



Background Briefing

COMMUNITY HEALTH

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Department of Community Health

Responsible for health policy development and management of Michigan's publicly-funded health care service systems

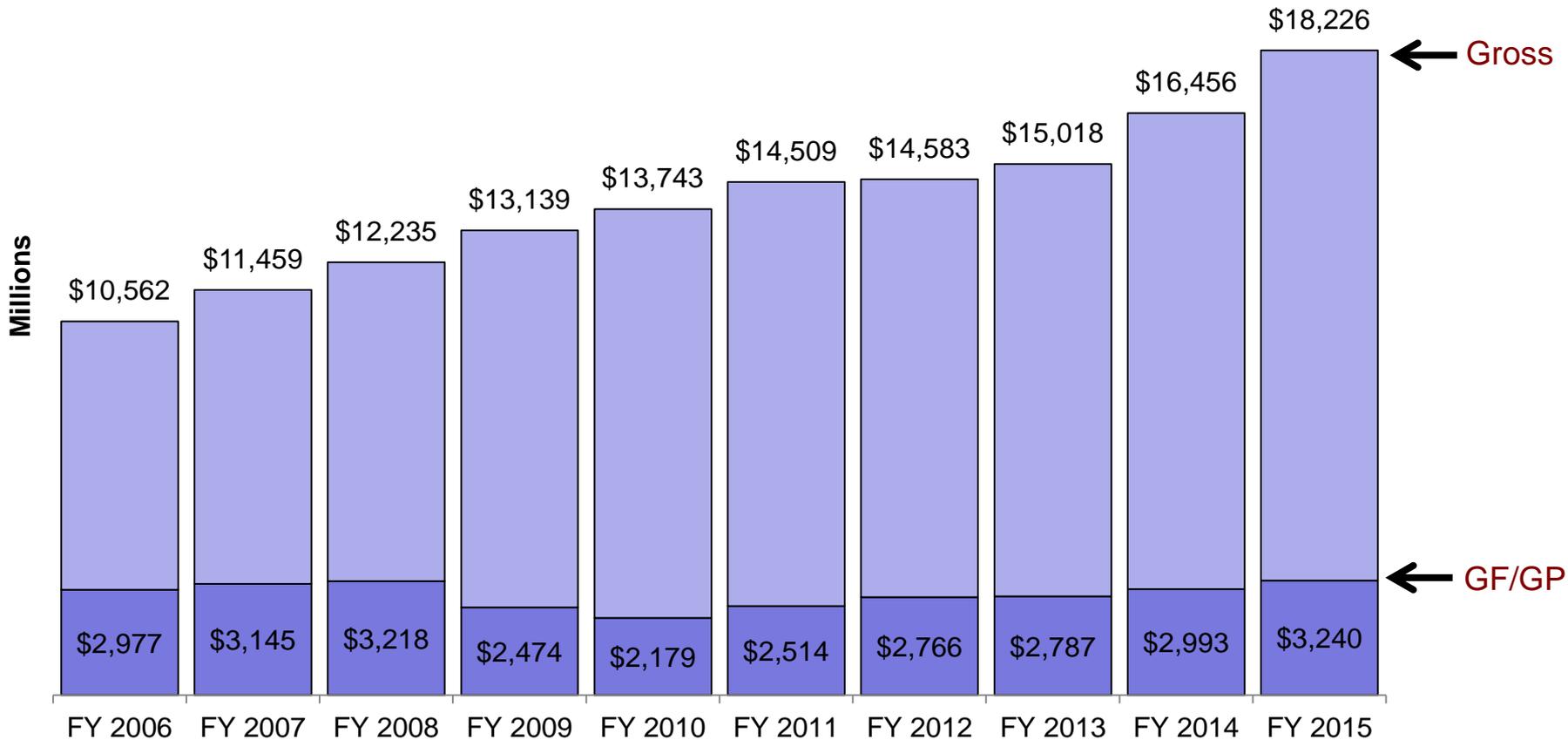
Established by Executive Order 1996-1 when former Departments of Mental Health and Public Health were merged with Medicaid and Office of Drug Control Policy

Historical Changes in Responsibilities

- Office of Services to the Aging, Adult Home Help Program, and Crime Victim Services Commission transferred to Community Health in 1997
- Health Policy, Regulation, and Professions transferred to Community Health in December 2003
- Office of Drug Control Policy abolished on October 1, 2009
- Bureaus of Health Professions and Health Systems, and Controlled Substances Advisory Commission transferred to Department of Licensing and Regulatory Affairs in April 2011

Community Health: Gross Appropriations

At \$18.2 billion, Community Health is the largest state budget area. Gross appropriations have grown by 72.6% since FY 2005-06, primarily due to increases in Medicaid caseload, inflation, and utilization, and the expansion of the Medicaid program through the new Healthy Michigan Plan beginning April 2014. GF/GP growth is modest due to increased non-GF/GP funding, including federal revenue, supporting Medicaid.

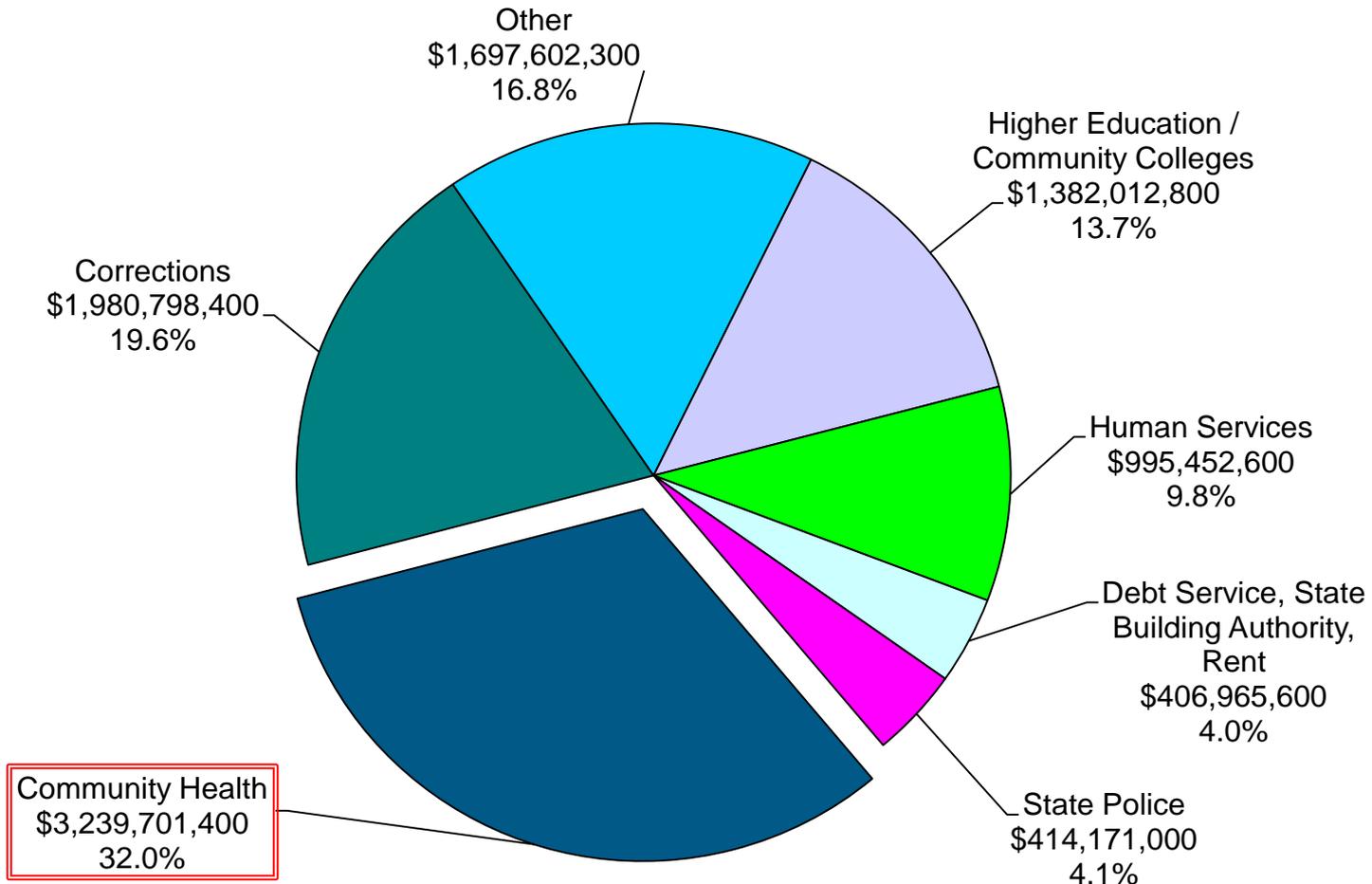


Fiscal years 2008-09 through 2010-11 include \$2.9 billion of federal American Resource and Recovery Act (ARRA) funding, primarily for Medicaid.

Community Health Share of State GF/GP

The Community Health budget makes up 32.0% of the total state GF/GP budget

FY 2014-15 GF/GP Total = \$10,116,704,100



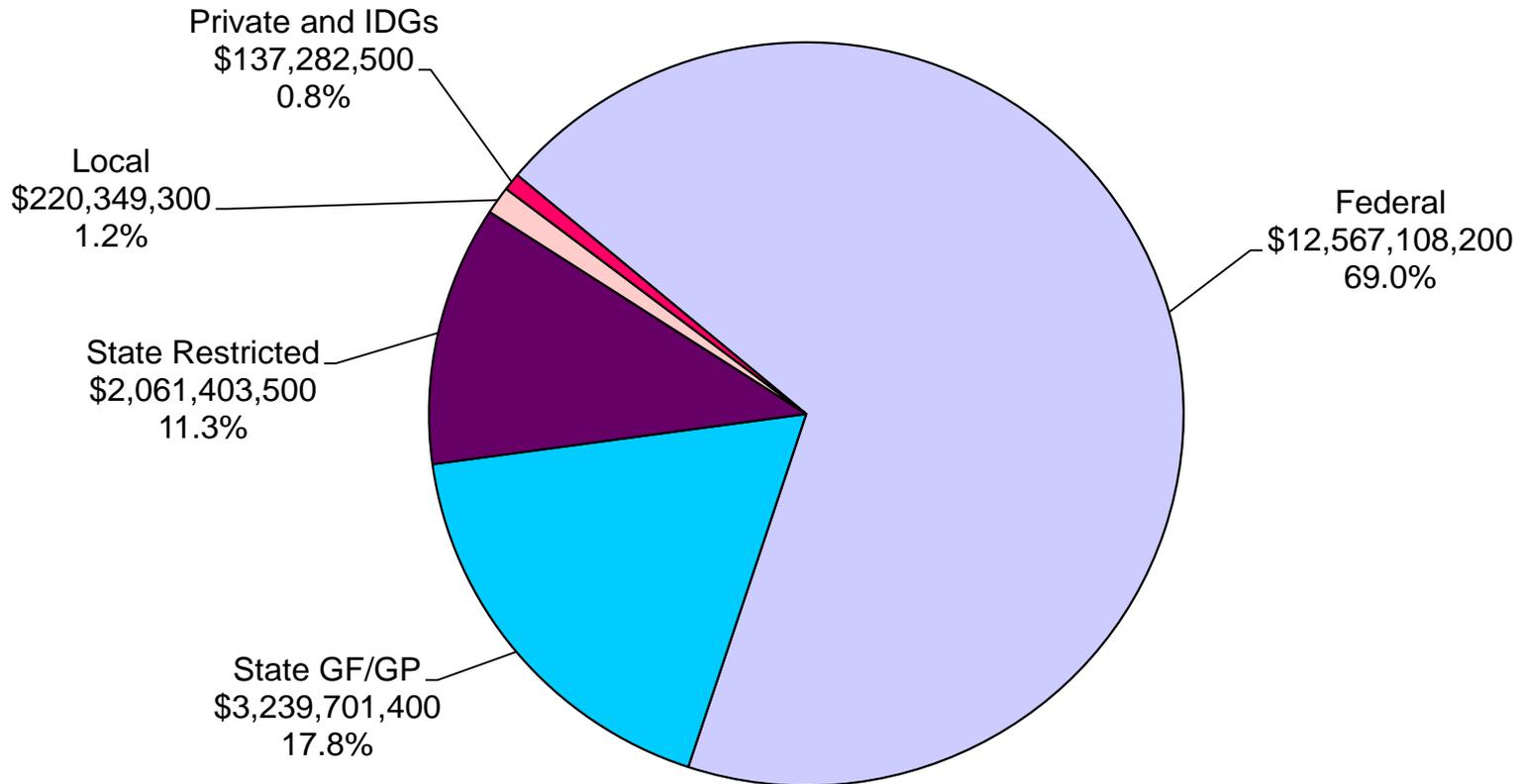
FY 2014-15 GF/GP includes supplemental appropriation adjustments in 2014 PA 356.

SOURCES OF FUNDING

Community Health Funding Sources

Federal funds represent 69.0% of the Community Health budget
State GF/GP funds support 17.8% of the budget.

FY 2014-15 Community Health Budget = \$18,225,844,900



Community Health Funding Sources

The Department of Community Health FY 2014-15 year-to-date budget is \$18.2 billion, with revenue from the following sources:

- Federal funds are primarily from Medicaid program matching funds including the Healthy Michigan Plan, and also from numerous program and block grants
- State GF/GP represents state tax and other unrestricted state revenue
- State Restricted funds include revenue from the Merit Award Trust Fund, Healthy Michigan Fund, Michigan Health Initiative Fund, Medicaid Benefits Trust Fund, Crime Victim's Rights Fund, health insurance claims assessment, health care provider assessments, Medicaid special financing, user and licensing fees, Roads and Risks Reserve Fund, and the Autism Coverage Fund
- Local revenue includes funds from community mental health services programs, county medical care facilities, and school districts
- Private funds are from grants, patient gifts and bequests, and manufacturer rebates
- Interdepartmental grants (IDGs) are funds from other state departments for services

One-time only funding of \$29.7 million Gross (\$17.5 million GF/GP) is included in the FY 2014-15 budget for designated uses

COMMUNITY HEALTH APPROPRIATIONS

Community Health Appropriation Areas

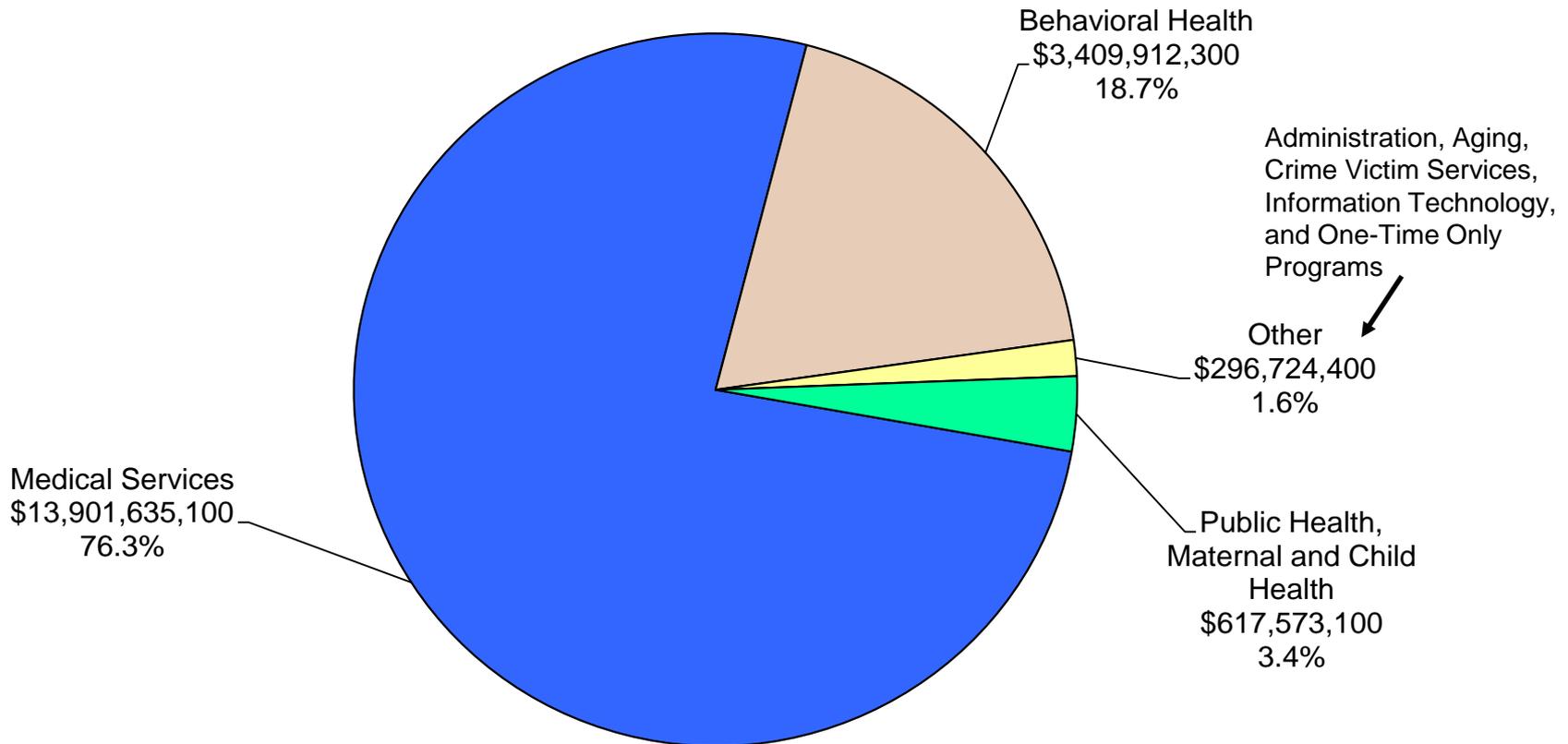
As shown on the next two charts, the Department of Community Health (DCH) provides funding for a wide range of services for persons in Michigan:

- Behavioral health services provided through community mental health services programs (CMHSPs), prepaid inpatient health plans (PIHPs), state-run hospitals, and department-designated CMHSPs coordinating the provision of substance use disorder services in its regions
- Public health services in partnership with local health departments, including communicable disease control and services for vulnerable populations
- Medicaid coverage for health care services delivered through managed care plans and medical providers to qualified low-income persons
- MIChild health care coverage for non-Medicaid eligible children, and indigent health care programs
- Support and services for Michigan seniors provided through regional Area Agencies on Aging
- Services, support, and compensation for victims of crime

Community Health Gross Appropriations by Program

Medical Services including the Healthy Michigan Plan account for 76.3% of total Community Health appropriations, followed by Behavioral Health at 18.7%.

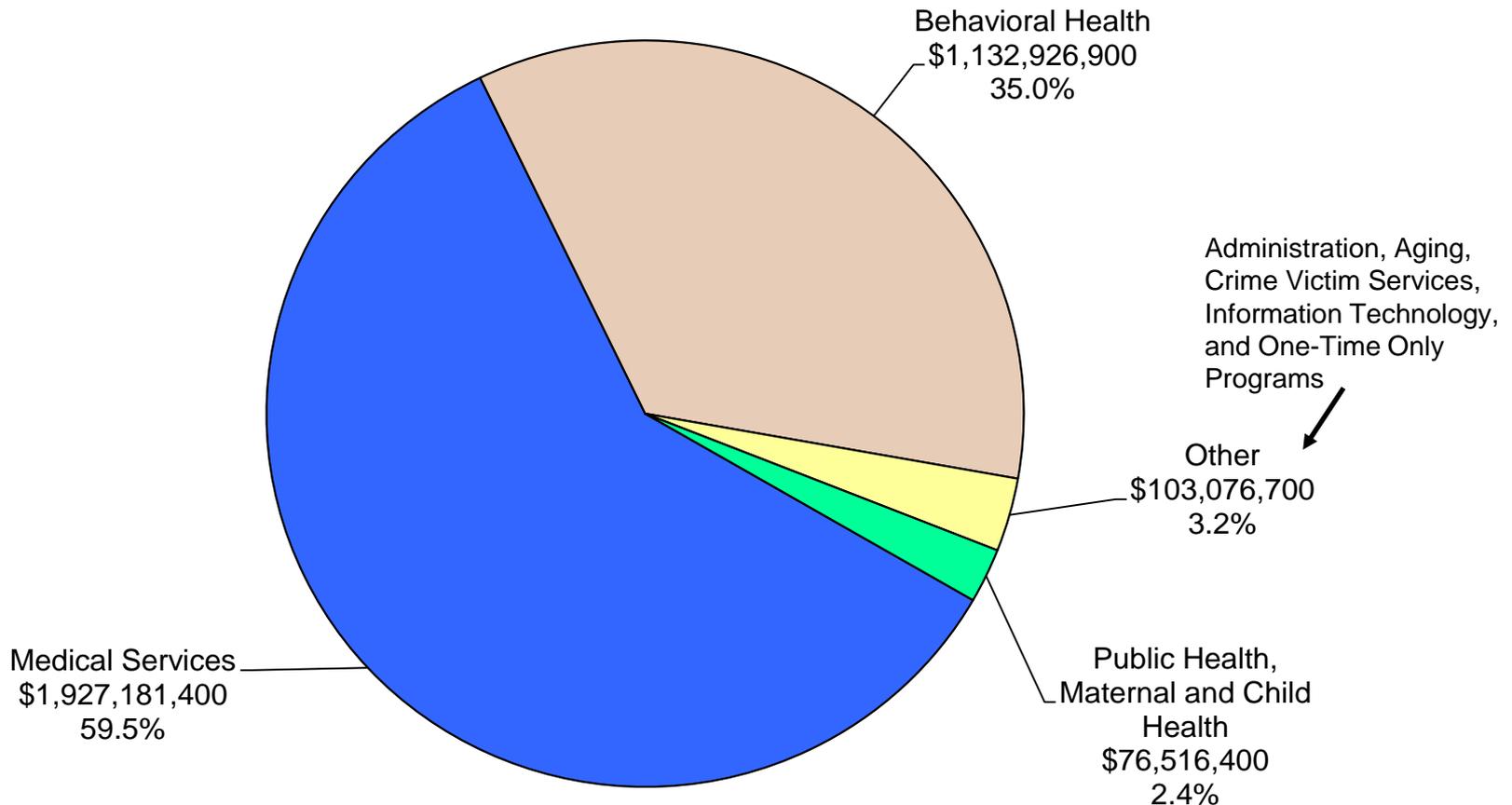
FY 2014-15 Community Health Budget = \$18,225,844,900



Community Health GF/GP Appropriations by Program

Over 59% of Community Health GF/GP appropriations are for Medical Services, followed by 35% for Behavioral Health services

FY 2014-15 Community Health GF/GP Budget = \$3,239,701,400



MAJOR BUDGET TOPICS

Community Health FY 2014-15 Budget Topics

Behavioral Health

- Department-designated CMHSPs coordinating the provision of substance use disorder services in its regions
- Mental health and substance use disorder services non-Medicaid funding
- Uniformity and equity in capitation payments made to PIHPs
- National accreditation review criteria for behavioral health services and Medicaid health plans
- Mental health and health care system innovation grant programs
- Mental Health and Wellness Commission recommendations

Public Health, Maternal and Child Health

- Promotion of health care providers in underserved areas
- EMS licensure program funding and statewide trauma system support
- Essential local public health services funding
- Maternal, infant and child home care visit programs
- Pilot program of health care services in schools for children and adolescents
- Expanded funding for autism higher education centers and family assistance

Community Health FY 2014-15 Budget Topics

(continued)

Seniors

- Elimination of waiting lists for in-home services and home delivered meals
- Elder abuse prevention funding

Medical Services

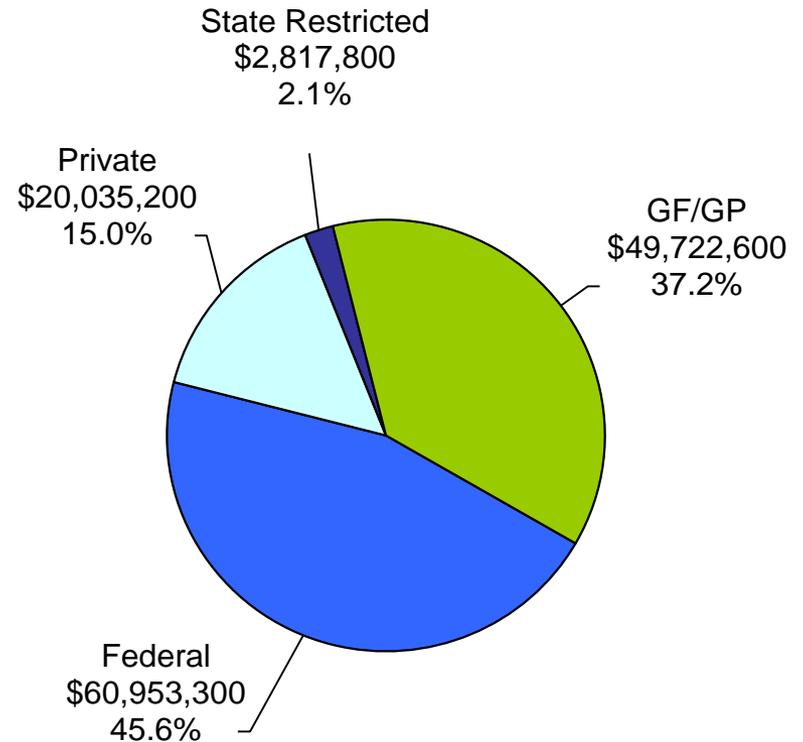
- Medicaid and Medicare (dual eligibles) integration into managed care
- Medicaid managed care
- Medicaid provider reimbursement rates
- Long-term care and home/community-based care
- Healthy Michigan Plan expansion of the Medicaid program
- Health Insurance Claims Assessment/Use Tax on Medicaid Managed Care Organizations
- Affordable Care Act (ACA) Insurer Fee/Actuarial Soundness
- Electronic health records

**MAJOR
COMMUNITY HEALTH
PROGRAM AREAS**

Departmentwide Administration

Centralized administrative functions and information technology budget
\$133.5 million – 196.7 FTEs

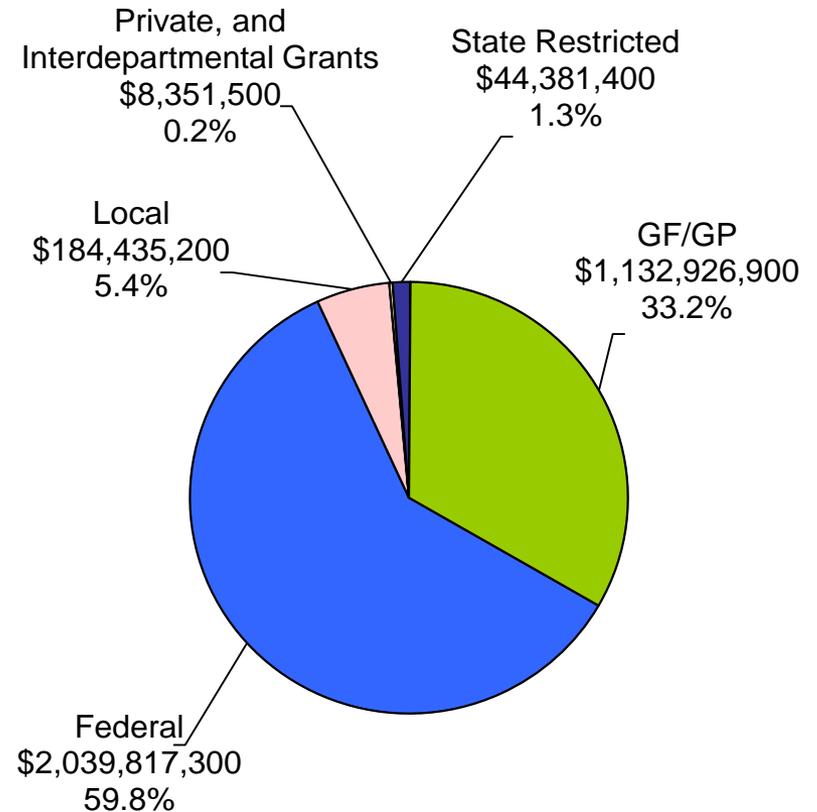
- Director and Other Unclassified Positions
- Budget, Accounting, Audit, Grants
- Purchasing, Building and Rent Charges
- Worker's Compensation Claims
- Michigan Developmental Disabilities Council
- Human Trafficking Intervention Services
- Information Technology Services
- Community Health Automated Medicaid Processing System (CHAMPS)



Behavioral Health Services

Administration and programs related to behavioral health services
\$3.4 billion – 2,243.4 FTEs

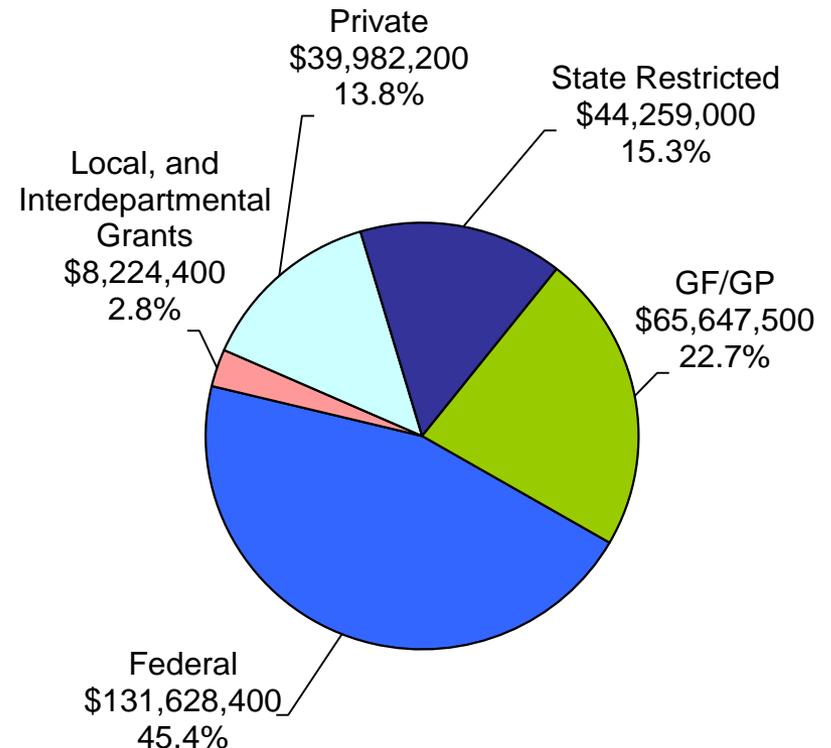
- Behavioral Health Program Administration
- Housing and Support Services
- Medicaid Mental Health and Substance Abuse Services
- Community Mental Health Non-Medicaid Services
- State-Operated Psychiatric Hospitals
- Center for Forensic Psychiatry
- Community Substance Abuse Prevention Education, and Treatment Programs
- Children's Waiver Home Care Program
- Family Support Subsidy
- Nursing Home Placement Assessment



Community Public Health

Prevent and control disease, protect and promote human health
\$289.7 million – 508.1 FTEs

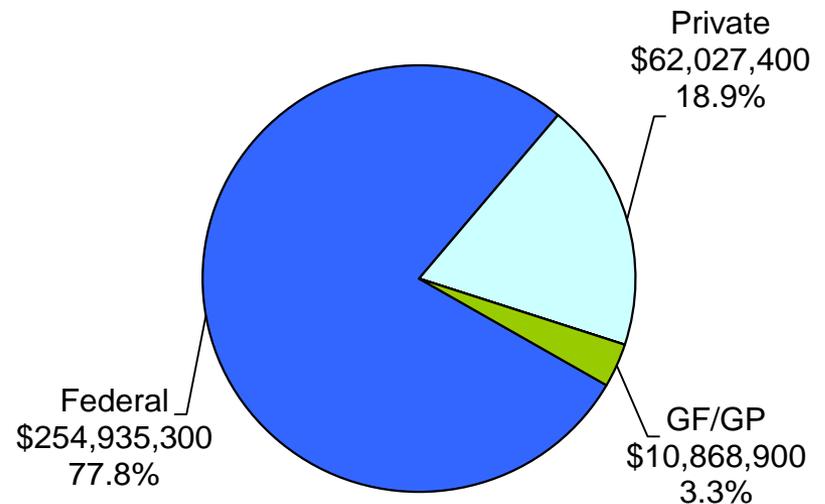
- Public Health Administration
- Laboratory Services
- Epidemiology
- Infectious Disease Control
- Bioterrorism Preparedness
- Local Public Health Services Grants
- Chronic Disease and Injury Prevention
- Health and Wellness Promotion
- Vital Records and Health Statistics
- Health Policy, and Access to Health Care Services



Family, Maternal, and Children's Health Services

Programs providing health services and support to infants, children, women of childbearing age, and families at risk
\$327.8 million – 110.6 FTEs

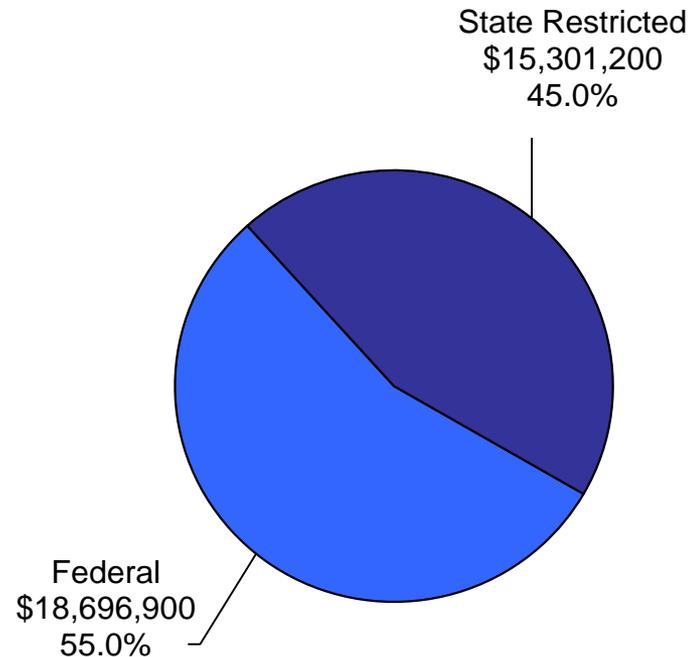
- Women, Infants, and Children Supplemental Food and Nutrition Program (WIC)
- Local Maternal and Child Health Services
- Family Planning and Pregnancy Prevention
- Prenatal Care Outreach and Service Delivery Support
- Childhood Lead Poisoning Prevention
- Dental Programs
- Administration, and Special Projects



Crime Victim Services

Grants, services, support, and compensation for victims of crime
\$34.0 million – 13.0 FTEs

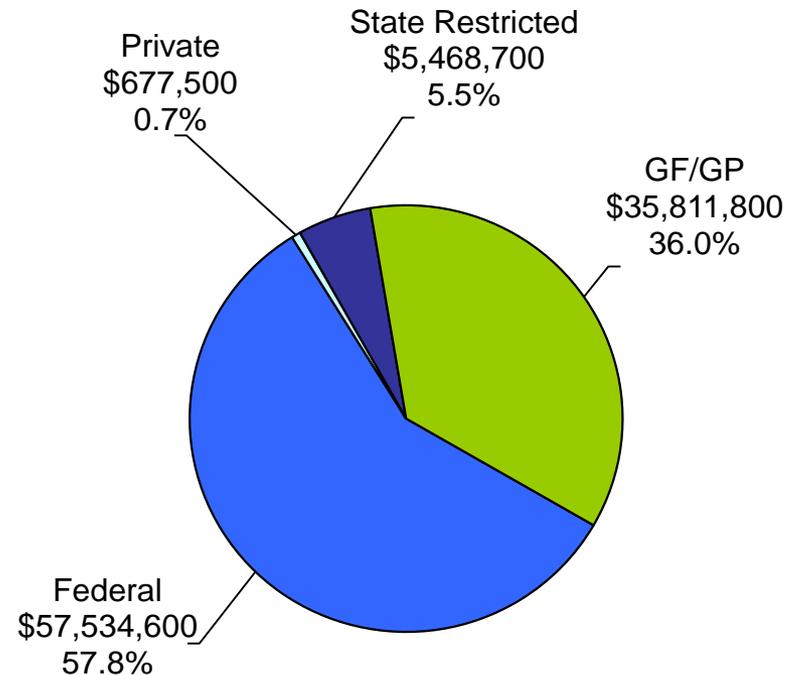
- Justice Assistance Grants
- Crime Victim Rights Services Grants
- Crime Victim Compensation Grants



Office of Services to the Aging

Services and support for older persons in need
\$99.5 million – 40.0 FTEs

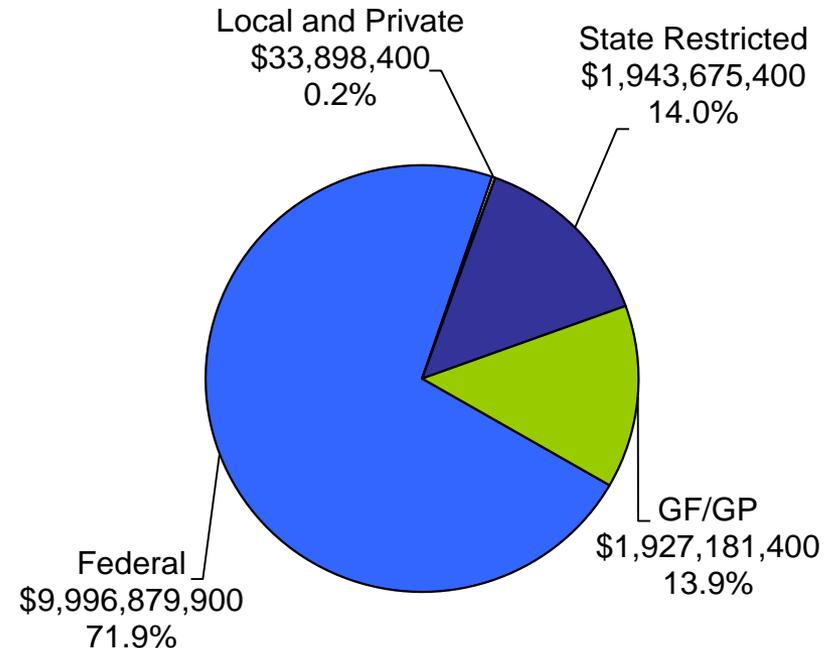
- Community Services
- Nutrition and Meals Services
- Senior Volunteer Programs and Services
- Respite Care Program
- Employment Assistance



Medical Services

Physical health care services to 2.17 million low income persons through Medicaid and other programs
\$13.9 billion – 542.3 FTEs

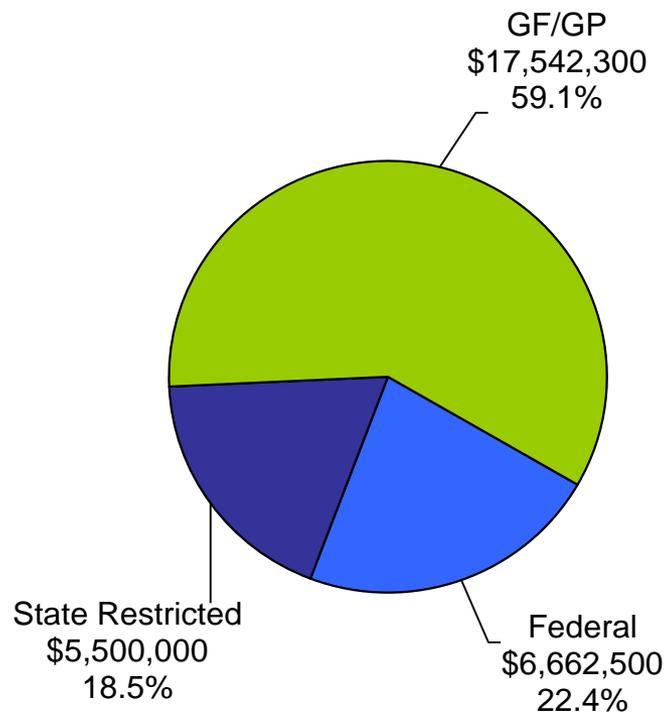
- Medical Services Administration
- Electronic Health Records
- Children's Special Health Care Services
- Medicaid (Physical Health) Services
- Medicaid Special Financing Payments
- MIChild Program
- Indigent Health Care



One-Time Basis Only Appropriations

Appropriations intended to be one-time only
\$29.7 million – 0.0 FTEs

- University Autism Programs
- Autism Family Assistance Services
- Pay for Success Maternal and Child Health Services Contracts
- Bone Marrow Transplant Registry
- Child/Adolescent Mobile Health Services
- Mental Health Commission Recommendations
- Dental Clinic Program
- Healthy Kids Dental Computer Project
- Statewide Trauma System
- Senior Olympics



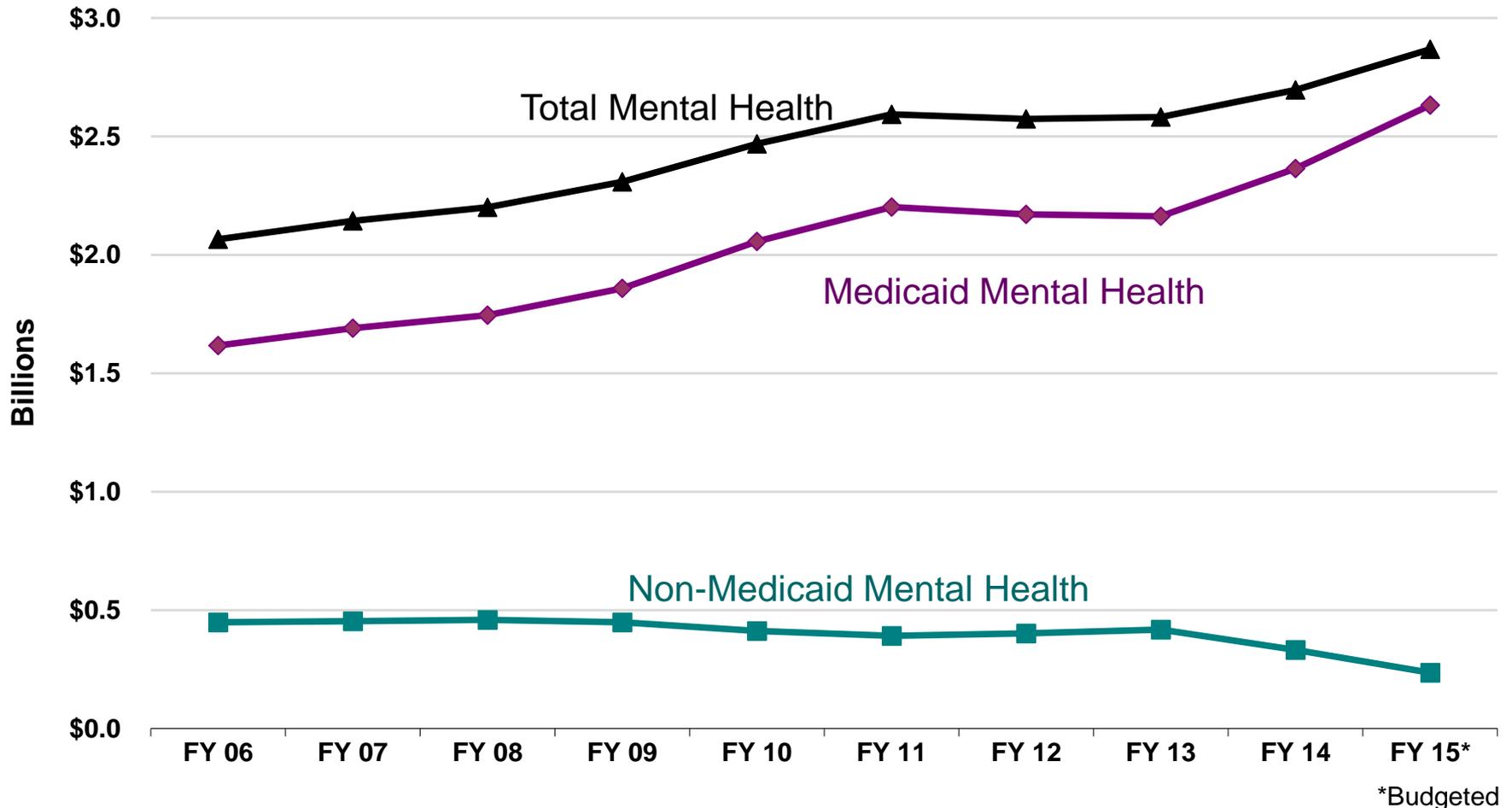
BEHAVIORAL HEALTH SERVICES

Mental Health Services

- The Michigan Constitution (Article VIII, Section 8) states that institutions, programs, and services for the care, treatment, education, or rehabilitation of those inhabitants who are physically, mentally, or otherwise seriously disabled shall always be fostered and supported
- Mental health services are governed by the state's Mental Health Code (1974 PA 258, as amended) and federal regulations implemented waivers approved by the Centers for Medicare and Medicaid Services
- Primary responsibility for delivery of services is through local community mental health services programs and prepaid inpatient health plans
- Since the 1970s, the trend has been toward serving more patients in the community and fewer patients in state-operated hospitals and institutional settings
- Funding for Medicaid mental health services (joint federal/state funding) has increased significantly more than funding for Non-Medicaid mental health services (state funding only)

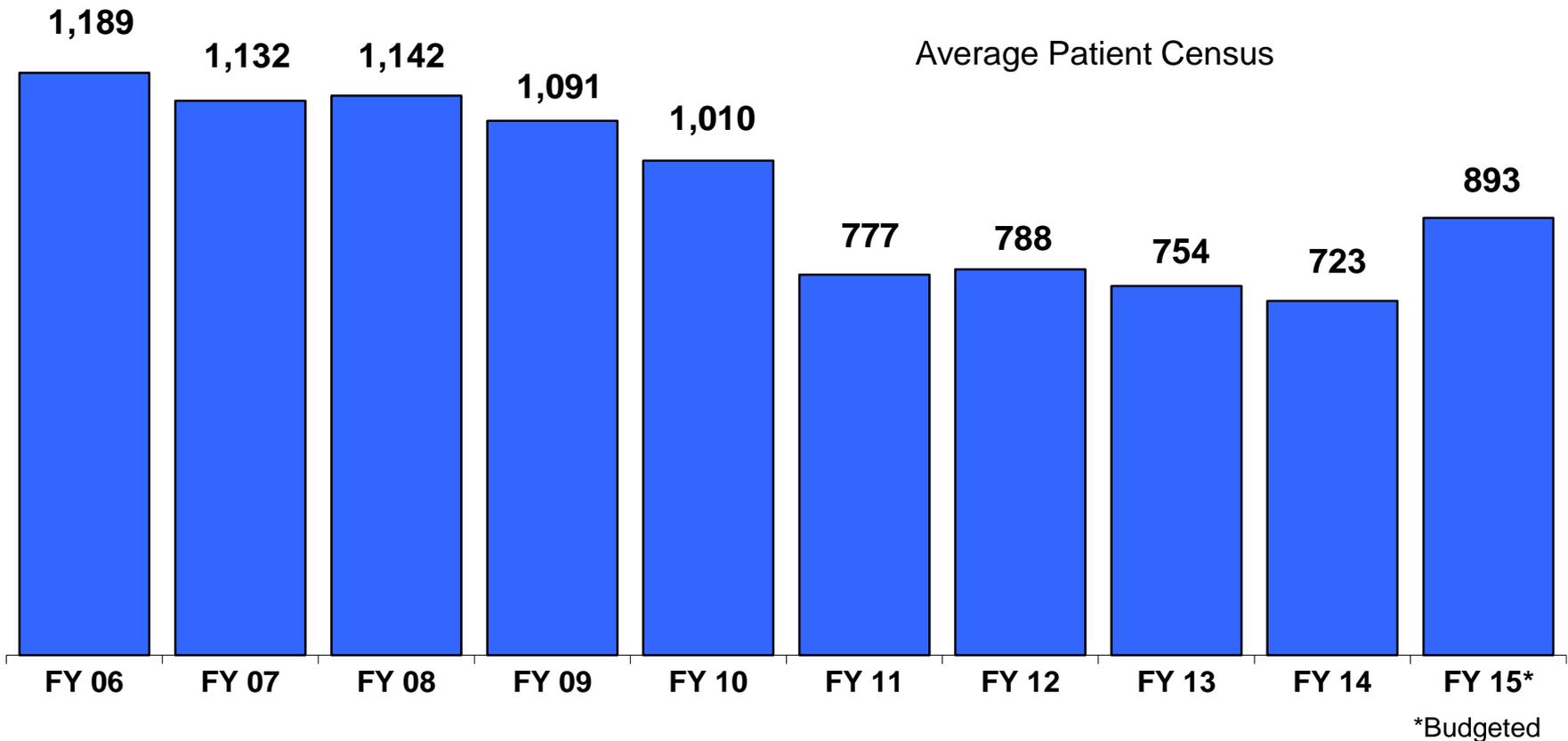
Mental Health Spending

Since FY 2005-06, Medicaid Mental Health spending has increased by 62.7%, Non-Medicaid Mental Health spending has decreased by 47.3%, and total Mental Health spending has increased by 38.8%. Changes in both Medicaid and Non-Medicaid spending beginning in FY 2013-14 are almost exclusively due to establishment of the Healthy Michigan Plan.



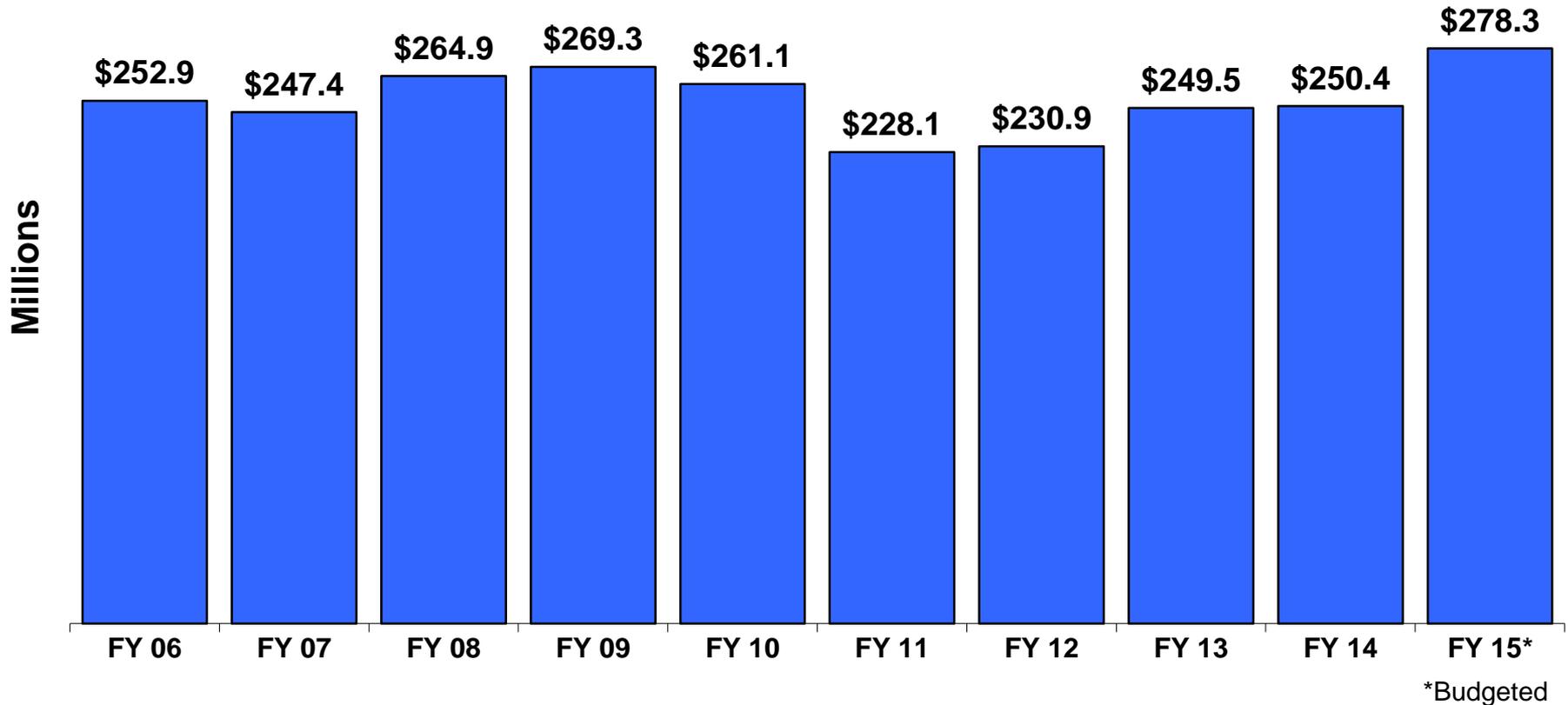
Patients in State Mental Health Facilities

The number of patients in the 5 state-operated mental health facilities has fallen since FY 2005-06 due to facility closures, more community-based services, and transfer of responsibilities for Forensic Prisoner Mental Health Services to the Department of Corrections in February 2011.



State Mental Health Facility Expenditures and Authorizations

Expenditures and authorizations for state mental health facilities have fluctuated since FY 2005-06 due to facility closures, transfer of responsibilities for Forensic Prisoner Mental Health Services to the Department of Corrections in February 2011, number of patients, and staff-related costs.



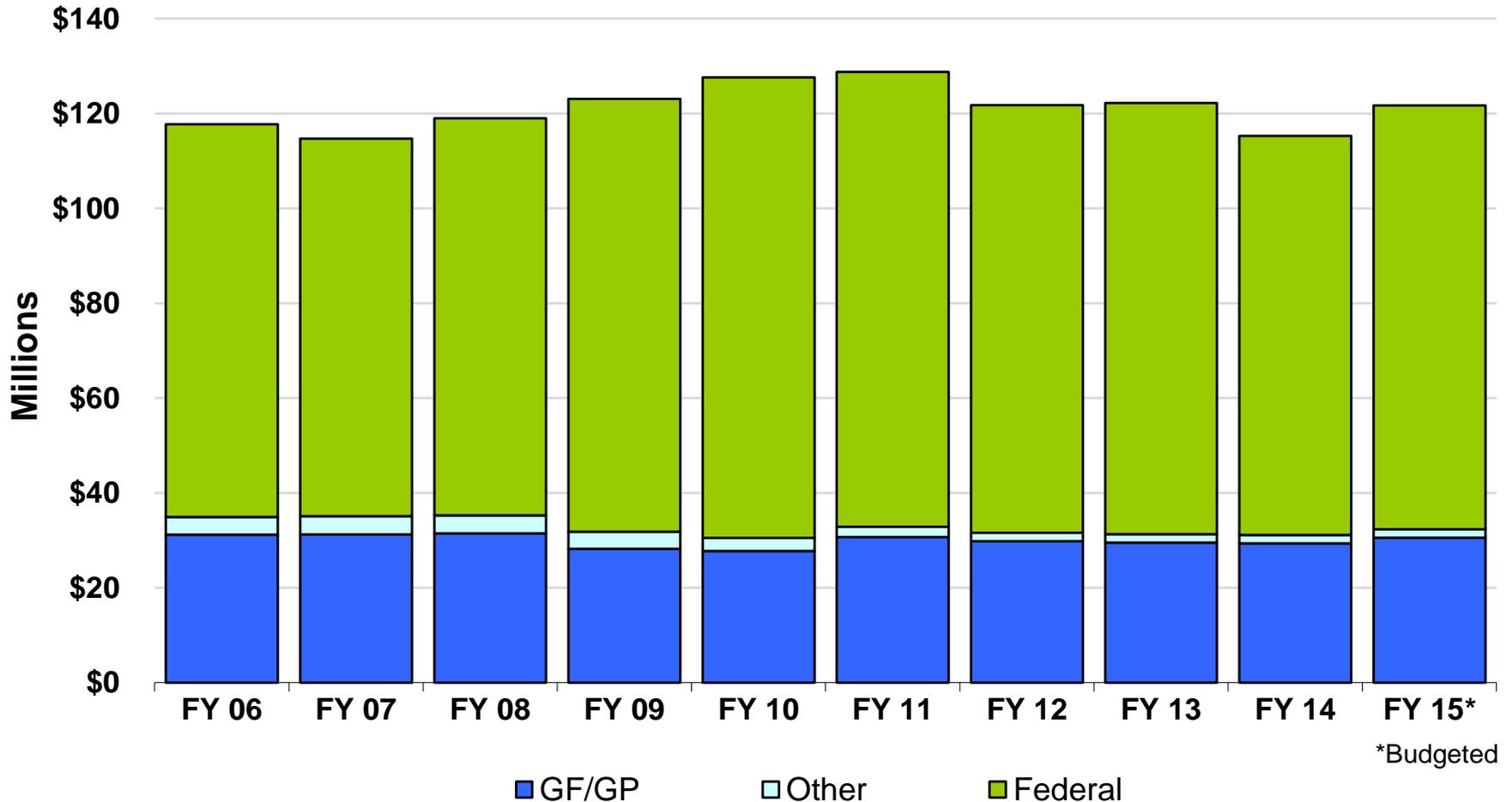
*Budgeted

Substance Use Disorder Services

- Michigan's Mental Health Code (1974 PA 258, as amended by 2012 PA 500) requires Department-designated CMHSPs to coordinate the provision of substance use disorder services in its regions and ensure services are available for individuals with substance use disorder
- Effective October 1, 2014, Department-designated CMH entities are coordinating agencies for purposes of receiving any statutorily required substance use disorder funds
- Substance use disorder services include prevention, education, treatment, and rehabilitation programs
- The majority of funding for substance use disorder services is from the federal Substance Abuse Prevention and Treatment Block Grant and federal Medicaid revenue

Substance Use Disorder Services Spending

Since its peak in FY 2010-11, total substance use disorder services spending has decreased by \$7.1 million (5.5%), federal funding has decreased by \$6.6 million (6.9%), and GF/GP spending has decreased by \$101,500 (0.3%).



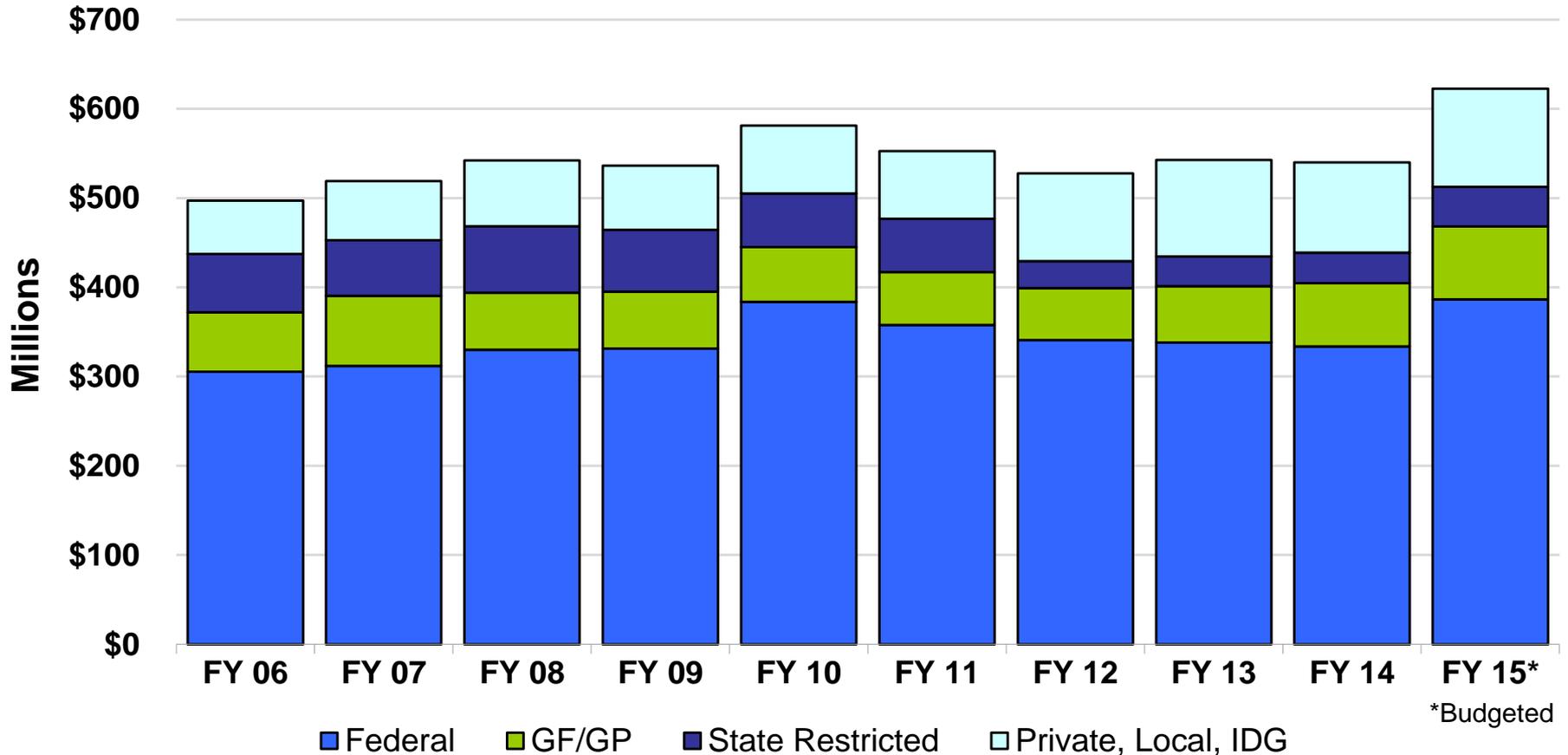
PUBLIC HEALTH

Public Health Services

- The Michigan Constitution establishes public health as a matter of primary public concern (Article IV, Section 51)
- Michigan's Public Health Code (1978 PA 368, as amended) requires the Department of Community Health to protect and promote the public health
- The Department collaborates with local health departments to perform key public health tasks including infectious disease surveillance and control, epidemiological and laboratory services, and vital records
- Vulnerable populations including infants, children, and pregnant women receive services to prevent disease and improve health outcomes
- Federal grants are the primary source of funds for public health and family health programs and services, providing about 62% of total funding
- The Healthy Michigan Fund, established in 1995, provides funding for public health prevention and health-related programs using state tobacco tax revenue pursuant to the Michigan Constitution (Article IX, Section 36) and Part 59A of the Public Health Code

Total Public Health Funding and Sources

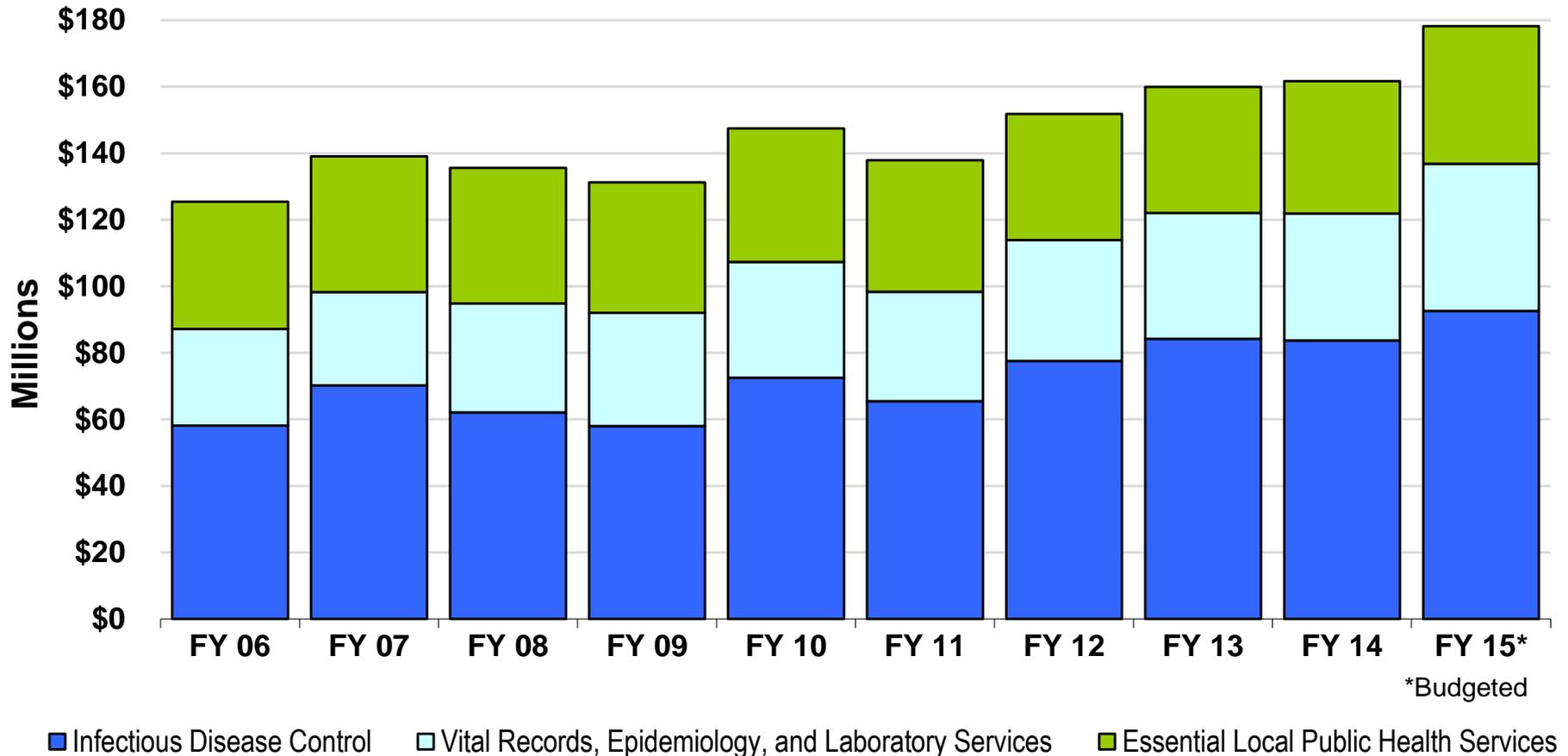
Funding for public health and maternal/child health programming has grown 25% over the past ten years, primarily from federal grants and private drug and infant formula manufacturer rebates. GF/GP funding is significantly increased in FY 2014-15, 23% over FY 2005-06, primarily from new one-time funding items for maternal/child health programs. During this period state restricted funds have been reduced.



Note: Amounts shown for FY 2005-06 through FY 2010-11 include health regulatory and licensing functions, transferred to Dept. of Licensing and Regulatory Affairs in 2011.

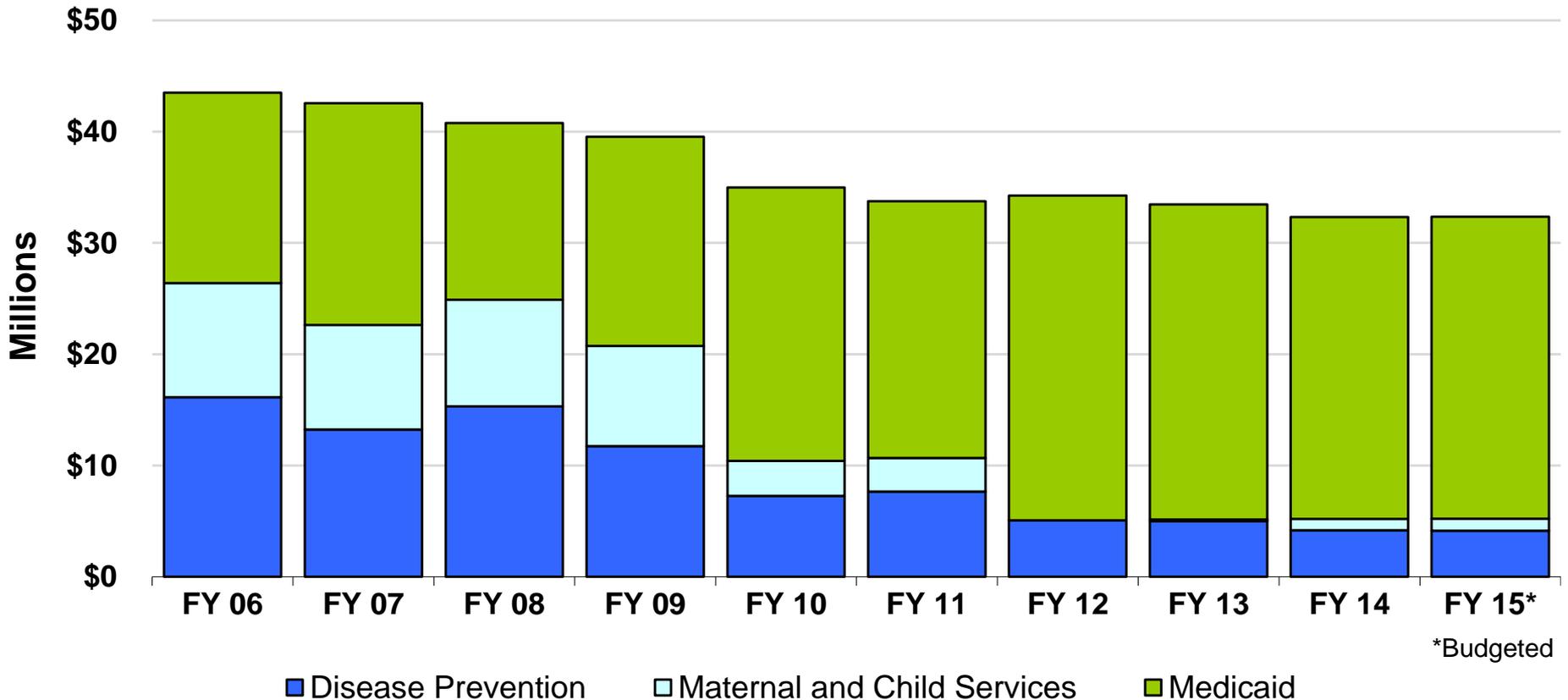
Key Public Health Services

Funding for key state and local public health functions of disease surveillance and control, laboratory services, and vital records is planned at \$178 million for FY 2014-15, an increase of 42% from FY 2005-06. Increases are from federal, private, and fee revenues. Funding for local public health cost shared services was flat during this period until GF/GP increases were provided in FY 2013-14 and FY 2014-15.



Healthy Michigan Fund

The Healthy Michigan Fund was established in 1995 to fund public health prevention programs, but has increasingly supported Medicaid program medical services since FY 2002-03. Currently, 16% of Healthy Michigan Fund appropriations are allocated for disease prevention and maternal and child health. Fund revenue, from the tobacco tax, continues to decline due to reduced tobacco use.



Note: FY 2014-15 non-Medicaid amounts shown are based on DCH planned project allocations.

MEDICAL SERVICES

Medical Services

- Base Medicaid is the state's primary health care safety net program providing coverage to 1.74 million persons including:
 - Families receiving Family Independence Program assistance
 - Aged, blind and disabled persons on Supplemental Security Income
 - Pregnant women and newborn children up to 185% of poverty
 - Children under age 18 in families up to 150% of poverty
 - Elderly and disabled persons up to 100% of poverty
 - Medically needy persons with income or resources above regular financial eligibility levels

- Medicaid is a joint federal-state program started in the 1960s under the federal Social Security Act and Michigan's Social Welfare Act

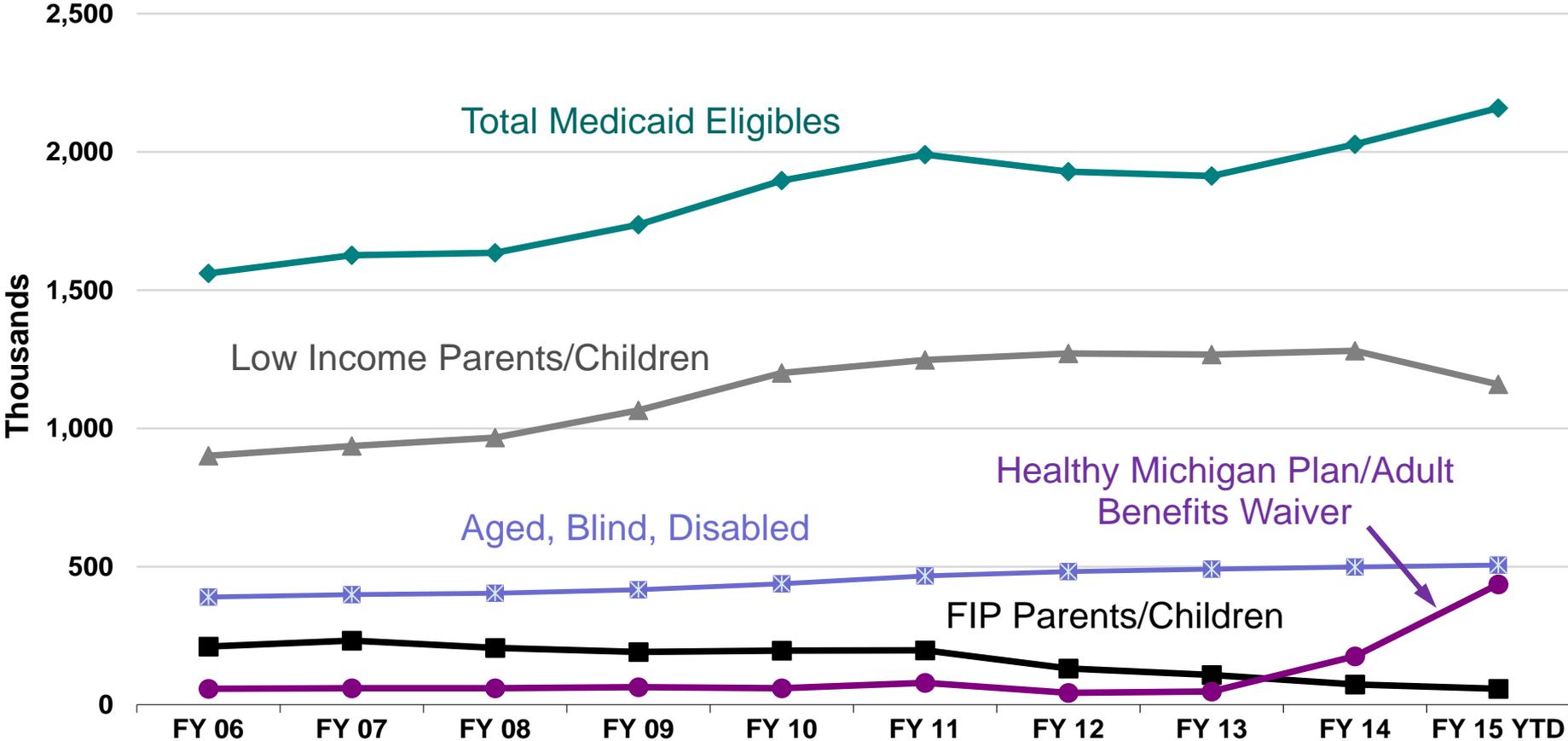
- The regular federal match rate (FMAP) in FY 2014-15 is 65.54%, meaning the state receives \$1.90 of federal funding for every \$1.00 of state funding spent on Medicaid

Healthy Michigan Plan

- Legislative enactment of the Healthy Michigan Plan under Public Act 107 of 2013 expanded the base Medicaid program, pursuant to the federal Affordable Care Act, to include adults up to 138% of the federal poverty level beginning April 1, 2014.
- Under the approved federal waiver, modifications from the base Medicaid program include health savings accounts, co-pays (depending on income), and incentives for healthy behavior. All enrollees choose from among contracted managed care health plans.
- A second federal waiver required by December 31, 2015 would apply certain requirements to individuals enrolled in the program for more than 48 months in order for the program to continue. State statute also provides for the program to sunset when the expanded program no longer results in net savings to the state.
- As of November 2014, about 480,000 individuals have enrolled in the Healthy Michigan Plan.
- Initial costs are fully funded by the federal government. A five percent state match requirement begins January 1, 2017 (FY 2016-17), phasing up to 10% beginning January 1, 2020 (FY 2019-20). Estimated GF/GP costs are roughly \$100 million/year increasing to \$300 million/year.
- Enactment of the Healthy Michigan Plan has also shifted approximately \$250 million to \$300 million in previous state costs to federal funds for Mental Health, Adult Benefits Waiver, Corrections health care, and certain other programs, creating ongoing GF/GP savings.

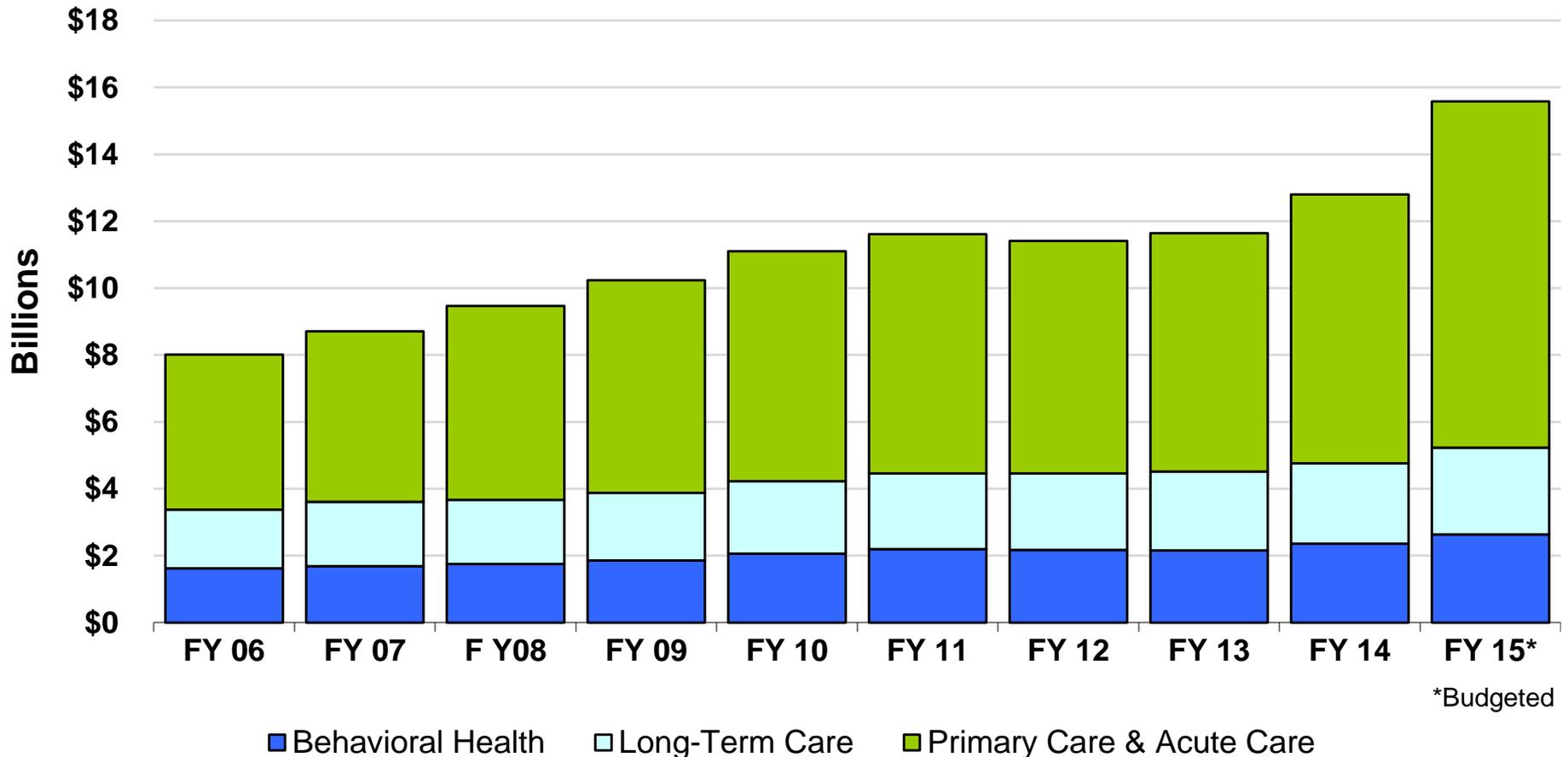
Medicaid Caseload

The monthly average number of persons eligible for Medicaid has risen by over 598,200 since FY 2005-06, after years of gradual decline. Caseload increases during FY 2013-14 and FY 2014-15 year-to-date were driven primarily by the Healthy Michigan Plan effective April 1, 2014. Aged, Blind, and Disabled Medicaid has also steadily increased.



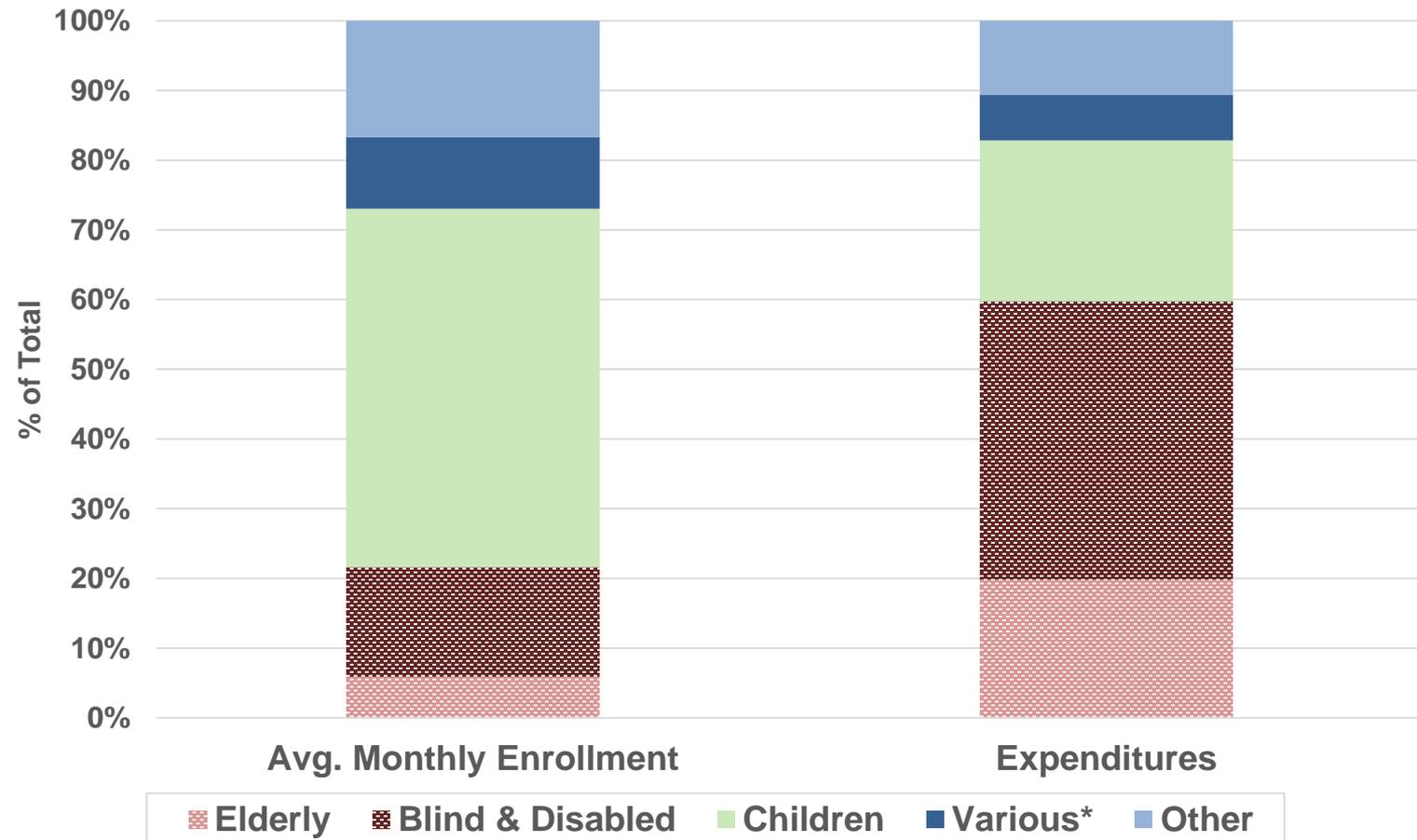
Medicaid Expenditures by Category

The cost of Medicaid services has increased steadily since FY 2005-06. Expenditures for primary care and acute care services reflect the rise in caseload numbers of low-income parents/children and the Healthy Michigan Plan. Long-term care and behavioral health expenditures continue to rise but at a more gradual rate.



Medicaid Enrollment and Expenditure Comparison

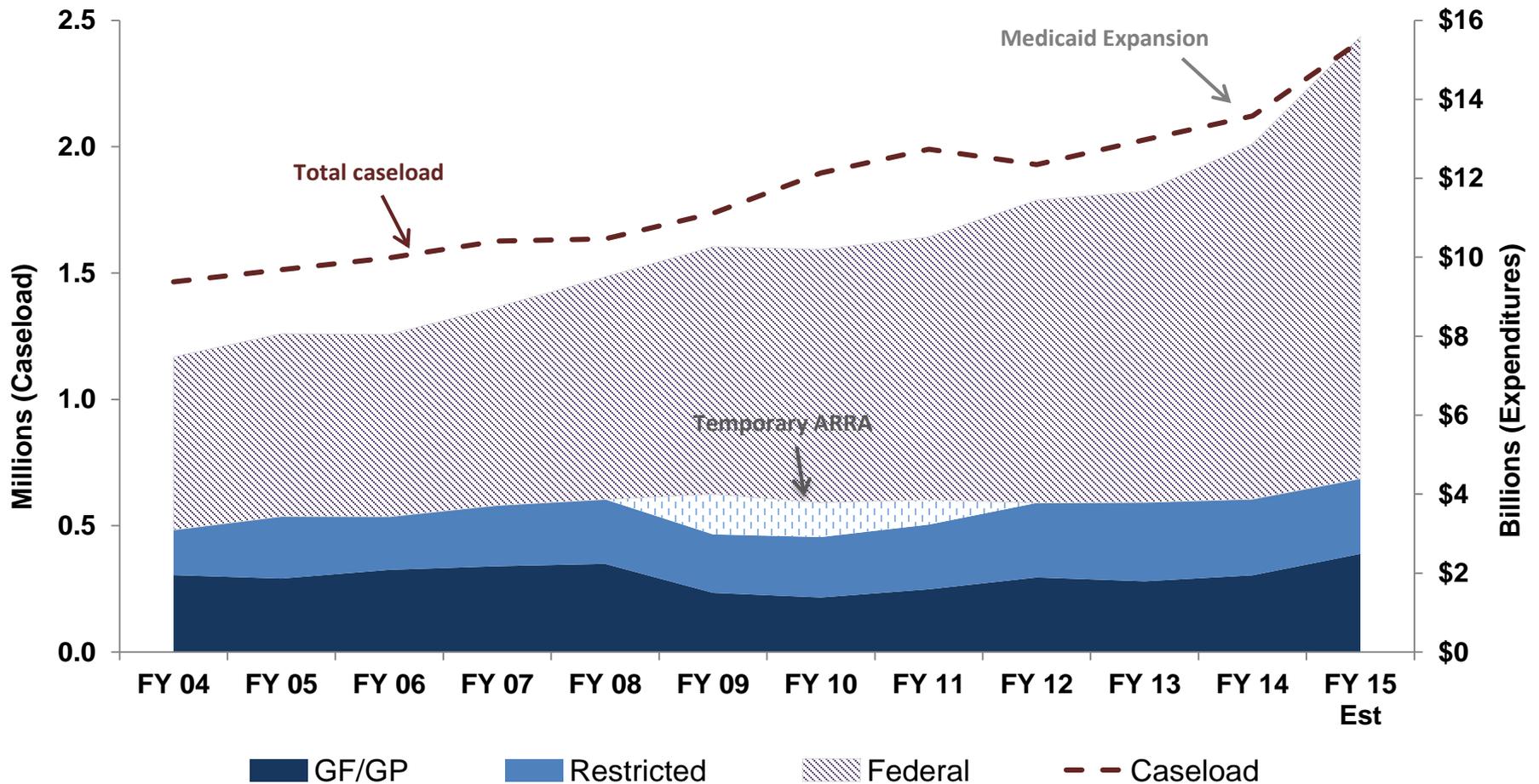
The elderly and blind & disabled represent 22% of enrollees, but constitute a majority of the expenditures. Conversely, children make up a majority of enrollees, but only constitute 23% of the expenditures. This comparison is based on FY 2012-13 data.



* Includes pregnant women, childless adults, foster care children and Plan First enrollees.

Medicaid Expenditures by Fund Source

The state's total Medicaid caseload has increased by 65% since FY 2004, driving substantial growth in total Medicaid expenditures. Increases in costs per enrollee and state match requirements, however, have been relatively modest.

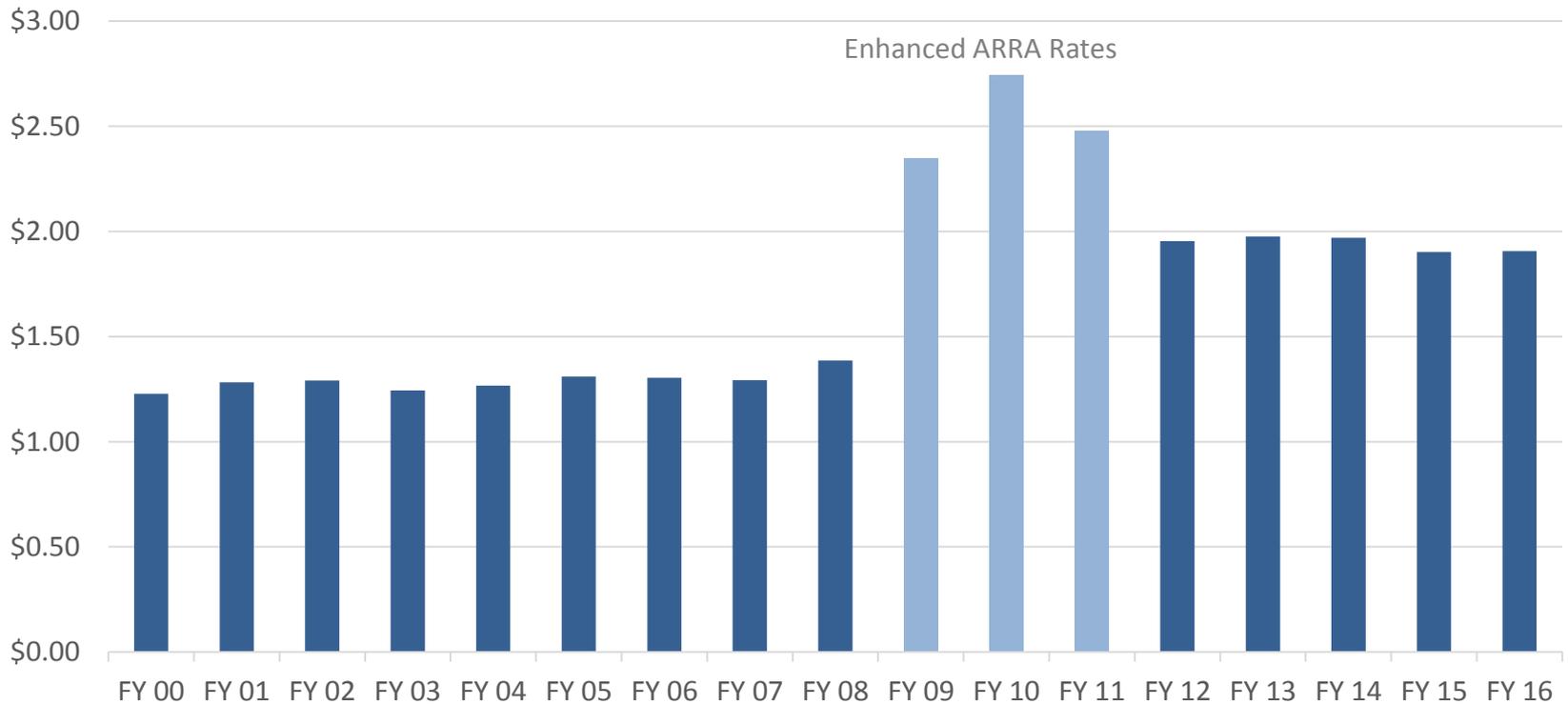


ARRA: Federal American Recovery and Reinvestment Act of 2009

Medicaid Match Rate

The federal Medicaid match (FMAP) rate shifted in the state's favor during the economic downturn as Michigan's economic growth lagged the nation's, reducing growing state match requirements, but has now flattened out.

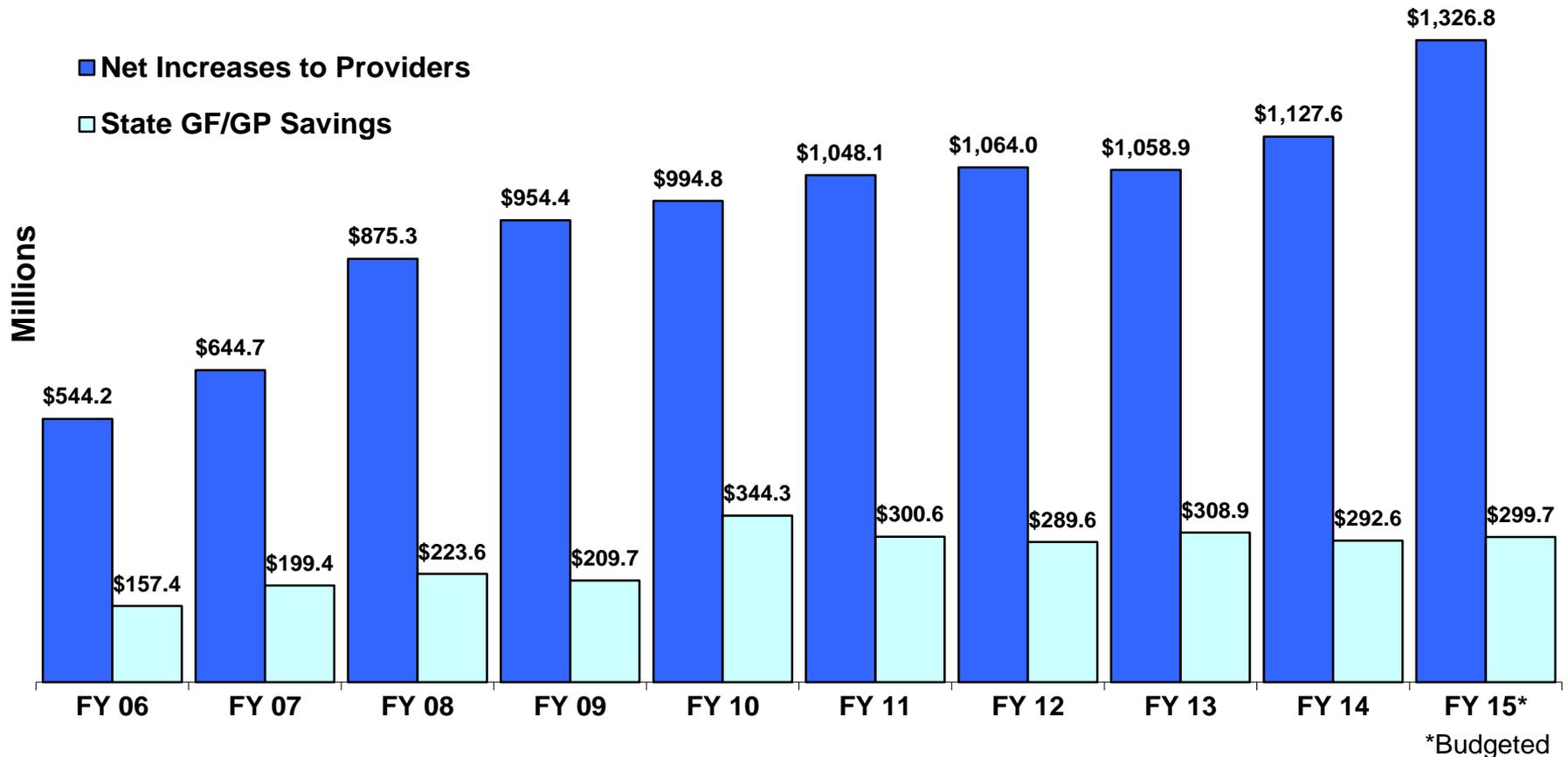
Federal Funds Received per \$1.00 State Match



ARRA: Federal American Recovery and Reinvestment Act of 2009

QAAP Provider Increases and State GF/GP Savings Trends

The net payment increases to providers from the Quality Assurance Assessment Program grew substantially through FY 2010-11 but flattened out until the enactment of the Healthy Michigan Plan. Provider tax revenues retained by the state to offset GF/GP within the Medicaid program are projected to total \$299.7 million in FY 2014-15.



Health Care Provider & Claims Assessments

- Statutorily-based, health care provider assessment and claims assessment programs provide Medicaid rate increases for hospitals, nursing homes, and managed care organizations by leveraging additional federal Medicaid matching funds
- These initiatives are also referred to as Quality Assurance Assessment Programs (QAAPs) and the Health Insurance Claims Assessment (HICA)
- A net benefit to Medicaid providers is created by taxing a broad class of the health care sector, and using the funds to increase Medicaid payment rates. Federal Medicaid matching funds, QAAP and HICA revenue support higher payment rates for Medicaid services
- The state retains a portion of the QAAP provider tax revenue offsetting GF/GP that would otherwise be required to fund the Medicaid program
- A 6% Use Tax on services provided by Medicaid managed care organizations was reinstated in combination with a reduction in the HICA rate from 1.0% to 0.75%, beginning July 1, 2014 and April 1, 2014, respectively. Federal guidance indicates the Use Tax is not viable beyond the short term and the HICA sunsets at the end of calendar year 2017.

For more information about the Community Health budget contact:

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