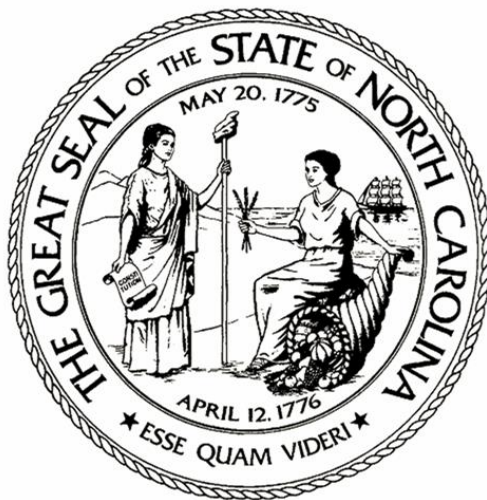


**LME/MCO Solvency Ranges
Quarter Ending June 30, 2019**

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

November 8, 2019

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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 receivable is 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-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' 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, to determine the financial viability of local management entities/managed care organizations (LME/MCOs). This method utilizes standard calculations to create a uniform analysis of each LME/MCO's financial position that can be used to evaluate each LME/MCO's viability, inform the State's funding decisions, and promote short- and longer-term planning by the LME/MCOs.

Executive Summary:

The results of the most recent solvency calculations indicate that the following four LME/MCOs are outside the allowable range and are therefore required to submit Corrective Action Plans (CAP) using a standard Department-supplied template (see attached Appendix A):

- Below the lower solvency range figure
 - Alliance Health
 - Sandhills Center
- Above the upper solvency range figure
 - Eastpointe
 - Partners Behavioral Health Management

The CAP provides an opportunity for the LME/MCO to document how it will address being over or under 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 time line for implementation of the identified actions. The CAP Process is as follows:

1. The Department notifies LME/MCO of non-compliance with solvency standard.
2. The LME/MCO submits the CAP to the Department within 30 days of notice.
3. Either the Department accepts the CAP and the LME/MCO is placed on a quarterly routine 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 closing the review or the LME/MCO is placed on monthly monitoring until the CAP has been resolved.

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.

(2) Net operating liabilities figure. (Table 3) – 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 5) – 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: An LME/MCO would need to have the equivalent of 15 – 30 days of cash on hand to remain within the range, as specified.

Recommendation: Consider using 8.3% for the lower figure and 16.6% for the upper figure. This range would align with the current contractual requirements which require that LME/MCO's maintain at a minimum 30 days of cash on hand (Defensive Interval).

(4) Required intergovernmental transfers figure. (Table 7) – 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 transfer is required by Session Law.

(5) Projected operating loss figure. (Table 9) – 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.

Observation: The projected operating loss figure includes reinvestment spending that is consistent with a submitted reinvestment plan. The Department will use the most recent data available to forecast projected revenue and expenses.

Due to Standard Plan implementation that is scheduled to launch February 2020, any impact to shifts in population will be accounted for in future quarterly reports.

(6) Reinvestment plan figure. (Table 11) – 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 by their Boards.

(b) Solvency Range. (Table 13) - 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: The calculation includes Risk Reserve as part of the LME/MCO cash balance that is then compared to the solvency range.

Recommendation: In accordance with G.S. 122C-124.2(e)(3), the Risk Reserve's use is limited to paying outstanding liabilities (unpaid claims) to Providers in cases of insolvency; it is not intended to be used for operating costs. Because these resources are not allowed to be used for payment of non-service expenditure liabilities and, further, may not be accessed by the LME/MCO unless written consent is granted by DHHS, the Risk Reserve should be removed from this calculation.

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	\$ 25,755,102	\$ 6,474,561	\$ 32,229,663
Cardinal Innovations	\$ 44,356,361	\$ 8,320,238	\$ 52,676,599
Eastpointe Human Services	\$ 14,717,893	\$ 2,612,387	\$ 17,330,280
Partners Behavioral Health	\$ 16,423,544	\$ 3,580,008	\$ 20,003,552
Sandhills Center	\$ 16,561,871	\$ 3,773,782	\$ 20,335,654
Trillium Health Resources	\$ 24,212,422	\$ 5,355,984	\$ 29,568,406
Vaya Health	\$ 20,308,142	\$ 5,381,386	\$ 25,689,528

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	\$ 2,616,763	\$ 8,367,893	\$ 10,984,656
Cardinal Innovations	\$ 1,126,251	\$ -	\$ 916,454
Eastpointe Human Services	\$ 2,152,484	\$ 6,955,655	\$ 9,108,139
Partners Behavioral Health	\$ 10,030,460	\$ 1,750,373	\$ 11,780,833
Sandhills Center	\$ -	\$ 3,088,452	\$ 2,893,246
Trillium Health Resources	\$ 1,050,087	\$ 18,305	\$ 1,068,391
Vaya Health	\$ 79,876	\$ -	\$ -

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	\$	15,718,187	\$	3,951,387	\$	19,669,574
	8.30% EER Lower Figure	\$	31,436,375	\$	7,902,773	\$	39,339,148
Cardinal Innovations	4.15% EER Lower Figure	\$	27,070,426	\$	5,077,792	\$	32,148,219
	8.30% EER Lower Figure	\$	54,140,852	\$	10,155,585	\$	64,296,437
Eastpointe Human Services	4.15% EER Lower Figure	\$	8,982,243	\$	1,594,324	\$	10,576,568
	8.30% EER Lower Figure	\$	17,964,487	\$	3,188,649	\$	21,153,135
Partners Behavioral Health	4.15% EER Lower Figure	\$	10,023,192	\$	2,184,858	\$	12,208,050
	8.30% EER Lower Figure	\$	20,046,384	\$	4,369,716	\$	24,416,100
Sandhills Center	4.15% EER Lower Figure	\$	10,107,613	\$	2,303,117	\$	12,410,730
	8.30% EER Lower Figure	\$	20,215,225	\$	4,606,234	\$	24,821,460
Trillium Health Resources	4.15% EER Lower Figure	\$	14,776,699	\$	3,268,726	\$	18,045,425
	8.30% EER Lower Figure	\$	29,553,398	\$	6,537,451	\$	36,090,849
Vaya Health	4.15% EER Lower Figure	\$	12,393,939	\$	3,284,228	\$	15,678,168
	8.30% EER Lower Figure	\$	24,787,879	\$	6,568,457	\$	31,356,336

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	2019-2020	\$	2,994,453	\$	-	\$	2,994,453
	2020-2021	\$	2,994,453	\$	-	\$	2,994,453
Cardinal Innovations	2019-2020	\$	4,032,586	\$	-	\$	4,144,723
	2020-2021	\$	4,032,586	\$	-	\$	4,032,586
Eastpointe Human Services	2019-2020	\$	1,701,156	\$	-	\$	1,701,156
	2020-2021	\$	1,701,156	\$	-	\$	1,701,156
Partners Behavioral Health	2019-2020	\$	1,914,860	\$	-	\$	1,914,860
	2020-2021	\$	1,914,860	\$	-	\$	1,914,860
Sandhills Center	2019-2020	\$	1,978,939	\$	-	\$	1,978,939
	2020-2021	\$	1,978,939	\$	-	\$	1,978,939
Trillium Health Resources	2019-2020	\$	3,119,822	\$	-	\$	3,119,822
	2020-2021	\$	3,119,822	\$	-	\$	3,119,822
Vaya Health	2019-2020	\$	2,286,401	\$	-	\$	2,286,401
	2020-2021	\$	2,286,401	\$	-	\$	2,286,401

Projected Operating Loss

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

		<u>Medicaid</u>	<u>Non-Medicaid</u>	<u>Total</u>
Alliance Behavioral Healthcare	Prec. Net Op. Loss over 12 months	\$ (18,295,301)	\$ (12,666,578)	\$ (30,961,879)
	Proj. Net Op. Loss over 24 months	\$ -	\$ (12,666,578)	\$ (6,841,690)
Cardinal Innovations	Prec. Net Op. Loss over 12 months	\$ (30,663,420)	\$ (17,909,783)	\$ (48,573,203)
	Proj. Net Op. Loss over 24 months	\$ -	\$ (17,909,783)	\$ (6,512,681)
Eastpointe Human Services	Prec. Net Op. Loss over 12 months	\$ (1,184,857)	\$ -	\$ (1,184,857)
	Proj. Net Op. Loss over 24 months	\$ -	\$ -	\$ -
Partners Behavioral Health	Prec. Net Op. Loss over 12 months	\$ (15,348,290)	\$ -	\$ (15,348,290)
	Proj. Net Op. Loss over 24 months	\$ -	\$ -	\$ -
Sandhills Center	Prec. Net Op. Loss over 12 months	\$ (16,949,814)	\$ (11,396,498)	\$ (28,346,312)
	Proj. Net Op. Loss over 24 months	\$ -	\$ (11,396,498)	\$ (7,910,420)
Trillium Health Resources	Prec. Net Op. Loss over 12 months	\$ -	\$ -	\$ -
	Proj. Net Op. Loss over 24 months	\$ -	\$ -	\$ -
Vaya Health	Prec. Net Op. Loss over 12 months	\$ (12,478,483)	\$ -	\$ (12,478,483)
	Proj. Net Op. Loss over 24 months	\$ -	\$ -	\$ -

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	\$ 11,335,000
	13-24 months	\$ 11,335,000
	25-36 months	\$ 5,000,000
		<u>\$ 27,670,000</u>
Cardinal Innovations	0-12 months	\$ 23,468,190
	13-24 months	\$ 8,831,215
	25-36 months	\$ 8,031,215
		<u>\$ 40,330,620</u>
Eastpointe Human Services	0-12 months	\$ 21,294,398
	13-24 months	\$ 8,530,692
	25-36 months	\$ 10,236,852
		<u>\$ 40,061,942</u>
Partners Behavioral Health	0-12 months	\$ 5,514,326
	13-24 months	\$ 5,580,775
	25-36 months	\$ 3,978,501
		<u>\$ 15,073,602</u>
Sandhills Center	0-12 months	\$ 24,353,029
	13-24 months	\$ 36,816,298
	25-36 months	\$ 23,644,848
		<u>\$ 84,814,175</u>
Trillium Health Resources	0-12 months	\$ 10,506,000
	13-24 months	\$ 16,956,000
	25-36 months	\$ 16,036,000
		<u>\$ 43,498,000</u>
Vaya Health	0-12 months	\$ 11,556,300
	13-24 months	\$ 12,476,300
	25-36 months	\$ 11,976,300
		<u>\$ 36,008,900</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	\$128,357,462	\$119,036,554	\$121,939,589	-7.3%	CONCERN
	Upper Range	\$148,027,036	\$119,036,554	\$155,428,388	-19.6%	OK
Cardinal	Lower Range	\$181,157,775	\$183,991,344	\$172,099,887	1.6%	OK
	Upper Range	\$213,305,994	\$183,991,344	\$223,971,294	-13.7%	OK
Eastpointe	Lower Range	\$78,261,785	\$102,175,751	\$74,348,695	30.6%	OK
	Upper Range	\$88,838,352	\$102,175,751	\$93,280,270	15.0%	CONCERN
Partners	Lower Range	\$43,717,747	\$67,018,532	\$41,531,860	53.3%	OK
	Upper Range	\$55,925,797	\$67,018,532	\$58,722,087	19.8%	CONCERN
Sandhills	Lower Range	\$156,710,536	\$121,213,895	\$148,875,009	-22.7%	CONCERN
	Upper Range	\$169,121,266	\$121,213,895	\$177,577,329	-28.3%	OK
Trillium	Lower Range	\$92,180,222	\$101,988,343	\$87,571,211	10.6%	OK
	Upper Range	\$110,225,647	\$101,988,343	\$115,736,929	-7.5%	OK
Vaya	Lower Range	\$89,855,079	\$94,274,334	\$85,362,325	4.9%	OK
	Upper Range	\$105,533,246	\$94,274,334	\$110,809,909	-10.7%	OK



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	
	Provisional Acceptance	
	Rejection of the CAP	