STATE OF NORTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES

JOSH STEIN
GOVERNOR

DEVDUTTA SANGVAI
SECRETARY

February 26, 2025

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 9G.2.(f) requires the Department of Health and Human Services to report to the Joint Legislative Oversight Committee on Health and Human Services and the Fiscal Research Division on a uniform system for beds or bed days purchased during the preceding fiscal year, the amount of funds used to pay for facility-based crisis services, along with the number of individuals who received these services and the outcomes for each individual. Also, the amount of funds used to pay for nonhospital detoxification services, along with the number of individuals who received these services and the outcomes for each individual. 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:
Karen Burkes on behalf of Devdutta Sangvai
BE378D524C3A474...
Devdutta Sangvai
Secretary

STATE OF NORTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES

JOSH STEIN
GOVERNOR

DEVDUTTA SANGVAI
SECRETARY

February 26, 2025

SENT VIA ELECTRONIC MAIL

The Honorable Carla Cunningham, Chair
Joint Legislative Oversight Committee on
Health and Human Services
North Carolina General Assembly
Room 403, 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:

Session Law 2023-134, Section 9G.2.(f) requires the Department of Health and Human Services to report to the Joint Legislative Oversight Committee on Health and Human Services and the Fiscal Research Division on a uniform system for beds or bed days purchased during the preceding fiscal year, the amount of funds used to pay for facility-based crisis services, along with the number of individuals who received these services and the outcomes for each individual. Also, the amount of funds used to pay for nonhospital detoxification services, along with the number of individuals who received these services and the outcomes for each individual. Pursuant to the provisions of law, the Department is pleased to submit the attached report.

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Devdutta Sangvai
Secretary

Funds for Local Inpatient Psychiatric Beds or Bed Days Purchased in State Fiscal Year 2023-2024 and Other Department Initiatives to Reduce State Psychiatric Hospital Use

Session Law 2023-134, Section 9G.2.(f)

Report to the

Joint Legislative Oversight Committee on Health and Human Services

and

Fiscal Research Division

By

North Carolina Department of Health and Human Services

February 26, 2025

REPORTING REQUIREMENTS

S.L. 2023-134, Section 9G.2.(f). Reporting by Department. – By no later than December 1, 2024, DHHS shall report to the Joint Legislative Oversight Committee on Health and Human Services and the Fiscal Research Division on all of the following:

(1) A uniform system for beds or bed days purchased during the preceding fiscal year from (i) existing State appropriations and (ii) local funds.

(2) An explanation of the process used by DHHS to ensure that, except as otherwise provided in subsection (a) of this section, local inpatient psychiatric beds or bed days purchased in accordance with this section are utilized solely for individuals who are medically indigent, along with the number of medically indigent individuals served by the purchase of these beds or bed days.

(3) The amount of funds used to pay for facility-based crisis services, along with the number of individuals who received these services and the outcomes for each individual.

(4) The amount of funds used to pay for nonhospital detoxification services, along with the number of individuals who received these services and the outcomes for each individual.

(5) Other DHHS initiatives funded by State appropriations to reduce State psychiatric hospital use.

USE OF FUNDS AND DISTRIBUTION AND MANAGEMENT OF BEDS/BED DAYS

S.L. 2023-134, Section 9G.2.(a) Funds appropriated in this act to the Department of Health and Human Services, Division of Mental Health, Developmental Disabilities, and Substance Use Services, shall continue to be used for the purchase of local inpatient psychiatric beds or bed days. The Department of Health and Human Services (DHHS) shall continue to implement a two-tiered system of payment for purchasing these local inpatient psychiatric beds or bed days based on acuity level with an enhanced rate of payment for inpatient psychiatric beds or bed days for individuals with higher acuity levels, as defined by DHHS. The enhanced rate of payment for inpatient psychiatric beds or bed days for individuals with higher acuity levels shall not exceed the lowest average cost per patient bed day among the State psychiatric hospitals. In addition, at the discretion of the Secretary of Health and Human Services, existing funds allocated to LME/MCOs for community-based mental health, developmental disabilities, and substance abuse services may be used to purchase additional local inpatient psychiatric beds or bed days.

S.L. 2023-134, Section 9G.2.(b) Distribution and Management of Beds or Bed Days. – DHHS shall work to ensure that any local inpatient psychiatric beds or bed days purchased in accordance with this section are utilized solely for individuals who are medically indigent, except that DHHS may use up to ten percent (10%) of the funds appropriated in this act to the Department of Health and Human Services, Division of Mental Health, Developmental Disabilities, and Substance Abuse Services, for the purchase of local inpatient psychiatric beds or bed days to pay for facility-based crisis services and nonhospital detoxification services for individuals in need of these services, regardless of whether the individuals are medically indigent. For the purposes of this subsection, "medically indigent" shall mean uninsured persons

who (i) are financially unable to obtain private insurance coverage, as determined by DHHS, and (ii) are not eligible for government-funded health coverage such as Medicare or Medicaid.

In addition, DHHS shall work to ensure that any local inpatient psychiatric beds or bed days purchased in accordance with this section are distributed across the State and according to need, as determined by DHHS. DHHS shall ensure that beds or bed days for individuals with higher acuity levels are distributed across the State and according to greatest need based on hospital bed utilization data. DHHS shall enter into contracts with LME/MCOs and local hospitals for the management of these beds or bed days. DHHS shall work to ensure that these contracts are awarded equitably around all regions of the State. LME/MCOs shall manage and control these local inpatient psychiatric beds or bed days, including the determination of the specific local hospital or State psychiatric hospital to which an individual should be admitted pursuant to an involuntary commitment order.

NORTH CAROLINA'S UNIFORM SYSTEM FOR BEDS/BED DAYS

North Carolina's uniform system for beds or bed days consists of (i) Three-Way Bed State appropriations, (ii) other State appropriations, and (iii) Local Funds.

I. Three-Way Beds

Overview

Each State fiscal year a dedicated portion of local psychiatric and substance use inpatient beds or bed days are funded through direct legislative appropriations administered by the Department of Health and Human Services (DHHS), Division of Mental Health, Developmental Disabilities, and Substance Use Services (DMH/DD/SUS) via contracts with Local Management Entities/Managed Care Organizations (LME/MCOs) and Community Hospitals. These agreements, known as "Three-Way Contracts," reflect the partnership and contractual obligations between these three entities.

The overarching goal of these contracts is to ensure funding and access to psychiatric care for medically indigent patients in need of a psychiatric bed. Community Hospitals are legally mandated to provide this care as a requirement of the Federal Emergency Medical Treatment and Labor Act. In order to meet this requirement, Community Hospitals make beds available to admit persons who are eligible for Three-Way Contract psychiatric inpatient services and whose care is authorized by LME/MCOs. Utilization of Three-Way Contract dollars requires that the patient be medically indigent and ineligible for government-funded insurance programs such as Medicaid. The Community Hospitals provide the inpatient treatment and then submit claims to LME/MCOs for reimbursement. The LME/MCOs adjudicate the claims, and then reimburse the hospitals for the authorized care. Subsequently, the LME/MCOs submit claims to DMH/DD/SUS through NCTracks, North Carolina's multi-payor Medicaid Management Information System, for further adjudication and payment.

To ensure equitable distribution of funding, DMH/DD/SUS developed a methodology to allocate Three-Way Contract funds across the State. The need for inpatient care is estimated using

hospital emergency department disposition data, which helps determine the regional demand for psychiatric services. The funding for each LME/MCO service area is proportional to the estimated need for psychiatric inpatient care in that area relative to the State's overall need, as calculated at the start of the State Fiscal Year (SFY).

The amount of each LME/MCO and hospital contract is determined by factors such as population data, bed capacity, and previous utilization of funds. For SFY 2024, 30 Three-Way Contracts were executed for psychiatric and substance use inpatient care, with an additional contract being finalized later in the year. These contracts were funded with a total of $40,621,644 to provide inpatient care for medically indigent individuals.

As directed by SL 2023-134, two-tiered rates were established based on the level of behavioral, psychiatric, and/or co-morbid medical acuity of the person served. DMH/DD/SUS established the lower rate (procedure code: YP 821) at $750 per bed day and the higher rate (procedure code: YP 822) at $900 per bed day. Attachment 1 provides a map of the Community Hospitals in LME/MCO service areas that participate in the Three-Way Bed program.

In SFY24, the total amount paid to LME/MCOs for Three-Way psychiatric and substance use inpatient care was $27,563,690. The LME/MCOs, in turn, paid the Community Hospitals for their services under the Three-Way Contracts. A total of 42,398 bed days were purchased during the period from July 1, 2023, to June 30, 2024, serving 4,564 unduplicated individuals.

While we saw a decrease in bed days purchased compared to SFY 2023, several factors, including Medicaid Transformation, have positioned us for future growth. The expansion of Medicaid eligibility, effective December 1, 2023, brought in 600,000 new enrollees by December 16, 2024. This shift means that claims for many individuals that were previously covered through Three-Way Bed funding are now covered by Medicaid. As a result, we are exploring ways to better align our resources to meet the needs of the most vulnerable, including increasing rates to reflect the current Medicaid rate and expanding access to Facility-Based Crisis Centers (FBCs).

Additionally, we are excited to partner with hospitals to further expand services and increase the number of indigent individuals served. While some hospitals faced billing discrepancies due to the surge in Medicaid enrollment, we have taken proactive steps to address these issues. By the end of the fiscal year, it became clear that some hospitals had not fully utilized their allotted funding. To ensure we maximize the impact of this funding, we explored the possibility of adding more hospitals to the program. Two additional hospitals expressed interest, and one has already joined, helping us extend our reach even further. This year, we are committed to using all available funds to improve care and service to those who need it most.

Ensuring Funds are Used Solely for Persons Who are Medically Indigent

DMH/DD/SUS ensures that the local inpatient beds/bed days purchased in accordance with SL 2023-134, Section 9G.2.(a) are dedicated exclusively to individuals who are medically indigent, consistent with the Three-Way Contract requirements. The State verifies the indigency of these individuals through the claims adjudication process implemented in NCTracks.

Each Three-Way Contract includes the following key excerpts:

- **Purpose of the Contract:** The primary goal is to establish and utilize local psychiatric inpatient bed capacity to cover the cost of indigent acute care (p. 1, Initial paragraph)
- **Eligibility Criteria:** The patient shall be medically indigent (uninsured) and 18 years of age or older (*Utilization Management Options for Admissions*, pp. 6,7)

NCTracks adjudicates claims for psychiatric and substance use inpatient services covered under the Three-Way Contract, ensuring they are only for individuals without other health insurance coverage for those services. If NCTracks identifies an existing insurance payer for the inpatient care, the claim is denied, ensuring that funds are used solely for medically indigent individuals.

In SFY 2024, 4,564 unduplicated North Carolinians who are medically indigent were served through the purchase of Three-Way Contracts.

II. Other State Funded Inpatient Care in SFY 2024

In addition to the Three-Way Contract funds, other State funding was used by LME/MCOs to pay for psychiatric and substance use inpatient services provided by Community Hospitals during SFY 2024. The North Carolina General Assembly also appropriated Single-Stream funding to the LME/MCOs to support services for individuals without health insurance coverage for mental health, substance use, and intellectual and developmental disabilities services and supports.

For SFY 2024, Single-Stream funding amounted to $6,358,500, covering 8,478 bed days for psychiatric inpatient care. This funding provided care to 925 unduplicated individuals in Community Hospitals.

III. Other Department Initiatives Funded by State Appropriations to Reduce State Psychiatric Hospital Use

The following initiatives offer alternative crisis responses in an effort to divert individuals experiencing behavioral health crises from seeking psychiatric or substance use crisis services via emergency departments (EDs) and thereby reduce the need for psychiatric or substance use inpatient care:

Certified Behavioral Community Behavioral Health Clinics (CCBHCs)

In October 2015, the DMH/DD/SUS received a planning grant from the Substance Use and Mental Health Services Administration (SAMHSA) to establish Certified Community Behavioral Health Clinics (CCBHCs). Since then, DMH/DD/SUS has established five CCBHCs which are managed by LME/MCOs. According to SAMHSA, the CCBHC model is designed to provide comprehensive, coordinated behavioral health care, serving individuals regardless of their ability to pay, place of residence, or age. These services include developmentally appropriate care for children and youth.

To operate as a CCBHC, SAMHSA requires the facility be one or more of the following:

- A non-profit organization exempt from tax under Section 501(c)(3) of the United States Internal Revenue Code;
- Part of a local government behavioral health authority;
- Operated under the authority of the Indian Health Service or related tribal authorities and pursuant to a contract, grant, cooperative agreement, or compact with the Indian Health Service pursuant to the Indian Self-Determination Act (25 U.S.C. 450 et seq.); or
- An urban Indian organization pursuant to a grant or contract with the Indian Health Service under Title V of the Indian Health Care Improvement Act (25 U.S.C. 1601 et seq.).

Currently DMH/DD/SUS funds five CCBHC clinics. These clinics served 17,086 unduplicated individuals in SFY2024. The clinics, managed by State LME/MCOs, are as follows:

- Anuvia Prevention and Recovery Center, located in Charlotte, served 4,415 individuals.
- B&D Integrated Health Services, located in Durham, served 2,058 individuals.
- Mountain Area Health Education Center, located in Asheville, served 2,003 individuals.
- Southlight Healthcare, located in Raleigh, served 4,246 individuals.
- Coastal Horizons Center, located in Wilmington, served 4,364 individuals.

These initiatives help reduce reliance on emergency departments and state psychiatric hospitals by providing alternative crisis response services.

Behavioral Health Urgent Care and Facility Based Crisis

In SFY 2013, the NC General Assembly appropriated funding for Facility Based Crisis (FBC) centers and Behavioral Health Urgent Care (BHUC) centers. These centers serve as alternatives to EDs and inpatient hospitalization for individuals experiencing crises related to mental health, substance use, or intellectual/developmental disabilities.

S.L. 2014-100, Section 12F.5 (a) defines a Behavioral Health Urgent Care Center as *an outpatient facility that offers walk-in crisis assessment, referral, and treatment by licensed behavioral health professionals with prescriptive authority. BHUCs address urgent or emergent needs for mental health, intellectual or developmental disabilities, or substance abuse services.*

North Carolina currently operates 10 BHUCs (i.e., Tier IV BHUCs), all of which are available 24 hours a day, seven days a week. BHUCs provide immediate, non-medical crisis intervention and support.

FBCs, residential facilities licensed pursuant to 10A NCAC 27G Section .5000, offer facility-based crisis services for individuals across all disability groups. These centers operate 24 hours a day, seven days a week. The State has 21 adult FBC service sites, 13 of which are designated for individuals under involuntary commitment (IVC). These centers provide 319 beds as alternatives to inpatient hospitalization.

North Carolina has also expanded its crisis response services to include Child FBCs. The State currently has five operational Child FBC service sites, all designated to treat both voluntary and

IVC. These sites provide up to 16-beds each for children and adolescents, ages 6-17, experiencing mental health crises, substance use, or withdrawal from drugs or alcohol. These facilities offer 24-hour supervision and age-appropriate care during crises, including support for young people with intellectual or developmental disabilities.

The five Child FBCs currently in operation are:

- SECU Youth Crisis Center, located in Charlotte, opened December 29, 2017, developed in partnership between Cardinal Innovations LME/MCO and Monarch, now operated by Alliance Health.
- Caiyalynn Burrell Crisis Center for Children, located in Asheville, – opened June 21, 2018, originally developed by Vaya Health LME/MCO and Family Preservation Services of North Carolina, now operated by Daymark Recovery Services.
- Youth and Adolescent Facility-Based Crisis Program, located in Greensboro, – opened August 19, 2022, developed in partnership with Cone Healthcare System, Sandhills Center LME/MCO, the Guilford County Commissioners, and Alexander Youth Network, now managed by Trillium Health Resources LME/MCO following the LME/MCO consolidation in 2024.
- Richmond Child Facility-Based Crisis Center, located in Rockingham, – opened in August 2022, developed in partnership between Daymark Recovery Services and Sandhills Center LME/MCO, now managed by Trillium Health Resources LME/MCO since the 2024 consolidation.
- The Hope Center, located in Fuquay-Varina, Wake County, – opened June 2023, through a partnership between Alliance Health LME/MCO and Kids Peace. Kids Peace opened this Child FBC to add to its already existing Tier IV BHUC.

Together, these FBCs offer 75 alternative beds. Using a portion of the $835,000,000 Behavioral Health Roadmap funding, appropriated via S.L. 2023-134, plans are in place to establish three new youth facilities, which will provide 48 additional beds.

Some Tier IV BHUC sites offer 23-hour crisis stabilization/observation beds to de-escalate behavioral health crises and prevent unnecessary emergency care. These sites provide immediate assessments, stabilization, and linkage to appropriate care, helping to avoid emergency room visits and inpatient hospitalization for individuals whose crises can be resolved through time and observation.

Tier IV BHUCs and FBCs offer effective alternatives to Emergency Departments for individuals in behavioral health crises who are not experiencing significant medical distress. BHUCs have the capacity to conduct initial evaluations of IVC and, if necessary, refer individuals to appropriate levels of care, whether that is inpatient hospitalization, FBCs, or intensive outpatient services.

FBCs, house 16 or fewer beds, and typically provide three to five days of behavioral crisis stabilization. These centers also treat individuals under IVC.

BHUCs focus on providing immediate crisis response by triaging and de-escalating individuals to prevent ED visits and reduce the need for psychiatric hospitalizations. This is accomplished through the effective management of psychiatric conditions, including the prescription

psychiatric medications. Additionally, BHUCs educate individuals on the appropriate use of Emergency Departments.
FBCs function as local alternatives to an inpatient level of care, and typically provide three to five days of behavioral health crisis stabilization in a unit of 16 beds or less, including treatment of persons who are under involuntary commitment.

Attachment 2 provides a map of the BHUCs and FBCs throughout the State.

Mobile Crisis Management

Mobile Crisis Management is a state-funded, fee-for-service crisis response, stabilization, and prevention service. It is funded through single-stream appropriations allocated to LME/MCOs. Available 24 hours a day, seven days a week, 365 days a year, this service is part of the service array for uninsured individuals. In SFY 2024, there were 3,726 mobile crisis episodes of care.

Additionally, DHHS partnered with the Duke Endowment in July 2022 to develop the Mobile Outreach, Response, Engagement, and Stabilization (MORES) pilot project. MORES is a team-based crisis intervention designed for children and adolescents experiencing emotional or behavioral stress, which became operational in May of 2023. In its first full operational year (SFY 2024), The MORES program served 223 youth.

Non-Hospital Medical Detoxification

Non-Hospital Medical Detoxification is a state-funded service that provides 24-hour, medically supervised evaluation, and withdrawal management in either a hospital or a free-standing facility. Funded through Single-Stream appropriations to LME/MCOs, this service is available year-round, 24 hours a day, seven days a week and is part of the service array for uninsured individuals.

Transitions to Community Living

On August 23, 2012, North Carolina entered into a Settlement Agreement with the United States Department of Justice regarding the community integration of individuals with severe mental illness (SMI) and severe and persistent mental illness (SPMI), particularly those at risk of entering adult care homes. As part of the Department of Justice (DOJ) Settlement Agreement, the State committed to the following:

- Developing and implementing effective measures to prevent unnecessary institutionalization.
- Providing adequate public services and supports, identified through person-centered planning, in the most integrated setting appropriate for individuals with SMI or SPMI.

This initiative, known as Transitions to Community Living (TCL), offers eligible adults with serious mental illnesses the opportunity to live, work, and play in their communities throughout North Carolina. TCL promotes recovery by providing long-term housing, community-based services, supported employment, and community integration. Additionally, TCL provides community-based mental health services through Assertive Community Treatment (ACT) and Community Support Teams (CST).

Beyond housing and employment integration, TCL services also provide crisis support through intensive case management. This approach seeks to prevent hospitalization by connecting individuals with mental health providers who offer ongoing medication management and crisis support. The case management team works to ensure individuals are directed to the appropriate level of care, educates on proper ED utilization, and diverts unnecessary emergency department care when possible.

Assertive Community Treatment (ACT)

An ACT team is a community-based group of medical, behavioral health, and rehabilitation professionals who work together as team to meet the needs of the individuals with SPMI. These services are person-centered and designed to help individuals connect with mental health services while achieving personal goals. ACT teams deliver services based on a recovery-oriented philosophy of care. In SFY 2024, $8,162,302 in single-stream funds were used for ACT services, benefiting 987 individuals.

Community Support Teams (CST)

CST is a community-based service focused on mental health and substance use, offering structured rehabilitative interventions to help individuals successfully live in the community. The service utilizes a team approach and includes face-to-face therapeutic interventions, intensive rehabilitation interventions, and case management. In SFY 2024, $3,402,830 in single-stream funding was used to provide CST services to 787 individuals.

IV. Summary of Local Psychiatric Beds and Other Department Initiatives to Reduce State Psychiatric Hospital Use

In SFY 2024, significant efforts were made to reduce reliance on state psychiatric hospitals and provide alternative psychiatric care through various initiatives. Funding for Three-Way Contracts supported access to psychiatric care for some of North Carolina's most vulnerable residents, namely those who are medically indigent and in need of psychiatric inpatient services. Through the Three-Way Contract program, 4,564 individuals received inpatient care during the fiscal year.

Additionally, single-stream funding provided 8,478 bed days for psychiatric inpatient care in community hospitals. This funding provided mental health, substance use, and intellectual and developmental disabilities services and supports to 925 individuals without health insurance coverage.

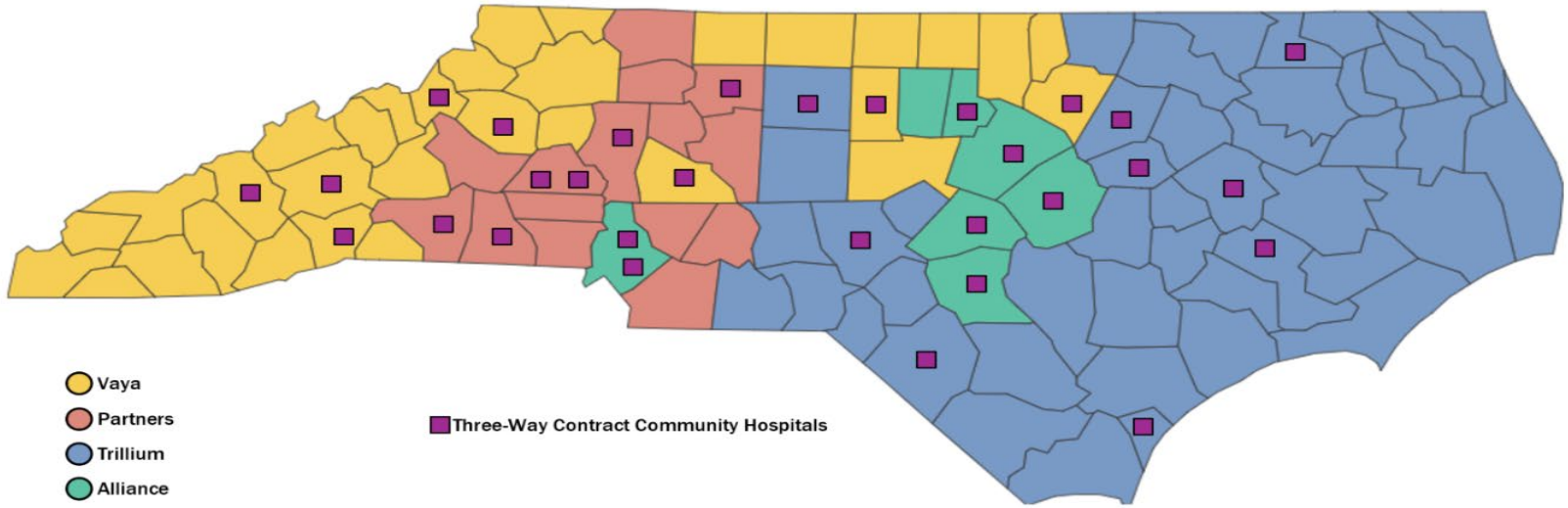
Further reducing pressure on State hospitals, five CCBHC clinics served 17,086 individuals, offering alternative crisis response services, and reducing reliance on EDs. Ten BHUCs, located across the State, available 24 hours a day, seven days a week, provided immediate, non-medical crisis intervention and support to people in crisis.

To provide alternatives to hospitalization, 21 adult FBC service sites across the State, including 13 designated for individuals under involuntary commitment (IVC), offered 319 beds. Five child FBCs provided 75 beds as an alternative to hospitalization for children.

Other service initiatives, such as Mobile Crisis Management, Non-Hospital Detoxification, and Transitions to Community Living, have supported over 5,723 of North Carolina's most vulnerable citizens. These services also helped to divert individuals experiencing behavioral health crises from emergency departments (EDs), thereby reducing strain on the state psychiatric hospitals.

Attachment 1

North Carolina
Three-Way Contract Community Hospital Beds
As of July 1, 2024



Attachment 2

North Carolina

Behavioral Health Facility-Based Crisis & Behavioral Health Urgent Care Locations

As of November 30, 2024