

NC Department of Health and Human Services, Division of Health Benefits and Division of Mental Health/Developmental Disabilities and Substance Abuse Services

Transfer of Area Authority Fund Balances/Disengagement Formulas

as directed by SL 2021-62 (S594), Section 3.5A

Aug. 10, 2021

Email Medicaid.NCEngagement@dhhs.nc.gov with questions or comments

Legislative Directive (SL 2021-62, Section 3.5A)

- “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.”
- DHHS must post final version of formula(s) on web by August 1, 2021
- Formula(s) 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”

Transfer of Risk Reserve (RR) - Illustrative Example

Formula Overview:

Receiving LME/MCO receives the proportional share of Prior LME/MCO's RR based on CY 2019 Service Expenditures attributable to Members from the Disengaging County.

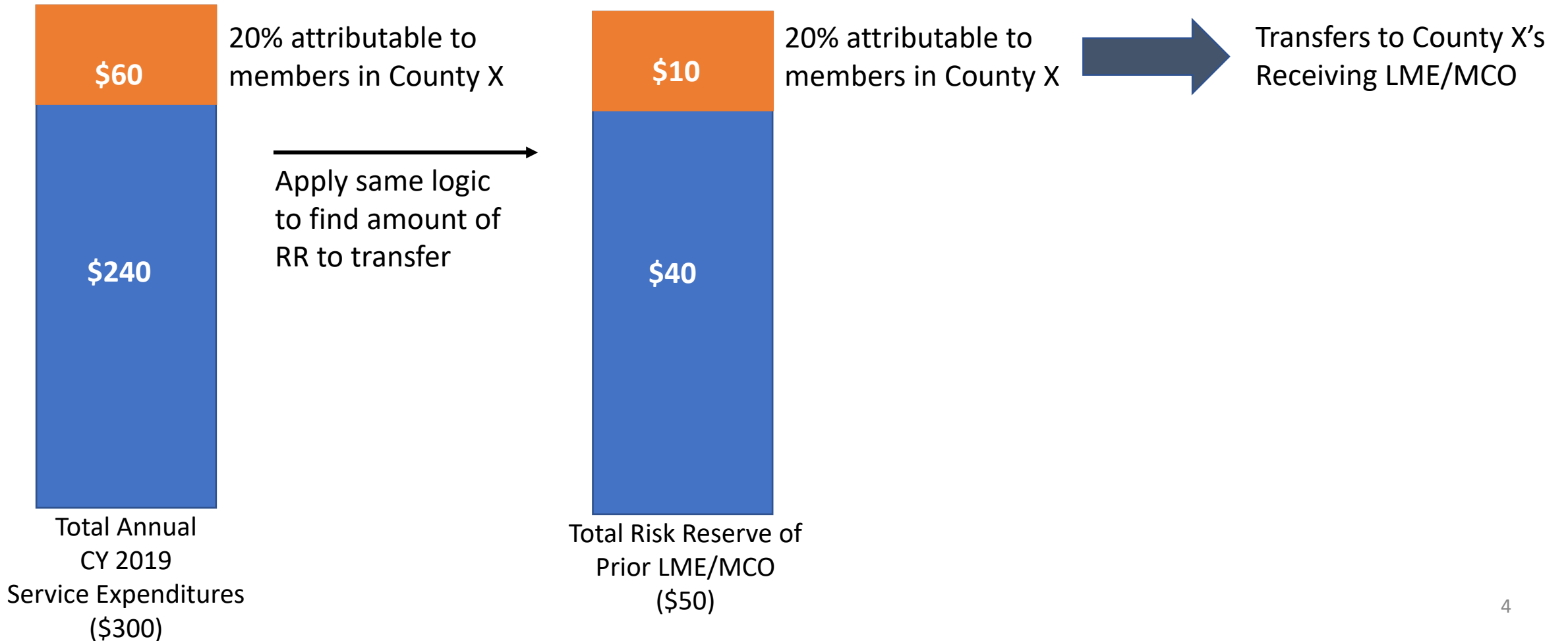
Note: Service expenditures exclude those for members mandatorily enrolled in Standard Plan PHPs.

Step	Formula Component	Amount <i>(illustrative only)</i>
A	Prior LME/MCO Total Risk Reserve (RR) as of date of disengagement	\$ 50 m
B	Prior LME/MCO Total Annual CY 2019 Service Expenditures	\$ 300 m
C	Disengaging County Annual CY 2019 Service Expenditures	\$ 60 m
D	Disengaging County Members' % of Prior LME/MCO Total Service Expenditures (C/B) \$60 m / \$300 m = 20%	20%
E	Transferring portion of RR (D x A = E) 20% x \$50 m = \$10 m	\$ 10 m

Transfer of Risk Reserve (RR) - Illustrative Example

Formula Overview:

Receiving LME/MCO receives the proportional share of Prior LME/MCO's RR based on CY 2019 Service Expenditures attributable to Members from the Disengaging County.



Transfer of Fund Balance (FB) – Determining Balance

Determining Fund Balance (FB) Available for Transfer – Multi-County Disengagement/Winding Down:

1. **Identify balance of All Available Funds/Assets as of a specified date** – In the case of the county disengagements from Cardinal (or any entity that is winding down) this date should be after external auditors (both independent auditors and DHHS auditors) validate that all outstanding assets and liabilities have been properly accounted for. These liabilities might include, for example, long-term leases or other contracts that extend multiple years and are not fully identified in current financial statements.

In the case of a county disengagement from an entity that is not winding down, DHHS will work with the two entities to determine the “as of” date for determining the FB.

2. **Subtract Risk Reserve (RR)** from the total of available funds identified in step 1.
3. **Determine and set aside amounts** to account for **one-time Consolidation Costs** (if applicable) and **Contingency Funds**
 - a. **Consolidation Costs** – DHHS will work with receiving entities to identify what one-time costs may be reasonable to expect.
 - b. **Contingency Funds** – DHHS will determine what amount (a % of estimated outstanding liabilities) may be reasonable to reserve in order to ensure that the State is not at risk for covering any variance from audited estimates. Once all liabilities of the dissolved entity have been resolved, any remaining funds could then be distributed to the receiving entities, in line with the Fund Balance (FB) distribution formula.
4. Arrive at **Remaining Fund Balance to be distributed** through Fund Balance formula.

Determining Fund Balance (FB) – Illustrative Example

Step	Formula Component/Step	Amount <i>(illustrative only)</i>
A	Determine all Available Funds/Assets as of an agreed upon date	\$150 m
B	Determine (and subtract) any outstanding liabilities that need to be covered from the funds identified in step A	(\$55 m)
C	Determine and set aside up to X amount for Consolidation Costs (if applicable, amount will depend on the situation)	(\$5 m)
D	Determine and set aside up to Y amount for Contingency (as above, amount dependent on the situation)	(\$10 m)
E	Subtract RR	(\$30 m)
F	Arrive at Remaining FB to be distributed through relevant FB formula (A - B - C - D - E = F)	\$50 m

Transfer of Fund Balance (FB) – Multi-County Disengagement

Formula Overview:

Distributes balance of funds remaining after subtracting out RR funds and set asides for one-time Consolidation Costs (if applicable) and Contingency (set aside amounts to be determined by DHHS in consultation with LME/MCOs).

Funds distributed based on each disengaging county's historical member months associated with populations planned to move into Tailored Plans (i.e., not mandatorily required to enroll in Standard Plan PHPs), as modified by a "rurality" factor based on persons per square mile in each county (same method as used in distributing Single Stream funding).

Illustrative FB Allocations – by Cardinal Counties

Assumes \$100 m Fund Balance for Distribution (*figure for illustrative purposes only*)

County	Proportional Distribution by Rurality-Adjusted TP Member Months*					
	CY 2019 Member Months (TP Populations)*	% of Total LME/MCO MMs (TP Pop)	Persons per Square Mile	Rurality Adjustment Factor	Rurality-adjusted % of Total	Proportional \$ Allocation
ALAMANCE	37,765	6.4%	400	1.00	6.0%	\$ 6,002,666
CABARRUS	32,204	5.5%	598	1.00	5.1%	\$ 5,118,724
CASWELL	5,614	1.0%	53	1.74	1.6%	\$ 1,552,636
CHATHAM	9,474	1.6%	109	1.26	1.9%	\$ 1,894,365
DAVIDSON	34,049	5.8%	303	1.00	5.4%	\$ 5,412,001
DAVIE	6,920	1.2%	162	1.11	1.2%	\$ 1,218,886
FORSYTH	81,575	13.8%	937	1.00	13.0%	\$ 12,966,099
FRANKLIN	11,382	1.9%	142	1.15	2.1%	\$ 2,085,466
GRANVILLE	10,158	1.7%	114	1.24	2.0%	\$ 2,001,671
HALIFAX	21,336	3.6%	69	1.52	5.2%	\$ 5,168,239
MECKLENBURG	178,439	30.3%	2,120	1.00	28.4%	\$ 28,362,272
ORANGE	20,353	3.5%	373	1.00	3.2%	\$ 3,235,073
PERSON	10,928	1.9%	101	1.30	2.3%	\$ 2,252,342
ROCKINGHAM	24,179	4.1%	161	1.11	4.3%	\$ 4,268,632
ROWAN	33,150	5.6%	278	1.00	5.3%	\$ 5,269,126
STANLY	12,965	2.2%	159	1.11	2.3%	\$ 2,296,814
STOKES	9,369	1.6%	102	1.29	1.9%	\$ 1,924,488
UNION	26,475	4.5%	380	1.00	4.2%	\$ 4,208,169
VANCE	17,809	3.0%	176	1.08	3.1%	\$ 3,070,182
WARREN	5,646	1.0%	46	1.89	1.7%	\$ 1,692,148
TOTALS	\$ 589,792	100%	N/A	N/A	100%	\$100,000,000

Same distribution, by Receiving LME/MCO

Receiving LME/MCO	Allocation
Alliance	\$ 31,597,344
Partners	\$ 25,808,692
Sandhills	\$ 9,680,633
Vaya	\$ 22,234,090
Pending	\$ 10,679,241
TOTALS	\$ 100,000,000

* Includes only those populations planned to remain in Tailored Plans.

Transfer of FB – Single County Disengagement

Formula Overview:

****This formula is the same as the one used for distributing FB in cases of Multi-County Disengagements****

Steps:

1. Funds “allocated” (theoretically) based on each of the Prior LME/MCO’s county’s historical member months associated with populations planned to move into Tailored Plans (i.e., not mandatorily required to enroll in Standard Plan PHPs), as modified by a “rurality” factor based on persons per square mile in each county.
2. Receiving LME/MCO receives the rurality-adjusted proportional share of Prior LME/MCO’s FB.

Step	Formula Component	Amount <i>(illustrative only)</i>
A	Prior LME/MCO FB as of date determined by DHHS	\$ 40 m
B	Disengaging County Members’ Annual % Share of Prior LME/MCO’s Historical Rurality-Adjusted Member Months	10%
C	Disengaging County % of Prior LME/MCO FB to Transfer to Receiving LME/MCO (A x B = C) \$40 m x 10% = \$4 m	\$4 m

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