LME/MCO Solvency Ranges
Quarter Ending March 30, 2019

Session Law 2018-5, Section 11F.10(c)

Report 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

By

North Carolina Department of Health and Human Services

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Reporting Requirements:

Session Law 2018-5; Senate Bill 99, SECTION 11F.10.(b) Part 2 of Article 4 of Chapter 122C of the General Statutes is amended by adding a new section to read:

"§ 122C-125.2. LME/MCO solvency ranges; formula; corrective action plan.

(a) Beginning on September 1, 2018, the Department shall calculate on a quarterly basis a solvency range for each LME/MCO as a sum of the following figures to produce upper and lower range values:

(1) Incurred but not reported claims figure. – The incurred but not reported claims figure shall be calculated by multiplying an LME/MCO's service spending for the preceding 12 months by six and eight-tenths percent (6.8%). If an LME/MCO experiences extenuating circumstances supported by actuarial documentation, then the Department may utilize a percentage other than six and eight-tenths (6.8%) for that LME/MCO.

(2) Net operating liabilities figure. – The net operating liabilities figure shall be calculated by subtracting noncash current accounts receivable from the nonclaims current liabilities, as reported on the LME/MCO's most recent balance sheet. If the noncash accounts receivable are greater than the nonclaim liabilities, then the value for the net operating liabilities figure is zero.

(3) Catastrophic or extraordinary events range. – The catastrophic or extraordinary events range shall be calculated as the range between a lower figure and an upper figure. The lower figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by four and fifteen-hundredths percent (4.15%). The upper figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by eight and three-tenths percent (8.3%).

(4) Required intergovernmental transfers figure. – The required intergovernmental transfers figure is the amount of funds needed by an LME/MCO to make any intergovernmental transfers required by law over the subsequent 24 months.

(5) Projected operating loss figure. – The projected operating loss figure is the projected net loss for an LME/MCO over the subsequent 24 months. In projecting the net loss for an LME/MCO, the Department shall use the net loss of the LME/MCO in the preceding 12 months adjusted for any changes in single-stream funding, intergovernmental transfers, or other factors known to the Department that will impact the LME/MCO's net loss over the subsequent 24 months. If a net profit is projected for an LME/MCO, then this figure is zero.

(6) Reinvestment plan figure. – The reinvestment plan figure is the amount required for all qualifying expenditures contained in an LME/MCO's reinvestment plans over the subsequent 36 months. To qualify as an expenditure under this subdivision, the expenditure must be related to one of the following:

a. An initiative that supports specific goals or health status outcomes of the State in relation to the State's behavioral health needs.

b. An initiative that meets a State behavioral health need, as defined in law or by the Department.

c. Funding for infrastructure that supports the effective and efficient operation of the LME/MCO.

d. Funding for a facility within the LME/MCO catchment area that is necessary to meet to the needs of the population served by the LME/MCO.

e. New or expanded initiatives and programmatic improvements to the State behavioral health system.

f. Working capital to be utilized to fund changes in rates, operations, or programs.

(b) Upon calculation of the solvency range for each LME/MCO required by subsection (a) of this section, the Department shall compare the cash balance of each LME/MCO to its solvency range. For purposes of this subsection, the cash balance shall consist of the total of the LME/MCO's cash and investment balances, including its Medicaid Risk Reserve, as reported on the LME/MCO's most recent balance sheet. Upon comparison of an LME/MCO's cash balance to its solvency range, the Department shall take one of the following actions:

(1) If an LME/MCO's cash balance is five percent (5%) or more below the lower solvency range figure or five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the comparison results. Within 30 days from providing notice to the LME/MCO, the Department shall develop, in collaboration with the LME/MCO, a corrective action plan for the LME/MCO. The corrective action plan must include specific actions, which may include changes to the LME/MCO's reinvestment plan, utilization management, and capitation or provider rates, to bring the LME/MCO's cash balance within the solvency range, as well as a time line for implementation of these actions.

(2) If an LME/MCO's cash balance is neither five percent (5%) or more below the lower solvency range figure nor five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the LME/MCO's solvency range for the quarter and the Department's comparison of the LME/MCO's cash balance to this solvency range. No further action shall be required.

Background:

The General Assembly has asserted that a viable State-funded behavioral health system is critical to accomplishing the State's goals for behavioral health, meeting the needs of covered populations, and achieving the desired outcomes detailed in the Department of Health and Human Services' Strategic Plan for Improvement of Behavioral Health Services. To better assess the viability of the State's behavioral health system, the General Assembly developed a method, outlined in G.S. 122C-125.2, to determine the financial viability of local management entities/managed care organizations (LME/MCOs). This method utilizes standard calculations to create a uniform analysis of each LME/MCO's financial position that can be used to evaluate each LME/MCO's viability, inform the State's funding decisions, and promote short- and longer-term planning by the LME/MCOs.

Executive Summary:

The results of the most recent solvency calculations indicate that the following 5 LME/MCOs are outside the allowable range and are therefore required to submit Corrective Action Plans:

- Alliance Health
- Eastpointe
- Partners Behavioral Health Management
- Trillium Health Resources
- Vaya Health

Reporting Results (Observations/Recommendations):

1) Incurred but not reported claims figure. (Table 1) – The incurred but not reported claims figure shall be calculated by multiplying an LME/MCO's service spending for the preceding 12 months by six and eight-tenths percent (6.8%). If an LME/MCO experiences extenuating circumstances supported by actuarial documentation, then the Department may utilize a percentage other than six and eight-tenths (6.8%) for that LME/MCO.

(2) Net operating liabilities figure. (Table 3) – The net operating liabilities figure shall be calculated by subtracting noncash current accounts receivable from the nonclaims current liabilities, as reported on the LME/MCO's most recent balance sheet. If the noncash accounts receivables are greater than the nonclaim liabilities, then the value for the net operating liabilities figure is zero.

(3) Catastrophic or extraordinary events range. (Table 5) – The catastrophic or extraordinary events range shall be calculated as the range between a lower figure and an upper figure. The lower figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by four and fifteen-hundredths percent (4.15%). The upper figure shall be calculated by multiplying an LME/MCO's service expenditures from the preceding 12 months by eight and three-tenths percent (8.3%).

Observation: An LME/MCO would need to have the equivalent of 15 – 30 days of cash on hand to remain within the range, as specified.
Recommendation: Consider using 8.3% for the lower figure and 16.6% for the upper figure. This range would align with the current contractual requirements which require that LME/MCO's maintain at a minimum 30 days of cash on hand (Defensive Interval).

(4) Required intergovernmental transfers figure. (Table 7) – The required intergovernmental transfers figure is the amount of funds needed by an LME/MCO to make any intergovernmental transfers required by law over the subsequent 24 months.

Observation: The required transfer is required by Session Law.

(5) Projected operating loss figure. (Table 9) – The projected operating loss figure is the projected net loss for an LME/MCO over the subsequent 24 months. In projecting the net loss for an LME/MCO, the Department shall use the prior 12 months net loss of the LME/MCO adjusted for any changes in single-stream funding, intergovernmental transfers, or other factors known to the Department that will impact the LME/MCO's net loss over the subsequent 24 months. If a net profit is projected for an LME/MCO, then this figure is zero.

Observation: The projected operating expenses for the Medicaid expenditures includes reinvestment spending as per the submitted reinvestment plans.

(6) Reinvestment plan figure. (Table 11) – The reinvestment plan figure is the amount required for all qualifying expenditures contained in an LME/MCO's reinvestment plans over the subsequent 36 months.

Observation: The reinvestment plans submitted by the LME/MCO are recommendations to their respective Boards and have only been approved for year 1.

(b) Solvency Range. (Table 13) - Upon calculation of the solvency range for each LME/MCO required by subsection (a) of this section, the Department shall compare the cash balance of each LME/MCO to its solvency range. For purposes of this subsection, the cash balance shall consist of the total of the LME/MCO's cash and investment balances, including its Medicaid Risk Reserve, as reported on the LME/MCO's most recent balance sheet.
Upon comparison of an LME/MCO's cash balance to its solvency range, the Department shall take one of the following actions:

(1) If an LME/MCO's cash balance is five percent (5%) or more below the lower solvency range figure or five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the comparison results. Within 30 days from providing notice to the LME/MCO, the Department shall develop, in collaboration with the LME/MCO, a corrective action plan for the LME/MCO. The corrective action plan must include specific actions, which may include changes to the LME/MCO's reinvestment plan, utilization management, and capitation or provider rates, to bring the LME/MCO's cash balance within the solvency range, as well as a time line for implementation of these actions.

(2) If an LME/MCO's cash balance is neither five percent (5%) or more below the lower solvency range figure nor five percent (5%) or more above the upper solvency range figure, then the Department shall notify the LME/MCO and the Fiscal Research Division of the General Assembly of the LME/MCO's solvency range for the quarter and the Department's comparison of the LME/MCO's cash balance to this solvency range. No further action shall be required.

Observation: The calculation includes Risk Reserve as part of the LME/MCO cash balance that is then compared to the solvency range.
Recommendation: In accordance with G.S. 122C-124.2(e)(3), the Risk Reserve's use is limited to paying outstanding liabilities (unpaid claims) to Providers in cases of insolvency; it is not intended to be used for operating costs. Because these resources are not allowed to be used for payment of non-service expenditure liabilities and, further, may not be accessed by the LME/MCO unless written consent is granted by DHHS, the Risk Reserve should be removed from this calculation.

Corrective Action Plan:

The Department is currently in collaboration with each LME/MCO that is required to develop a corrective action plan. The CAP may include changes to the LME/MCO reinvestment plan, utilization management, and/or capitation or provider rates, to bring the LME/MCO's cash balance within solvency range and will include a time line for implementation of the identified actions.

Incurred But Not Reported (IBNR)

LME/MCO's service spending for the preceding 12 months assuming a 6.80% average IBNR

	Medicaid	Non-Medicaid	Total
Alliance Behavioral Healthcare	$ 25,789,872	$ 6,568,140	$ 32,358,012
Cardinal Innovations	$ 44,399,574	$ 8,400,901	$ 52,800,475
Eastpointe Human Services	$ 14,650,716	$ 2,666,563	$ 17,317,279
Partners Behavioral Health	$ 16,534,446	$ 3,664,905	$ 20,199,351
Sandhills Center	$ 16,377,808	$ 3,778,928	$ 20,156,736
Trillium Health Resources	$ 23,603,901	$ 4,991,026	$ 28,594,927
Vaya Health	$ 20,138,462	$ 5,441,843	$ 25,580,305

Net Operating Liabilities

LME/MCO's current liabilities excluding IBNR minus noncash current accounts receivable

	Medicaid	Non-Medicaid	Total
Alliance Behavioral Healthcare	$ 5,226,919	$ 14,793,051	$ 20,019,970
Cardinal Innovations	$ 517,495	$ -	$ -
Eastpointe Human Services	$ -	$ 6,037,136	$ 4,408,291
Partners Behavioral Health	$ 5,292,794	$ 5,062,559	$ 10,355,353
Sandhills Center	$ -	$ -	$ -
Trillium Health Resources	$ -	$ 65,819	$ -
Vaya Health	$ 5,015,853	$ -	$ 2,756,472

Catastrophic Events Range

LME/MCO's service spending for the preceding 12 months multiplied by 4.15% and 8.30% to calculate an upper and lower range respectively

			Medicaid		Non-Medicaid		Total
Alliance Behavioral Healthcare	4.15% EER Lower Figure	$	15,739,407	$	4,008,497	$	19,747,904
	8.30% EER Lower Figure	$	31,478,814	$	8,016,995	$	39,495,809
Cardinal Innovations	4.15% EER Lower Figure	$	27,096,799	$	5,127,021	$	32,223,819
	8.30% EER Lower Figure	$	54,193,597	$	10,254,041	$	64,447,639
Eastpointe Human Services	4.15% EER Lower Figure	$	8,941,246	$	1,627,388	$	10,568,633
	8.30% EER Lower Figure	$	17,882,491	$	3,254,776	$	21,137,267
Partners Behavioral Health	4.15% EER Lower Figure	$	10,090,875	$	2,236,670	$	12,327,545
	8.30% EER Lower Figure	$	20,181,750	$	4,473,341	$	24,655,090
Sandhills Center	4.15% EER Lower Figure	$	9,995,280	$	2,306,257	$	12,301,537
	8.30% EER Lower Figure	$	19,990,560	$	4,612,515	$	24,603,075
Trillium Health Resources	4.15% EER Lower Figure	$	14,405,322	$	3,045,994	$	17,451,316
	8.30% EER Lower Figure	$	28,810,644	$	6,091,988	$	34,902,632
Vaya Health	4.15% EER Lower Figure	$	12,290,385	$	3,321,125	$	15,611,510
	8.30% EER Lower Figure	$	24,580,770	$	6,642,249	$	31,223,019

Intergovernmental Transfers

Funds needed by an LME/MCO to make any intergovernmental transfers required by law over the subsequent 24 months

		Medicaid	Non-Medicaid	Total
Alliance Behavioral Healthcare	SFY19	$ 3,007,817	$ -	$ 3,007,817
	SFY20	$ 2,994,453	$ -	$ 2,994,453
Cardinal Innovations	SFY19	$ 4,144,723	$ -	$ 4,144,723
	SFY20	$ 4,032,586	$ -	$ 4,032,586
Eastpointe Human Services	Nash Adj.	$ 193,943	$ -	$ 193,943
	SFY19	$ 1,731,831	$ -	$ 1,731,831
	SFY20	$ 1,701,156	$ -	$ 1,701,156
Partners Behavioral Health	SFY19	$ 1,960,283	$ -	$ 1,960,283
	SFY20	$ 1,914,860	$ -	$ 1,914,860
Sandhills Center	SFY19	$ 1,918,643	$ -	$ 1,918,643
	SFY20	$ 1,978,939	$ -	$ 1,978,939
Trillium Health Resources	Nash Adj.	$ 193,943	$ -	$ 193,943
	SFY19	$ 2,931,104	$ -	$ 2,931,104
	SFY20	$ 3,119,822	$ -	$ 3,119,822
Vaya Health	SFY19	$ 2,333,816	$ -	$ 2,333,816
	SFY20	$ 2,286,401	$ -	$ 2,286,401

Projected Operating Loss

LME/MCO's net profit/(loss), adjusted to include any known changes including single stream funding cuts and IGT payments for that 12 month period

			Medicaid		Non-Medicaid		Total
Alliance Behavioral Healthcare	Proj. Net Op. Loss over 12 months	$	(17,967,525)	$	(18,094,781)	$	(36,062,306)
	Proj. Net Op. Loss over 24 months	$	-	$	(18,094,781)	$	(12,269,893)
Cardinal Innovations	Proj. Net Op. Loss over 12 months	$	(27,951,301)	$	(16,736,888)	$	(44,688,189)
	Proj. Net Op. Loss over 24 months	$	-	$	(16,736,888)	$	(5,339,786)
Eastpointe Human Services	Proj. Net Op. Loss over 12 months	$	-	$	(1,210,039)	$	-
	Proj. Net Op. Loss over 24 months	$	-	$	(1,210,039)	$	-
Partners Behavioral Health	Proj. Net Op. Loss over 12 months	$	(15,223,449)	$	-	$	(15,223,449)
	Proj. Net Op. Loss over 24 months	$	-	$	-	$	-
Sandhills Center	Proj. Net Op. Loss over 12 months	$	(13,360,368)	$	(5,679,781)	$	(19,040,149)
	Proj. Net Op. Loss over 24 months	$	-	$	(5,679,781)	$	(2,193,702)
Trillium Health Resources	Proj. Net Op. Loss over 12 months	$	-	$	-	$	-
	Proj. Net Op. Loss over 24 months	$	-	$	-	$	-
Vaya Health	Proj. Net Op. Loss over 12 months	$	(13,177,619)	$	-	$	(13,177,619)
	Proj. Net Op. Loss over 24 months	$	-	$	-	$	-

Reinvestment Plan

Amount required for all expenditures over the next 3 years related to specific initiatives noted in the LME/MCO's reinvestment plans

		Projected Spend
Alliance Behavioral Healthcare	0-12 months	$ 3,835,000
	13-24 months	$ 11,335,000
	25-36 months	$ 11,335,000
		$ 26,505,000
Cardinal Innovations	0-12 months	$ 1,276,250
	13-24 months	$ 12,552,188
	25-36 months	$ 12,552,188
		$ 26,380,626
Eastpointe Human Services	0-12 months	$ 10,260,026
	13-24 months	$ 13,171,968
	25-36 months	$ 13,171,968
		$ 36,603,961
Partners Behavioral Health	0-12 months	$ 5,702,914
	13-24 months	$ 7,568,048
	25-36 months	$ 5,965,774
		$ 19,236,736
Sandhills Center	0-12 months	$ 3,162,287
	13-24 months	$ 24,353,029
	25-36 months	$ 36,816,298
		$ 64,331,614
Trillium Health Resources	0-12 months	$ 5,734,863
	13-24 months	$ 19,250,000
	25-36 months	$ 12,500,000
		$ 37,484,863

Solvency Measures Summary

Comparison of an LME/MCO's cash balance to its solvency range; if cash balance is ± 5% of the upper or lower solvency range, a corrective action plan must be developed

		Solvency Range	Cash/Investments/ Risk Reserve	Threshold $ (± 5%)	Threshold % (± 5%)	
Alliance	Lower Range	$146,963,085	$127,849,685	$139,614,931	-13.0%	CONCERN
	Upper Range	$166,710,990	$127,849,685	$175,046,539	-23.3%	OK
Cardinal	Lower Range	$161,432,895	$198,873,881	$153,361,250	23.2%	OK
	Upper Range	$193,656,714	$198,873,881	$203,339,550	2.7%	OK
Eastpointe	Lower Range	$68,898,164	$104,720,417	$65,453,256	52.0%	OK
	Upper Range	$79,466,798	$104,720,417	$83,440,138	31.8%	CONCERN
Partners	Lower Range	$77,342,435	$71,563,134	$73,475,313	-7.5%	CONCERN
	Upper Range	$89,669,980	$71,563,134	$94,153,479	-20.2%	OK
Sandhills	Lower Range	$118,023,738	$127,783,767	$112,122,551	8.3%	OK
	Upper Range	$130,325,276	$127,783,767	$136,841,539	-2.0%	OK
Trillium	Lower Range	$83,531,106	$148,276,100	$79,354,551	77.5%	OK
	Upper Range	$100,982,422	$148,276,100	$106,031,543	46.8%	CONCERN
Vaya	Lower Range	$65,687,791	$99,459,219	$62,403,401	51.4%	OK
	Upper Range	$81,299,300	$99,459,219	$85,364,265	22.3%	CONCERN