



STATE OF NORTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES

ROY COOPER
GOVERNOR

KODY H. KINSLEY
SECRETARY

March 5, 2024

SENT VIA ELECTRONIC MAIL

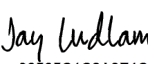
Mr. Brian Matteson, Director
Fiscal Research Division
Suite 619, Legislative Office Building
Raleigh, NC 27603-5925

Dear Director Matteson:

Session Law 2023-134, Section 9E.8.(b) requires the Department of Health and Human Services (DHHS) to report on Medicaid Rebase tracking, transparency and predictability, including Medicaid enrollment information, Medicaid General Fund expenditures, budget challenges, and any changes to the Medicaid program. This report is due to the Joint Legislative Oversight Committee on Medicaid, the Office of State Budget Management, and the Fiscal Research Division. Pursuant to the provisions of law, the Department is pleased to submit the attached report.

Should you have any questions regarding this report, please contact Karen Wade, Director of Policy, at Karen.Wade@dhhs.nc.gov.

Sincerely,

DocuSigned by:
 on behalf of Kody H. Kinsley
06565C1C2A8F4C8...
Kody H. Kinsley
Secretary



STATE OF NORTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES

ROY COOPER
GOVERNOR

KODY H. KINSLEY
SECRETARY

March 5, 2024

SENT VIA ELECTRONIC MAIL

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

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

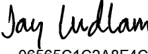
The Honorable Larry Potts, Chair
Joint Legislative Oversight
Committee on Medicaid
North Carolina General Assembly
Room 307B1, Legislative Office Building
Raleigh, NC 27603

Dear Chairmen:

Session Law 2023-134, Section 9E.8.(b) requires the Department of Health and Human Services (DHHS) to report on Medicaid Rebase tracking, transparency and predictability, including Medicaid enrollment information, Medicaid General Fund expenditures, budget challenges, and any changes to the Medicaid program. This report is due to the Joint Legislative Oversight Committee on Medicaid, the Office of State Budget Management, and the Fiscal Research Division. Pursuant to the provisions of law, the Department is pleased to submit the attached report.

Should you have any questions regarding this report, please contact Karen Wade, Director of Policy, at Karen.Wade@dhhs.nc.gov.

Sincerely,

DocuSigned by:
 on behalf of Kody H. Kinsley
06565C1C2A8F4C8...
Kody H. Kinsley
Secretary



STATE OF NORTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES

ROY COOPER
GOVERNOR

KODY H. KINSLEY
SECRETARY

March 5, 2024

SENT VIA ELECTRONIC MAIL

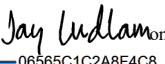
Ms. Kristin Walker
State Budget Director
Office of State Budget and Management
Room 5200, Administration Building,
Raleigh, NC 27603-8005

Dear Director Walker:

Session Law 2023-134, Section 9E.8.(b) requires the Department of Health and Human Services (DHHS) to report on Medicaid Rebase tracking, transparency and predictability, including Medicaid enrollment information, Medicaid General Fund expenditures, budget challenges, and any changes to the Medicaid program. This report is due to the Joint Legislative Oversight Committee on Medicaid, the Office of State Budget Management, and the Fiscal Research Division. Pursuant to the provisions of law, the Department is pleased to submit the attached report.

Should you have any questions regarding this report, please contact Karen Wade, Director of Policy, at Karen.Wade@dhhs.nc.gov.

Sincerely,

DocuSigned by:
 on behalf of Kody H. Kinsley
06565C1C2A8F4C8...
Kody H. Kinsley
Secretary

Medicaid Rebase Tracking, Transparency, and Predictability

Session Law 2023-134, Section 9E.8



Report to

**Joint Legislative Oversight Committee on Medicaid
By**

North Carolina Department of Health and Human Services

March 5, 2024

Background

Per Section 9E.8(b) of Session Law 2023-134, the Department of Health and Human Services, Division of Health Benefits (DHB), shall, on a prescribed schedule beginning November 1, 2023, report to the Office of State Budget Management, the Joint Legislative Oversight Committee on Medicaid, and the Fiscal Research Division on the following information:

1. For the initial report, Medicaid enrollment projections for the 2023-2025 fiscal biennium. For each subsequent report, the actual enrollment relative to those projections.
2. The year-to-date General Fund expenditures for Medicaid through the most recent month for which there is complete data.
3. Projections on Medicaid General Fund expenditures needed for the remaining months in the 2023-2025 fiscal biennium.
4. Any Medicaid-related budget challenges identified by DHB for the 2023-2025 fiscal biennium and the 2025-2027 fiscal biennium, and the estimated cost related to those challenges. Challenges that have been identified in a previously submitted report for which there are no updates need not be identified in subsequent reports.
5. Changes to the Medicaid program that are planned to be implemented at any time in the future under the authority granted under G.S. 108A-54(e)(1), the predicted impact of those changes to the Medicaid budget for the 2023-2025 fiscal biennium and the 2025-2027 fiscal biennium, and the anticipated implementation timeline for those changes. Planned changes that have been identified in a previously submitted report for which there are no updates need not be identified in subsequent reports.
6. Changes to the Medicaid program required under federal or State law that will be implemented, the predicted impact of those changes to the Medicaid budget for the 2023-2025 fiscal biennium and the 2025-2027 fiscal biennium, and the anticipated implementation timeline for those changes. Changes that have been identified in a previously submitted report for which there are no updates need not be identified in subsequent reports.
7. Any unanticipated costs to the Medicaid program that were not accounted for in either the model used to create Governor Cooper's Recommended Budget for the 2023-2025 fiscal biennium, or the projection contained in any prior report submitted under this section. Any unanticipated costs that have been identified in a previously submitted report for which there are no updates need not be identified in subsequent reports.
8. The amount, if any, of funds DHB is requesting to be transferred out of the Medicaid Contingency Reserve, as established under G.S. 143C-4-11, and as much information as possible that meets the requirements under G.S. 143C-4-11(b)(3).

Report Findings

1. Medicaid Non-Expansion Enrollment Projections for the 2023-2025 Fiscal Biennium

NC Medicaid (Division of Health Benefits; DHB) works closely with the State Office of Budget & Management (OSBM) to forecast enrollment for the Medicaid program (including former NC Health Choice program members who were merged with Medicaid ¹). In advance of each State Fiscal Biennium, DHB uses this DHB-OSBM consensus Medicaid enrollment forecast as a main foundation to build the Rebased Budget (“Rebase”) model for services provided to Medicaid members. The Rebase cost is primarily driven by the product of forecasted enrollment (by eligibility category) and projected average costs per member (by eligibility type or capitation rate cell), and is the cornerstone of the Governor’s Recommended Biennial Budget for DHB.

The enrollment forecast used to create the Rebase included in the Governor’s Recommended Biennial Budget for DHB for State Fiscal Year (SFY) 2023-2025 is characterized by the following notable features:

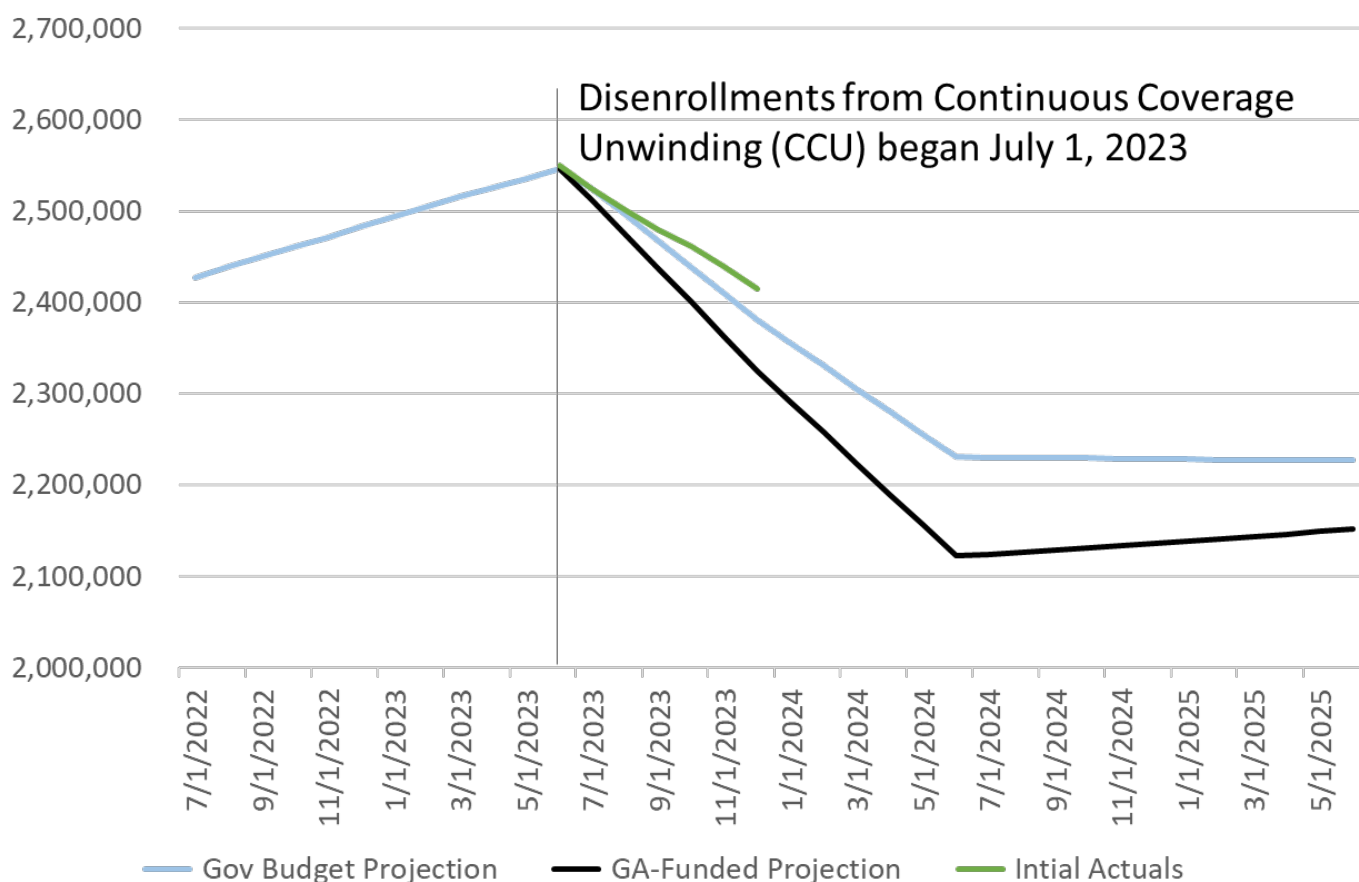
- 1) The beginning of this biennium, July 1, 2023, coincides with the end of the years long COVID-19 federal Public Health Emergency (PHE) policy during which Medicaid members were extended continuous coverage, regardless of the determination of their eligibility, as a condition of the State receiving enhanced federal matching dollars under the Families First Coronavirus Act of 2020 (FFCRA)². During the effective period of this PHE policy (March 2020 – June 2023), NC Medicaid added approximately 750,000 members across all eligibility categories (not including the temporary, 100% federally-funded uninsured COVID-related-benefit-only category, which enrolled an additional approximately 50,000 individuals). Continuous Coverage Unwinding (CCU) which resulted in terminations effective beginning on July 1, 2023, marks a projected steady decline in non-expansion enrollment, from a peak of just under 3 million members. However, this projection contains a larger-than-typical amount of uncertainty, as many variables will contribute to the actual monthly decline in enrollment over the course of the biennium.
- 2) The Medicaid eligibility categories that saw the largest increases during the PHE were non-disabled adults and children. These categories of members are expected to experience the largest enrollment decreases during the CCU. Enrollment of aged, blind, and disabled individuals did not increase significantly during the PHE and therefore is not expected to decrease much over the 2023-2025 biennium.
- 3) Historically, Medicaid enrollment has remained elevated for up to two years following significant economic shocks, such as recessions. Non-expansion enrollment is not projected to return to pre-COVID levels, even after unwinding is complete.
- 4) **Medicaid Expansion** enrollment is **not included** in the Rebase forecast or expenditure model. DHB will refer to “Non-Expansion (Non-Exp)” and “Expansion (Exp)” enrollment in this and future reports. Since Medicaid Expansion did not launch until December 1, 2023, there is no Expansion Enrollment until that date. Expansion enrollment and expenditures will be tracked separately, as they do not use General Fund dollars.

¹ As of April 1, 2023, consistent with Section 15 of S.L. 2022-74 as amended by Section 3.2 of S.L. 2023-11.

² P.L. 116-127.

Figure 1, “Total Non-Expansion Medicaid Enrollment,” illustrates the Governor’s Rebase enrollment forecast for the biennium, contrasted with the enrollment forecast associated with the Rebase amount that the General Assembly funded in SL 2023-134, and with the actual enrollment (excluding family planning enrollees) observed for the months of July – December 2023. The actual CCU disenrollments through December 1, 2023 are lower than both the General Assembly and Governor’s budget forecasts, meaning more people are actually remaining enrolled in Medicaid than had been projected.

Figure 1: Non-Expansion Medicaid Enrollment (Excluding Family Planning) through December 2023



Data Sources: May 2023 Updated Governor’s Budget (Oct 24, 2023 update); Fiscal Research Division enrollment projections associated with SL 2023-134 Rebase funding; Medicaid Monthly Enrollment Reports (Initial Actuals are as of the date of each monthly report)

2. Year-to-Date General Fund Expenditures

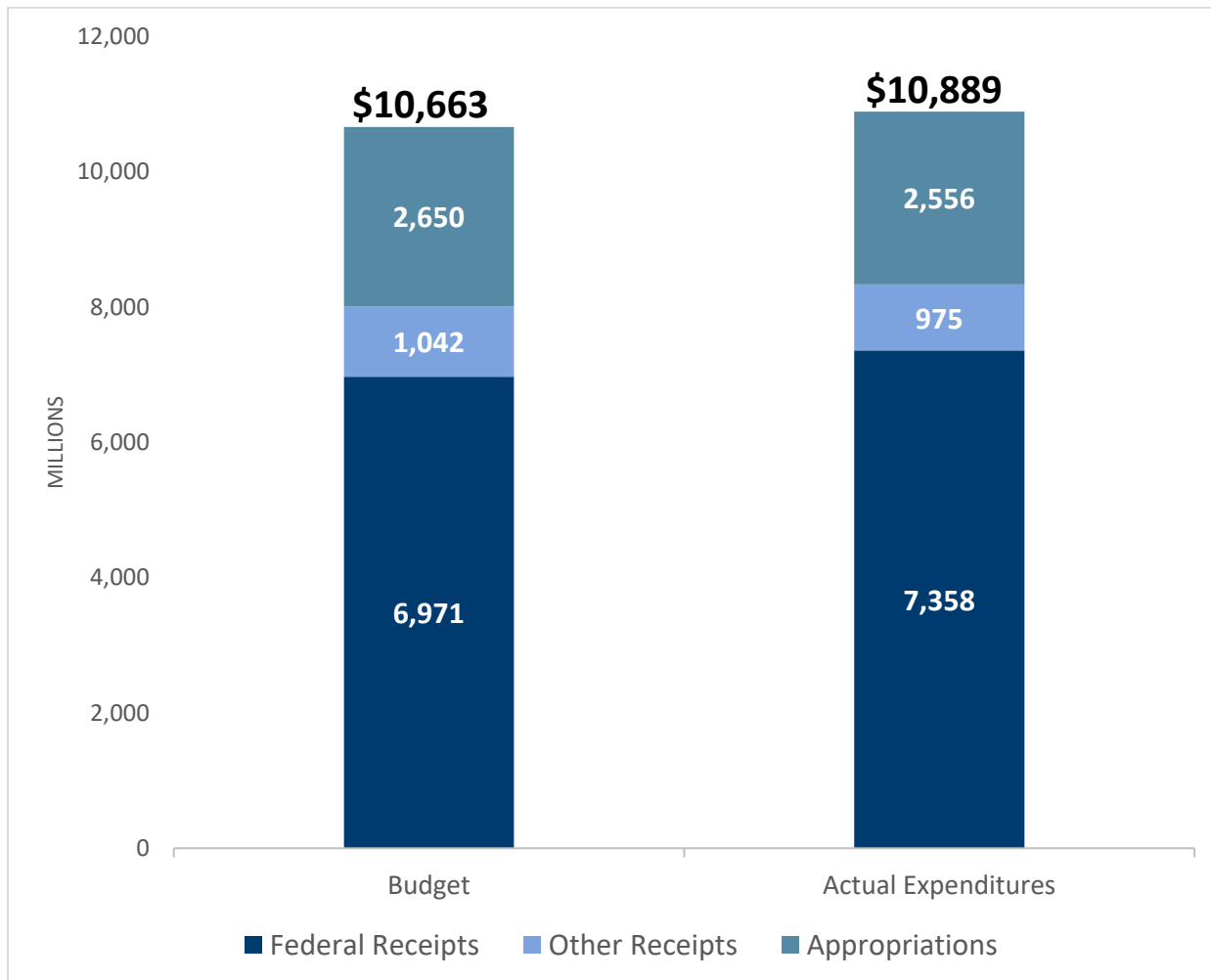
The year-to-date Medicaid expenditures, as compared to budget, through the most recent month for which there is complete data are summarized in Figure 2, “NC Medicaid Actual Year-to-Date Expenditures.” In order to include the month of December, for which “closed” expenditure data is not yet available, and facilitate an “apples to apples” comparison with the newly certified State budget, DHB has used expenditure data that is materially complete and made the following adjustments:

- To produce a truer picture of the Medicaid General Fund spend to date, DHB added approximately \$198 million in appropriations expenditure to balance/offset the same amount of Medicaid Expansion “bonus” federal receipts collected as part of the American Rescue Plan Act of 2021 (ARPA) 5 percentage point enhanced federal match initiative. These expenditures are added to reflect that the additional federal receipts do not benefit the Medicaid budget, but rather are directed

in SL 2023-134 to be transferred out to the Temporary Savings Fund (TSF). NC Medicaid did not actually make this transfer until January; however, for the purposes of this report the transfer has been added as an adjustment to the December expenditures to not skew the December data (by having too many receipts/too little appropriations spend). The effect is simply to balance/offset these special receipts and expenditures within the period of this report.

- To enable tracking of the fiscal year General Fund budget “burn rate” by analyzing actual year-to-date (YTD) expenditures against estimated YTD budget, NC Medicaid has pro-rated (i.e., allocated by month) the total annual budget, based on the rebase-forecasted rate of spending. In other words, since the State budget is not shown in the North Carolina Financial System (NCFS) on a monthly basis, NC Medicaid has divided the annual budget, based on projected spending through December, to enable a YTD comparative view with actual expenditures through December.
- Since the NC Medicaid payment of Health Access Stabilization Program (HASP) dollars to NC hospitals has made them ineligible for Disproportionate Share Hospital (DSH) payments, NC Medicaid has removed from the State budget the projected collections and expenditures associated with the DSH program (including dollars projected to flow through the Hospital Uncompensated Care Fund/HUCF). This adjustment has no effect on appropriations spend but does affect the levels of federal and the receipts and total expenditures.

Figure 2: Actual Year-to- Date Non-Expansion Medicaid Service Expenditures through December 2023

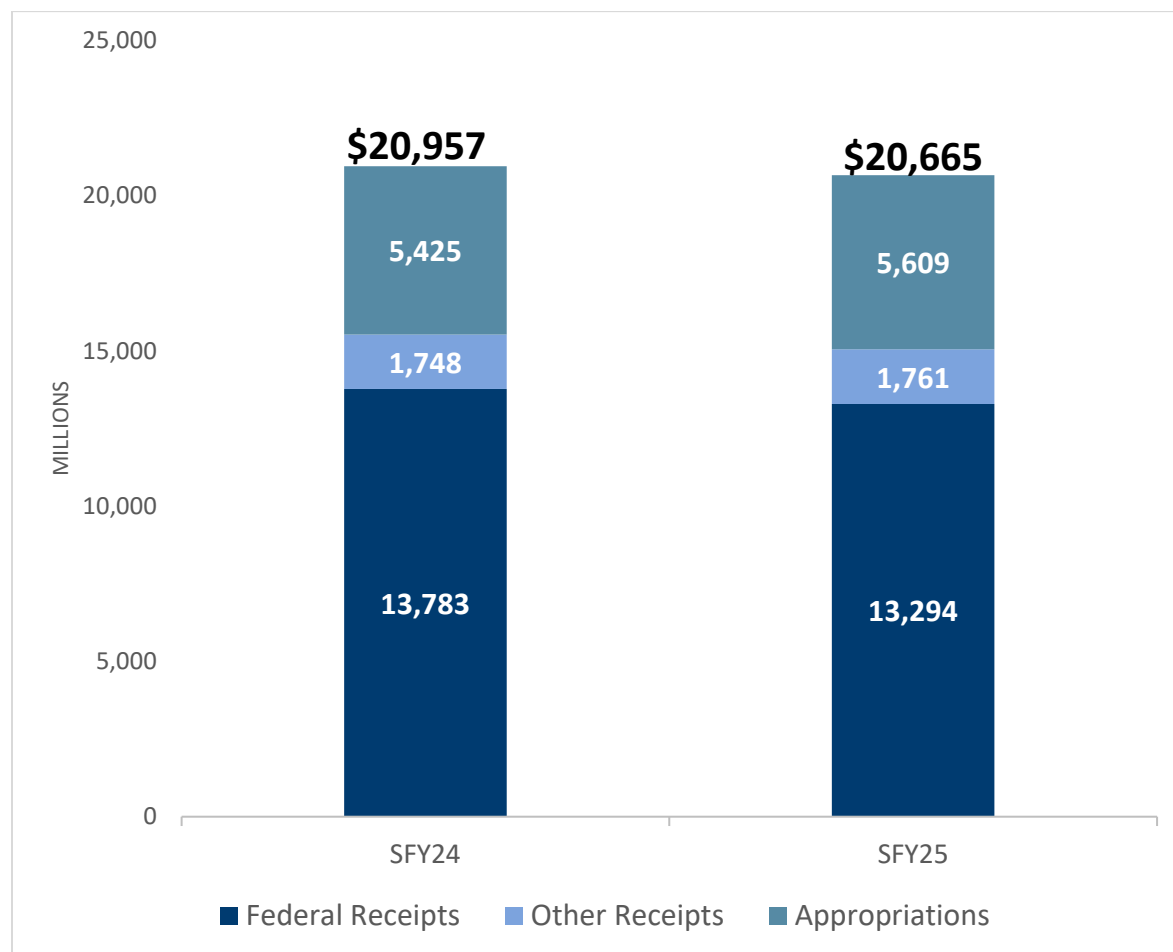


SOURCE: Actual service expenditures as of December 2023 (not yet certified, but estimated to be materially complete), including adjustment for appropriations transfer to ARPA Temporary Savings Fund (TSF); Budget from BD701, prorated by month and adjusted to include the same TSF transfer. Neither actuals or expenditures include Health Access Stabilization Program (HASP), which would only affect receipts, not appropriations.

3. Projected General Fund Expenditures for State Fiscal Years (SFY) 2023-2025

Figure 3, “NC Medicaid Projected Non-Expansion Expenditures,” illustrates the updated projected Medicaid expenditures by fund source for the biennium. This forecast comes from the most recent update of the Governor’s Recommended Budget model (October 24, 2023), now modified to include an enrollment forecast based on the initial actual enrollment data for July-December 2023 (i.e., the green line in Figure 1) and consideration of the effects of accessing federal continuous coverage unwinding flexibility to extend all children for 12 months. This update to the Budget Model has the net effect of increasing expected costs for SFY 2024 and SFY 2025 relative to the figures included in the prior version of this report, but it is important to note that this increase is not related to the extension of coverage for children, which is expected to have the net effect of reducing overall costs. Removing children from the redetermination stream for 12 months will enable counties to redetermine adults at a much faster rate and thereby disenroll ineligible adults at a faster rate. Since the capitation rates Medicaid pays for a non-disabled adult are more than double what is paid for a non-disabled child, and adults are more likely than children to be ineligible for traditional Medicaid at redetermination, the faster disenrollment of ineligible adults is expected to reduce costs more than extending children will increase them.

Figure 3: NC Medicaid Projected Non-Expansion Expenditures for SFY 2024 and 2025



4. Budget Challenges Identified by NC Medicaid for SFY 2023-2025

The budget challenges NC Medicaid identified in the prior version of this report remain the Department's primary concerns, particularly for the current fiscal year (SFY 2024). These challenges are as follows:

- Session Law 2023-134 did not fund the Medicaid Rebase at the Governor's Recommended Budget level. This lower level of funding reduces DHB's ability to manage the Medicaid program and respond to unforeseen needs as they arise.
- Session Law 2023-134 did not fund Medicaid Transformation at the Governor's Budget recommended level. This underfunding forces DHB to budget less than projected for a planned slate of Transformation contracts, projects, and activities. This lower level of funding reduces the flexibility DHB has to manage the legislated Transformation program and respond to unforeseen needs as they arise.
- Medicaid Transformation recurring activities/infrastructure are not funded on recurring basis, though a number of them are past the "development" stage and are now into ongoing "operations and maintenance."
- The enrollment declines expected as part of the CCU discussed in Section 1 of this report are progressing at a slower rate than projected in the Governor's Recommended Rebase. This means that enrollment, particularly for non-disabled adults, is staying higher than projected for each month. Higher-than-projected enrollment translates to more capitated payments than projected. If disenrollments continue at this pace for the remainder of the SFY 2023-24, higher actual costs could contribute to a budget shortfall.
- Recurring contractual shortfalls for core Medicaid technology infrastructure (NC Tracks, NC Analytics) continue to grow annually and put pressure on the budget, as they must be covered from within available funds.
- Looking ahead to SFY 2025, CMS has confirmed that the FMAP for federal fiscal year (FFY) 2025 is lower than the rate initially posted as the estimated FFY 2025 (final 0.6506 vs. original 0.6591). The difference of 0.0085 will increase the State cost of the SFY 2025 Rebase.

In addition, for SFY 2025, NC Medicaid foresees that significant recurring health care provider rate increases are needed to modernize the reimbursement for many provider types and maintain access to care for Medicaid members. Over the past three budget cycles, the General Assembly has helped to stabilize access to care by appropriating much needed recurring funding for rate increases to long term care providers (e.g., Skilled Nursing Facilities, Adult Care Homes, Personal Care Services, Community Alternatives Programs), Behavioral Health Services, and has supported both Facilities-based (e.g., Intermediate Care Facilities for Individuals with Intellectual and Developmental Disabilities/ICF-IDD) and Home and Community-Based Services (e.g., Home Health, Innovations Waiver) providers. Many other provider types, such as Durable Medical Equipment (DME), Specialized Therapies (Speech-Language, Occupational, Physical), Dialysis, and Dental, have not received rate increases, however, and are struggling to continue serving Medicaid members at reimbursement levels that have not seen rate increases since 2012-2015.

5. Planned Program Changes under G.S 108A-54(e)(1) Authority

In addition to the initiatives noted in the prior version of this report (see appendix), NC Medicaid has identified the following planned program changes that have been or will be implemented under the authority granted in G.S 108A-54(e)(1).

- Capitation rate adjustments to account for the following:
 - Implementation, effective March 1, 2024, of Substance Use Disorder (SUD) American Society of Addiction Medicine (ASAM) service levels to comply with North Carolina’s CMS-approved 2018 SUD Institute of Mental Disease (IMD) 1115 waiver. These service improvements, targeted to helping North Carolinian’s struggling with addiction, will add approximately \$5 million in state appropriations cost for SFY 2024.
 - The repurposing of the former R.J. Blackley Alcohol and Drug Abuse Treatment Center (ADATC) facility into an inpatient psychiatric hospital for children and adolescents, which expands the portfolio of Medicaid hospital providers. Adding this facility to increase Medicaid members’ access to critical children’s behavioral health services will add approximately \$2 million in state appropriations cost for SFY 2024.

6. Program Changes Required under State or Federal Law

Since the prior version of this report, NC Medicaid has not identified any additional changes required under State or Federal Law that create additional costs that are not covered with additional appropriated State funding.

7. Unanticipated Costs Not Accounted for in the Budget Model

As discussed above, the most significant unanticipated costs not accounted for in either NC Medicaid’s or the General Assembly’s budget model remain those associated with Medicaid enrollment staying higher in full-benefit programs and for longer than projected in either model.

In addition to the items noted in the prior version of this report, NC Medicaid also has committed to using an estimated \$2 million in state appropriations to fund the unbudgeted additional cost of maintaining LME/MCO administrative funding levels during the dissolution of Sandhills, and consolidation of Eastpointe and Trillium.

8. Requested Transfer of Medicaid Contingency Reserve

Given a limited amount of data (representing two fiscal quarters) and considerable uncertainty regarding enrollment trends from January – June 2024, DHB is not able to project at this time with precision how much Contingency Reserve funding may be needed to cover SFY 2024 unbudgeted expenditures.

DHB is not requesting any Medicaid Contingency Reserve Funds at this time but does anticipate that it is likely that Contingency Reserve Funds could be needed.

Appendix: Prior Report Submission (November 1, 2023)

Report Findings

1. Medicaid Enrollment Projections for the 2023-2025 Fiscal Biennium

NC Medicaid (Division of Health Benefits; DHB) works closely with the State Office of Budget & Management (OSBM) to forecast enrollment for the Medicaid program (including former NC Health Choice program members who were merged with Medicaid³). In advance of each State Fiscal Biennium, DHB uses this DHB-OSBM consensus Medicaid enrollment forecast as a main foundation to build the Rebased Budget (“Rebase”) model for services provided to Medicaid members. The Rebase cost is primarily driven by the product of forecasted enrollment (by eligibility category) and projected average costs per member (by eligibility type or “capitation rate cell”), and is the cornerstone of the Governor’s Recommended Biennial Budget for DHB.

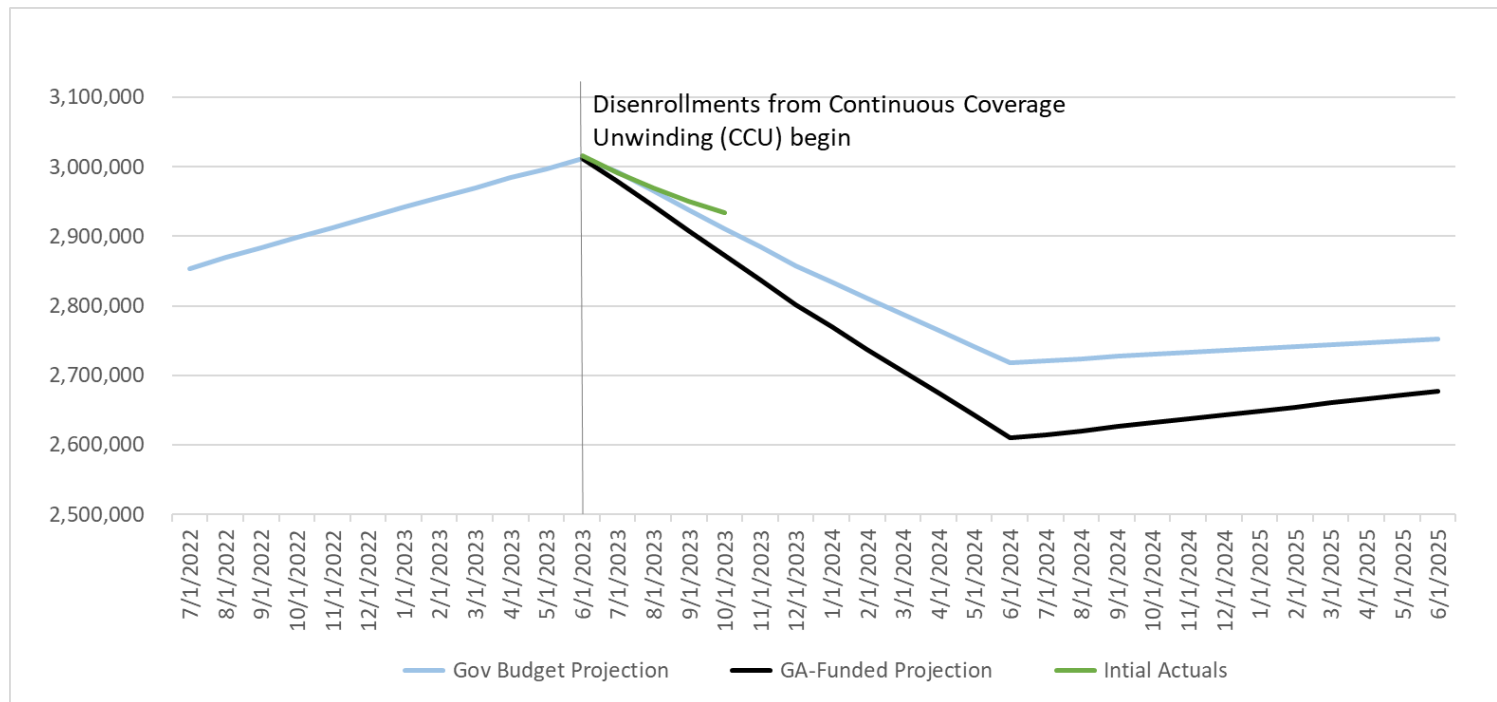
The enrollment forecast used to create the Rebase included in the Governor’s Recommended Biennial Budget for DHB for State Fiscal Year (SFY) 2023-2025 is characterized by the following notable features:

- 1) The beginning of this biennium, July 1, 2023, coincides with the end of the years long COVID-19 federal Public Health Emergency (PHE) policy during which Medicaid members were extended continuous coverage, regardless of the determination of their eligibility, as a condition of the State receiving enhanced federal matching dollars under the Families First Coronavirus Act of 2020 (FFCRA). During the effective period of this PHE policy (March 2020 – June 2023), NC Medicaid added approximately 750,000 members across all eligibility categories (not including the temporary, 100% federally-funded uninsured COVID-related-benefit-only category, which enrolled an additional approximately 50,000 individuals). Continuous Coverage Unwinding (CCU) beginning on July 1, 2023, marks a projected steady decline in enrollment, from a peak of just under 3 million members. However, this projection contains a larger-than-typical amount of uncertainty, as many variables will contribute to the actual monthly decline in enrollment over the course of the biennium.
- 2) The Medicaid eligibility categories that saw the largest increases during the PHE were non-disabled adults and children. These categories of members are expected to experience the largest decreases during CCU. Enrollment of aged, blind, and disabled individuals did not increase significantly during the PHE and therefore is not expected to decrease much over the 2023-2025 biennium.
- 3) Historically, Medicaid enrollment has remained elevated for up to two years following significant economic shocks, such as recessions. Independent of Medicaid Expansion, enrollment is not projected to return to pre-COVID levels, even after unwinding is complete.
- 4) **Medicaid Expansion** enrollment is **not included** in the Rebase forecast or expenditure model. DHB will refer to “Non-Expansion (Non-Exp)” and “Expansion (Exp)” enrollment in this and future reports. Since Medicaid Expansion does not launch until December 1, 2023, there is no Expansion Enrollment until that date. Expansion enrollment and expenditures will be tracked separately, as they do not use General Fund dollars.

³ As of April 1, 2023, consistent with Section 15 of S.L. 2022-74 as amended by Section 3.2 of S.L. 2023-11

Figure 1, “Total Non-Expansion Medicaid Enrollment,” illustrates the Governor’s Rebase enrollment forecast for the biennium, contrasted with the enrollment forecast associated with the Rebase amount that the General Assembly funded in SL 2023-134, and with the actual enrollment observed for the months of July – September 2023. The actual CCU disenrollments are lower than General Assembly and the Governor’s forecasts, meaning more people are actually remaining enrolled in Medicaid than had been projected.

Figure 1: Total Non-Expansion Medicaid Enrollment



Data Sources: May 2023 Updated Governor’s Budget (Oct 24, 2023 update); Fiscal Research Division enrollment projections associated with SL 2023-134 Rebase funding; Medicaid Monthly Enrollment Reports (Initial Actuals are as of the date of each monthly report)

2. Year-to-Date General Fund Expenditures

The year-to-date Medicaid expenditures through the most recent month for which there is complete data are summarized in Figure 2, “NC Medicaid Actual Year-to-Date Expenditures.” The expenditures are characterized by the following notable features:

- Delayed passage of the 2023 Appropriations Act pushed back implementation of various rate increases. The increases could not be effectuated in time to be reflected in this report. As a result, the actual expenditures from July – September 2023 are understated relative to their incurred value (i.e., the value they would have been had events followed the pattern of a “typical” fiscal year):
 - SFY 2024 capitation rates for the Local Management Entities/Managed Care Organizations (LME/MCOs) and Standard Plan Prepaid Health Plans (PHPs) could not be finalized until passage of the Appropriations Act, as there were a number of programmatic changes in the budget proposals with potential capitation rate impact. As a result, rate adjustments relative to SFY 2023 rates (such as medical trend) are not reflected in capitation payments made to

date for SFY 2024. Final SFY 2024 capitation rates will be effectuated as retroactive capitation rate adjustments beginning in December 2023.

- July – September 2023 expenditures do not reflect the legislated rate increases for Skilled Nursing Facilities (SNF)⁴, Personal Care Services (PCS)⁵, Private Duty Nursing (PDN)⁶, and Innovations waiver services⁷ that will be made retroactive to July 1, 2023.
- The first fiscal quarter of SFY 2023-24 (July – September 2023) still benefits from an additional 2.5 percentage points of enhanced federal medical assistance percentage (FMAP) authorized by the federal 2023 Consolidated Appropriations Act.⁸ This enhanced FMAP means that the relative federal share of funding for Medicaid service expenditures is higher than it will be in the next quarter (1.5 percentage point enhancement in October – December 2023). The enhanced FMAP is fully eliminated on December 31, 2023. These differences in FMAP are accounted for in the Rebase model but will make the relative federal share of expenditures appear larger in the first two fiscal quarters of SFY 2023-24.
- The “Other Receipts” in Figure 2 are primarily provider assessments, the largest share of which come from hospitals. These receipts are used (instead of appropriated State General Fund dollars) to partially fund the non-federal share payments to providers (including those running through Standard Plans). The largest payment from “Other Receipts” funds the former supplemental payments to hospitals that are now built into their base rates as a requirement of Medicaid Managed Care.
- Delayed passage of the 2023 Appropriations Act has also pushed back certification of the State budget. As a result, Figure 2 shows only the actual expenditures; there are no certified budgeted expenditures against which to compare the actuals.

⁴ Section 9E.11 of S.L. 2023-134

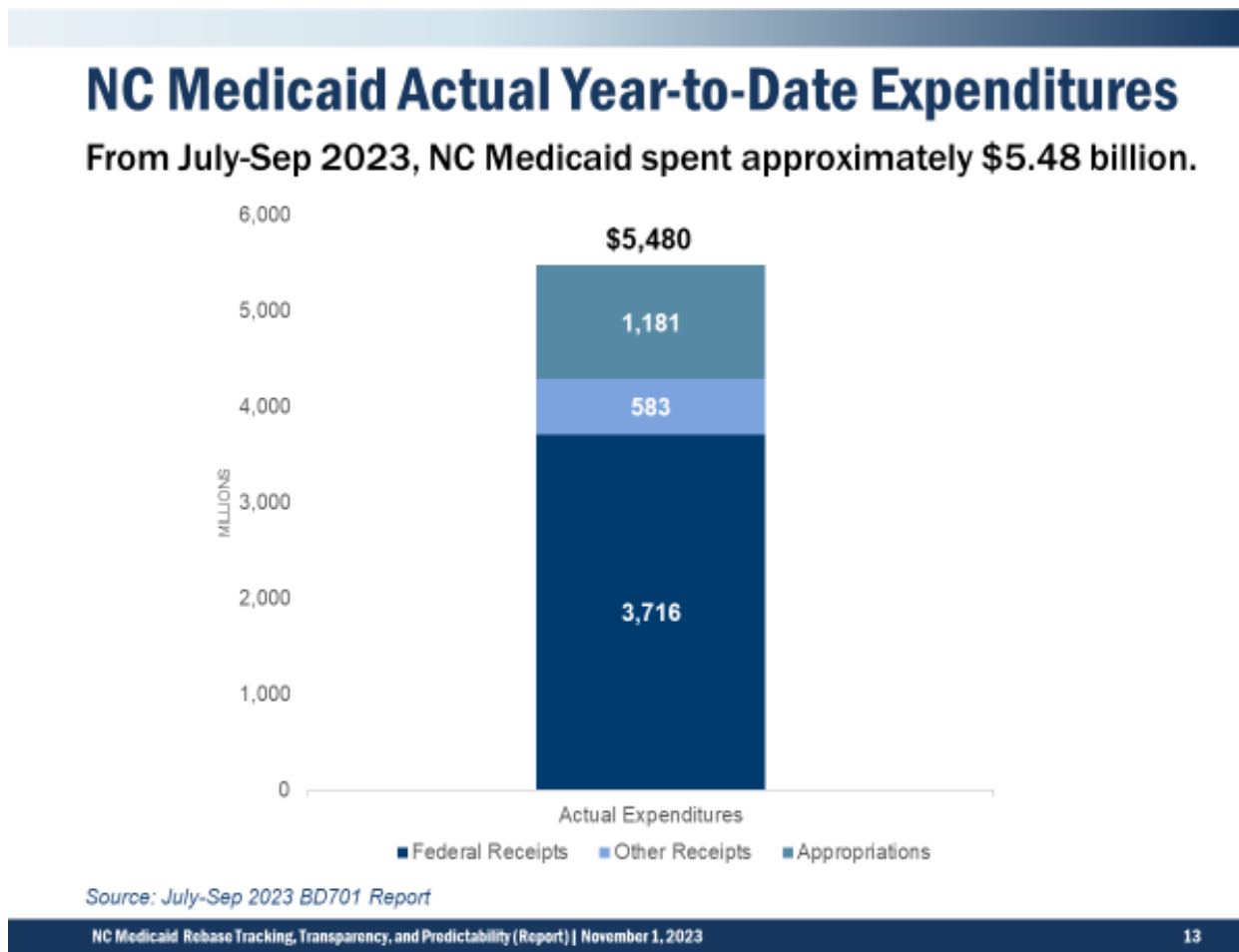
⁵ Section 9E.12 of S.L. 2023-134.

⁶ Section 9E.12A of S.L. 2023-134.

⁷ Section 9E.15 of S.L. 2023-134.

⁸ P.L. 117-328

Figure 2: Actual Year-to- Date Medicaid Expenditures



3. Projected General Fund Expenditures for State Fiscal Years (SFY) 2023-2025

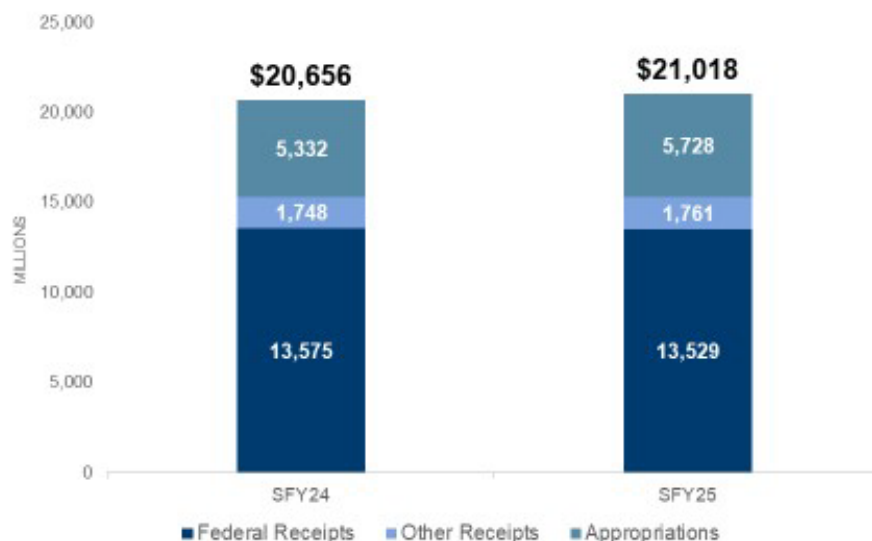
Figure 3, “NC Medicaid Projected Non-Expansion Expenditures,” illustrates the projected Medicaid expenditures by fund source for the biennium. This forecast comes from the most recent updated version of the Governor’s Recommended Budget model (October 24, 2023). While the underlying enrollment used in this projection is the same as the one illustrated in Section 1 of this report, the model has been updated to incorporate the shift of the launch of the Tailored Health Plans for individuals with Behavioral Health and Intellectual/Development Disabilities (BH I/DD Tailored Plans) from October 1, 2023 to July 1, 2024. This update had the net effect of reducing expected costs for SFY 2024.

Figure 3: NC Medicaid Projected Non-Expansion Expenditures for SFY 2024 and 2025

NC Medicaid Projected Expenditures

SFY24 & SFY25 Projected Expenditures

Updated Oct 24, 2023 to reflect July 1, 2024 Tailored Plan launch, but still using May 2023 enrollment projection



Source: Updated Governor's Budget Model; Note – does not include HASP expenditures, which will have no General Fund impact

NC Medicaid Rebase Tracking, Transparency, and Predictability (Report) | November 1, 2023

16

Note: Expenditure projections are from the Oct 24, 2023 updated version of the May 2023 Updated Governor's Budget, which has been modified only to address the impact of shifting the launch date of Tailored Plans from October 1, 2023 to July 1, 2024. The enrollment projections used in the model remain unchanged from the May 2023 version; therefore, these expenditures do not account for variance from the original enrollment projection.

4. Budget Challenges Identified by NC Medicaid for SFY 2023-2025

NC Medicaid has identified the following budget challenges, some of which are difficult to quantify at the time this report was prepared.

- Session Law 2023-134 did not fund the Medicaid Rebase at the Governor's Recommended Budget level. As a result, if the actual expenditures follow the projections in Governor's Recommended Budget, the Medicaid program could face a cost overrun/budget shortage. Though there is too much uncertainty at this point in time to project reliably whether actual expenditures will follow or exceed the projections in the Governor's Recommended Budget, the underfunding reduces DHB's ability to manage the Medicaid program and respond to unforeseen needs as they arise.
- Session Law 2023-134 did not fund Medicaid Transformation at the Governor's Budget recommended level. This underfunding forces DHB to budget less than projected for a planned slate of Transformation contracts, projects, and activities. At the same time, some projects, based on historical experience, will see costs increase over initial projection and will crowd out spending on other activities or contribute to an overall Medicaid budget shortfall. As a result, other projects may be forced to ramp

up slower than planned for this fiscal year; this could make certain aspects of Transformation less effective and/or put successful implementation at risk. As above, there is too much uncertainty at this point in time to estimate reliably whether actual expenditures will follow or exceed the projections in the Governor's Recommended Budget, the underfunding reduces the flexibility DHB has to manage the legislated Transformation program and respond to unforeseen needs as they arise.

- Medicaid Transformation recurring activities/infrastructure are not funded on recurring basis. For several years, the Governor's Recommended Budget included recurring funding for legislated Transformation infrastructure that was in development as part of the legislated transition from fee-for-service to Medicaid managed care and would become ongoing obligations. Many of the infrastructure development initiatives have matured and are now operational, some since SFY 2022. This means that they require annual funding. The Enrollment Broker is an example of an infrastructure project whose development has been funded with non-recurring funds but has matured into an ongoing operational expense requiring recurring funding. Presently the Enrollment Broker is funded only for one year through the non-recurring Transformation fund appropriation.
- The enrollment declines expected as part of the CCU discussed in Section 1 of this report are progressing at a slower rate than projected in the Governor's Recommended Rebase. This means that enrollment, particularly for non-disabled adults and children is staying higher than projected for each month. While there is too much uncertainty at this point in time to estimate reliably whether overall actual expenditures will follow or exceed the projections in the Governor's Recommended Budget, if disenrollments continue at this pace for the remainder of the SFY 2023-24, Medicaid will likely face an enrollment-based, budget shortfall.
- Recurring contractual shortfalls for core Medicaid technology infrastructure (NC Tracks, NC Analytics) continue to grow annually, reaching an approximately \$17 m (appropriations) gap for SFY 2024. Contracts for vendor-supplied technology products typically include annual cost increases, but funds for Medicaid's core claims processing and analysis technology systems have been characterized historically as "administration" and are not rebased. Therefore, the discrepancy between required recurring, operational funding and appropriated budget continues to grow. Medicaid has covered this gap for the past three fiscal years out of excess federal receipts made available by the enhanced PHE FMAP, but as stated in Section 2 of this report, the enhanced PHE FMAP ends December 31, 2023 and that level of receipts has already been accounted for in the Rebase; DHB cannot count on additional/excess receipts this year or going forward.
- Looking ahead to SFY 2025, CMS has confirmed that the FMAP for federal fiscal year (FFY) 2025 is lower than the rate initially posted as the estimated FFY 2025 (final 0.6506 vs. original 0.6591). The difference of 0.0085 will increase the State cost of the SFY 2025 Rebase.

5. Planned Program Changes under G.S 108A-54(e)(1) Authority

NC Medicaid has identified the following planned program changes that have been or will be implemented under the authority granted in G.S 108A-54(e)(1).

- Capitation rate adjustments to account for the following:
 - Opioid Treatment Protocol (OTP), a package of services for individuals experiencing difficulty with Opioid use, was implemented to address the level of Opioid overdose deaths in NC. Medicare moved to a bundled rate for the group of services included the protocol and NC Medicaid shifted reimbursement policy to conform. The Medicare rate increased significantly over the last year in response to cost of care pressures, and NC Medicaid determined a similar increase was required to be able to deliver the level of service needed to continue combating our Opioid epidemic.
 - Additional Transitions to Community Living (TCL) staff are needed to be added by LME/MCOs, beginning October 1, 2023, to meet the significantly higher updated estimated number of transitions estimated to meet the requirements of the State settlement with the federal Department of Justice. NC Medicaid updated LME/MCO contracts to require the additional TCL staffing, and actuarial soundness requirements for capitation rates dictate that the LME/MCO capitation rates must account for the additional cost associated with the additional staff.
 - The Individual Placement and Support (IPS) Supported Employment Program, another part of the State TCL settlement with the federal Department of Justice, costs more to deliver this year than in the prior year. In order to continue providing this service effectively as part of NC's compliance with the settlement, NC Medicaid chose to increase capitation rates for LME/MCOs to account for the increased cost to operate the IPS program.

6. Program Changes Required under State or Federal Law

Several new State laws include program changes that create additional costs that are not covered with additional appropriated State funding.

- Section 15 of S.L. 2023-129 directs that NC Medicaid increase reimbursement rates for an Ambulatory Surgical Center Dental code but did not provide any funding to support the additional cost (estimated to be approximately \$3 million annually in State appropriations).
- Section 9E. 18 of S.L. 2023-134 directs that relatives residing in the same home as the beneficiary are authorized to be paid to provide care to minors on the Innovations waiver who receive Community Living and Support services when no other provider is available to provide service. DHB supports this policy. However, the General Assembly did not provide any appropriations to support the anticipated increased cost that will result from this policy change.

7. Unanticipated Costs Not Accounted for in the Budget Model

As discussed above, the most significant unanticipated costs not accounted for in either NC Medicaid's or the General Assembly's budget model are those associated with Medicaid enrollment staying higher and for longer than projected in either model. Unlike some other states, NC has availed itself of all of the available automation, data, and policy options offered by the federal Center for Medicare and Medicaid Services (CMS) that are intended to expedite due process-compliant redetermination for individuals enrolled in Medicaid. Despite this uncommon maximization of the tool set available for addressing the continuous coverage unwinding (CCU), NC is similar to other states in experiencing a slower-than-projected rate of appropriate disenrollments. This challenge has been so common across states that CMS is considering extending the period of time during which states are required to complete their unwinding. Given only a few months of data are available, it is difficult to reliably predict how these current disenrollment trends may change over time and/or what the cost implications of those adjustments will be, though clearly, enrollment staying higher longer will put upward pressure on expenditures.

In addition to the items already noted above in Sections 5 and 6 of this report, NC Medicaid also continued Advanced Medical Home (AMH) enhanced payments for practices working with Tailored Plan-eligible members from July – September 2023. This was determined to be necessary to engage and retain primary care physician practices to coordinate with Tailored Care Management entities for patients engaged in Tailored Care Management. These providers had reported that this coordination is significantly more complex and involved than what they had been doing, and therefore requires more time and resources; many providers indicated that they could not afford to devote the staff time required given the existing level of AMH fee (\$5.00 per member per month; PMPM). NC Medicaid proposed raising the fee permanently to \$20.00 PMPM and had done so on a temporary basis in SFY 2023, supported by excess federal receipts from the extended PHE FMAP. In the absence of recurring budget for this increased fee, NC Medicaid could not commit to a permanent increase, but did commit in early Spring 2023 to extend the temporary increase in order to stabilize primary care practice participation in the ramp up to Tailored Plan launch (which at the time was planned to be October 1, 2023). This additional start-up investment in the Medicaid medical provider network added approximately \$2 million in State cost between July – September 2023.

8. Requested Transfer of Medicaid Contingency Reserve

Given a limited amount of data (one fiscal quarter), DHB is not able to project at this time with reasonable precision how much Contingency Reserve funding may be needed to cover SFY 2024 unbudgeted expenditures.

DHB is not requesting any Medicaid Contingency Reserve Funds at this time.