

## MEMO

**To:** Citizens of Allegan County  
**From:** Mark Witte, Executive Director, Allegan County Community Mental Health Services  
**Date:** Thursday, January 4, 2018  
**RE:** Community Mental Health Services – FY2018 Budget Management

*The purpose of this memo is to inform you of significant reductions we are making to our workforce (and why) to deal with regional fiscal realities impacting Allegan County CMH.*

**What Allegan County CMH Does and How We're Paid.** Allegan County CMH Services is a steward of the resources afforded to us from a combination of local, state and federal funds, as well as grant funds for specific purposes/programs. As an agency, we are professionally dedicated and mission driven to deliver an array of behavioral health prevention and treatment services for eligible citizens of our county. Those services are defined in contracts we hold with funders, most notably the Lakeshore Regional Entity (LRE) and through it, the Michigan Department of Health and Human Services. We receive the largest share of our revenues through fixed, prepaid payments that are based on the number and type of enrollments of persons on Medicaid in Allegan County. Our funding is not unlike that of an insurance company that receives premiums (pre-paid payments) and pays claims (for our services and costs of care purchased from providers). In general, we serve only those with Medicaid who are actively managing serious mental health or intellectual/developmental disabilities.

**Medicaid Funds Have Been Reduced.** We have seen a reduction in Medicaid revenue which we believe is related to a shift in Medicaid enrollment patterns. Many people who previously fell into categories of DAB (Disabled Aged Blind) or TANF (Temporary Assistance to Needy Families) have been shifted to the Healthy Michigan Plan (HMP). We aren't certain as to why, we know that it may be much easier for people (and maybe their state workers) to sign up for HMP than their traditional Medicaid plan because far less documentation is required for HMP than is needed for a DAB/TANF applicant. The benefits are basically the same, but the revenue provided to CMHs is far less; as much as 80% lower according to some estimates. Regionally, we've lost something like \$10 million in the past two years. For Allegan CMH, this is a million dollar problem. When we've brought it to the state's attention, their response was that they consider this to be a simple matter of consumer choice.

**Bottom Line: Our FY2018 Budget of \$23.4 Million Is \$5 Million Lower Than It Was in FY2017.** We have been unable to change the enrollment problem, and so are forced to manage within this lower budget amount. As a result, we did two rounds of layoffs and adopted a set of changes in agency operations in FY2017 and significantly increased the intensity of those efforts in FY2018. The largest single element to date in that plan has been to conduct close reviews of all services we are delivering and purchasing to make sure that the right amount and type of care is being provided. This is called Utilization Management or UM. We look for opportunities to adjust plans to use less costly services or to use alternatives available in the community. We increased our crisis services to avoid unnecessary psychiatric hospitalization. We have adjusted autism contract rates to the state caps for these services. We have eliminated funding for a consumer-run drop-in center. We continued to have staff take five furlough days per year, and have reduced staff health benefits. We have done everything we planned to do.

**Utilization Management Is a Key Strategy, But It Takes Time To Yield Results.** The UM effort has been done with diligence, making the changes that happen is usually a process that can't be done instantly.

This also means that the large-scale financial results for the agency will not happen in the first few months of our fiscal year. Most of the benefit will come later, but that creates a different problem which I'll talk about next.

**Partner CMH Agency Overspends In FY2017 Have Precipitated A Regional Financial Crisis.** Our Allegan CMH budget situation is a big challenge, but on its own would not have been a crisis. We are now realizing that Allegan CMH and all of our regional CMH members significantly overspent our budgets in FY2017. We knew Allegan would be overspent, but had negotiated a targeted overspend with the LRE. Because of the layoffs, furlough days, and other reductions we made in May 2017, we ended the year where we were expected to be. However, some of the other CMH agencies in our region exceeded their targets by significant and unexpected amounts. The numbers aren't yet final but I believe that this serious problem will result in the LRE having to use all of its financial reserves to cover CMH member costs for FY2017. This is a problem on two levels: (1) As a result, the LRE will not have the minimum funds needed have a FY2018 financial risk reserve. (2) As a result, the LRE will not be able to assist members like Allegan CMH with our FY2018 cash flow needs (short-term advances against our promised revenues from the LRE to help us pay our bills on time). Without the ability to borrow cash when needed from the LRE, Allegan will have to operate solely on whatever funds we actually receive. This poses a serious challenge for us because if revenues don't rise and/or savings don't begin to accrue quickly from our UM efforts, we will deplete our cash reserves in a couple of months.

**Dealing With A Budget Shortage And Cash Flow Needs Means We Must Reduce Expenses Now.** Our first FY2018 financial statement in October 2017 was produced in mid-December. Even though it only showed one month of expenditures, we were over our allocated revenues. We notified the Allegan board on December 19 that we would act quickly to adjust our spending so that we can continue to pay consumer service claims from contracted providers and meet our own payroll. As difficult as it is to do so, we were forced to address the spending for our own staffing because it is the largest part of our agency's direct expenditures. Our situation and options are like those of our fellow CMHs in the LRE who have recently announced similar major budget reductions.

**For The Third Time In Twelve Months, We Have Instituted Layoffs.** Our management team evaluated what we would need to (a) continue to deliver services, (b) meet our administrative obligations to the state and region, and (c) pay our bills and make payroll. That led to a decision to issue layoff notices to approximately 28 of our 120+ staff, affecting nearly every division and department. Our clinical leadership is working to assure continuity of care for clients who may be affected by these staff changes, and our Human Resources staff are working with affected employees to offer support, information and other materials to assist with this process. Our board and staff at the LRE have been informed of our actions as well. Adjustments will need be made to Allegan CMHs organizational structure. Decisions are being made about our organizational structure for the future, and we may well need to merge or blend some teams to deal with this loss of capacity. I will post further updates to this website if circumstances warrant.

If you have any concerns, comments or questions, I invite you to let me know. Please feel free to contact me by email at [mwitte@accmhs.org](mailto:mwitte@accmhs.org) or by phone at (269) 673-6617 extension 2716.

