Fiscal Year (FY) 2027 Budget Presentation

Leslie Thomas, Certified Public Accountant (CPA)
Chief Financial Officer (CFO)
Mid-State Health Network
530 W. Ionia Ste F.
Lansing, MI 48933

Amanda Ittner, Interim Chief Executive Officer

State of Michigan Overview Budget Implications

- Healthy Michigan 10% decrease $45 M
- Medicaid MH 7.6% increase - $241m
- Medicaid SUD 9.9% decrease - $9 M
- Other:
  - Health Homes - decrease
  - Block Grants – decrease
  - Autism – Increase
  - CCBHC - Steady

	Healthy Michigan	Medicaid MH	Medicaid SUD
FY26	438,267,500.00	3,188,847,900.00	96,323,300.00
FY27	392,882,000.00	3,429,794,900.00	86,779,200.00
	(45,385,500.00)	240,947,000.00	(9,544,100.00)
	-10.4%	7.6%	-9.9%

Major Eligibility Changes

MDHHS
Michigan Department of Health & Human Services

New Work Requirements	Six-Month Redeterminations	Retroactive Eligibility Limited	Limits on Non-Citizen Eligibility
• Applies to many Healthy Michigan Plan (HMP) enrollees 19-64. • Must work, train or volunteer at least 80 hours for one month. • Non-compliance will lead to loss of coverage.	• Eligibility checks for HMP now every six months, instead of annually. • Increased risk of coverage interruptions due to paperwork gaps.	• No more 90-day retroactive coverage. • HMP: One month prior to application. • Other Medicaid enrollees: Two months prior to application.	• Fewer pathways to coverage for lawfully present non-citizens. • Affected individuals will lose full coverage → Moving to Emergency Services Only (ESO) coverage.
Effective Date: January 1, 2027	Effective Date: January 1, 2027	Effective Date: January 1, 2027	Effective Date: October 1, 2026

Note: Only applies to renewal dates on or after March 1, 2027

Deep Dive: Medicaid Work Requirements

MDHHS
Michigan Department of Health & Human Services

Qualifying Activities

80 hours per month of:

- Work.
- Community service: public or nonprofit organization.
- Participation in a work program.
- Half time + enrollment in an education.
- Any combination of the above totaling 80 hours per month.
- Monthly income that is not less than the federal minimum wage x 80 hours ($580/month).
- Seasonal worker with an average monthly income over the preceding six months that is not less than the federal minimum wage x 80 hours.

Exemptions

Parent, guardian, or caretaker of:

- Dependent children under age 13.
- Disabled individuals.

- Pregnant or postpartum individuals.
- Foster youth or former foster youth under age 26.
- Medically frail.
- Participating in a substance use disorder (SUD) program.
- Meeting SNAP/TANF work requirements.
- American Indians and Alaska Natives.
- Disabled veterans.
- Incarcerated or released from incarceration within the past 90 days.

Hardship Exceptions

Individuals who were in:

- Inpatient hospital.
- Nursing facility.
- Intermediate care facility.
- Inpatient psychiatric hospital.

- Individuals who reside in a county with:
  - A federally-declared emergency or disaster.
  - High unemployment - above 8% or 1.5× national rate.
- Individuals who traveled outside their community for extended medical care for self or dependent.

MSHN Budget Development

REVENUE ESTIMATES

- Michigan Department of Health and Human Services (MDHHS) has not issued final FY 27 rates which resulted in PIHP generated revenue estimates. Key assumptions made by the PIHP include::
  - Medicaid and Healthy Michigan Program Enrollee (Eligible) adjustments based on the most recent nine months of FY 26 averaged and projected for the full FY 27 revenue.
  - In addition to the item above, HMP revenue was decreased by an additional 5% from to account for HR1 work requirement changes.
- Medicaid Savings Carryforward – The amended FY 26 fiscal activity will result in MSHN having a projected carryforward into FY 27 of more than $40 M.
- As in previous FYs, MSHN will continue its review of revenue and expense estimates several times throughout the FY. Review processes ensure the region can identify anticipated cost overruns or projected surpluses and facilitates future fiscal planning.

FY 2027 Regional Operating Revenue

REVENUES	FY2026 Amended Budget	FY2027 Original Budget	FY2027 Increase (Decrease) from Amended Budget	Notes
Prior Year Savings	$ 13,618,456	$ 40,456,478	$ 26,838,022	
Medicaid Capitation SP/iSPA MH	449,865,743	470,133,765	20,268,023	FY2027 rates were not available at the time of budget development; budget based on FY2026 capitation rates with adjustments for enrollment along with 5% reduction to Healthy Michigan Plan in anticipation of HR1 work requirements
Healthy Michigan Plan Capitation MH	63,537,248	52,869,504	(10,667,744)	
Medicaid Waivers (HSW, SED, CWP)	148,609,747	152,917,863	4,308,116	
Medicaid Capitation Autism	109,762,044	105,630,447	(4,131,597)	
Medicaid Capitation SP/iSPA SUD	18,581,640	17,321,937	(1,259,703)	
Healthy Michigan Plan Capitation SUD	33,288,402	27,607,416	(5,680,986)	
Health Homes (Behavioral and Substance Use Disorder)	5,896,752	6,436,062	539,310	Budget based on projected health home enrollment (450 BHH enrollees and 750 SUDHH enrollees)
Community Grant and Other SUD Grants	13,410,921	13,058,194	(352,727)	Budget based on MDHHS allocations
PA2 Liquor Tax SUD	5,177,372	4,544,741	(632,631)	Budget based on OPB approved amounts
Hospital Rate Adjustor	42,230,000	43,074,600	844,600	Budget based on potential inpatient utilization increase
Performance Bonus Incentive Payment	6,221,562	4,676,211	(1,545,351)	Budget based on percentage of projected revenues
Medicaid DHS Incentive Payment	2,098,906	2,098,906	-	
Local Match Contribution	1,550,876	1,550,876	-	
Other Grants	374,568	374,568	-	Budget includes Veteran Navigator and Clubhouse Engagement
Interest Income	1,100,000	1,100,000	-	
TOTAL REVENUE BUDGET	**$ 915,324,237**	**$ 943,851,570**	**$ 28,527,333**	

MSHN PIHP Administrative Expenses

- FY 27 MSHN administrative expenses are projected to increase by $1.4 M from the FY 2026 Amended Budget. Administration expenses also include a 4% Cost of Living Adjustment (COLA).
  - FY 27 Overall administrative budget represents 1.42% of total expenses or a .12% increase from the FY 26 Amended Budget. Historically, MSHN admin has remained less than 1.55% of total expenses for the original budgets.

FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY 25	FY 26
1.18%	1.42%	1.52%	1.42%	1.47%	1.30%	1.20%	1.27%	1.30%

  - FY 27 Budget includes the following position changes:
    - Two Conflict Free Access and Planning staff (2 Full-Time Equivalents (FTE)) (will remain vacant until MDHHS finalized and implements associated guidance for this initiative).
    - One part-time Claims Processor (.5 FTE) position – This position was added to ensure separation of duties for the new Financial Manager – Contracts, which was a consolidation of two Specialists Position.
    - Reduction of 1 FTE in Integrated Health due to removal of CCBHC responsibilities at the PIHP.

Budget Development

PIHP ADMINISTRATIVE EXPENSES - continued

- Expense development includes:
  - **3%** average increase for employee health insurance benefits - employer portion. To help offset the employee increases, MSHN offers a third zero cost plan.
  - Prior year trending for general expenses (Please note: Payroll and Human Resources Processing Costs from MSHN's Professional Employment Organization (PEO) are unchanged for FY 27).
  - Technology needs including the purchasing of outdated staff laptops
  - Other **critical** items identified in staff interviews/meetings

	FY2026 Amended Budget	FY2027 Original Budget	FY2027 Increase (Decrease) from Amended Budget	Notes
ADMINISTRATION:				
Salaries and Wages	$ 6,478,324	$ 7,249,354	$ 771,030	Includes additional staff related to increased PIHP responsibilities; assumes vacant positions are filled; includes cost of living adjustment
Employee Benefits	2,187,951	2,442,394	254,443	
Other Contractual Agreements	545,000	638,910	93,910	Includes contract costs such as, but not limited to, IT and access support services
IT Subscriptions and Maintenance	1,196,988	1,225,909	28,921	Includes software costs such as, but not limited to, care coordination, data analytics, document sharing, managed care, Microsoft Office, parity
Consulting Services	80,600	130,000	49,400	
Conference and Training Expense	32,750	62,500	29,750	
Human Resources Fees	68,900	68,900	-	
Mileage Reimbursement	30,800	44,800	14,000	
Other Expenses	136,500	141,200	4,700	
Building Rent Amortization	40,186	22,875	(17,311)	Includes downsizing lease to one suite
Telephone Expense	139,350	175,350	36,000	
Office Supplies	23,120	129,250	106,130	Includes purchasing laptops to replace leased laptops
Printing Expense	35,500	39,000	3,500	
Meeting Expense	13,050	16,000	2,950	
Liability Insurance	30,000	33,700	3,700	
Audit Services	35,000	45,000	10,000	
OPB and Council Per Diems	11,260	19,320	8,060	
Dues and Memberships	9,740	11,418	1,678	
Legal Services	8,000	24,000	16,000	
Internet Services	6,170	6,985	815	
Subtotal Administration	**$ 11,109,189**	**$ 12,526,865**	**$ 1,417,676**	
Percent Administration Expenses to Total Expenses	1.30%	1.42%		

Budget Development

EXPENSE FIGURES

- Community Mental Health Services Programs (CMHSPs) – Seven PIHPs submitted projected FY 27 expenses and FY 26 actual expense estimates were used for the remaining five. MSHN's region still reports the following cost drivers:
  - Significant Utilization Increases [Inpatient, Autism, Community Living Supports (CLS)]
  - Increased Provider Network Reimbursement Rates
  - Staff Retention/Staff Attraction
- Substance Abuse Prevention and Treatment (SAPT) providers – Expense amounts are based on prior year utilization trended or negotiated contract/cost reimbursement funding levels. While MSHN's SAPT service line is experiencing some of the same concerns noted above for CMHSPs. Based on PIHP revenue estimate, SAPT revenue is slightly less than expense by about $1M. Although MSHN is not offering an increase in Fee-For-Service rates, the PIHP will evaluate MDHHS rate information and make rate adjustments as needed. PLEASE NOTE:
  - SAPT Fee-for-Service rates were increased by 2.5% in May 2026.
  - MSHN reimbursement rates remain competitive and are higher in many cases when compared to other PIHP.

Budget Development

EXPENSE FIGURES

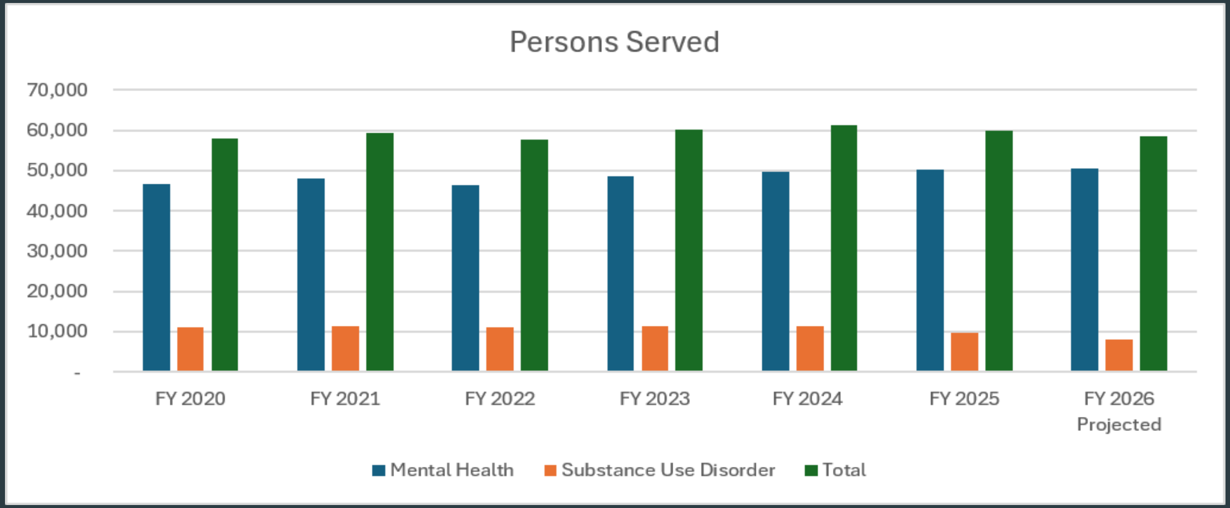
- Community Mental Health Services Programs (CMHSPs)
- Substance Abuse Prevention and Treatment (SAPT) providers

	Amended Budget	Original Budget	Increase (Decrease) from Amended Budget	
CMHSP and SUD EXPENSES and TAXES:				
CMHSP Participant All Funding Sources	715,479,374	$ 719,367,758	$ 3,888,384	
CMHSP Participant Other	5,944,896	6,458,562	513,666	Budget includes Performance Bonus Incentive Payments and Clubhouse Engagement grant
SUD Medicaid Contracts	15,200,000	16,200,000	1,000,000	
SUD Healthy Michigan Plan Contracts	31,000,000	31,000,000	-	
Health Homes (Behavioral and Substance Use Disorder)	5,039,952	5,552,046	512,094	Budget based on projected health home enrollment (450 BHH enrollees and 750 SUDHH enrollees)
Community Grant and Other SUD Grants	12,347,532	11,908,825	(438,707)	Budget based on MDHHS allocations
SUD PA2 Liquor Tax	5,177,372	4,544,741	(632,631)	Budget based on OPB approved amounts
Local Match Contribution	1,550,876	1,550,876	-	
Hospital Rate Adjustor	42,230,000	43,074,600	844,600	Budget based on potential inpatient utilization increase
Insurance Provider Assessment	6,944,082	29,917,461	22,973,379	Budget adjusted based on annual assessment
Subtotal CMHSP and SUD Expenses and Taxes	**$ 840,914,084**	**$ 869,574,869**	**$ 28,660,785**	
TOTAL EXPENDITURE BUDGET	**$ 852,023,273**	**$ 882,101,734**	**$ 30,078,461**	

Additional Expense Information

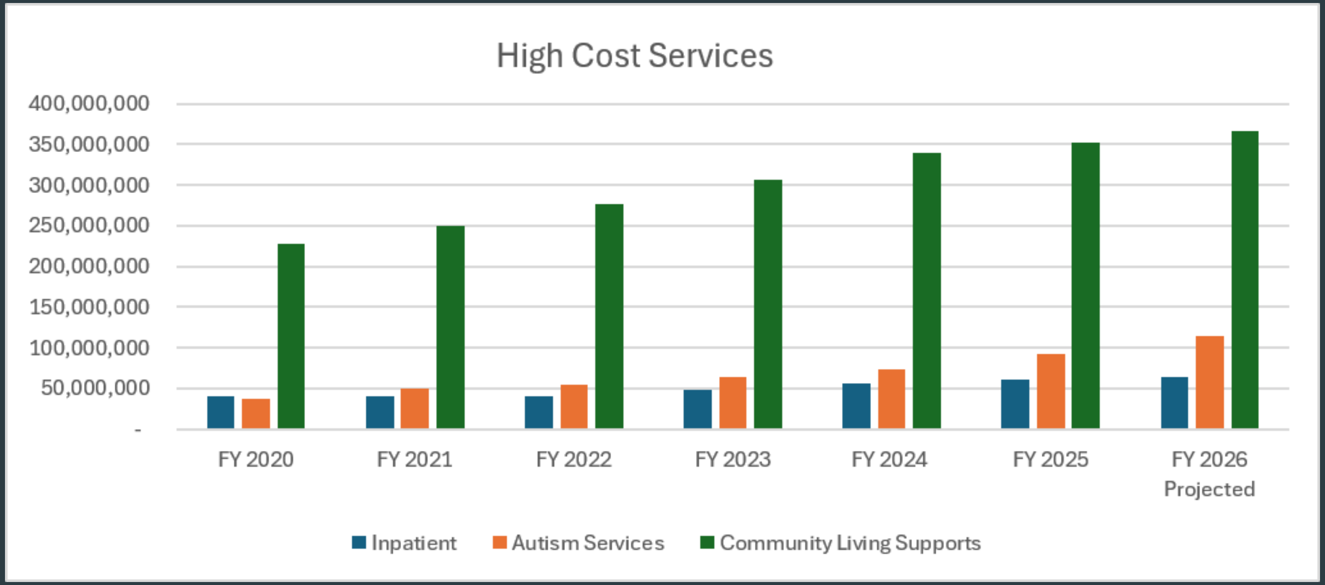
- MSHN's region is experiencing a decreases in the total number of individuals served however increased utilization continues to rise in high-cost services. These trends are illustrated in the next two graphs:

PERSONS SERVED	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026 Projected
Mental Health	46,751	47,989	46,390	48,690	49,774	50,102	50,432
Substance Use Disorder	11,190	11,249	11,138	11,409	11,485	9,632	8,078
Total	57,941	59,238	57,528	60,099	61,259	59,734	58,510



Additional Expense Information cont.

EXPENSE	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026 Projected
Inpatient	39,631,670	40,102,531	40,232,742	48,853,033	56,255,550	60,154,894	64,324,520
Autism Services	37,462,314	49,981,953	54,443,032	64,329,996	73,276,505	91,748,477	114,876,972
Community Living Supports	227,421,723	250,395,362	276,930,807	306,801,199	338,890,255	352,158,433	365,946,085
Total	304,515,707	340,479,846	371,606,581	419,984,228	468,422,310	504,061,804	545,147,577



FY 2027 Regional Budget Summary

Revenue		
Category	**Amount**	**% of Total**
Behavioral Health	$ 875,822,174	92.79%
SAPT	$ 66,554,827	7.05%
Other	$ 1,474,568	0.16%
Total	$ 943,851,570	100.00%

Expense		
Category	**Amount**	**% of Total**
Behavioral Health	$ 729,459,213	82.70%
SAPT	$ 67,123,595	7.61%
Taxes	$ 72,992,061	8.27%
Admin	$ 12,526,865	1.42%
Total	$ 882,101,734	100.00%

FY 27 Rev over Exp is $61,749,836; FY 26's Internal Service Fund (ISF) Ending Balance equals $54,825,761. ISF may be used If final FY 27 rates and other factors previously mentioned in this presentation change MSHN's positive fiscal position.

Other Considerations

Scenario Planning

- Possible FYE 26 Rate adjustment – Impact $40 M carryforward in FY 27 budget
- 2.5% cut in Medicaid Capitation - $18.5 M reduction (cover with current surplus of $61 M)
- 5% cut in Medicaid - $37 M reduction (cover with current surplus of $61m)
- 5% cut in Medicaid & 10% cut in Healthy Michigan
  - $37 M Medicaid reduction
  - $4 M Health Michigan reduction (5% reduction already included in budget)
- Above scenarios reduce surplus but does not deplete savings, $20 M available for savings or contribution to the ISF.
- Internal service fund - $54.8 M

What if revenue estimates are not actualized?

Other Considerations & Planning

- FY 27 Budget provides time to analyze the impact of H.R.1 while Regional Planning to address H.R.1
- Prepare/expand supports for beneficiaries in maintaining coverage
  - Many CMHs have a dedicated staff imbedded in or coordinated with MDHHS Medicaid benefit eligibility programs to ensure renewal information is provided to sustain Medicaid/HMP. This will expand to ensure coordination of work requirement paperwork, exemptions and 6-month renewal determinations.
- Implement administrative cost reduction strategies
  - Reviewing regional administrative operations for consolidation and/or reduction.

    Information technology (E.H.R., data analytics), Human Resources (PEO), Use of AI for automation, Contract & Compliance Software, Reduction in physical lease expense & related office support (PIHP), Training platforms
- Develop alternative/lower cost services
  - Increase access to children's residential crisis – develop new provider in region (reduce inpatient cost)
  - Increase intensive outpatient utilization, intensive care coordination and wraparound
- Assess increased demand for emergency services (due to loss of coverage) and impact on community and safety net.
  - Work with local community to address safety net
- Review Healthy Michigan Benefit Plan
  - Financial impact FY 27 Q3 & Q4

Other Considerations & Planning

- Review Grant Opportunities:
  - MSHN as the fiduciary for the region, submitted grant applications under the Rural Health Transformation Grant for Retention, Recruitment, and Licensure – Total of $2 M
    - Awards are unknown at this time; if awarded MSHN will include the revenue/expense in an amendment
  - Review new SAMHSA grants available under for Substance Use Disorder to ensure continue access for the uninsured
- MSHN will present a revised budget if/when revenue estimates are materially different. (FY 27 rates received, enrollment trends, etc.)