104	\$ -	\$ 2,931,104
Vaya Health	SFY19 \$	2,333,816	\$ -	\$ 2,333,816
	SFY20 \$	2,333,816	\$ -	\$ 2,333,816

Projected Operating Loss

LME/MCO's preceding 12 months net profit/(loss), adjusted to include any known changes including single stream funding cuts and IGT payments for that 12 month period

		<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	Proj. Net Op. Loss over 12 months	\$ -	\$ (32,558,650)	\$ (21,577,570)
	Proj. Net Op. Loss over 24 months	\$ -	\$ (32,558,650)	\$ (11,139,002)
Cardinal Innovations	Proj. Net Op. Loss over 12 months	\$ -	\$ (51,372,260)	\$ (41,976,815)
	Proj. Net Op. Loss over 24 months	\$ -	\$ (51,372,260)	\$ (33,077,981)
Eastpointe Human Services	Proj. Net Op. Loss over 12 months	\$ -	\$ (2,930,884)	\$ -
	Proj. Net Op. Loss over 24 months	\$ -	\$ (2,930,884)	\$ -
Partners Behavioral Health	Proj. Net Op. Loss over 12 months	\$ (9,750,040)	\$ (15,244,366)	\$ (24,994,406)
	Proj. Net Op. Loss over 24 months	\$ -	\$ (15,244,366)	\$ (2,167,465)
Sandhills Center	Proj. Net Op. Loss over 12 months	\$ (1,281,707)	\$ (14,095,041)	\$ (15,376,748)
	Proj. Net Op. Loss over 24 months	\$ -	\$ (14,095,041)	\$ -
Trillium Health Resources	Proj. Net Op. Loss over 12 months	\$ (29,437,947)	\$ -	\$ (27,811,415)
	Proj. Net Op. Loss over 24 months	\$ -	\$ -	\$ -
Vaya Health	Proj. Net Op. Loss over 12 months	\$ (1,667,346)	\$ (7,898,651)	\$ (9,565,997)
	Proj. Net Op. Loss over 24 months	\$ -	\$ (7,898,651)	\$ (408,438)

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</u>		<u>Actual</u>		<u>Net</u>
Alliance Behavioral Healthcare	SFY19	\$	18,769,500	\$	-	\$	18,769,500
	SFY20	\$	11,335,000	\$	-	\$	11,335,000
	SFY21	\$	11,335,000	\$	-	\$	11,335,000
						\$	41,439,500
Cardinal Innovations	SFY19	\$	5,000,000	\$	-	\$	5,000,000
	SFY20	\$	7,500,000	\$	-	\$	7,500,000
	SFY21	\$	7,500,000	\$	-	\$	7,500,000
						\$	20,000,000
Eastpointe Human Services	SFY19	\$	13,171,968	\$	-	\$	13,171,968
	SFY20	\$	13,171,968	\$	-	\$	13,171,968
	SFY21	\$	13,171,968	\$	-	\$	13,171,968
						\$	39,515,903
Partners Behavioral Health	SFY19	\$	12,076,328	\$	-	\$	12,076,328
	SFY20	\$	14,578,594	\$	-	\$	14,578,594
	SFY21	\$	12,533,860	\$	-	\$	12,533,860
						\$	39,188,782
Sandhills Center	SFY19	\$	41,034,688	\$	-	\$	41,034,688
	SFY20	\$	22,057,848	\$	-	\$	22,057,848
	SFY21	\$	19,107,464	\$	-	\$	19,107,464
						\$	82,200,000
Trillium Health Resources	SFY19	\$	5,950,000	\$	-	\$	5,950,000
	SFY20	\$	19,250,000	\$	-	\$	19,250,000
	SFY21	\$	12,500,000	\$	-	\$	12,500,000
						\$	37,700,000
Vaya Health	SFY19	\$	3,555,000	\$	-	\$	3,555,000
	SFY20	\$	2,515,000	\$	-	\$	2,515,000
	SFY21	\$	2,515,000	\$	-	\$	2,515,000
						\$	8,585,000

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	\$131,907,403	\$135,728,346	\$125,312,033	2.9%	OK
	Upper Range	\$150,795,507	\$135,728,346	\$158,335,282	-10.0%	OK
Cardinal	Lower Range	\$198,249,980	\$250,257,013	\$188,337,481	26.2%	OK
	Upper Range	\$229,693,756	\$250,257,013	\$241,178,444	9.0%	CONCERN
Eastpointe	Lower Range	\$77,697,844	\$106,892,279	\$73,812,952	37.6%	OK
	Upper Range	\$88,462,707	\$106,892,279	\$92,885,842	20.8%	CONCERN
Partners	Lower Range	\$110,761,142	\$106,580,400	\$105,223,085	-3.8%	OK
	Upper Range	\$122,662,929	\$106,580,400	\$128,796,076	-13.1%	OK
Sandhills	Lower Range	\$127,833,508	\$142,494,338	\$121,441,833	11.5%	OK
	Upper Range	\$139,629,041	\$142,494,338	\$146,610,493	2.1%	OK
Trillium	Lower Range	\$117,422,213	\$103,780,062	\$111,551,102	-11.6%	CONCERN
	Upper Range	\$135,010,485	\$103,780,062	\$141,761,009	-23.1%	OK
Vaya	Lower Range	\$66,521,866	\$97,800,645	\$63,195,773	47.0%	OK
	Upper Range	\$81,893,974	\$97,800,645	\$85,988,673	19.4%	CONCERN