



## BOARD OF DIRECTORS SPECIAL MEETING

Wednesday, August 28, 2024 at 5:00 pm  
Room 225, Behavioral Health Center, 201 Mulholland Street, Bay City, MI 48708

### AGENDA

Page

1. CALL TO ORDER & ROLL CALL
2. PUBLIC INPUT (3 Minute Maximum Per Person)
3. REGIONAL & LOCAL BUDGET ISSUES  
2-10 3.1 No action necessary – *See pages 2-10*
4. SEPTEMBER MEETING SCHEDULE  
11 4.1 Special meetings for benefit renewals and fiscal year 2025 budget public hearing – *See page 11*
5. ADJOURNMENT

## **BABHA REVENUE AND EXPENSE PRESENTATION, 8-28-24**

### **Medicaid Funding Background 2014-2020**

Bay-Arenac Behavioral Health Authority (BABHA) is a community mental health services program (CMHSP) that provides services to nearly 5,000 residents a year from Bay and Arenac Counties. The priority populations for these services are persons with serious mental illness, intellectual/developmental disabilities (including autism), substance use disorders, and children with severe emotional disturbances. BABHA is part of the Mid-State Health Network (MSHN) region comprising 12 CMHSPs and 21 counties.

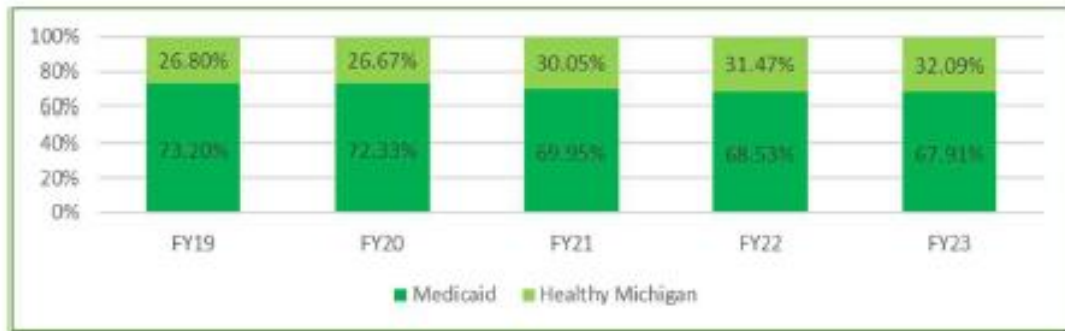
BABHA and its affiliate members for Huron, Montcalm, Shiawassee, and Tuscola were merged by the Michigan Department of Health and Human Services (MDHHS) into the MSHN region in 2014. This resulted in a significant revenue reduction for BABHA due to the fact that the historic Medicaid funding base available to BABHA as a Pre-paid Inpatient Health Plan (PIHP) prior to 2014 was significantly higher than the other four PIHPs in the new region (CMHSP for Central Michigan, Clinton-Eaton-Ingham CMHSP, Jackson-Hillsdale CMHSP (dba Lifeways) and Saginaw CMHSP).

BABHA negotiated a compromise with the 11 other CMHSPs in the MSHN region to gradually reduce its Medicaid expenses between 2014 and 2019 to ultimately be within the shared regional Per Member Per Month (PEPM) capitation factor. **As a result, BABHA reduced its traditional Medicaid expenses between 2014 and 2020 and established a balanced revenue to expense budget.** This occurred through a consistent cost containment strategy designed to retain investments in external services while reducing internal cost as much as possible.

### **Complicating Factors**

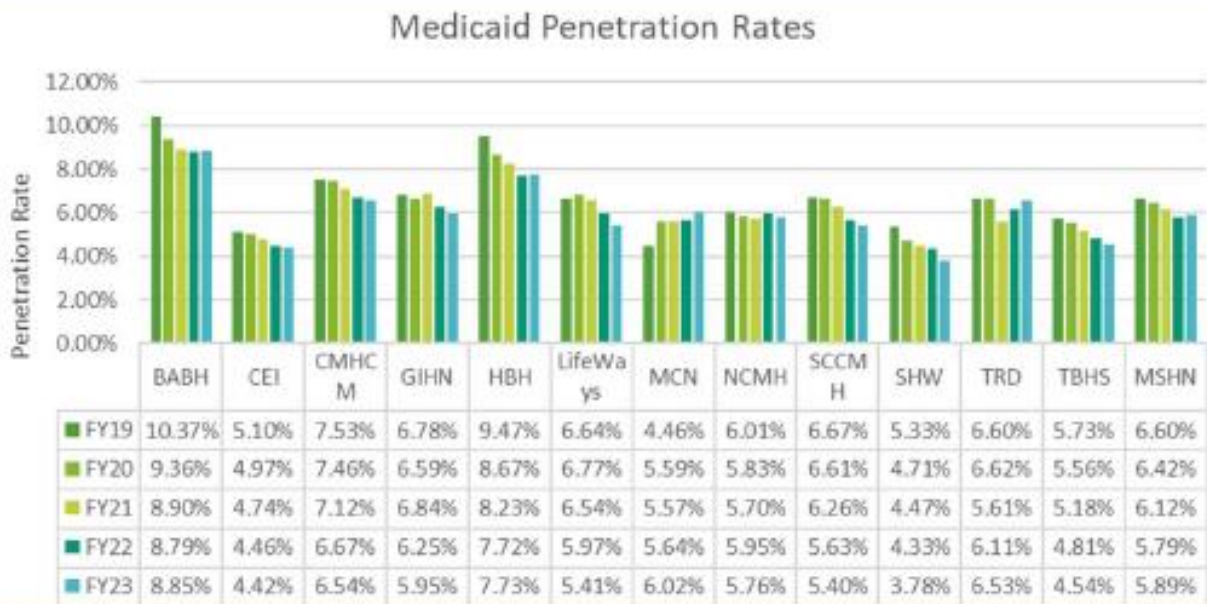
Michigan added two new programs to the MSHN contract since 2014: Healthy Michigan (an expansion of Medicaid permitted under the Affordable Care Act of 2009) and Autism Services. These programs have experienced much more significant enrollment and expense fluctuations in the last 10 years often leading to underfunding in certain regions on a state-wide basis. As a result, BABHA has been challenged to manage the demand for these services within the actual revenues received from MSHN.

In addition, MSHN was often a State leader in PIHP service penetration after 2019 and BABHA has consistently been the regional leader often exceeding 9-10% of traditional Medicaid enrollees receiving specialty services in a fiscal year. **Although these numbers were impacted by the significant increase in Medicaid enrollments during COIVD, the BABHA penetration rate never dropped below the 8.79% (in 2022) for the period between 2019-2023 and compares favorably to regional penetration of 5.79% during this same year.** Similar trends have been noted for Healthy MI during this period.



## Proportion of Medicaid and Healthy Michigan - Enrollment

**MSHN**  
Mid-State Health Network



These numbers indicate that BABHA serves at least 40-50% more persons per capita than many of the other CMHSPs in the region in a typical year. As the current PEPM revenue structure for Medicaid and Healthy MI has no correlation to the number of persons served, BABHA has no financial incentive to serve a larger percentage of the beneficiary population other than responding to community demand. In addition, in the past, BABHA consistently demonstrated individual cost per case trends in MSHN that compared favorably to the regional average. This further illustrates the fact that BABHA expense trends are more related to service access and utilization rather than productivity or cost.

**Impact of COVID**

Medicaid enrollment increased dramatically and held constant between 2020 and 2023. The influx of federal COVID initiatives, reduced in person utilization, and legislative commitment to increase direct care staff wages supplanted the need for any additional Medicaid rate adjustments during this period. **In the FY2022 rate setting process, MDHHS primarily used FY2020 (first year of COVID) utilization data resulting in a BABHA revenue increase of < 1/10th of 1 percent (+\$32,000 on a \$55.8 Million budget).**

A similar rate setting trend occurred in the subsequent FY2023 budget when MDHHS actually proposed *reducing* the Medicaid rates for the MSHN region approximately 5%. These rates were also based on FY2021 utilization data SIGNIFICANTLY suppressed by COVID public safety restrictions. **The end result for BABHA was a revenue increase of nearly 2/3 of 1% (+\$300,000 on a \$55.8 Million budget).**

**REVENUE/EXPENDITURES**

Funding	MSHN PEPM Rev Est. FY24	BABH FY24 Approved MSHN Budget	FY 24 PEPM Rev Full Year Proj	FY 23 Actual PMPM	FY 22 Actual PMPM	FY 21 Actual PMPM	FY 20 Actual PMPM	FY 19 Actual PMPM	FY 18 Actual PMPM	FY 17 Actual PMPM	FY 16 Actual PMPM
Medicaid	45,071,628	45,633,116	49,075,700	45,008,334	45,509,427	45,227,598	41,640,592	38,859,136	37,081,287	34,439,645	32,701,937
HMP	4,394,941	6,219,684	4,111,649	6,216,452	5,848,365	5,599,888	4,271,263	3,544,003	3,158,671	2,773,363	2,448,296
Autism	5,238,691	9,675,186	5,994,979	4,739,058	4,299,855	4,798,051	4,248,159	3,509,037	3,517,114	1,501,540	386,055
SUD 24/7/365	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000	210,000
Total Revenue	54,915,260	61,737,986	59,392,328	56,173,844	55,867,647	55,835,537	50,370,014	46,122,176	43,967,072	38,924,548	35,746,287
								Excludes Benefit Stabilization			

Funding	Exp Proj as of 4/30/2024	Removed Crisis Staffing Exp FY23 Actual	Removed Crisis Staffing Exp FY22 Actual	FY21 Actual	FY20 Actual	FY19 Actual	FY18 Actual	FY17 Actual	FY16 Actual	
Medicaid	50,096,238	47,148,496	45,946,235	42,895,542	38,994,062	37,986,151	37,981,665	36,311,351	35,085,446	
HMP	6,818,935	6,361,799	5,074,548	5,093,168	4,843,603	4,053,778	4,030,264	3,541,711	3,267,821	
Autism	10,786,306	9,744,027	8,037,772	6,648,895	5,019,486	5,354,541	4,113,034	2,879,907	1,262,684	
	67,701,479	63,254,322	59,058,555	54,637,605	48,857,151	47,394,470	46,124,963	42,732,969	39,615,951	
(Over)/Under PEPM	-	(8,309,152)	(7,080,478)	(3,190,908)	1,197,932	1,512,863	(1,272,294)	(2,157,890)	(3,808,421)	(3,869,664)
(Over)/Under Budget		(5,963,493)								

Unfortunately, a **retrospective** review of a limited data set between 2020 and 2022 complicated by an international pandemic to establish **prospective** Medicaid rates increased the likelihood that short term COVID utilization variances would not be reflective of longer-term population needs. The limitations of this approach quickly became apparent for two reasons: significant post-COVID service rebound patterns and health care inflationary pressures.

### **Service Rebound**

BABHA has experienced a considerable increase in behavioral health care expenses between FY2022 and FY2024. These increases have primarily been in the same service lines of inpatient community hospitalization, general community living support (CLS) services, CLS services specific to autism, outpatient services, and ancillary services across all fund sources (i.e. Medicaid, Healthy MI, and Autism).

**For example, Medicaid expenses for community hospital services in FY2022 were \$4.8 Million and project to \$7.1 Million by FY2024 (+48%); expenses for general CLS services had increased from \$7.1 Million to \$8.7 Million (+22%); expenses for CLS autism increased from \$7.3 Million to \$10.4 Million (+42%); expenses for outpatient services increased from \$1.2 Million to \$1.5 Million (+19%); and expenses for ancillary services specific to autism (physical, occupational and speech therapy) increased from \$526,000 to over \$1 Million (+93%).**

During this same FY2022-FY2024 period, the number of persons receiving many of these services also increased as well. The number of inpatient hospital admissions increased **23%**, the number of persons admitted for general CLS increased **11%**, the number of children entering CLS autism services increased **28%**, and the number of children accessing ancillary autism services increased **38%**. The inpatient utilization has been compounded by the limited availability of state inpatient beds during the replacement of Hawthorne Center. In addition, BABHA has had to permanently increase CLS provider rates significantly beyond the mandated direct care wage increases in order to stabilize the provider network.

### **Health Care Inflation**

The second complication has been significant cost increases in the health care market over the past three years producing higher labor, supply chain, and service expenses. **For example, the BABHA Medicaid revenue between FY2021 and FY2024 increased approximately 6% (+\$3.6 Million).** The cumulative percent change in Consumer Price Index for All Urban Consumers (CPI-U) for medical care during the same FY2021 to FY2024 period was nearly 17% according to the Peterson/Kaiser Family Foundation Health System Tracker “How Does Medical Inflation Compare to Inflation in the Rest of the Economy”, 8-2-24. **The actual overall Medicaid expense increase for BABHA during this period was approximately 23% (+\$13 Million) with the majority of those being external claims (30.4% increase in external as compared to 9.9% in internal expenses). Please note: BABHA has received no increases in state general funds during this period.**

The extent of these funding issues has led MSHN to, for the first time in its 10 year existence, project the likelihood of needing to abate the Internal Service Fund to close the FY2024 budget year. **This is due to the fact that 8 of the 12 CMHSPs have expenses that will exceed their revenue received.** The initial projections indicate this may be as much as \$26 Million on a regional basis representing nearly 50% of existing Medicaid reserves. **The Community Mental Health Association of Michigan (CMHAM) also reports 6/10 PIHP regions are reporting a cumulative state-wide Medicaid deficit of over \$80 Million in the current year.**

### **Impact on State General Funds**

**The two most prominent increases for BABHA general funds between the FY2022 and FY2024 period were for community hospital services from \$135,000 to \$249,000 (+84%) and outpatient services from \$53,000 to \$124,000 (+134%).** Please note general fund CLS expenses also increased between FY2023 and FY2024 from \$6,059 to \$94,000 due to the change in automatic Medicaid enrollments and spend-down processes.

Although the percentage of the population that has access to mental health benefits through health insurance coverage has increased in the last decade, the lack of sufficient primary care providers in the area often results in the community relying on the only provider obligated to provide 24/7 service access: the local county community mental health board.

### **FY 2024 Outlook**

As a result of the revenue trends, service utilization and inflationary pressures, BABHA has been projecting to close the current fiscal year with a Medicaid deficit of nearly \$9 Million. This is an expense to revenue overage of **16%** (\$58.3 Million revenue/ \$67.8 Million expense). This is a trend across the MSHN region as 7 other CMHSPs are also projecting year end deficits that range as high as **31%**. MSHN is obligated to use its Medicaid risk reserves to cover these expenses in FY2024.

### **FY2025 Outlook**

The FY2025 final Medicaid rates have not yet been released but the initial information available suggests a similar 3-4% increase trend as experienced in FY2024. This remains far short of the aggregate MSHN expense projections indicating several CMHSPs, including BABHA, will have a difficult operating year and as a non-profit government entity may be required to reduce services to beneficiaries in order to stay within Medicaid revenues.

**Mid-State Health Network**

**Revenue Budget Projection Increase / (Decrease)**

	Medicaid	HSW	Autism	CWP	SEDW	HMP	Total	Percent Change
Bay Arenac	900,263.22	449,839.26	683,909.81	(20,707.20)	(3,155.76)	167,176.56	2,177,325.89	3.73%
CEI	2,567,555.52	898,999.86	1,938,963.59	(64,455.60)	35,508.24	567,463.56	5,944,035.17	3.79%
Central Michigan	1,778,865.78	1,030,323.84	1,716,253.43	(49,697.28)	(8,678.34)	<b>354,106.68</b>	4,821,174.11	3.68%
Gratiot	230,714.88	249,499.56	149,331.88	(4,141.44)	(788.94)	49,590.54	674,206.48	3.41%
Huron	162,717.84	66,015.36	142,462.60	-	(788.94)	33,186.06	403,592.92	3.63%
The Right Door	356,832.66	42,485.10	310,702.81	(24,848.64)	(3,155.76)	57,003.54	739,019.71	3.66%
LifeWays	1,408,016.64	680,178.24	1,997,636.61	(16,565.76)	52,075.98	277,147.26	4,398,488.97	4.96%
Montcalm	499,214.22	65,334.24	22,891.23	(8,282.88)	(9,467.28)	88,964.64	658,654.17	2.45%
Newaygo	376,985.34	(31,595.52)	499,724.12	(4,141.44)	(1,577.88)	66,398.58	905,793.20	4.90%
Saginaw	1,931,341.86	340,139.34	1,219,710.19	(45,555.84)	(32,611.50)	316,496.88	3,729,520.93	3.81%
Shiawassee	445,199.70	133,513.20	204,491.05	-	(2,366.82)	89,629.50	870,466.63	3.27%
Tuscola	389,489.64	200,400.36	299,049.51	-	-	71,013.36	959,952.87	3.98%
MSHN SUD	(130,654.14)	-	-	-	-	<b>1,657,230.36</b>	<b>1,526,576.22</b>	<b>3.31%</b>
<b>Total</b>	<b>10,916,543.16</b>	<b>4,125,132.84</b>	<b>9,185,126.83</b>	<b>(238,396.08)</b>	<b>24,993.00</b>	<b>3,795,407.52</b>	<b>27,808,807.27</b>	<b>3.83%</b>

Percent Change                      2.39%                      3.35%                      14.84%                      -9.24%                      0.98%                      4.78%                      3.83%

## Draft SFY 2025 Capitation Rates - Excluding HRA

POPULATION	SFY 2024 AMENDED CAPITATION RATES	SFY 2025 CAPITATION RATES	INCREASE/DECREASE
<b>Specialty Services</b>			
DAB - Enrolled	\$ 386.19	\$ 417.84	8.2%
DAB - Unenrolled	378.24	392.19	3.7%
HMP - Enrolled	46.48	54.38	17.0%
HMP - Unenrolled	37.80	41.47	9.7%
TANF - Enrolled	38.83	42.65	9.8%
TANF - Unenrolled	23.90	26.80	12.1%
<b>1915(c) Waiver</b>			
Children's Waiver Program	3,316.80	2,965.31	(10.6%)
Habilitative Supports Waiver	7,137.81	7,360.56	3.1%
Serious Emotional Disturbances	1,964.28	1,897.32	(3.4%)
<b>Composite Base Capitation Rates</b>	<b>\$ 132.30</b>	<b>\$ 141.26</b>	<b>6.8%</b>

**Notes:**

1. Reflects composite rates for all services (MH, SUD, Autism) based on the enrollment projections used in each respective rate setting.
2. Excludes consideration of 1915(c) Waiver adjustment and inpatient psych tiered rate adjustment



The core of the issue is that the use of atypical FY2021 and FY2022 utilization data suppressed by COVID to establish forward rates during a period of intense inflationary pressure produced trend assumptions has prevented the Medicaid rates from being sufficient to sustain a long-term care specialty program.

**In this limited context and barring any other significant rate changes, BABHA is anticipating FY2025 revenue of approximately \$60.5 Million. BABHA will be implementing several cost reduction mechanisms detailed below in order to plateau additional revenue requests to MSHN to no more than 10-12% (approximately \$68.9 Million maximum) for the year.**

### **FY2025 General Expense Reduction Options**

- BABHA will reevaluate plans for all new or recently vacant staff positions prior to recruitment efforts, except replacement of direct care professionals and clinical positions that manage a caseload/provide direct service to the community. This includes a comprehensive review of the current BABHA administrative structure, personnel manning table to identify cost savings, and staff redeployment options.
- BABHA will review all external service contracts to identify possible provider integration/contraction options to reduce or eliminate any duplication or excessive expenses.
- BABHA will complete consolidation of the former Wirt Building occupants at other program sites and negotiate early termination of the building lease if possible. BABHA will complete longer term physical space planning with the Board to identify other cost-savings options going forward.

### **Inpatient Services**

As previously referenced, the number of inpatient hospital admissions between FY2022 and FY2024 has increased from 583 to a projected 717 (+23%). The BABHA preadmission screening diversion rate correlates to a downward trend during this same period: the FY2022 quarter 1 diversion rate was 43%; the FY2024 quarter 3 rates have dropped to 39%. For comparison, the diversion rate in FY2016 was nearly 49%. **The persons presenting for inpatient hospital services have higher acuity conditions with more severe symptoms and co-occurring substance use, cannabis, and homelessness issues. These persons are also staying in the hospital longer: the average length of stay increased nearly 20% in the last three years.**

- BABHA will extensively review the utilization information related to local, state, and national inpatient trends to identify contributing factors that may have been masked since the end of the pandemic and propose service options to address these needs. This includes implementation of the Bay City Crisis Residential Program at the former Union Home and more assertive use of both the McLaren Partial Hospitalization Program and the Mobile Response Team as less expensive options.



- BABHA will pursue approval of children’s inpatient psychiatric beds for McLaren Bay Region with MDHHS Certificate of Need Commission to provide additional diversion and treatment options for the community. This may include development of an “urgent behavioral health care” short term crisis stabilization or observation program on-site at McLaren Bay Region.

### **Autism Services**

- BABHA will request support from MSHN and MDHHS to investigate epidemiological factors in the 21 county area that may be contributing the variance in incidence/prevalence of autism not accounted for in the regional rate calculations.
- BABHA will continue to review Applied Behavior Analysis (ABA) clinical protocols and eligibility to improve the correlation of assessment findings, authorizations, and outcomes in a manner consistent with Medicaid requirements.
- BABHA will maximize preferred provider referral arrangements to encourage ABA provider systems that more effectively meet performance and service utilization guidelines and minimize variances in the autism network. This may include competitive bid process to consolidate the autism network to align more closely with other CMHSPs and obtain scale price advantages.
- BABHA will monitor autism-related ancillary occupational/physical therapy (OT/PT) and speech and language pathology (SLP) activities to ensure these services are coordinated and obtained through existing benefit obligations in the educational system and Medicaid Health Plans.

### **CLS**

- BABH will continue to evaluate all current CLS service delivery arrangements including both residential and private home/apartment settings to determine if service outcomes and/or efficiencies can be improved. This includes internal and external operations and may involve transition of CLS services between providers or levels of care, relocation of higher expense cases into more efficient arrangements, and additional network expansion and/or contraction.

### **General Funds**

- BABHA will revise the priority population general fund eligibility criteria to maximize the use of alternative service providers and/or internal outpatient options as gateways to avoid unnecessary inpatient hospitalization for new consumers. This may involve reducing the number of general fund service exceptions for persons due to coordination of benefit issues.
- BABHA will consider requesting permission from the Board to utilize earned local funds in FY2025 to cover any unexpected expenses necessary for the health and safety of the community.

## **Advocacy Options**

- BABHA will continue to coordinate advocacy activities with CMHAM to address the state-wide systemic funding gaps that have compounded from prior year actuarial decisions and fell significantly behind the rate of medical price inflation. This includes continued legislative pressure, advocacy with the MI Association of Counties, and consideration of class action litigation options.
- BABHA will explore revenue enhancement options with the Board including pursuit of Certified Community Behavioral Health Clinic and/or Behavioral Health Home designation. BABHA will consult with colleagues from other CMHSPs such as Kalamazoo, Ionia and/or Clinton-Eaton-Ingham in order to understand the potential risk/reward and other commitments necessary to be successful with these efforts.

# September 2024

# BABH Board of Directors

September 2024						
Su	Mo	Tu	We	Th	Fr	Sa
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October 2024						
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20	21	22	23	24	25	26
27	28	29	30	31		

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
Sep 1	2 Labor Day/BABH Offices Closed	3	4	5 5:00pm Recipient Rights Committee	6	7
8	9 5:00pm Facilities & Safety Committee	10	11 5:00pm Finance Committee 5:30pm Bylaws Committee	12 5:00pm Program Committee	13	14
15	16	17 5:00pm Audit Committee	18	19 5:00pm REGULAR BOARD MEETING	20	21
22	23	24	25	26	27	28
29	30	Oct 1	2	3	4	5