DATE: June 22, 2023

Behavioral Health Information Notice No: 23-026

TO:
California Alliance of Child and Family Services
California Association for Alcohol/Drug Educators
California Association of Alcohol & Drug Program Executives, Inc.
California Association of DUI Treatment Programs
California Association of Social Rehabilitation Agencies
California Consortium of Addiction Programs and Professionals
California Council of Community Behavioral Health Agencies
California Hospital Association
California Opioid Maintenance Providers
California State Association of Counties
Coalition of Alcohol and Drug Associations
County Behavioral Health Directors
County Behavioral Health Directors Association of California
County Drug & Alcohol Administrators

SUBJECT: County Behavioral Health Intergovernmental Transfers (IGT)

PURPOSE: The purpose of this Behavioral Health Information Notice (BHIN) is to notify Mental Health Plans, Drug Medi-Cal Organized Delivery System (DMC-ODS) Counties, and DMC Counties of the Department of Health Care Services' policies and associated processes related to Behavioral Health Intergovernmental Transfers (IGT).

REFERENCE: Welfare and Institutions Code, Section 14184.403, and Section 14184.102

BACKGROUND:
The California Advancing and Innovating Medi-Cal (CalAIM) Act requires the Department of Health Care Services to implement Behavioral Health Payment Reform no sooner than July 1, 2022. As a component of Behavioral Health Payment Reform, DHCS is required to design and implement an IGT-based payment methodology to replace the existing certified public expenditure-based reimbursement methodology for Medi-Cal Specialty Mental Health Services (SMHS), Substance Use Disorder Treatment Services, Expanded Substance Use Disorder Treatment Services, and for costs incurred by counties to administer those benefits.[1]

[1] Welfare and Institutions Code, Section 14184.403

The CalAIM Act also authorized DHCS to implement, interpret, or make more specific the CalAIM Act through all-county letters, plan letters, provider bulletins, information notices, or other similar instructions.[2] This Behavioral Health Information Notice describes how DHCS has designed and will implement the IGT-based payment methodology for covered Medi-Cal Specialty Mental Health Services, Substance Use Disorder Treatment Services, and Expanded Substance Use Disorder Treatment Services delivered through counties. The policies described in this BHIN are effective on July 1, 2023, unless otherwise noted

POLICY:
This Section of the BHIN describes the IGT-based payment methodology in six subsections. The first subsection addresses the mechanisms by which counties may transfer funds to DHCS as the nonfederal share of payments, and the process by which counties must notify DHCS of the mechanism they have chosen. The second subsection describes how DHCS will allocate interest earned on transferred amounts to counties and delivery systems. The third subsection addresses the mechanism by which DHCS will track the balance of funds transferred to DHCS, including how DHCS will communicate that information to counties and a dispute resolution process. The fourth subsection addresses the process by which DHCS will make Medi-Cal payments to counties for approved service claims using the transferred funds as the county portion of the nonfederal share associated with Medi-Cal reimbursements. The fifth subsection addresses how counties must account for certain restricted use funds transferred to DHCS for covered Medi-Cal Behavioral Health Services. The sixth subsection addresses specific questions related to the transfer of Mental Health Services Act (MHSA) funds. Each County must execute an IGT Agreement with DHCS to implement the IGT-based payment methodology described in this BHIN.

I. <u>Transferring Funds to DHCS</u>

An IGT is a transfer of funds from a public agency to the Medicaid Single State Agency (SSA) that the SSA may expend as the nonfederal share in claiming Federal Financial Participation for Medicaid payments. In the context of CalAIM, Behavioral Health Payment Reform, an IGT is a transfer of funds from a county (the public agency) to DHCS (the Medicaid SSA) to be used as the county portion of the nonfederal share of payments to the county for Medi-Cal covered Behavioral Health Services (the "County Share"). This section of the BHIN addresses the allowable sources of nonfederal funds, the amount to be transferred, and the process by which a county may transfer funds to DHCS.

[2] Welfare and Institutions Code, Section 14184.102 (d).

Source of Funds for the Intergovernmental Transfer

The funds transferred to the state as a source of nonfederal share must be eligible to draw down federal funds in accordance with federal requirements at Subpart B of Title 42 CFR Part 433. County General Funds, funds allocated to counties from the Local Revenue Fund, Mental Health Services Fund, and Local Revenue Fund 2011 are eligible to draw down federal funds. Patient care revenue received from programs such as Medicare and Medi-Cal, is considered provider revenue once it is received, and the revenue is a permissible source of the nonfederal share so long as there is no pre-arranged earmarking of the Medi-Cal revenue for that purpose. Federal funds that are not authorized by Federal law to be used to match other Federal funds are not allowable sources of funding for the IGT.[3]

Intergovernmental Transfer Amount

DHCS recommends that counties transfer an amount of money to DHCS that is sufficient to cover the County Share of all approved service payments as those service claims are approved. DHCS recommends that each county maintain an IGT balance with DHCS that is greater than or equal to 300% of the average monthly County Share of all approved service payments from the prior State Fiscal Year. To accomplish this goal, each county should transfer, at the end of each month, starting with July 2023, the average monthly County Share of all approved payments from the prior State Fiscal Year. As described in the “Intergovernmental Transfer Process” section under “SCO Withholds,” DHCS will provide counties with their average monthly approved claims from September 2019 to March 2023 and their monthly allocation from each of the three State funds. The Governor’s Budget proposes to appropriate $375 million from the State General Fund to finance the County Share of Medi-Cal Behavioral Health payments as counties begin to transfer funds (as of the date of publication of this BHIN, this proposal remains subject to change pending finalization of the state budget for FY 2023-24). The sum of these two sources of funding should be sufficient to maintain an IGT balance of three times the average monthly county share.

Intergovernmental Transfer Process

Counties may choose one of two processes to transfer funds to DHCS. One process is for the county to make routine transfers to DHCS through a manual check or Electronic Funds Transfer (EFT), which includes both wire and Automated Clearing House (ACH) transfers. Another process is for the county to authorize the State Controller’s Office (SCO) to withhold a fixed percentage of funding allocated to the county from one or more of the following three State funds: Local Revenue Fund, Local Revenue Fund 2011, and/or Mental Health Services Fund. A county that chooses the second option may also make payments to DHCS through a manual check, wire transfer, or ACH

[3] Code of Federal Regulations, Title 42, Section 433.51 (c).

transfer if needed. Counties must complete the form in Enclosure 1 to select one of these processes and submit the form to DHCS by July 31, 2023. A county that does not complete and submit the form by July 31, 2023, will be required to submit routine payments through a manual check, wire transfer, or ACH transfer. Counties may change their option between the two methods during the contract year through an amendment as specified in the IGT agreement.

Routine Transfers

Counties that choose to make routine transfers to DHCS through a manual check, wire transfer, or ACH transfer must select that option on the form in Enclosure 1. Counties may make routine transfers on any periodic basis the county chooses. DHCS will send a monthly County Fund Account (CFA) report with a recommended amount for the transfer.

Routine transfers should include the following reference information: 1) IGT Fund Number 3420 and 2) Program reference of either SDMC SMHS or SDMC DMC. Enclosure 2 includes additional instruction for transferring funds including remittance address for checks and banking information required to complete both wire and ACH transfers. Counties that choose to make wire transfers or ACH transfers will need to work with their local bank to determine the process and costs for sending ACH or wire transfers.

- DHCS will recognize wire transfers within 2 business days. Wire transfers are the most direct transfer method with funds being delivered directly to the State Treasurer and the funds made available to DHCS with little delay.
- ACH transfers will be recognized within 4-8 business days. Once the funds are deposited into DHCS' bank account, there is a clearing period before the funds are available to be added to CFA balances.
- The process for manual checks requires 6-11 business days. The processing time includes time for DHCS to deposit funds with the DHCS bank account, the clearing period, and adding the funds to the CFA.

Counties that choose to make routine transfers will need to keep these timelines in mind as they monitor their IGT balance to ensure the balance is sufficient to cover the County Share for the claims the county plans to submit for payment. If the IGT balance is not sufficient to cover the County Share for all approved claims in a claim file, DHCS will not pay the claim until the county transfers a sufficient amount of funds. While DHCS will send monthly CFA reports, as described in the section below titled "Tracking the Balance of Funds Transferred," and notify the county when a CFA balance is not sufficient to cover the County Share for all approved claims in a claim file, DHCS will not send an invoice to the county. DHCS will notify the county contact identified in the IGT

Agreement via email within 1 business day regarding the pending claim file. The notification will recommend an amount the county needs to transfer that would allow the claim to be processed. It is the county's responsibility to maintain the needed CFA balance so that payments are not delayed.

SCO Withholds

Counties that choose to authorize the SCO to withhold a fixed percentage of funding allocated to the county from the Local Revenue Fund, Local Revenue Fund 2011, and/or Mental Health Services Fund must select that option in the form in Enclosure 1 and identify the percentage of the monthly allocation the county authorizes the SCO to withhold monthly. The percentage may be different for each of the State funds. These percentages will be specified in the IGT agreement executed between DHCS and the county. Beginning with the July 2023 allocation, the SCO will withhold the percentages identified in the IGT agreement from the county's allocation from each fund and transfer those funds to DHCS to deposit into the Medi-Cal County Behavioral Health Fund account and post- to each county's CFA, as described under Section III.

DHCS has posted to each county's folder in the SD/MC section of the DHCS Portal an analysis of each county's monthly approved claims for Medi-Cal Specialty Mental Health Services, Medi-Cal Substance Use Disorder Treatment Services and Expanded Substance Use Disorder Treatment Services from September 2019 to March 2023 and the monthly allocation from each of the three State funds to assist counties with selecting the percentage of monthly allocations for each fund for the SCO to withhold and transfer to DHCS. These percentages may only be adjusted through an amendment to the IGT Agreement. To avoid the need to frequently amend the IGT Agreement, DHCS will include the following provisions in the IGT Agreement to address situations where the county's IGT balance is too low or too high.

DHCS considers a county's IGT balance to be too low if it reaches 150% of the County Share for the county's average monthly approved payments during the prior fiscal year and too high if it reaches 500% of the County Share for the county's average monthly approved payments during the prior fiscal year. If a county's IGT balance, as reported on the county's monthly CFA Report is less than or equal to 150% of the County Share for the county's average monthly approved payments during the prior fiscal year, the IGT Agreement will authorize DHCS to instruct the SCO to increase the amount by an additional 5 percentage points from each funding source until the county's IGT balance reaches 300% of the average monthly County Share for the county's approved payments during the prior fiscal year. If the county's IGT balance, as reported on the county's monthly CFA Report is greater than or equal to 500% of the County Share for the county's average monthly approved payments from the prior fiscal year, the IGT Agreement will authorize DHCS to instruct the SCO to stop withholding funds until the IGT balance reaches 300% of the County Share for the county's average monthly approved payments from the prior fiscal year. Once the IGT balance, as reported in the monthly CFA Report, reaches 300% of the County Share for the county's monthly average approved payments from the prior fiscal year, DHCS will instruct the SCO to withhold the original percentages from each of the State funds. DHCS will notify counties of any changes that are made to the percentages withheld. If the county's IGT balance is not sufficient to pay the County Share for an approved claim, DHCS will not pay the claim until a sufficient amount of county funding has been provided to DHCS. A county that has chosen to authorize the SCO to withhold funds may also transfer funds through a manual check, wire transfer, or ACH transfer. A county may need to do this if it anticipates a claim volume in a month that is significantly more than the monthly average claim volume from the prior fiscal year. If a manual IGT is needed, please email BHFSOPS@dhcs.ca.gov with the amount of the IGT and timing to ensure timely deposit of the funds to the CFA.

DHCS strongly recommends counties choose to authorize the SCO to withhold a fixed percentage of funding allocated from one or more of the State funds identified above. If a county chooses to make routine transfers, DHCS strongly recommends the county use an EFT and make transfers on a monthly basis. DHCS is not responsible for tracking physical checks sent through the mail.

II. <u>Allocating Interest Earned on Funds Transferred</u>

Funds transferred to DHCS through routine transfers or SCO withholds will earn interest. Interest earned on funds transferred will accrue to DHCS on a quarterly basis. DHCS will allocate interest earned to each delivery system and county pursuant to the following methodology.

1. On the 15th day following the end of each calendar quarter, identify the total amount of interest earned during the quarter.
2. Calculate the average daily balance of funds transferred to DHCS for each county during the quarter, and the average daily balance of State General Fund on deposit for all counties during the quarter.
3. Calculate the sum of the average daily balance calculated in step 2 for all counties and the SGF.
4. Divide the average daily balance of funds for each county and the State General Fund as calculated in step 2 by the sum calculated in step 3 to

calculate the County/SGF Allocation Percentage.

5. Multiply the amount of interest earned during the quarter by the County/SGF Allocation Percentage to determine the amount of interest allocated to each county and the State General Fund.
6. Calculate the average daily balance of funds each county transferred to DHCS by delivery system (i.e., SDMC SMHS or SDMC DMC) during the quarter.
7. Calculate the sum of each county's average daily balance for SDMC SMHS and SDMC DMC as determined in step 6.
8. Divide the average daily balance for SDMC SMHS as calculated in step 6 by the sum calculated in step 7 to calculate the SDMC SMHS Allocation Percentage for each county.
9. Divide the average daily balance for SDMC DMC as calculated in step 6 by the sum calculated in step 7 to calculate the SDMC DMC Allocation Percentage for each county.
10. Multiply the interest allocated to each county as determined in step 5 by the SDMC SMHS Allocation Percentage to allocate interest to the SMHS delivery system.
11. Multiply the interest allocated to each county as determined in step 5 by the SDMC DMC Allocation Percentage to allocate interest to the DMC delivery system.

III. Tracking the Balance of Funds Transferred and Interest Earned

DHCS shall establish a CFA for the Specialty Mental Health delivery system and a CFA for the DMC Program and DMC/ODS to track all funds each county transfers to DHCS, interest earned on those funds, and all transferred funds and interest earned that DHCS pays to each county. A county's CFA balance will increase each time the county transfers funds to DHCS or DHCS allocates interest earned on funds transferred to DHCS and will decrease each time DHCS makes a payment to the county that includes a county share. DHCS will increase a county's CFA balance within 1 business day of receiving a transfer of funds from the SCO, within 2 business days of receiving a wire transfer, within 8 business days of receiving an ACH transfer, and within 11 business days of receiving a manual check.

DHCS shall post a county CFA Report for the Specialty Mental Health delivery system and a county CFA Report for the DMC-ODS or DMC Program to the county folder in the SD/MC Section of the DHCS Portal by the 15th day of each month. The CFA Report shall include the balance of the county's CFA on the first day of the prior month, an itemized list of all transfers received from the county during the prior month, which shall include interest allocated to the county during the prior month; an itemized list of all IGT payments approved in the prior month to be made or that have been made to the county; and the balance of the county's CFA on the last day of the prior month. The itemized list of transfers received from the county shall include the date DHCS received the transfer and the amount transferred. The itemized list of IGT payments approved to be made or that have been made to the county shall include the date the payment was approved, the amount of the approved payment, and, if the payment has already been made, the warrant date and warrant number. The CFA Report will not include the 835-file name.

A county may file an appeal with DHCS if the county does not agree with the beginning balance, itemized list of transfers received, itemized list of payments approved to be made or that have been made to the county, the ending balance in the CFA Report, and/or any other transactions reflected on the CFA. The appeal must be submitted within 120 days following the date the CFA Report is posted to the county folder in the SD/MC section of the DHCS Portal. The appeal must clearly identify the county submitting the appeal, a contact person for the appeal, the contact person's e-mail address and phone number, the CFA Report(s) being appealed, the date of the CFA Report(s) being appealed, and the reason for the appeal. The reason for the appeal must include evidence supporting the alleged error in the CFA Report(s).

DHCS shall e-mail a decision regarding the appeal to the county's contact person within 60 days of receiving the appeal. The decision shall clearly identify the county that submitted the appeal, the date the appeal was received, the CFA Report(s) that was appealed, a summary of the reason for appeal, and an explanation of the basis for the decision. The 60-day time period may be extended if the county and DHCS agree in writing on an extension of time to evaluate and resolve the dispute.

IV. IGT-Funded Payments to Counties

DHCS will continue to make the following three types of payments to counties: Medical assistance payments, utilization review and quality assurance payments, and plan or program administration payments. Medical assistance payments are the prospectively set rates for Medi-Cal covered Specialty Mental Health Services, Substance Use Disorder Treatment Services, or Expanded Substance Use Disorder Treatment Services. Utilization review and quality assurance payments are for costs incurred to perform utilization review and quality assurance activities. Plan or program administration payments reimburse the county for costs incurred to administer the Specialty Mental Health Prepaid Inpatient Health Plan (PIHP), the DMC-ODS Prepaid Inpatient Health Plan (PIHP), or the DMC Program. Utilization review and quality assurance payments, and plan or program administration payments will be reimbursed based on counties' costs through certified public expenditures in accordance with federal approvals.

Counties will continue to submit electronic claims (i.e., 837 Transactions) to the Short-Doyle Medi-Cal (SD/MC) billing system to claim payment for Medi-Cal covered Specialty Mental Health Services, Substance Use Disorder Treatment Services, and Expanded Substance Use Disorder Treatment Services provided.[4] The SD/MC billing system will adjudicate all electronic claims submitted and will process a payment for all approved services in a claim file within a timeframe that is consistent with federal regulations. For each approved service, the SD/MC billing system determines the total approved amount, and the federal share, state share and County Share of the total approved amount.[5] DHCS will pay the county the total approved amount for all approved services in a claim file. The federal share will be paid from the Federal Trust Fund, the State Share will be paid from the State General Fund, and the County Share will be paid from the county's IGT. As described above, DHCS will not process payments to counties for claim files if the balance in the county's CFA is less than the County Share necessary to cover all approved services in the claim file. If a claim cannot be processed due to low CFA balance, DHCS will email the county contact to inform them of the pending claim and specify the amount the county needs to transfer that would allow the claim to be processed. DHCS will process the payment once the balance in the county's CFA is greater than or equal to the County Share of the total approved amount. County claims that are not able to be paid will be processed on a first-in, first-out basis as the CFA balance is replenished.

DHCS will continue to provide counties with an Electronic Remittance Advice (i.e., 835 Transactions) for all claims submitted. The 835 Transaction will identify the federal share, state share, and county share and will be sent once payment has been completed. Claims that are pending payment will not have an 835 Transaction report until the claim payment is completed.

Counties will continue to submit paper claims quarterly to DHCS to claim for UR/QA and plan or program administrative costs on a cost reimbursement basis. DHCS will continue to manually process paper claims submitted for costs incurred to perform UR/QA activities, to administer the Specialty Mental Health Services PIHP, to administer the DMC-ODS PIHP, and to administer the DMC program. For each paper claim, DHCS staff determine the total costs eligible for payment and the federal share, state share, and county share of those costs.

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[4] Please refer to the [CalAIM Billing Manuals] for detailed instructions on submitting electronic claims to the SD/MC billing system.
[5] Please refer to the [CalAIM Billing Manual] for a detailed explanation of how the SD/MC billing system determines the federal share, state share, and county share of each approved service.

V. Accounting for County Share and Transfers

To the extent that counties will transfer funds to DHCS that are restricted to purposes specified in State statute, counties must ensure compliance with requirements attached to those restricted funds.

Whether a county makes routine transfers to DHCS or authorizes the SCO to withhold funds from one or more restricted State funds, the county must ensure those funds, including interest earned on those funds, are used for the purposes set forth in State law. Counties must ensure that the use of restricted funds for allowable expenditures are appropriately documented, to demonstrate the appropriate use of restricted funding sources.

Allocating Interest Earned

DHCS will display the amount of interest earned on the monthly CFA report for each delivery system. Counties must appropriately track and report the interest earned and allocate that interest to each restricted funding source proportionally and record the interest earned in their accounting system.

VI. MHSA Requirements

Counties remain subject to State law requirements for funds that are distributed from the Mental Health Services Fund, which include, but are not limited to, the requirement to expend Mental Health Services Fund money and interest within applicable reversion periods pursuant to sections 3420.50 and 3420.55 of Title 9 of the California Code of Regulations. These reversion periods apply regardless of whether a county deposits its MHSA money in its Local Mental Health Services Fund, makes a routine transfer to DHCS containing such funds, or the county authorizes the SCO to withhold and transfer funds from the Mental Health Services Fund to the DHCS Medi-Cal County Behavioral Health Fund.

For counties that elect to have the SCO transfer MHSA funds directly from the Mental Health Services Fund to the DHCS Medi-Cal County Behavioral Health Fund, DHCS considers counties to have received MHSA funds for purposes of calculating the reversion period in the fiscal year when the SCO withholds and transfers the funds to DHCS. In other words, in determining the reversion period, the fiscal year in which the SCO withholds and transfers the funds to DHCS is the first fiscal year.

While counties can transfer MHSA funds as the County Share of payments for Medi-Cal covered MHSA allowable services, DHCS does not consider the funds to have been expended by the county for MHSA allowable services at the time of the transfer to DHCS. If MHSA is used for the IGT as the non-federal share, the non-federal share must be equal to or less than the gross payments to the providers to count as the MHSA expenditure. A provider is anyone providing an MHSA service which includes but is not limited to a contracted provider or county operated providers. If this condition is met, the amount of MHSA funds used as the County Share of Medicaid payments for MHSA allowable services are deemed expended on the date DHCS releases payments to the county for the approved claims; and the county may use that date and expenditure as an allowable use of MHSA funds for the purposes of reversion, reporting, and other MHSA requirements.

Counties must invest funds received from the Mental Health Services Fund consistent with other county funds.[6] As discussed in Subsection II, counties will earn interest on funds transferred to DHCS for IGT payments, including MHSA funds. Counties must account for interest earned on MHSA funds in accordance with MHSA requirements. Counties are required to spend interest earned on MHSA funds transferred to DHCS for IGT payments in accordance with existing regulations.[7]

Please contact MedCCC@dhcs.ca.gov with any questions about this BHIN.

Sincerely,

Original signed by

Brian Fitzgerald, Chief
Local Governmental Financing Divisions

Enclosures

[6] Welfare and Institutions Code, Sections 5892 (h)
[7] Title 9, California Code of Regulations, Sections 342.40 (e), 3420.50 (g) and 3420.55 (g)