

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

July 30, 2021

Email [Medicaid.transformation@dhhs.nc.gov](mailto:Medicaid.transformation@dhhs.nc.gov) with questions or comments

# Transfer of Area Authority Fund Balances/Disengagement Formulas

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

DHHS, Divisions of Health Benefits, Mental Health/DD/SAAS

# 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.

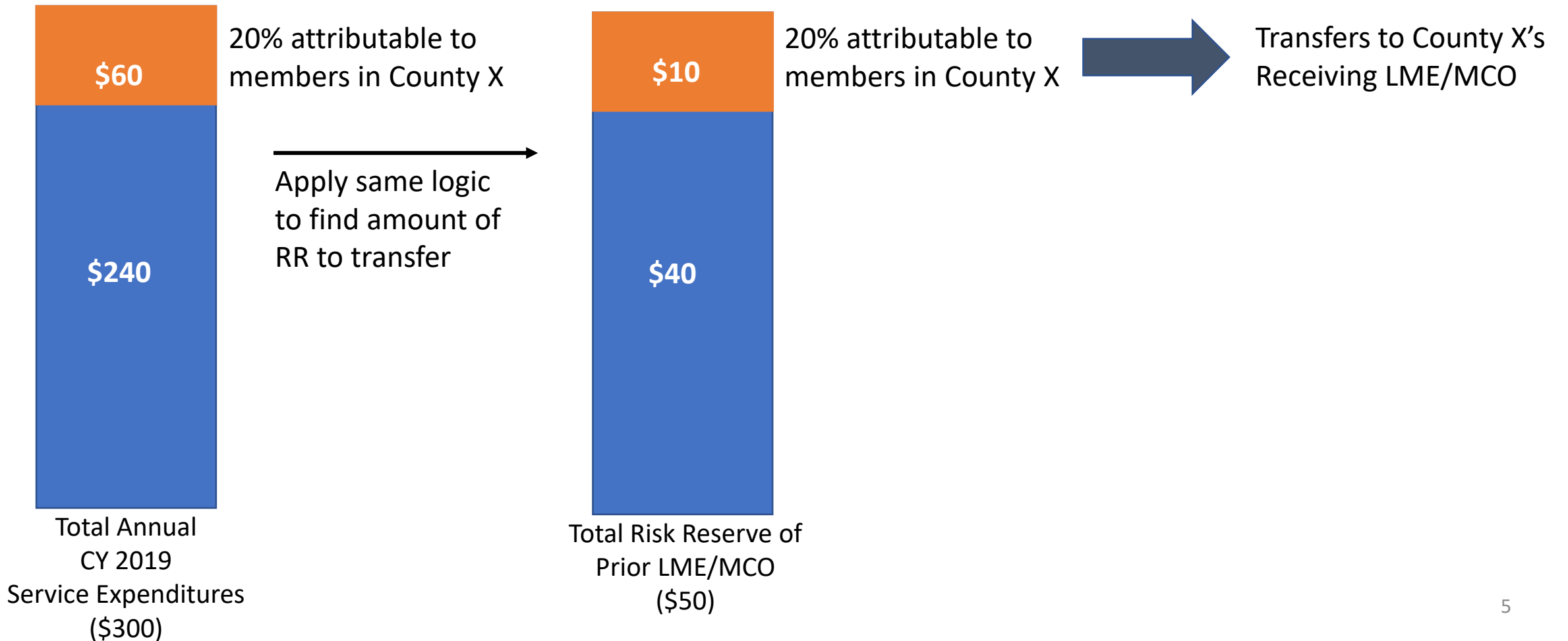
*Note: Service expenditures exclude those for members mandatorily enrolled in Standard Plan PHPs.*

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)  <b>20% x \$50 m = \$10 m</b>	\$ 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/Dissolution:

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 dissolving) 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 a non-dissolving entity, 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 (on slides 7 & 9)

# 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 (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 <b>Remaining FB to be distributed</b> through relevant FB formula (A - B - C - D - E = F)	<b>\$50 m</b>

# 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).

1. 80% of remaining FB distributed proportionally based on % of CY 2019 Service Expenditures (as in RR formula)
2. 20% of remaining FB distributed proportionally, based on population, **only** for counties with <100k total population

Step	Formula Component/Step	Amount <i>(illustrative only)</i>	Description
A	Fund Balance to be Distributed (FB)	\$100 m	FB – distribute according to FB formula
B	80% Distributed based on % of Service Expenditures (as in RR formula lines C-E)	\$80 m	80% of the amount in line A above, distributed based on same methodology as RR formula (proportional, % of Service Exp's)
C	20% Distributed based on county population <u>only</u> to counties w <100k population	\$20 m	% of total population of all eligible counties, multiplied by total dollars to be distributed (e.g., 10% x \$20 m = \$2 m)



# Illustrative FB Allocations – Cardinal Counties

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

County	Allocation of 80%			Allocation of 20%				Total Allocated Fund Balance to 20 Counties
	CY2019 Medicaid Expenditures By Member County*	% of Total LME/MCO Expenditures*	Proportional \$ Allocation	County Population	Eligible County Population	% of Total Eligible Population (Counties <100K)	Proportional \$ Allocation	
ALAMANCE	\$ 39,079,570	6%	\$ 5,138,298	169,509				\$ 5,138,298
CABARRUS	35,536,274	6%	\$ 4,672,415	216,453				\$ 4,672,415
CASWELL	6,460,899	1%	\$ 849,498	22,604	22,604	4%	\$ 725,393	\$ 1,574,891
CHATHAM	12,164,650	2%	\$ 1,599,444	74,470	74,470	12%	\$ 2,389,842	\$ 3,989,287
DAVIDSON	27,922,972	5%	\$ 3,671,395	167,609				\$ 3,671,395
DAVIE	7,464,995	1%	\$ 981,520	42,846	42,846	7%	\$ 1,374,986	\$ 2,356,505
FORSYTH	76,130,000	13%	\$ 10,009,798	382,295				\$ 10,009,798
FRANKLIN	14,349,400	2%	\$ 1,886,702	69,685	69,685	11%	\$ 2,236,285	\$ 4,122,987
GRANVILLE	14,061,830	2%	\$ 1,848,891	60,443	60,443	10%	\$ 1,939,697	\$ 3,788,588
HALIFAX	17,235,196	3%	\$ 2,266,135	50,010	50,010	8%	\$ 1,604,888	\$ 3,871,023
MECKLENBURG	197,543,217	32%	\$ 25,973,568	1,110,356				\$ 25,973,568
ORANGE	30,883,414	5%	\$ 4,060,643	148,476				\$ 4,060,643
PERSON	10,858,815	2%	\$ 1,427,749	39,490	39,490	6%	\$ 1,267,287	\$ 2,695,036
ROCKINGHAM	18,749,191	3%	\$ 2,465,199	91,010	91,010	15%	\$ 2,920,633	\$ 5,385,833
ROWAN	27,772,653	5%	\$ 3,651,631	142,088				\$ 3,651,631
STANLY	11,996,342	2%	\$ 1,577,315	62,806	62,806	10%	\$ 2,015,529	\$ 3,592,844
STOKES	8,483,128	1%	\$ 1,115,387	45,591	45,591	7%	\$ 1,463,077	\$ 2,578,463
UNION	27,602,114	5%	\$ 3,629,208	239,859				\$ 3,629,208
VANCE	17,330,521	3%	\$ 2,278,668	44,535	44,535	7%	\$ 1,429,188	\$ 3,707,856
WARREN	6,818,654	1%	\$ 896,537	19,731	19,731	3%	\$ 633,194	\$ 1,529,731
<b>TOTALS</b>	<b>\$ 608,443,837</b>	<b>100%</b>	<b>\$ 80,000,000</b>	<b>3,199,866</b>	<b>623,221</b>	<b>100%</b>	<b>20,000,000</b>	<b>\$ 100,000,000</b>

\* Excludes expenditures for populations mandatorily enrolled in Standard Plan PHPs.

# Transfer of FB – Single County Disengagement

## Formula Overview:

**\*\*This formula is the same as the one used for distributing Risk Reserve.\*\***

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

Step	Formula Component	Amount <i>(illustrative only)</i>
A	Prior LME/MCO FB as of date determined by DHHS	\$ 40 m
B	Prior LME/MCO Total Historical Service Expenditures	\$ 200 m
C	Disengaging County Members' Annual Historical Service Expenditures	\$ 20 m
D	Disengaging County % of Prior LME/MCO Total Service Expenditures (C/B)  \$20 m / \$200 m = 10%	10%
E	Transferring portion of FB (D x A = E)  <b>10% x \$40 m = \$4 m</b>	\$ 4 m

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