

STATE OF NORTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES

ROY COOPER
GOVERNOR

KODY H. KINSLEY
SECRETARY

July 20, 2022

SENT VIA ELECTRONIC MAIL

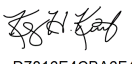
Mr. Mark Trogdon, Director
Fiscal Research Division
Suite 619, Legislative Office Building
Raleigh, NC 27603-5925

Dear Director Trogdon:

Session Law 2021-62, Section 3.5A.(e) requires the Department of Health and Human Services to submit a quarterly report on any risk reserve and fund transfer formulas developed when a county disengages from one area authority and realigns with another area authority. This 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 report for 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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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

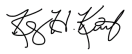
The Honorable Larry Potts, Chair
Joint Legislative Oversight Committee on
Health and Human Services
North Carolina General Assembly
Room 307B1, Legislative Office Building
Raleigh, NC 27603

Dear Chairmen:

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DEPARTMENT OF HEALTH AND HUMAN SERVICES

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SECRETARY

July 20, 2022

SENT VIA ELECTRONIC MAIL

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:

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Sincerely,

DocuSigned by:

A handwritten signature in black ink, appearing to read "Kody H. Kinsley".

D7816E4CBA6F4A8...

Kody H. Kinsley
Secretary

cc:	Mark Collins	Joyce Jones	Lisa Wilks	Jessica Meed
	Theresa Matula	Katherine Restrepo	Amy Jo Johnson	Luke MacDonald
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**LME/MCO Fund Balance Transfers
Quarter Ending March 31, 2022**

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



Report to

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

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

The Fiscal Research Division

By

North Carolina Department of Health and Human Services

July 20, 2022

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Background

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

This report demonstrates how the DHHS has met directive for the fiscal quarter ending March 31, 2022.

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

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

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

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

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

Funds Transferred During the Previous Quarter

Nine counties disengaged from Cardinal Innovations (Cardinal) and realigned with Vaya Health (Vaya) effective January 1, 2022. After allowing time for month-end closeout of the accounting for the month just prior to the disengagement, DHHS directed that Cardinal identify the total amount of Cardinal Risk

Reserve associated with the disengaging counties and transfer those amounts in accordance with the approved formula for transfer of Risk Reserve (described above). The Cardinal risk reserve on August 31, 2021, prior to any county disengagements was determined to be \$126,358,978. Cardinal transferred a total of \$31,267,953 associated with the counties disengaging/realigning during the fiscal quarter ending March 31, 2022.

On February 7, 2022, DHHS authorized Cardinal to transfer \$31,267,953 to Vaya for Alamance, Caswell, Chatham, Franklin, Granville, Person, Rowan, Stokes, and Vance County disengagements as of January 1, 2022. The allocation was based on the following amounts associated with each realigning county:

<u>County of Disengagement</u>			<u>MCO receiving County</u>			<u>Date of Disengagement</u>			<u>Amount</u>		<u>Date of Approval</u>		
Alamance			Vaya			2/9/2022			\$ 8,115,876		2/7/2022		
Caswell			Vaya			2/9/2022			\$ 1,341,772		2/7/2022		
Chatham			Vaya			2/9/2022			\$ 2,526,302		2/7/2022		
Franklin			Vaya			2/9/2022			\$ 2,980,021		2/7/2022		
Granville			Vaya			2/9/2022			\$ 2,920,300		2/7/2022		
Person			Vaya			2/9/2022			\$ 2,255,112		2/7/2022		
Rowan			Vaya			2/9/2022			\$ 5,767,704		2/7/2022		
Stokes			Vaya			2/9/2022			\$ 1,761,739		2/7/2022		
Vance			Vaya			2/9/2022			\$ 3,599,127		2/7/2022		
									<u>\$ 31,267,953</u>				

On February 9, 2021, the State was notified that Cardinal wired ACH-0066756 in the amount of \$31,267,953 to Vaya.

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

TRANSFER OF AREA AUTHORITY FUND BALANCES/COUNTY DISENGAGEMENT

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

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

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

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

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

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

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

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