LAKESHORE
REGIONAL ENTITY

Attachment 1

Meeting Agenda
BOARD OF DIRECTORS
Lakeshore Regional Entity
February 6, 2025 – 2:00 PM
GVSU Muskegon Innovation Hub
200 Viridian Dr, Muskegon, MI 49440

1. Welcome and Introductions – Ms. Gardner
2. Roll Call/Conflict of Interest Question – Ms. Gardner
3. Public Comment (Limited to agenda items only)
4. Consent Items:
   Suggested Motion: To approve by consent the following item.
   - February 6, 2025, Board of Directors meeting agenda *(Attachment 1)*
5. MDHHS FY22 Cost Settlement Discussion *(Attachments 2, 3, 4)*
6. Board Member Comments
7. Public Comment
8. Upcoming LRE Meetings
   - February 26,2025 – LRE Executive Board Work Session, 11:00 AM
     GVSU, Muskegon Innovation Hub, 200 Viridian Dr, Muskegon, MI 49440
   - February 26, 2025 – LRE Executive Board Meeting, 1:00 PM
     GVSU, Muskegon Innovation Hub, 200 Viridian Dr, Muskegon, MI 49440

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LRE Communication to MDHHS (2/3/2025)

MDHHS Colleagues,

As previously communicated, Lakeshore Regional Entity (LRE) is not in agreement with the FY22 Cost Settlement.

On September 8, 2022, LRE filed an action in the Michigan Court of Claims, Case No. 22-000146-MK, which was assigned to Hon. Douglas B. Shapiro ("2022 Dec Action"). The 2022 Dec Action sought a declaration that LRE may use ISF Funds, current dollars, or Medicaid Savings Funds to reimburse its member CMHSPs for prior year deficits. On March 23, 2023, the Court issued an Opinion and Order granting LRE's Motion for Summary Disposition and denying the State/MDHHS's Motion for Summary Disposition. Judge Shapiro ruled that LRE was permitted to pay the historical deficit from surplus funds and the ISF because as part of a separate settlement agreement, MDHHS had previously approved LRE's Proposal to Resolve the Historical Deficit, which proposed utilizing a portion of its FY20 surplus and ISF to pay the deficit. Judge Shapiro further ruled that even without the settlement agreement, MDHHS approved LRE's Risk Management Strategy, which stated the LRE planned to use its FY22 surplus to settle historical deficits with affiliates.

On November 2, 2023, Kristen Jordan, Director of the Bureau of Specialty Behavioral Health Services for MDHHS, issued a memorandum to LRE's CEO concerning Cost Settlement for FY18-22. In the memo, MDHHS set forth its expectation that, pursuant to the ruling of the Court of Claims, LRE would use its ISF to cover the FY18 and FY19 deficit. MDHHS stated it expected LRE to report the payments in Section 1.1 of the Cost Settlement worksheet. LRE followed MDHHS's directive and used Section 1.1 to report the payments to the PIHPs that the Court of Claims ruled were permitted. The net result was that at the end of FY22, LRE's ISF had a balance of approximately $28 Million, and no money was to lapse back to the State.

On July 24, 2024, MDHHS issued a letter with its position on FY22 Cost Settlement. In the FY22 Cost Settlement Letter, MDHHS claimed that the ISF should first be capped at the 7.5% limit, and then after application of the cap, LRE could deduct payments made to resolve the historic deficit. MDHHS further stated that "the contribution to the ISF is calculated prior to utilization to fund prior year deficits and will not exceed the maximum 7.5% allowable for the FY22 contract period." The result of MDHHS's calculation was that "a balance of $13,721,793 is due the State of Michigan." The State's calculation would also reduce LRE's ISF to an ending FY22 balance of approximately $1 Million.

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Compounding matters, MDHHS withheld money from LRE in satisfaction of a lapse due from LRE to the State for FY21, but is refusing to make payments due to LRE from MDHHS for FY18 and FY19. The breakdown of the results of the FY18-FY21 Cost Settlement is:
FY18 $1,418,547 due to LRE
FY19 $3,026,559 due to LRE
FY20 $0 due to/from LRE
FY21 $4,140,766 due from LRE

MDHHS deducted the $4.1 Million due from LRE from payments due under the FY24 contract, even though considering FY18, FY19, and FY21 together should yield a net payment of $304,340 to LRE. MDHHS indicated it held the FY18 and FY19 payments until the FY22 Cost Settlement was settled: “Payment of the FY18 and FY19 State share of risk is pending completion of the FY22 settlement. Payment will be disbursed once the Department and the PIHP agree on a final FY22 settlement.”

On December 16, 2024, MDHHS emailed LRE reattaching the November 2023 cost settlement memo, expecting payment within 30 days. MDHHS reiterated that “[r]regarding the cost settlements due to LRE from MDHHS, the payments will be issued once the FY18-FY22 settlements are final.”

MDHHS’s position regarding accounting for payment of the historic deficit is at odds with the FY20-23 Contract, MDHHS’s own directive, the Court of Claims ruling, and the past practice of the parties which has always been to apply the 7.5% contribution cap after funds are utilized during the year. If the presentation/reporting of the payment of the historical deficit needs to be reported differently on the FY22 FSR (possibly as a FY22 current year expense and/or a use of Medicaid/HMP Savings) to address the ISF issue, LRE is willing to explore other reporting option with MDHHS.

Despite LRE making it clear on numerous occasions that it does not agree with MDHHS’s position on this issue, and in lieu of trying to work through the issue amicably, on January 30, 2025, Jackie Sproat sent an email stating that MDHHS intended to forward and withhold approximately $13.7 Million MDHHS claims it is owed from payments due to LRE for FY25. To be perfectly clear, until an agreement is reached, LRE does not consent to MDHHS deducting the amount of FY22 cost settlement, that has not been agreed upon, from LRE’s FY25 payments.

Please provide the LRE with a response on or before 2/7/2025 or before any monies are recouped.

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MEMO

TO: Lakeshore Regional Entity (LRE) Board of Directors

FROM: Stacia Chick, CFO

DATE: February 5, 2025

RE: FY22 MDHHS/LRE Cost Settlement

Chairperson Patricia Gardner, during the LRE Executive Committee of the Board of Directors meeting on Monday February 3, 2025, requested additional information that I shared regarding the FY22 MDHHS/LRE Cost Settlement also be shared with the full Board in writing.

LRE's external auditors, Roslund, Prestage & Company, PC (RPC), reviewed the November 2, 2023, memorandum issued by Kristen Jordan (now Kristen Morningstar), Director of Bureau of Specialty Behavioral Health Services for MDHHS. RPC also reviewed the revised FY22 Financial Status Report (FSR) with LRE to ensure they agreed with how the historical deficit was being presented on the FSR on the Medicaid ISF Report tab, Section 1.1 as directed by MDHHS in the memorandum. No calculations were modified by LRE on MDHHS' FSR template and MDHHS' reporting instructions were followed along with the instructions in the memorandum. LRE completed the FSR in accordance with MDHHS' directive and in accordance with Judge Shapiro's ruling on the "2022 Dec Action". The revised FSR was utilized and included in the FY22 Compliance Examination that is required by MDHHS. The FY22 Compliance Examination was completed and issued by RPC in accordance with MDHHS' Compliance Examination Guidelines and submitted to MDHHS on December 27, 2023, before the MDHHS and LRE agreed upon extended due date of December 31, 2023.

Thank you,
Stacia Chick, CFO

Attachment 4

The Detroit News
SERVING MICHIGAN SINCE 1873

OPINION *This piece expresses the views of its author(s), separate from those of this publication.*

Sheehan: MDHHS actions threaten Michigan's public mental health system

Robert Sheehan The Detroit News
Published 8:00 p.m. ET Jan. 30, 2025

For more than 50 years, Michigan's public mental health system has operated on a simple yet powerful principle: a strong collaborative partnership between the Michigan Department of Health and Human Services (MDHHS) and the public Community Mental Health (CMH) centers located in all of the state's 83 counties. That system now faces an existential threat from within.

Michigan fulfills it legal obligation to fund the public CMH system by using Medicaid dollars that are provided through the state's public mental health plans, known in federal terms as Prepaid Inpatient Health Plans (PIHPs) to the state's CMHs. This CMHSP/PIHP/provider network system provides mental health and substance use disorder services to hundreds of thousands of the state's most vulnerable and resilient residents, their families and their communities every year.

However, recent actions by MDHHS have weakened this partnership. Over the past several months, MDHHS has begun terminating agreements with some of these public health plans — threatening care for hundreds of thousands of Michiganians.

In response, four Michigan PIHPs filed suit, requesting a preliminary injunction to prevent MDHHS from withholding Medicaid funding for these services.

How did it come to this? In preparing contracts for 2025, MDHHS imposed new conditions on the public mental health plans that could bankrupt local operations and create disparities in care access. When PIHPs sought to negotiate these terms, MDHHS began the contract termination process, offering a "take it or leave it" deal.

This dispute isn't just procedural — it violates Michigan's Mental Health Code, which mandates that MDHHS fund and contract with the state's CMHs to ensure that mental health services are locally driven, responsive to community needs and tailored to the individuals they serve.

If the PIHPs are forced to accept the proposed terms, they will face significant financial risks. This jeopardizes the very individuals the system is meant to protect — those with mental illnesses, developmental disabilities and substance use disorders. Key concerns include the ability to maintain financial reserves and ensure equitable access to care for all Medicaid beneficiaries.

Michigan's public mental health plans have historically maintained sufficient reserves to handle funding fluctuations and service demands. MDHHS's proposal to cap these reserves below actuarially sound levels would destabilize the system, risking insolvency and potentially leaving taxpayers to cover the consequences. Worse, care for individuals served by these plans and CMHs could be terminated or delayed as funds run out.

The implications extend beyond the public health plans and CMHs. Michigan's direct care workforce, essential for the independence and quality of life for those relying on in-home and community-based services, is also at risk. A 2016 lawsuit settlement proposes raising wages for direct care workers serving only 7% of Medicaid beneficiaries, while workers serving the other 93% would continue to earn an average starting wage of $16 per hour. This creates wage disparities, making it impossible for the system to recruit and retain essential direct care workers.

If this stalemate persists, frontline workers will face job insecurity, and individuals in need of care will be uncertain about whether services will be available in the future. As Michigan continues to confront an ongoing direct care workforce crisis and rising demand for mental health services, now is not the time for brinkmanship. It is a time for effective partnership.

Historically, Michigan's public mental health system has been built on shared responsibility. MDHHS has provided oversight, funding and worked with PIHPs and CMHs to create a nationally recognized system that meets local needs. This partnership has allowed flexibility while ensuring financial stability and service integrity. MDHHS's recent actions threaten to undo this balance and replace it with one-sided decision-making that weakens the system.

Without intervention, the impact on Michigan's mental health system will be felt for years to come. Financial instability, workforce shortages and service disruptions are not distant risks — they are imminent threats. The stability of public health plans, CMHs and the livelihoods of both workers and individuals served depend on resolving these issues immediately.

We urge MDHHS to withdraw its contract termination notices and return to the negotiating table with the state's public mental health system in good faith.

Robert Sheehan is CEO of the Community Mental Health Association of Michigan.