

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2025

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SENATE BILL 405
Health Care Committee Substitute Adopted 4/16/25
House Committee Substitute Favorable 10/22/25

Short Title: Healthcare Investment Act.

(Public)

Sponsors:

Referred to:

March 25, 2025

A BILL TO BE ENTITLED
AN ACT TO ADJUST MEDICAID FUNDING TO ACCOUNT FOR PROJECTED CHANGES
AND MAKE OTHER REVISIONS TO LAWS GOVERNING THE DEPARTMENT OF
HEALTH AND HUMAN SERVICES AND TO REDUCE FUNDING APPROPRIATED
TO THE FUTURE BUILDING RESERVES AND THE STATE CAPITAL AND
INFRASTRUCTURE FUND.

The General Assembly of North Carolina enacts:

**PART I. MEDICAID REBASE AND OTHER DEPARTMENT OF HEALTH AND
HUMAN SERVICES REVISIONS**

MEDICAID REBASE AND MANAGED CARE ADMINISTRATION

SECTION 1.1. Section 2B.10 of S.L. 2025-89 reads as rewritten:

~~"SECTION 2B.10. SECTION 2B.10.(a)~~ There is appropriated from the General Fund to
the Department of Health and Human Services, Division of Health Benefits, the sum of ~~six~~
~~hundred million dollars (\$600,000,000)~~ six hundred ninety million dollars (\$690,000,000) in
recurring funds and associated receipts ~~for each year of the 2025-2027 fiscal biennium.~~ receipts,
beginning with the 2025-2026 fiscal year. These funds shall be used to adjust Medicaid funding
to account for projected changes in enrollment, enrollment mix, service and capitation costs, and
federal match rates, as well as the implementation of the Children and Families Specialty Plan in
December 2025 ~~or for contracts needed to operate the State's Medicaid managed care~~
~~program.~~ 2025.

~~"SECTION 2B.10.(b)~~ There is appropriated from the General Fund to the Department of
Health and Human Services, Division of Health Benefits, the sum of ~~forty-nine million two~~
~~hundred thousand dollars (\$49,200,000)~~ hundred thousand dollars (\$49,200,000) in recurring funds and associated receipts, beginning
with the 2025-2026 fiscal year. There is appropriated from the ARPA Temporary Savings Fund
to the Department of Health and Human Services, Division of Health Benefits, the sum of
thirty-four million four hundred thousand dollars (\$34,400,000) in nonrecurring funds and
associated receipts for the 2025-2026 fiscal year. These funds shall be used for contracts needed
to operate the State's Medicaid managed care program."

LME/MCO INTERGOVERNMENTAL TRANSFERS

SECTION 1.2.(a) The local management entities/managed care organizations
(LME/MCOs) shall make intergovernmental transfers to the Department of Health and Human
Services, Division of Health Benefits (DHB), in an aggregate amount of eighteen million



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twenty-eight thousand two hundred seventeen dollars (\$18,028,217) in the 2025-2026 fiscal year and in an aggregate amount of eighteen million twenty-eight thousand two hundred seventeen dollars (\$18,028,217) for the 2026-2027 fiscal year. The due date and frequency of the intergovernmental transfer required by this section shall be determined by DHB. The amount of the intergovernmental transfer that each individual LME/MCO is required to make in each fiscal year shall be as follows:

	2025-2026	2026-2027
Alliance Behavioral Healthcare	\$4,508,857	\$4,508,857
Partners Health Management	\$3,544,348	\$3,544,348
Trillium Health Resources	\$6,448,693	\$6,448,693
Vaya Health	\$3,526,319	\$3,526,319

SECTION 1.2.(b) In the event that a county disengages from an LME/MCO and realigns with another LME/MCO during the 2025-2027 fiscal biennium, DHB shall have the authority to reallocate the amount of the intergovernmental transfer that each affected LME/MCO is required to make under subsection (a) of this section, taking into consideration the change in catchment area and covered population, provided that the aggregate amount of the transfers received from all LME/MCOs in each year of the fiscal biennium is achieved.

SINGLE-STREAM FUNDING REDUCTION

SECTION 1.3. Section 2B.5 of S.L. 2025-89 reads as rewritten:

"SECTION 2B.5.(a) The funds appropriated ~~for each year of the 2025-2027 fiscal biennium~~ to the Department of Health and Human Services, Division of Mental Health, Developmental Disabilities, and Substance Use Services (DMH/DD/SUS), for single-stream funding shall be reduced by ~~eighteen million five hundred sixty-two thousand six hundred forty-five dollars (\$18,562,645)~~ thirty million dollars (\$30,000,000) in recurring funds, ~~funds, beginning with the 2025-2026 fiscal year.~~

"SECTION 2B.5.(b) During each year of the 2025-2027 fiscal biennium, each LME/MCO shall offer at least the same level of service utilization as during the 2024-2025 fiscal year across the LME/MCO's catchment area. This requirement shall not be construed to require LME/MCOs to authorize or maintain the same level of services for any specific individual whose services were paid for with single-stream funding. Further, this requirement shall not be construed to create a private right of action for any person or entity against the State of North Carolina or the Department of Health and Human Services or any of its divisions, agents, or contractors and shall not be used as authority in any contested case brought pursuant to Chapter 108C or 108D of the General Statutes."

USE OF OPIOID SETTLEMENT FUNDS

SECTION 1.4.(a) The following definitions apply in this section:

- (1) DMH/DD/SUS. – The Department of Health and Human Services, Division of Mental Health, Developmental Disabilities, and Substance Use Services.
- (2) Opioid Abatement Fund. – The Fund created by Section 9F.1 of S.L. 2021-180, as amended by Section 9F.1 of S.L. 2022-74.
- (3) Opioid Abatement Reserve. – The Reserve created by Section 9F.1 of S.L. 2021-180, as amended by Section 9F.1 of S.L. 2022-74.

SECTION 1.4.(b) The funds appropriated from the General Fund to the DMH/DD/SUS for each year of the 2025-2027 fiscal biennium, for Single Stream Funding, are reduced by the sum of fourteen million dollars (\$14,000,000) in recurring funds.

SECTION 1.4.(c) The Prescription Digital Therapeutics Pilot Program authorized by Section 9F.2 of S.L. 2022-74 is repealed.

SECTION 1.4.(d) The State Controller shall transfer the sum of one million eight hundred fifty thousand dollars (\$1,850,000) in nonrecurring funds for the 2025-2026 fiscal year

from funds available in the Opioid Abatement Fund (as a result of the repeal of the Prescription Digital Therapeutics Pilot Program authorized by subsection (c) of this section) to the Opioid Abatement Reserve.

SECTION 1.4.(e) The State Controller shall transfer the sum of fourteen million dollars (\$14,000,000) in recurring funds for each year of the 2025-2027 fiscal biennium from funds available in the Opioid Abatement Reserve to the DMH/DD/SUS. The DMH/DD/SUS shall use these funds to offset the reduction in Single Stream Funding authorized by subsection (b) of this section. The funds transferred pursuant to this section are appropriated for the fiscal year in which they are transferred.

DHHS MANDATORY VACANT POSITION ELIMINATIONS

SECTION 1.5.(a) By January 1, 2026, the Department of Health and Human Services shall eliminate vacant positions to achieve net General Fund savings in the amount of thirty-three million nine hundred eighty-six thousand five hundred thirty dollars (\$33,986,530) in recurring funds for each year of the 2025-2027 fiscal biennium.

SECTION 1.5.(b) To achieve the net General Fund savings required by subsection (a) of this section, the Department of Health and Human Services shall do one of the following:

- (1) Adhere to the following schedule that sets forth the budgeted reduction to be achieved by each division through vacant position eliminations:

	FY 2025-2026	FY 2026-2027
Division of Aging	\$31,474	\$31,474
Division of Central Management and Support	2,994,532	2,994,532
Division of Child and Family Well-Being	1,419,611	1,419,611
Division of Child Development and Early Education	104,617	104,617
Division of Employment and Independence for People with Disabilities	519,409	519,409
Division of Health Benefits	559,586	559,586
Division of Health Service Regulation	1,431,785	1,431,785
Division of Mental Health, Developmental Disabilities and Substance Use Services and Division of State Operated Healthcare Facilities	23,663,030	23,663,030
Division of Public Health	2,028,867	2,028,867
Division of Services for the Blind and Division of Services for the Deaf and Hard of Hearing	191,286	191,286
Division of Social Services	1,042,333	1,042,333

- (2) Adjust the amount of the budgeted reduction for vacant position eliminations specified in the schedule set forth in subdivision (1) of this subsection for one or more divisions as long as the adjustment allows the Department of Health and Human Services to achieve the net General Fund savings required by subsection (a) of this section.

SECTION 1.5.(c) The Department of Health and Human Services shall report to the Fiscal Research Division by April 1 of each year of the 2025-2027 fiscal biennium on the actions taken in each division to achieve the budgeted reduction for vacant position eliminations for that fiscal year. The report shall include a list of each position eliminated, broken down by division, and for each position the following information:

- (1) Position number.
- (2) Title.
- (3) The amount of salary and fringe benefits associated with the position.

SECTION 1.5.(d) The funds appropriated from the General Fund for each year of the 2025-2027 fiscal biennium to the Department of Health and Human Services are reduced by the sum of thirty-three million nine hundred eighty-six thousand five hundred thirty dollars (\$33,986,530) in recurring funds.

WHOLE CHILD HEALTH SECTION REDUCTION

SECTION 1.6. The funds appropriated from the General Fund to the Department of Health and Human Services, Division of Child and Family Well-Being, beginning with the 2025-2026 fiscal year, for the Whole Child Health Section, are reduced by the sum of one hundred thousand dollars (\$100,000) in recurring funds.

MEDICAL EYE CARE PROGRAM REDUCTION

SECTION 1.7. The funds appropriated from the General Fund for each year of the 2025-2027 fiscal biennium to the Department of Health and Human Services, Division of Services for the Blind, for the Medical Eye Care Program, are reduced by the sum of one hundred ten thousand dollars (\$110,000) in recurring funds.

ESTABLISH PLAN FOR MEDICAID MANAGED CARE COST-SAVINGS AND EFFICIENCY MEASURES

SECTION 1.8.(a) The Department of Health and Human Services (DHHS) is directed to develop a plan for improved health outcomes, program integrity, cost-savings, and efficiency measures in the Medicaid program. In developing this plan, DHHS shall consult with relevant stakeholders. The plan shall include all of the following:

- (1) Reduction of DHHS administrative expenses.
- (2) Flexibilities for prepaid health plans, as defined in G.S. 108D-1, to manage service utilization and costs and align claims operations with national standards and best practices.
- (3) Improved alignment of prepaid health plan contract incentives and prepaid health plan cost containment efforts through full risk-sharing, value-based arrangements, and appropriate oversight of delegated care management entities.
- (4) Implementation of the plan no later than April 1, 2026.

SECTION 1.8.(b) No later than November 11, 2025, DHHS shall submit a report on the plan for cost-savings and efficiency measures, as required in subsection (a) of this section, to the Joint Legislative Oversight Committee on Medicaid and the Fiscal Research Division. DHHS shall provide monthly updates on implementation of the plan and further updates upon request of the Chairs of the Joint Legislative Oversight Committee on Medicaid.

MEDICAID REDETERMINATIONS

SECTION 1.9.(a) The Office of the State Auditor shall examine the Medicaid eligibility redetermination efforts of all county departments of social services in the State, including the number of redeterminations conducted, the number of staff assigned to redeterminations, and the number of vacancies in the office.

SECTION 1.9.(b) The Office of the State Auditor shall conduct a performance audit of a sample of county departments of social services modeled after the audit required by Section 11.5 of S.L. 2015-7.

SECTION 1.9.(c) No later than April 1, 2026, the Office of the State Auditor shall report the findings of the examination required in subsection (a) of this section and the results of the performance audit required in subsection (b) of this section to the Joint Legislative Oversight Committee on Medicaid and the Fiscal Research Division.

SECTION 1.9.(d) There is appropriated from the General Fund to the Department of Health and Human Services, Division of Health Benefits (DHB), the sum of one million dollars (\$1,000,000) in nonrecurring funds and associated receipts to be transferred to the Office of the State Auditor to be used for the examination and audit required by this section.

SECTION 1.9.(e) Subsection (d) of this section is retroactively effective July 1, 2025. The remainder of this section is effective when it becomes law.

PART II. CAPITAL FUNDING REVISIONS

FUTURE BUILDING RESERVES

SECTION 2.1. Notwithstanding any provision of law to the contrary, the funds appropriated for the 2025-2027 fiscal biennium to Future Building Reserves for the building and operating expenses of State agencies are reduced by the sum of forty-two million two hundred six thousand nine hundred nine dollars (\$42,206,909) in recurring funds for each year of the 2025-2027 fiscal biennium.

PART III. MISCELLANEOUS AND EFFECTIVE DATE

EFFECT OF HEADINGS

SECTION 3.1. The headings to the Parts and sections of this act are a convenience to the reader and are for reference only. The headings do not expand, limit, or define the text of this act.

CONSTRUCTION

SECTION 3.2. Except where expressly repealed or amended by this act, any legislation enacted during the 2025 Regular Session expressly appropriating funds to an agency, a department, or an institution covered under this act shall remain in effect.

STATE BUDGET ACT APPLICABILITY

SECTION 3.3. If any provision of this act and G.S. 143C-5-4 are in conflict, the provisions of this act shall prevail. The appropriations and the authorizations to allocate and spend funds which are set out in this act shall remain in effect until the Current Operations Appropriations Act for the applicable fiscal year becomes law, at which time that act shall become effective and shall govern appropriations and expenditures. When the Current Operations Appropriations Act for that fiscal year becomes law, the Director of the Budget shall adjust allotments to give effect to that act from July 1 of the fiscal year.

SEVERABILITY CLAUSE

SECTION 3.4. If any provision of this act or its application is held invalid, the invalidity does not affect other provisions or applications of this act that can be given effect without the invalid provisions or application and, to this end, the provisions of this act are severable.

EFFECTIVE DATE

SECTION 3.5. Except as otherwise provided, this act is effective retroactively to July 1, 2025.