STATE OF NORTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES

ROY COOPER
GOVERNOR

MANDY COHEN, MD, MPH
SECRETARY

September 1, 2021

SENT VIA ELECTRONIC MAIL

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

Dear Director Trogdon:

Session Law 2020-78, Section 4E.2, requires the Department of Health and Human Services, Division of Mental Health, Developmental Disabilities, and Substance Abuse Services, to submit an annual report on the implementation of the use of funds to purchase inpatient alcohol and substance use disorder treatment services required by Section 11F.4 of S.L. 2017-57. The report shall be submitted to the Joint Legislative Oversight Committee on Health and Human Services and the Fiscal Research Division on or before September 1 of each year. Pursuant to the provisions of law, the Department is pleased to submit the attached report.

Should you have any questions, please contact John Furnari, Division of Budget & Analysis, at John.Furnari@dhhs.nc.gov.

Sincerely,

Mandy Cohen, MD, MPH
Secretary

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Kody H. Kinsley
Chief Deputy Secretary for Health
North Carolina Department of Health and Human Services

cc:	Kody Kinsley	Susan G. Perry	Dave Richard	Victor Armstrong
	Tara Myers	Rob Kindsvatter	Marjorie Donaldson	reports@ncleg.net
	Matt Gross	Meisha Evans	Joyce Jones	Lisa Wilks
	Katherine Restrepo	Jared Simmons	Jane Chiulli	Luke MacDonald
	Erin Matteson	Theresa Matula	Mark Collins	Jessica Meed

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September 1, 2021

SENT VIA ELECTRONIC MAIL

The Honorable Joyce Krawiec, Chair
Joint Legislative Oversight Committee on
Health and Human Services
North Carolina General Assembly
Room 308, 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

Dear Chairmen:

Session Law 2020-78, Section 4E.2, requires the Department of Health and Human Services, Division of Mental Health, Developmental Disabilities, and Substance Abuse Services, to submit an annual report on the implementation of the use of funds to purchase inpatient alcohol and substance use disorder treatment services required by Section 11F.4 of S.L. 2017-57. The report shall be submitted to the Joint Legislative Oversight Committee on Health and Human Services and the Fiscal Research Division on or before September 1 of each year. Pursuant to the provisions of law, the Department is pleased to submit the attached report.

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Annual Report on Use of Funds to Purchase Inpatient Alcohol and Substance Use Disorder Treatment Services

Session Law 2020-78

Report to

Joint Legislative Oversight Committee on Health and Human Services

and

Fiscal Research Division

by

North Carolina
Department of Health and Human Services

September 1, 2021

Pursuant to Session Law 2020-78, as shown below, the Department of Health and Human Services, Division of Mental Health, Developmental Disabilities, and Substance Abuse Services, shall report annually, beginning September 1, 2020, and ending on September 1, 2026, on the implementation of the use of funds to purchase inpatient alcohol and substance use disorder treatment services for the prior fiscal year and the two preceding fiscal years to the Joint Legislative Oversight Committee on Health and Human Services and the Fiscal Research Division. **The purpose of this report is to satisfy this reporting requirement for the use of funds to purchase inpatient alcohol and substance use disorder treatment services for state fiscal years 2019, 2020, and 2021.**

> "**Session Law 2020-78. Report on the use of funds to purchase inpatient alcohol and substance use disorder treatment services; Section 4E.2.**
> The Department of Health and Human Services, Division of Mental Health, Developmental Disabilities, and Substance Abuse Services, shall report annually, beginning September 1, 2020, and ending on September 1, 2026, on the implementation of the use of funds to purchase inpatient alcohol and substance use disorder treatment services required by Section 12F.12 of S.L. 2015-241, as amended by Section 11F.4 of S.L. 2017-57. The report shall be submitted to the Joint Legislative Oversight Committee on Health and Human Services and the Fiscal Research Division with the following information for the prior fiscal year and the two preceding fiscal years, for each Alcohol and Drug Abuse Treatment Center (ADATC):
> (1) The number of beds in operation.
> (2) The number of bed days.
> (3) The total amount of receipts, the amount of those receipts that were received from local management entities/managed care organizations, and the amount of those receipts that were received from all other sources.
> (4) Cost of operation of the ADATC, with personnel and staffing costs reported separately from all other costs.
> (5) The ADATCs profit or loss."

In July 2020, an estimated 1,099,647 persons ages 0-64 were uninsured in North Carolina (https://www.census.gov/data/datasets/time-series/demo/sahie/estimates-acs.html). From 1999-2018, more than 14,500 North Carolinians lost their lives due to unintentional opioid overdose (https://injuryfreenc.shinyapps.io/OpioidActionPlan/).

As of July 2020, 3.63% of persons age 12+ in North Carolina are estimated to use prescription pain relievers non-medically or use heroin (https://www.samhsa.gov/data/report/2017-2018-nsduh-state-prevalence-estimates). According to NC DETECT data, North Carolina has seen a 14% increase in medication/drug overdose emergency department visits in 2020, largely driven by a 15% increase in opioid overdose emergency department visits. While Walter B. Jones (WBJ) has operated an inpatient Opioid Treatment Program (OTP) for years, in response to the statewide opioid epidemic, Julian F. Keith (JFK) launched their inpatient OTP in July 2018 and R.J. Blackley (RJB) followed shortly thereafter with their launch in May 2019. WBJ launched their outpatient OTP in December 2019, which included establishing outpatient billing.

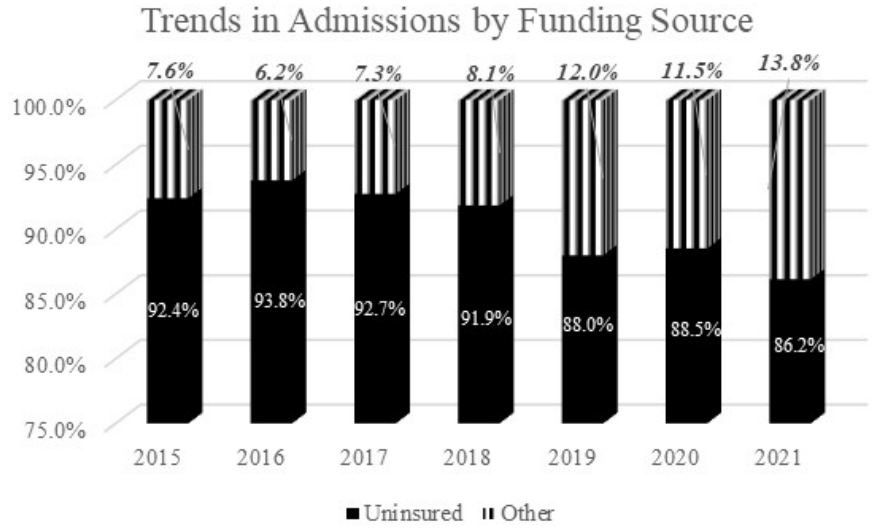
Collectively, the Alcohol and Drug Abuse Treatment Centers (ADATC) have produced a shortfall in every year since the ADATCs were converted into receipt supported facilities in 2015[1]. There are key factors that drive this:

- As a result of State policies, the ADATCs operate with a high degree of fixed staffing costs. This limits management's ability to reduce costs when/if fewer than expected patients need services.
- All state operated healthcare facilities have struggled to recruit and retain the necessary workers to fully staff and operate each facility. Frequently, facilities must use contracted staff to cover gaps created by a lack of permanent staff. These contract staff are more expensive than a traditional state employee. ADATCs have had to use contract workers and temporary staff in recent years to fill vacancies, which increased cost by $3.3 million in FY 2020-21 alone.
- The General Assembly approved salary increases for state employees in SFY20 and SFY21, including employees in ADATCs. Unlike other state agencies, salary increases for ADATC employees are not funded by an appropriation from the General Assembly. These costs are assumed to be covered from receipts generated by the facility. There have not been sufficient receipts to cover these costs, which increases budget shortfalls. by an undefined increase in receipts of the program. These salary changes increase the cost of operating the ADATC each year, which will increase the rates for services.
- There are fewer occupants and shorter lengths of stay at the facilities, primarily due to the COVID-19 pandemic and reducing the number of patients to limit the risk of the virus spreading the facilities. Additionally, the overall average length of stay has declined since SFY 15. Both of these factors have decreased the amount of revenue each ADATC has been able to generate.

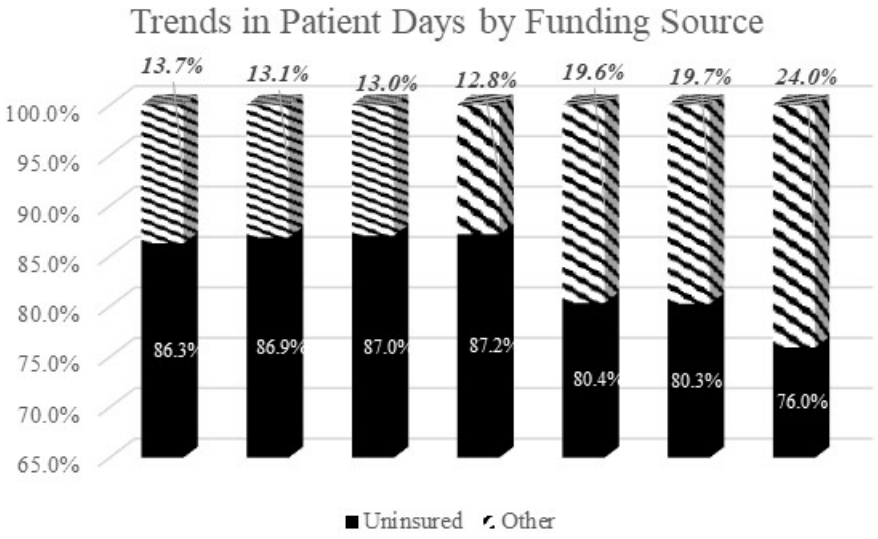
ADATCs provide quality and compassionate care that is a higher level of service than is found in the community. This results in higher per day patient costs. However, declining occupancy, mandated and unfunded salary increases, along with rigid state policies making it hard to adjust to the marketplace and unexpected pressures like the pandemic have added to the financial stress on ADATCs. ADATCs have implemented outpatient programs to create new sources of receipts to offset the shortfalls and are finalizing an RFP to work with an external consultant to develop a new business model to ensure the sustainability of these valuable State services. NCDHHS has been taking steps to address factors within its purview to improve the ADATCs' financial position. However, additional actions are needed from the General Assembly to help address the inability to effectively manage staffing costs and burdensome regulatory policies. Detailed profit and losses are provided below, and each ADATC has had an operating loss each of the past three years, NCDHHS has shifted funding from other Division's surpluses to cover these losses.

[1] Due to SL 2015-241

In SFY21, 86.2% of all patients admitted were uninsured and 76.0% of patient days were uninsured/self-pay. The patients admitted to the ADATCs have increasingly been covered by funding sources other than the allocation to the LME/MCO's. This is reflected in the charts below:



Patient Days have reflected similar trends in admissions as reflected in the chart below:



The "Other" category includes individuals with Medicare, Commercial Insurance and Medicaid. The table to the right presents the trends in % of those covered by Medicaid and non-Medicaid plans. Individuals identified as having 3rd party coverage, other than Medicaid, may not have MH/SA benefits covered, could be out-of-network, could have out-of-state coverage, or could have exhausted benefits for inpatient services and may end up being self-pay when admitted to an ADATC.

	3rd Prty	***Medicaid***
2021	5.2%	8.7%
2020	5.2%	6.3%
2019	6.3%	5.7%
2018	7.1%	1.1%
2017	6.7%	0.6%
2016	5.6%	0.6%
2015	7.2%	0.4%

The ADATCs experienced an increase in demand and expanded operational capacity in March 2020 (JFK 72; RJB 60; WBJ 48); however, at the onset of COVID-19, the ADATCs took appropriate infection control measures, which unfortunately resulted in a temporary decrease in operational bed capacity (JFK 54; RJB 40; WBJ 30). In addition, continuing to admit patients during the pandemic has had an impact on operational costs associated with inpatient treatment.

New outpatient revenue sources and services for the ADATCs include WBJ executing a contract with Eastpointe and Trillium for Medicaid and with Trillium for state funds. RJB is focusing on establishing a partnership with the Veterans Life Center of North Carolina to eventually serve their residents by providing outpatient OTP and assessment services. JFK and Vaya have been successful in utilizing on-site peer support services, which is the foundation for JFK's expansion to provide contracted outpatient peer support services with Vaya effective in July 2021 to assist individuals with referral and discharge. The ADATCs will continue to engage with community partners with the goal of increasing service line expansion to carry out the mission and generate additional revenue.

(1) The number of beds in operation.
The number of beds in operation is defined as the total number of beds that are currently staffed on the last day of the month. This is captured monthly, at a point in time and averaged across the 12 months in the state fiscal year.

Operational Beds			
ADATC	**SFY19**	**SFY20**	**SFY21**
JFK	68	65	54
RJB	41	47	40
WBJ	41	44	48

(2) The number of bed days.
A bed day is a day during which a patient is admitted and stays overnight at the ADATC. The total number of bed days is inclusive of all ADATC services provided during the admission.

Beds Days			
ADATC	**SFY19**	**SFY20**	**SFY21**
JFK	20,582	20,005	16,315
RJB	9,839	12,988	10,646
WBJ	8,516	11,815	12,179

(3) The total amount of receipts, the amount of those receipts that were received from local management entities/managed care organizations, and the amount of those receipts that were received from all other sources as reported in the BD701.

Total Amount of Receipts									
SFY	**SFY19****			**SFY20****			**SFY21*****		
ADATC	**LME/MCO**	**Other***	**Total**	**LME/MCO**	**Other***	**Total**	**LME/MCO**	**Other***	**Total**
JFK	$13,041,065	$2,416,517	$15,457,582	$11,808,284	$2,816,387	$14,624,670	$13,203,844	$3,032,632	$16,236,476
RJB	$8,509,303	$1,866,851	$10,	$9,535,483	$2,407,644	$11,943,147	$9,991,669	$3,532,683	$13,524,352
WBJ	$11,521,318	$133,944	$11,655,312	$10,654,268	$814,737	$11,469,004	$11,695,497	$1,308,750	$13,004,248

*Other includes self-pay/government benefits, third party, Medicare, non-Medicaid, Medicaid and non-patient receipts.
**Receipts were updated to reflect totals reported in the closing BD701.

*** SFY21 accounting records were not closed at the time of this report submission. The total includes receipts reported in the August 4, 2021 BD701.

(4) Cost of operation of the ADATC, with personnel and staffing costs reported separately from all other costs.
The total operating costs are inclusive of personnel and staffing services and non-salary expenditures.

Cost of Operation									
SFY	**SFY19***			**SFY20***			**SFY21****		
ADATC	**Personnel & Staff Expenses**	**All Other Expenses**	**Total Operating Costs**	**Personnel & Staff Expenses**	**All Other Expenses**	**Total Operating Costs**	**Personnel & Staff Expenses**	**All Other Expenses**	**Total Operating Costs**
JFK	$14,232,459	$3,897,672	$18,130,132	$15,288,761	$4,708,878	$19,997,639	$16,867,782	$3,873,896	$20,741,678
RJB	$10,997,903	$3,441,509	$14,439,412	$12,182,784	$5,362,282	$17,545,066	$13,451,222	$6,024,116	$19,475,338
WBJ	$12,116,762	$3,267,065	$15,383,827	$13,476,011	$4,908,961	$18,384,972	$14,481,743	$7,504,044	$21,985,787

*Costs of Operation were updated to reflect totals reported in the closing BD701.
**SFY21accounting records were not closed at the time of this report submission. The total includes costs reported in the August 4, 2021 BD701.

(5) The ADATCs profit or loss.
The profit or loss is derived from deducting the total expenditures from the total revenues (with accrual).

Profit or Loss			
ADATC	**SFY19***	**SFY20***	**SFY21****
JFK	($2,672,550)	($5,372,969)	($4,505,202)
RJB	($4,063,158)	($5,601,919)	($5,950,986)
WBJ	($3,728,515)	($6,915,968)	($8,981,539)

*Profit or loss was updated to reflect totals reported in the closing BD701.
**SFY21 accounting records were not closed at the time of this report submission. The total includes profit or loss reported in the August 4, 2021 BD701.