



Ottawa County Community Mental Health Authority Report

January 6, 2026

Prepared For:

Ottawa County Board of Commissioners

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I. Introduction

Community mental health services play a critical role in ensuring access to behavioral health care for individuals with serious mental illness, developmental disabilities, and substance use disorders. In Michigan, 99% of these services are funded through the Michigan Medicaid Plan or the State's General Fund. Because the State has no employees providing these services, it administers them through grants and State appropriations to Community Mental Health Service Programs (CMHSP) organizations that may be structured in several different ways, including as a County Department, and most commonly in Michigan, as a Community Mental Health Authority (CMHA). In fact, 78 of Michigan's 83 Counties currently operate under a CMH Authority model. Each governance model carries distinct implications for oversight, financial management, operational flexibility, and accountability to the community.

Perhaps the most important fact to understand in any CMHSP analysis is that 90% of their program cost is prepaid, Medicaid entitlements with benefits determined by the federal and state governments through the Michigan Medicaid Plan. That Plan is designed to break even across the State, but because it is prepaid and an entitlement, individual CMHSPs can never break even, but rather each year some will run a surplus and all others will run a deficit. This entitlement nature of the service with inevitable surpluses or deficits makes CMHSP unlike any other county service and fundamentally at odds with the Michigan Constitution that requires counties to balance services with costs to guarantee a balanced budget.

This report examines the potential conversion of Ottawa County Community Mental Health from its current structure as a County Department to a Community Mental Health Authority. The purpose of this analysis is to evaluate whether such a transition would better support the County's goals related to minimizing financial risk to taxpayer dollars, maintaining the quality and quantity of service delivery, retaining quality employees, and ensuring the continuation of quality mental health services to the community.

The report considers both the potential benefits and challenges associated with establishing a CMHA, including changes in governance structure, legal considerations, labor relations, financial operations, and relationships with the County Board of Commissioners and other stakeholders.

The analysis is intended to inform the County Board of Commissioners and community stakeholders by providing a balanced overview of the structural differences between a County Department and a CMHA, the legal and operational considerations involved in a conversion, and the potential impacts on consumers, staff, and the broader service system. By outlining key factors and decision points, this report aims to support an informed and transparent decision-making process regarding the future organizational structure of the County's community mental health services.

II. Background and Board Directives

In 2016, Ottawa County conducted an analysis of the advantages and disadvantages of Community Mental Health (CMHOC) Department becoming its own independent Authority. At that time, the Department's revenues were declining steadily, which resulted in a reduction in several full-time staff positions, and the CMHOC Board wanted to determine if transitioning to an Authority model would result in cost savings to help alleviate these financial difficulties.

The 2016 study concluded that there would be several benefits by becoming an Authority, including greater autonomy in administrative and financial decisions (e.g. entering contracts, accepting grants, making procurement decisions, etc.). However, the study also concluded that CMHOC would experience a diminished level of administrative services by transitioning from County-provided administrative support (e.g., human resources, fiscal services, I.T., etc.), and that a CMHA could take on a greater level of exposure to the immediate effects of deficits by separating from the County.

Along with these factors and the fact that CMHOC cost savings were the primary driving force in determining whether to become an Authority, the decision was made to remain a County Department when it was estimated that becoming an Authority would increase CMH costs by over \$542,000 per year.

It is noted that the 2016 study considered only the potential impacts to CMHOC administratively, and not to the County itself, or to its taxpayers. For example, the fact that the County would have reduced or eliminated a significant portion of exposure to legal liability by shifting it to a CMH Authority was not recognized in the 2016 report as an advantage. Coupled with this same argument is the elimination of the financial risk to the County and its taxpayers by no longer being the financial underwriter of a federally funded entitlement program with a history of deficit spending, and which is quick to reduce funding without reducing benefits.

These and other similar considerations are the focus of this updated CMH Authority analysis, which was prepared at the request of the Ottawa County Board of Commissioners with four stated directives:

- **Directive One** – Provide a recommended strategy intended to minimize the financial risk to taxpayer dollars;
- **Directive Two** – Provide a recommended strategy to retain quality CMH employees;
- **Directive Three** – Provide a recommend strategy that ensures the continuation of quality mental health services to our community; and
- **Directive Four** – Provide a feasible timeline to implement the three strategies.

III. History of Community Mental Health

Michigan’s publicly funded mental health system has its origins in Public Act 54, signed in April 1963. This State law permitted Counties to form Community Mental Health boards to support and treat people with severe mental illness and developmental disabilities outside of psychiatric hospitals and institutions. Under this law, Counties could create CMH agencies in conjunction with other Counties or on their own. The funding for these agencies was 60% local and 40% state.

Over the next 50 years, Michigan laws surrounding CMH funding and services were amended several times (see Timeline), notably in 1995 when Michigan began allowing CMHs to operate as standalone Authorities. Many amendments dramatically increased the entitlements for Medicaid recipients, while simultaneously broadening basic Medicaid eligibility, thus driving up service demands and related costs exponentially.

Today, the State’s Behavioral Medicaid funding model is based on the number of physical health Medicaid recipients, which is a formula that punishes Ottawa County for having a relatively low physical health number of Medicaid recipients. As a result, CMHOC regularly experiences budgetary deficits. For example, in 2025 CMHOC is projected to end the year with a \$5 million dollar budget deficit. In addition, the Lakeshore Regional Entity (LRE) informed CMHOC that projected FY2026 Medicaid revenues may decrease by \$2.8 million.

The State is currently taking proposals to eliminate the LRE, which holds Ottawa County’s Medicaid reserves. This means the chances that Ottawa County’s departmental model CMH will have a deficit, and no internal service fund to finance the deficit except for the Ottawa County taxpayers, has grown exponentially. In the face of

Timeline of Community Mental Health in Ottawa County
Spring 1963. Michigan permits counties to establish independent or regional Community Mental Health (CMH) agencies funded by local (60%) and state (40%) resources.
Fall 1963. Community Mental Health Act signed into law to provide federal support for these agencies.
1969. Ottawa County establishes Community Mental Health services as a department of the County.
1974. Michigan increases state matching funds to 90% for CMHs, with a 10% contribution by counties.
1978. Michigan permits counties to create coordinating agencies that will plan for and oversee county-level services for individuals with substance use disorders.
1995. Michigan permits CMHs to operate as standalone Authorities, separate from the counties that founded them.
Mid-90s. Through carve-outs, Michigan's Medicaid-eligible patients with more serious MHSUD concerns are transitioned to managed care. In 1998, these carveouts in Michigan and 19 other states become known as Prepaid Inpatient Health Plans (PIHPs).
2001 Michigan establishes 19 PIHPs in Michigan.
2012. Michigan requires all CMH substance abuse disorder coordinating agencies to merge with PIHPs.
2014. Sate restructures its access management and coordination system into 10 regional PIHP entities. CMHOC becomes part of the Lakeshore Regional Entity (LRE).
2016. Ottawa County conducts an analysis to consider moving from a CMH Department to an Authority.
Summer 2025. County sends 2 letters to State AG office requesting confirmation that if the LRE runs out of money, any outstanding budget deficit would be covered by state. The state refused to confirm.
Fall 2025. Ottawa County Board of Commissioners directs staff to conduct a new study to evaluate transitioning to a CMH Authority model.
Winter 2025. State begins process to consolidate its 10 PIHPs into 3.

this new risk, Ottawa County demanded assurances from the State of Michigan that it would cover any unreserved deficits. The State of Michigan refused, meaning it considers the Ottawa County taxpayers to be the underwriters of Medicaid and CCBHC behavioral service deficits in Ottawa County. Ottawa County does not believe that it has the legal authority to underwrite a federal entitlement program and further, that underwriting such a program with tax dollars is inconsistent with the Constitutional prohibition against the lending of its credit for private benefits. However, given the State's silence in response to that position, it is obvious that litigation against the State of Michigan would be necessary to establish its position.

Given the fact that Michigan's Medicaid grant formula discriminates against Ottawa County and likely federal cuts in Medicaid on the horizon without likely changes in benefit levels, continual annual deficits in behavioral Medicaid in Ottawa County can be expected.

IV. Impacts of CMHOC Becoming an Authority

As discussed above, this study differs from the 2016 County study in that it evaluates the advantages and disadvantages to BOTH the Community Mental Health Agency **and** the County. Moreover, unlike the 2016 Study, the present analysis reviews the legal impact of the status quo risk. The financial impacts of CMHOC transitioning to an Authority are described in **Section A**. The organizational and service impacts of CMHOC transitioning to an Authority are discussed in **Sections B and C**, while the legal analysis is found in **Section D**.

The chart below demonstrates the fundamental differences between a CMH County Department and an Authority.

County CMH Department vs. Authority Model Comparison

	County CMH Department	CMH Authority
Procedures and Policies	Approved by CMH Board and County BOC	Approved by CMH Board
CMH Budget, Annual Plan, Requests for Funds	Approved by CMH Board and County BOC	Copy Sent to County BOC
Liability	Potentially the County	State of Michigan
CMH Staff	County Employees	CMH Authority Employees
Employee Retirement	MERS DC and DB	MERS DC and DB remain in place for at least 1 year.
Employee Healthcare	County Health Plan	Must be comparable but is offered by the Authority
Purchase or Lease Property and Equipment	Approved by CMH Board and County BOC	Approved by CMH Board
Transfer, Divide, or Distribute Assets/Liabilities	Approved by County BOC	Approved by CMH Board
Enter into Contracts and Agreements	Approved by CMH Board and County BOC	Approved by CMH Board

Accept Gifts/Grants and Determine their Use	Approved by County BOC	Approved by CMH Board
Incur Debts, Liabilities or Obligations	Legal uncertainty in who is obligated to fund Medicaid and CCBHC liabilities and, therefore, whether the CMH Board and/or County BOC	Approved by CMH Board with state of Michigan underwriting of deficits
Commence and Defend Litigation	Approved by County BOC	Approved by CMH Board
Manage Finances and Investments	Approved by County Treasurer and County BOC	Approved by CMH Board
Fix and Collect Charges, Fees and Rents	Approved by CMH Board and County BOC	Approved by CMH Board
Governance	12-member Board, appointed by County BOC	12-member Board, appointed by County BOC
Financial Audit	Reported as a Special Revenue Fund of the County and included as a portion of the County's audit.	Has its own audit and its own separate financial statements.
Funding Sources	State contracts and external grantors, appropriated for CMHs, general obligation of revenue bonds subject to municipal finance act, fundraising and donations.	State contracts and external grantors, County appropriations, borrowed funds, agreements, fundraising and donations.

A. Financial Impact Analysis (Directive One)

The financial impacts to Ottawa County can be broken into two categories:

1. The financial **RISK** to the County of maintaining CMH as a Department
2. The financial **COST** to the County of eliminating CHM as a Department

Financial Risk

The CMH system has become Medicaid dominant, evolving from the traditional mental health counseling services as a last resort to a government entitlement program. The Mental Health Code authorizes Ottawa County to operate a non-entitlement CMH program that is 90% state funded and 10% funded by the County's taxpayers. This program, called the GF program, provides critically needed mental health regardless of the client's ability to pay. If funding runs out in Medicaid (due to it being an entitlement program with an increasing pattern of cost overruns), some governmental or private entity **must** provide the deficit funding because services cannot be cut or prioritized. These deficits can run in millions of dollars. The primary concern and risk are that that the State would require the County to use taxpayer dollars to cover any outstanding entitlement-related deficit when its CMH operates as a County Department.

Historically, the County was allowed to cover one year's deficit with an Internal Service Fund (ISF), which could be built with savings accrued in years in which the funding enabled a surplus. However, in 2002 the State stripped Counties of their ability to develop an ISF when the Mental Health Code was amended to authorize Counties to create regional entities as "Prepaid Inpatient Health Plans" ("PIHPs"), to fund Medicaid deficits. Currently there are 10 PIHPs serving the State's 46 CMHs (Ottawa County is part of the PIHP known as the Lakeshore Regional Entity

(LRE)). However, the Mental Health Code does not authorize Counties to place their taxpayers at risk to cover deficits for Michigan Medicaid or its sister program CCBHC. Without a statute to authorize the use of general funds for a private party entitlement program, Ottawa County could be faced with a taxpayer lawsuit if it were to apply those funds to Medicaid or CCBHC deficits. On its face, there is no defense to such a suit, which not only could be expensive, but could threaten the ongoing service delivery by CMHOC.

The State is now considering consolidating all 10 PIHPs, including the LRE, into only 2 or 3 statewide agencies. If this occurs, it will further increase the risk level given that Ottawa County will lose its political and governmental control over PIHP involvement or decisions at the local level.

Furthermore, the State of Michigan has refused to confirm that it would cover Ottawa County's Medicaid obligated services if the LRE (or its likely successor) were to run out of reserves. There is no organization dedicated to CMHOC that will underwrite the Medicaid deficits that are increasing in annual frequency.

With Medicaid funding on the chopping block of the current federal administration, Medicaid and CCBHC operations have become an enormous risk to Ottawa County, threatening the stability of our General Fund and AAA Bond rating. Moreover, no statute allows a County to operate either the Medicaid or the CCBHC entitlement program and therefore, the County is arguably acting illegally by exposing its taxpayers to a funding risk that it is not legally allowed to undertake.

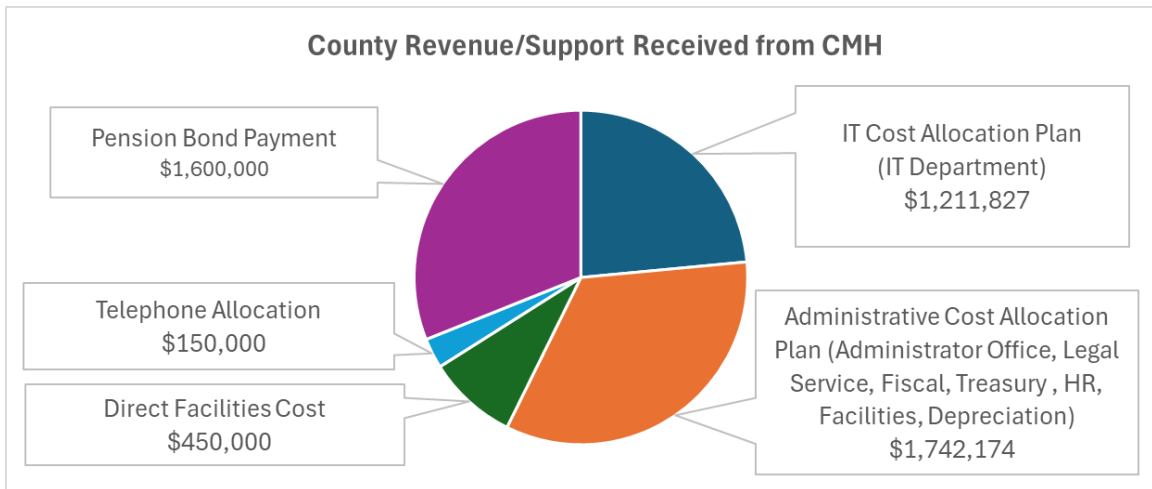
Conversely, if Ottawa County were to join the 78 other Counties that have created an Authority, the State of Michigan and its 82 billion general fund is obligated to finance any deficits occurring in CMHOC, making that program substantially more legally and fiscally stable.

Financial Cost

If CMHOC were to transition to an Authority, it would have financial impacts on both CMHOC expenses, and Ottawa County revenues.

Like all County Departments, CMHOC relies heavily on administrative support services from other County Departments to operate and function. This includes support in the areas of administrative oversight, fiscal, human resources, treasury, information technology, facilities and telephone services. The cost for these CMH-related services is allocated to and paid by CMHOC, which is currently approximately \$3.1 million per year. If CMHOC were to transition to an Authority, it would likely transition away from receiving County-provided services and replace them with either their own employees, or outside contracted services. The costs for these replacement services are not yet known.

Separate from overhead, CMH is also billed directly for expenses to maintain the buildings they occupy, including cleaning, grounds maintenance, insurance, and repairs. Currently, CMH occupies almost 25,000 square feet in 4 buildings and paid \$450,000 in Fiscal Year 2025. Three of the four buildings are shared with other departments. No change is included during the transition agreement. Beyond that, under the Authority model CMH can continue to occupy this space and enter into a long-term lease agreement with the County.



Additionally, CMHOC currently contributes approximately \$1.6 million per year to the debt service on an outstanding pension bond through a payroll allocation. Immediately, when CMHOC becomes an Authority, they will no longer contribute Medicaid and grant funds to the remaining three years of outstanding pension bond payments which will free up a significant amount of operational capital. Conversely, the County will need to fund this contribution from other sources over the next three years, until the bonds are paid in full.

To protect existing CMH employees in the defined benefit plan, MERS allows the new Authority to carry the existing defined benefit plan to the entity. Years ago, the County separated employees into different divisions, making this very easy to accomplish. Although managed by administration, all contributions to MERS have always been paid from CMH funds and managed separately by MERS.

Other areas like health insurance and other post-employment benefits are harder to quantify and still under review. These will be decisions that the Authority will need to make if that model is pursued.

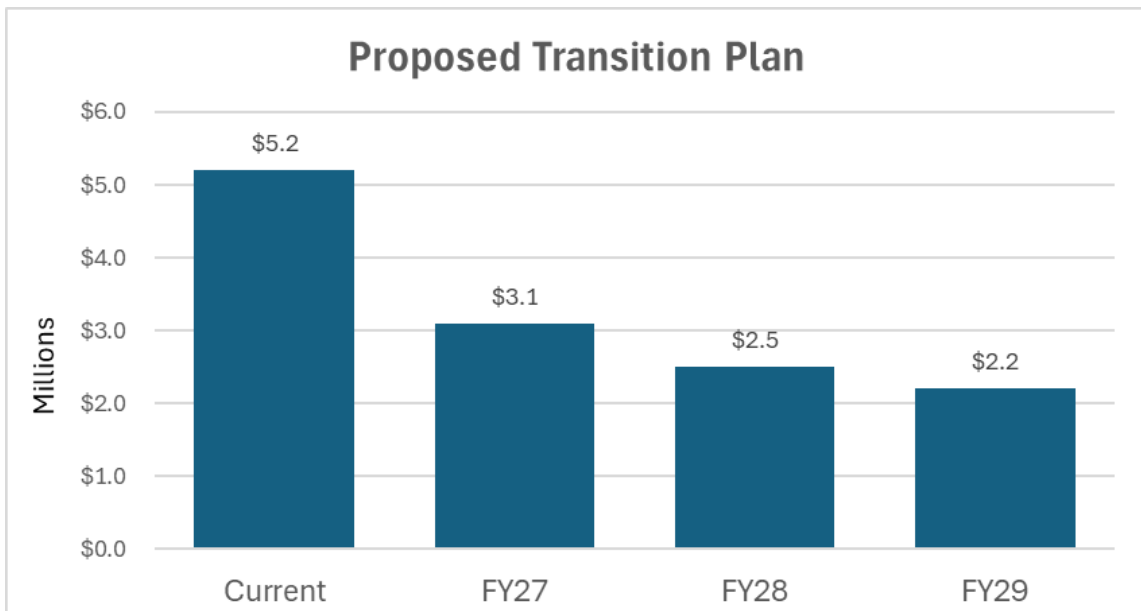
Proposed Transition Plan

There are many potential transition options that will both soften the budgetary impact on the County and make for a smoother transition to an Authority for the CMHOC. **A willingness for both parties to remain flexible and cooperative will**

be instrumental to a successful transition. Specifically, a *gradual* (i.e. between 1 and 3+ years) phase out of County-provided administrative support services is recommended, the details of which are outlined in **Appendix I – Draft Transition Agreement**.

Throughout the transition period, the County would work the Authority to continue providing needed administrative support services until such time the Authority is ready to become operationally independent. A longer transition plan will both mitigate the potential \$3.1 million financial impact to the County, due to the loss in CMHOC service fee revenues, and help stand up the new Authority for success by implementing significant operational changes over a longer period.

The graph below represents the potential annual reduction in both the County’s **revenues** and the CMHA’s **expenses** over the transition period as a result of gradually eliminating administrative support services under a CMH Authority model. It assumes the immediate elimination of all **administrative** oversight allowing the Authority to set up their own budgetary and fiscal controls. However, there would still be continued support from County staff to finalize the audit, and process personnel, payroll and benefits for a period of 12-15 months.



Given the time required to convert technology and stand-up new systems, the transition plan does not assume any changes to the **technology services** in the first three years. Additionally, staff did not assume any changes to the **facilities** services to CMHOC. In preliminary conversation staff understood that CMHOC was interested in remaining in their current County facilities.

As mentioned earlier, CMHOC’s \$1.6 million annual contribution to the **pension bond** debt would be eliminated immediately when CMH becomes an Authority. They would no longer contribute Medicaid and grant funds to the remaining three

years of outstanding pension bond payments. This immediate \$1.6 million reduction in CMH annual operating expenses will help provide needed additional funds for the transition.

B. CMH Departmental Impact Analysis (Directive Two)

As part of this review, a CMH Departmental Impact Analysis was conducted. A summary of the structure, process, and conclusions are presented below. For the comprehensive report of findings, please refer to the “*Community Mental Health of Ottawa County Authority Status Departmental Impact Analysis*”.

Structure and Process

The CMH Departmental Impact Analysis utilized the following structure and process:

1. Review of Sec 330.1205 of the Michigan Mental Health Code which relates to the formation of a CMH Authority.
2. Analysis of the structural, procedural, and legal differences between a County CMH department and a CMH Authority.
3. Held two CMH all-staff meetings presenting the differences between a CMH County Department and a CMH Authority and answer specific questions from staff.
4. Identification of the areas (domains) that need to be evaluated as part of the CMH Departmental Impact Analysis.
5. Development and implementation of County Department and CMH staff questionnaires to establish a baseline of impact on County Departments and CMH staff
6. Complete S.W.O.T. analysis of identified domains requiring analysis.
7. Formulation of recommendations to forward to County Administrator.

Please note that the structure and process presented above are broadly overarching elements that have many tasks associated with step. In addition, the CMH leadership team, and the Ottawa County Strategic Impact Department, engaged in the completion of one or more of the elements listed above.

Domains that Require Analysis

The following domains have been identified for analysis:

CMH Specific Domains

1. Impact on CMH staff.
2. Impact on CMH providers.

3. Impact on CMH consumers.
4. Impact on CMH organizational structure.
5. Impact on CMH operations.
6. Impact on the CMH Board of Directors.
7. Impact on services to Ottawa County citizens.
8. Impact on CMH funding continuity and stability.
9. Impact on current and future grants.
10. Impact on Mental Health Millage.
11. Impact on contract between Michigan Department of Health and Human Services (MDHHS) and Lakeshore Regional Entity (LRE).

County Specific Domains

1. Impact on County risk and liability associated with CMH moving to an Authority.
2. Impact on county departments other than CMH.
3. Impact on healthcare benefits.
4. Impact on county liability associated with CMH employee retirement plans.
5. Impact on current county facilities and assets.
6. Impact on county financial stability and continuity.
7. Impact on the role and function of County Commissioners.
8. Impact on current departmental relationships between CMH and other county departments.

It should be noted that the domains presented above have some overlapping areas of evaluation and reciprocally influence each other. County specific domains are not addressed in this section of the report.

CMH SWOT Responses and Summary

Overview

A SWOT analysis was conducted with CMH Leadership and the Ottawa County Strategic Impact department to evaluate the potential transition from a County Department to a CMH Authority. This narrative synthesizes key findings across strengths, weaknesses, opportunities, and threats, highlighting implications for staff, clients, and organizational sustainability. Please refer to Appendix III, for a detailed report of findings.

Strengths

Transitioning to an Authority offers greater autonomy and operational flexibility, enabling CMH to make faster decisions and adapt staffing models without County

constraints. This independence allows direct control over roles, pay scales, hiring, and benefits; streamlined processes for contracts, accounting, and grant applications; and improved responsiveness to state and federal policy changes. For clients, this means quicker service adjustments and more agile deployment of resources.

Weaknesses

Despite potential benefits, uncertainty remains the most significant weakness, particularly regarding post-transition stability of benefits, retirement plans, and wage structures; loss of County-provided training and identity; a potential for increased administrative burden as CMH assumes HR, legal, IT, and communications functions; and risk of staff turnover due to perceived instability, which could disrupt provider networks.

Opportunities

The Authority model creates strategic opportunities to enhance competitiveness and service delivery: design CMH-specific HR and fiscal functions, including a CFO role; tailor benefits to attract and retain talent; expand service reach through satellite offices; pursue new grants and funding streams; and strengthen governance while reducing political bottlenecks. Also, unlike a County, a CMHA would have the legal authority to borrow money to cover deficits. Additionally, the County may provide transitional financial support, including loans if in a transition plan, to ease implementation.

Threats

External and structural risks could amplify transition challenges: tight timelines and fiscal-year-driven deadlines may limit planning; unknowns at state and federal levels could alter assumptions; loss of County advantages such as cash flow, credit rating, procurement discounts, and advocacy; public perception of the mental health millage during transition poses reputational risk; and startup costs and potential higher operating expenses require careful financial modeling.

Conclusion

The transition to an Authority offers clear strategic advantages in autonomy and flexibility, but these benefits must be weighed against significant uncertainties and operational risks. Success will depend on transparent communication with staff to maintain morale and retention, detailed financial and operational planning to mitigate startup costs and resource gaps, and strong governance and stakeholder engagement to preserve public trust and service continuity.

CMH Staff Questionnaire Results

In December 2025, All CMH staff were given a survey which asked the following questions:

1. *What are your biggest concerns related to CMH becoming a CMH Authority and no longer being a County Department? (Please list any and all concerns for it will assist me in knowing what I need to address).*
2. *What specific questions do you have related to CMH becoming an Authority? (this will assist me in developing question and answer document)*
3. *Is there any other feedback that you would like me to know related to this topic?*

There was a total of 42 responses out of a potential 170 respondents which yielded a 25% response rate. Below is a summary of the responses. For a full review of all responses, please refer to the “*Community Mental Health of Ottawa County Authority Status Departmental Impact Analysis*”.

- **Compensation, Benefits, and Retirement:** Wages, pay scales, raises, COLA, insurance, PTO, retirement, tuition reimbursement, county workout facilities. This is the biggest concern for staff. They also recognize that the benefits and wages at Ottawa County are better than other CMH authorities, so they fear this will be an issue for recruitment and retention going forward. Also, many staff members recognize the 1-year aspect of the law for continuity, but they want guarantees for after that first year.
- **Job Security & Mobility:** Staying in current positions, seniority, employment mobility. Staff want assurance on job security, but also that there will not be a cliff where staff are cut but services are expected to be at the same level. Many staff members have experience with other authorities, and they have higher caseloads and burnout.
- **Operational Impact:** Budget constraints, service provision, workload, physical location, millage, case load limits, existing contracts, and agreements. Basically, staff are worried about all sorts of continuity and excellence of service provision.
- **Union & Partnerships:** AFSCME involvement, relationships with other county departments. Basically, will they be able to work with the same people or must be independent or start from scratch.
- **Uncertainty & Fear:** Concerns about future changes and reductions. A lot of staff either have direct experience with other Authorities or have a negative perception of them as quality places to work. They feel like the negative aspects of the change are hidden from them, so they don't feel fully informed and what they do know they have a negative perception of. Also, there seems to be a general fear for funding in the future because of the expected continuing cuts

to Medicaid and other state/federal programs. All they hear the county talk about is deficits and reducing 'risk' so they feel like they are being cut off from the county like a sinking ship, and then this exacerbates fears of job loss, service deterioration, and worse benefits.

Conclusion

Like the SWOT Analysis results, CMH staff questions and concerns are focused on the overall impact on staff and the ability to provide quality services as a result of becoming an Authority. It was difficult for staff to identify strengths or positive outcomes regarding becoming a CMH Authority because the details on how this would occur were not known at the time of staff completing the questionnaire. The results did align with the broad categories of impact to staff, impact to consumers, and impact to organizations.

The following are the **broad impacts** of the CMH Department converting to a CMH Authority.

Element	Level of Impact	Pros	Cons
Impact on CMH Staff	High	<ol style="list-style-type: none"> 1. Increased ability to create and fill positions. 2. Wage and benefits are compared to other CMH Authority positions. 	<ol style="list-style-type: none"> 1. Employees are concerned about transitioning from County employees to CMH Authority employees. 2. Wages, benefits, retirement, all transfer to CMH Authority and need to be protected to ensure staff and organizational stability.
Impact on CMH Providers	Moderate	<ol style="list-style-type: none"> 1. Streamlines contract approval and oversight process. 2. Removes County bureaucracy and political influence in relation to County approval. 3. Strengthens CMH Board role as mandated by the Michigan Mental Health Code. 	<ol style="list-style-type: none"> 1. Contracting can streamline without County processes, but providers will see new templates, procurement rules, and compliance oversight under the Authority (and likely recertifying/contract assignment).
Impact on CMH Consumers	Low	<ol style="list-style-type: none"> 1. CMH services are required to remain the same via the Michigan Mental Health Code and contract with the Michigan Department of Health and Human Services. 2. Statutory priority populations and urgent/emergency 	<ol style="list-style-type: none"> 1. Impact to County directed services if current CMH Staff decide to leave due to change.

		response requirements remain unchanged; no denial for inability to pay.	
Impact on CMH Operations	High	<ol style="list-style-type: none"> Increases overall efficiency and affordability of CMH operations (up to \$2M in budgetary savings in year 1). Allows for more flexibility to adjust CMH operations in response to changes at the State and Federal level. 	<ol style="list-style-type: none"> Reorganization of all essential organizational components. HR, Finance, IT, Legal, Compliance, Contracts, and Facilities. One-time stand-up costs (ERP/finance system, HRIS, payroll, procurement, legal, FOIA/OMA compliance infrastructure), risk/insurance, and audit readiness.
Impact on CMH Board of Directors	Moderate	<ol style="list-style-type: none"> CMH Board role and function and appointments do not change per the Michigan Mental Health code. As an Authority, procedures/policies are set by the CMHSP Board rather than the County BOC, increasing governance autonomy and accountability (e.g., annual needs assessment, plan, public hearings). 	<ol style="list-style-type: none"> None anticipated/no change.
Impact on services to Ottawa County Citizens	Low	<ol style="list-style-type: none"> The ability to restructure CMH service array to meet the needs of the citizens of Ottawa County outside of the bureaucracy of the County. Authority status improves agility for inter-CMH partnerships while duties to priority populations remain set by law. 	<ol style="list-style-type: none"> Low/no impact due to the requirement that the services provided do not change when transitioning from a County Department to an Authority.
Impact on CMH Funding continuity and stability	Moderate	<ol style="list-style-type: none"> Currently all CMH expenditures are paid with CMH funds with the exception of the mandatory 10% match the County pays to draw down State Mental Health General funds. The 10% match is still required even if the CMH department converts to an Authority. 	<ol style="list-style-type: none"> County maintains cash flow when Mental Health Fund revenue is delayed. The statutory 10% county match obligation to draw down state general funds remains; however, cash-flow support from the County may change, requiring Authority-level liquidity planning (e.g., lines of credit, reserves).
Impact on current and future grants	Moderate	<ol style="list-style-type: none"> Will allow CMH to enter into additional grant and funding opportunities without the bureaucracy of the County. 	<ol style="list-style-type: none"> None anticipated/no change
Impact on Mental	Low	<ol style="list-style-type: none"> None anticipated/no change 	<ol style="list-style-type: none"> None anticipated/no change

Health Millage			
Impact on contract between MDHHS and LRE	Low	1. Authority will assume CMHSP obligations; PIHP re-procurement may reconfigure regions/entities; build flexible readiness.	1. None anticipated/no change

Based on the broad impact analysis presented above the following risk levels and mitigation actions are presented.

Risk	Likelihood	Impact	Mitigations
Cash-flow gaps during Medicaid/PIHP revenue delays	Definite	High	Establish reserve policy , line of credit, robust AR tracking; preserve county backstop via agreement if feasible.
Benefit/retirement uncertainty after 12-month statutory protection window	Likely	High	Early bargaining/communications; MERS plan alignment; leverage Act 88 (RECIPROCAL RETIREMENT ACT) reciprocity for service credit continuity.
Provider network friction from new Authority contracts/processes	Not Likely	Medium	Standardize assignments, credentialing timelines, and data exchange; offer provider TA.
Governance workload (Board now sets procedures/policies, annual plans, hearings)	Definite	Medium	Board training on MHC §226 duties; OMA/FOIA refresh; committee structure and calendar.
PIHP re-procurement alters regional structure/funding flows	Likely	High	Scenario planning for 3-region model; active engagement with MDHHS/LRE; flexible subcontract language.

Conclusion

Converting CMHOC from a County Department to a CMH Authority could have an impact on staff and operations. While staff are protected for one year, a transition plan would be necessary to protected wages and benefits, including pension rights, and a full reorganization of HR, finance, IT, and compliance systems over at least 3 years. An Authority offers greater flexibility, efficiency, and autonomy, enabling streamlined provider contracting and improved grant access, while maintaining service continuity for consumers under Michigan Mental Health Code. Risks include cash-flow gaps, benefit uncertainty after the statutory protection period, provider contract adjustments, and increased governance workload, but these can be mitigated through reserve policies, early benefit planning, standardized

contracting, and board training. Overall, the change positions CMHOC for future state and regional shifts while preserving mandated services and transparency.

C. CMHA County Service Impact Analysis (Directive Three)

Under an Authority model, the same professionals will be using the same eligibility and service criteria to provide the same behavioral health services in the same locations using the same amount of dollars. Ottawa County would still be obligated to appropriate the 10% GF CMH program dollars and the millage and appoint CMH Board members, so those components would not change.

The only potential negative to service down the road is that if the County is not as connected to the CMH program as in the present, its Board of Commissioners may not be as inclined to maintain or increase the CMH millage. On the positive side, the Authority would be nimbler to achieve cost savings with joint ventures with other private or public entities and would have access to short-term borrowing that the County may not undertake if there is a gap in funding between fiscal years.

As the CMH departmental impact analysis indicates, it is not expected to be any change in the services offered and/or the population served as a result of becoming an Authority.

D. Legal Analysis of the Risks of the Current System

Michigan Counties lack inherent police or general welfare powers. By State Constitutional provision and interpretive case law, they only have such powers expressly delegated by the Michigan legislature through statute. See Mich Const. 1963, Art 7, §1. Moreover, Mich Const. 1963, Art 9, §18 prohibits a County from paying tax dollars for private benefits. See *Alan v. Wayne County*, 388 Mich 210 (1972). Simply stated, no statute expressly allows a Michigan County to take on the risk of a private party entitlement program by contract or other authority, and constitutional provisions prohibit the legislature from imposing such a duty on a County. Westlaw's Artificial Intelligence Analysis agrees with this legal analysis and concludes that general funds may NOT be used to pay for behavioral Medicaid. See **Appendix III - Westlaw AI analysis of whether a County's general fund may underwrite CMH Medicaid deficits.**

Second, all CMHSPs are subject to the Uniform Budgeting and Accounting Act ("UBAA"), which prohibits deficit spending in any one year and requires a cut in spending to balance its budget if a deficit is projected. See MCL §141.435(2).

Underwriting a federal entitlement program is inconsistent with the County's obligations under the UBAA.

While the State of Michigan has not refuted this analysis, it is unwilling to voluntarily agree to underwrite the CMHOC, meaning if there is a deficit, vendors would be the first to experience nonpayment if there is an unfunded surplus. They could sue the County to compel payment under their contracts. On the other hand, taxpayers could sue the County on the premise that it cannot use their tax dollars to fund the deficits using its own legal analysis against it. In other words, if deficits are likely to become recurrent, eventually the County will be enmeshed in litigation.

Since the appellate courts on matters of state funding have proved to be as political as legal, the outcome of such expensive litigation cannot be accurately predicted. Of particular concern at that level would be the fact that the courts could point out that if the County was concerned about its tax dollars, it could have converted to an Authority, since MCL §330.1205(6) expressly protects the County against deficits, requiring the State to fund them. The logic being that by refusing to create an Authority, the Ottawa County Board of Commissioners has voluntarily placed its taxpayers on the risk. Considering the State's silence on the County's risk, the opportunity to legally resolve the issue can no longer be avoided.

V. Potential Timeline – Evolution of CMH to an Authority (Directive 4)

The Mental Health Code requires a County Board of Commissioners to establish a CMH Authority by adopting an Enabling Resolution. A minimum of three public hearings must be held prior to approving the Resolution. The Resolution is fully effective one year after it has been filed with the Clerk of the County and Secretary of State, unless the State approves the transition at an earlier date. There is reason to believe the State would approve transition on October 1, 2026, if the County approves the resolution and takes tangible steps to move forward starting in February. A recommended CMH Authority Enabling Resolution is attached as **Appendix II** in this report.

A multi-year Transition Agreement for some services is also necessary to ensure the newly-established CMHA has an adequate support structure in place to continue to operate and function without disruption to service delivery. This includes the continuation of fiscal, human resource, information technology, and facility support services for up to three years until the CMHA can obtain such administrative services through other means. It also includes a mechanism for cash flow. A recommended Transition Agreement is attached as **Appendix I** in this report.

Possible CMHA Transition Timeline



VI. Summary and Recommendation

This report evaluates whether Ottawa County should convert its Community Mental Health (CMH) program from a County Department to an independent Community Mental Health Authority (CMHA). Community mental health services in Michigan are overwhelmingly funded through Medicaid and State sources and function as federally mandated entitlement programs. Because Medicaid funding is prepaid and entitlement-based, individual CMH programs inevitably experience annual surpluses or deficits, placing County-operated CMH departments in conflict with Michigan’s constitutional requirement for balanced County budgets.

Historically, Ottawa County has faced persistent CMH deficits due to Michigan’s Medicaid funding formula, projected revenue reductions, and potential restructuring or elimination of regional entities (PIHPs) that currently hold reserves. The State has declined to guarantee coverage of future deficits, effectively shifting financial risk to County taxpayers despite questionable legal authority for Counties to underwrite federal entitlement programs. **This exposes Ottawa County and its taxpayers to significant fiscal, legal, and credit risks.**

The analysis finds that transitioning CMH to an Authority would shift financial and legal responsibility for Medicaid deficits to the State, substantially reducing County taxpayer risk. As importantly, conversion would preserve the CMH benefit levels and the personnel

providing such benefits at the same locations, while also **increasing autonomy, efficiency, and flexibility in administrative operations, staffing, contracting, and grant-seeking thereby enhancing the quality and quantity of services over time.** This has been the consistent result in other operations, such as roads (OCRC) and dispatch (OCCDA) where the County has used specialized boards or entities to manage the service.

Notwithstanding the above, the transition to an Authority would also require a major organizational transition. Key challenges include replacing County-provided administrative services, managing startup and system costs, addressing staff concerns over wages, benefits, and retirement, and ensuring adequate cash flow during Medicaid payment delays. Staff feedback highlights significant concern about job security, benefits, workload, and service quality, driven largely by uncertainty and lack of detailed transition planning.

It is recommended that the Ottawa County Board of Commissioners immediately begin the process of transitioning its CMHSP program to an Authority with an approved resolution and transition agreement. An Authority offers a legally and fiscally stronger long-term structure by removing the County from the role of underwriting a volatile federal entitlement program. While the transition would have high operational and workforce impacts, these risks are manageable through an approved Transition Agreement as well as accompanying planning, phased implementation, employee protections, and clear communication. Overall, the Authority model better aligns financial responsibility with state obligations, reduces taxpayer exposure, preserves mandated services, and positions community mental health services for greater stability and adaptability amid ongoing state and federal funding uncertainty.

Appendix I – Draft Transition Agreement

This Agreement (“**Agreement**”) is made and entered into this ___ day of _____ 2026, by and between the **Ottawa County Community Mental Health Authority**, 12265 James Street, Holland, MI 49424, a Michigan public entity (“**CMH Authority**”) and the County of Ottawa (“**County**”), 12220 Fillmore, West Olive, MI 49460, a Michigan constitutional corporation:

RECITALS

Whereas, the **CMH Authority** exercises the statutory authority of a “CMH Authority” under MCL §330.1205 et al (“Mental Health Code”), for the residents of Ottawa County;

Whereas, the County has historically provided human resources, financing, information technology, audit, and facilities and facilities management services (“Services”) to the predecessor to the **CMH Authority** and the **CMH Authority** and **County** are interested in continuing with such services until such time as each party agrees that it is in their interests to transition or until the end of this **Agreement**;

Now Therefore, in consideration of the foregoing, the parties hereby agree as follows:

ARTICLE I SERVICES AND UNDERSTANDINGS

Section 1.1. Administrative Services. During this Agreement, the **County** will provide the **CMH Authority** the following services in the manner that the **CMH Authority’s** predecessor received:

- (i.) Human resources, such as screening applications, maintaining personnel files, payroll, documentation of discipline, labor compliance, labor negotiations, administering personnel policies, benefits and similar services;
- (ii.) Information Technology, including hardware and software installation and maintenance, backup and digital file retention, phone and e-mail processing, postage and copier maintenance and similar support services;
- (iii.) Facility maintenance, snowplowing, repair and similar services;
- (iv.) Financial assistance, including budgeting, cost allocation, cash receipting, bank reconciliation, investments, managing cash, check and ACH processing, cash advances and cash flow services, and audit procurement and financial statement preparation; and
- (v.) Fleet lease and equipment replacement services.

Section 1.2. Administrative Cooperation. The **CMH Authority’s Director** and the **County’s Administrator** or their delegates shall coordinate the delivery and receipt of the above services.

Section 1.3. Compensation. At the beginning of this Agreement, and annually thereafter, the **County** shall provide the **CMH Authority** a cost allocation that values the Administrative Services provided under Section 1.1, based on the most recent cost allocation study utilized by the **County**. Thereafter, the **County** may update that cost allocation based on changes to its cost allocation study. By the beginning of each month, the **CMH Authority** shall pay the **County** a 1/12th pro-rata share of the annual cost allocation for the Administrative Services Provided in Section 1.1. If the **CMH Authority** fails to pay the cost allocation for a period of sixty (60) days, the **County** may withhold such payments for its millage and/or general fund appropriations to the **CMH Authority**.

Article II **Representations, Warranties and Covenants**

Section 2.1. The **CMH Authority** warrants, represents, and covenants that:

- (i) It has full legal authority to enter into the Agreement and it shall use its best efforts to fully implement the purposes of the Agreement.
- (ii) It will not sue the **County** except for an enforcement of the provisions of this Agreement and enforcement of the CMH Authority Code.

Section 2.2. The **County** warrants, represents, and covenants that:

- (i) The **County** has the full legal authority to enter into the Agreement, and it shall use its best efforts to fully implement the purposes of the Agreement.
- (ii) It will not sue the **CMH Authority** except for an enforcement of the provisions of this Agreement and/or enforcement of the Mental Health Code.

Article III **EFFECTIVE DATE; Term; Renewal; and Termination**

Section 3.1. Effective Date. This Agreement shall become effective on October 1, 2026, even if approved and executed thereafter.

Section 3.2. Term. The Agreement shall become effective on the Effective Date and shall continue for three (3) years, unless earlier agreed to by the parties, terminated for cause under Section 3.3, below, or until the last service to be provided by the **County** to the **CMH Authority** has been eliminated pursuant to Section 3.4, below.

Section 3.3. Termination. This Agreement may be terminated for cause by either party, provided that it has provided the other party written notification of the breach and that party has failed to cure the defect within sixty (60) days.

Section 3.4. Amendments. This Agreement may be amended by the agreement of each of the parties hereto. However, the **CMH Authority's Director** and **County's**

Administrator shall have the authority to mutually agree to reduce the services provided in Section 1.1 and agree on a reduction in the commensurate compensation. In this regard, the parties recognize that termination of a service may not mean that the **County** has no ongoing chargeable expense associated with the past service, such as audit, IT or facilities contracts.

Article IV **Indemnification, liability, damages, and insurance**

Section 4.1. Limitation of Liability; No Special Damages. Notwithstanding any other provision of this Agreement, no party shall be liable to any other for any damages for loss of profits, loss of revenues, loss of goodwill, loss of anticipated savings, loss of data or cost of purchasing replacement services, or any indirect, incidental, special, consequential, exemplary or punitive damages arising out of the performance or failure to perform under this Agreement. Nothing in this Agreement shall be construed as a waiver of governmental immunity, where applicable.

Section 4.2 Indemnification. Each party agrees to defend and indemnify the other from any third-party liability caused as a result of the first party's actions or inactions.

Section 4.3 Insurance. The **CMH Authority** recognizes that the **County** is insured through the **CMH Authority** is the Ottawa County, Michigan Insurance Authority for the Indemnification clause above and for any insurance that that **County** is providing the **CMH Authority**.

Article V **Miscellaneous**

Section 5.1. Severability. If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

Section 5.2. No Third-Party Beneficiaries. This Agreement is not intended to and shall not be construed to give any third party any interest or rights (including, without limitation, any third-party beneficiary rights) with respect to or in connection with any agreement or provision contained herein or contemplated hereby, except as otherwise expressly provided for in this Agreement.

Section 5.3. Entire Agreement. This Agreement sets forth the entire agreement between the parties related to the subject matter of this Agreement. It is further understood and agreed that the terms and conditions of this Agreement are contractual and are not a mere recital and that there are no other agreements, understandings, contracts, or representations between the parties in any way related to the subject matter of this Agreement, except as expressly stated in this Agreement.

Section 5.4. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument. The exchange of copies of this Agreement and of signature pages by facsimile or PDF transmission shall constitute effective execution and delivery of this Agreement as to the parties hereto and may be used in lieu of the original Amendment for all purposes. Signatures of the parties hereto transmitted by facsimile or PDF shall be deemed to be their original signatures for all purposes.

Section 5.5. Binding Effect. This Agreement shall be binding upon any successors and inures to the benefit of the parties only. No party to this Agreement may assign its rights under this Agreement to any other person without obtaining the written permission of the other parties in advance.

Section 5.6. Notices. Any and all correspondence or notices required, permitted, or provided for under this Agreement to be delivered to any party shall be sent to that party by first class mail. All such written notices shall be addressed to each other party's signatory to this Agreement. All correspondence shall be considered delivered to a party as of the date that the notice is deposited with sufficient postage with the United State Postal Service. A notice of termination shall be sent via certified mail to the party's last known legal address.

Section .57. Rules of Construction. The parties hereto agree that they have been represented by counsel during the negotiation and execution of this Amendment and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

OTTAWA COUNTY CMH Authority

Date

County of Ottawa

By:

Its:

Date

OTTAWA COUNTY CLERK

Josh M. Brugger, Chairperson, Ottawa County
Board of Commissioners

Date

Justin F. Roebuck
Clerk/Register

Appendix II – Draft CMH Authority Resolution

**COUNTY OF OTTAWA
STATE OF MICHIGAN**

Resolution

At a regular meeting of the Board of Commissioners of the County of Ottawa, Michigan, held at the Fillmore Street Complex in the Township of Olive, Michigan on the 24th day of February 2026 at _____. local time.

PRESENT: Commissioners: _____

ABSENT: Commissioners: _____

It was moved by Commissioner _____ and supported by Commissioner _____ that the following Resolution be adopted:

WHEREAS, Ottawa County has for decades operated a Community Mental Health Services Program (“CMHSP”) as a department within Ottawa County;

WHEREAS, in 1995, the State Legislature recognized that CMHSP programs were becoming increasingly complicated and additional funding tools were increasingly needed and so it encouraged counties through MCL 330.1205 to create community health authorities;

WHEREAS, such additional funding tools include the ability to accept dedicated gifts, grants and bequests and to undertake limited borrowing—all without financial risk to the taxpayers of Ottawa County (collectively, the “Authority Financial Benefits”);

WHEREAS, until 2025, Ottawa County has always believed that the State of Michigan considered itself the underwriter of any deficits in the Medicaid federal/state entitlement plan that serves as the bulk of funding for the CMH Department if the PIHP for the County lacked sufficient reserves;

WHEREAS, during 2025, the State of Michigan intentionally refused to confirm its status as the underwriter for any Medicaid deficits in Ottawa County, implying that it considers Ottawa County taxpayers to be responsible for such deficits;

WHEREAS, among the Authority Financial Benefits available through MCL 330.1205 is clarity that the State of Michigan will be responsible for funding the CMHSP Medicaid program in Ottawa County, which clarity will provide greater financial security for Ottawa County’s CMHSP Medicaid programming;

WHEREAS, all but five (5) counties in Michigan, including Ottawa County--have taken advantage of MCL 330.1205 to merge their CMHSP into CMH Authorities, thereby confirming that the State of Michigan is responsible for any Medicaid deficits in their counties, meaning that the Ottawa County taxpayers are pro-rata responsible as State of Michigan taxpayers for deficits in those counties while also being potentially solely at risk in Ottawa County;

WHEREAS, the Ottawa County Board of Commissioners has determined that the protection that becoming an authority presents to the Ottawa County taxpayers and the additional Authority Financial Benefits of an Authority merit that CMH department attain authority status;

WHEREAS, the Ottawa County Board of Commissioners has also determined that by eventually eliminating an extra lawyer of government in the administration of Ottawa County CMH through an authority controlled by the Director and the Mental Health Board will make the agency able to more quickly adapt to the changing needs of the behavioral health system and its increasing complexities;

WHEREAS, the protections in MCL 330.1205 for existing CMHSP employees and the increased focus and funding will in the long term provide greater staffing security and opportunity for existing CMHSP personnel;

WHEREAS, the Ottawa County Board of Commissioners also finds that the transition of its CMH department to an authority will not negatively impact service recipients because Ottawa County will remain obligated to fund general fund CMH services and CMH clients who receive Medicaid, will retain all of their Medicaid benefits since Medicaid is federal entitlement program whose services can only be changed by federal regulation; and

WHEREAS, the attached Transition Agreement ensures that the same personnel will be serving the same clients in the same physical locations for at least three (3) years;

WHEREAS, MCL 330.1205 provides that the Ottawa County Board of Commissioners may approve an Enabling Resolution that would transfer its CMSP into a single county authority

NOW THEREFORE BE IT RESOLVED that the following Enabling Provisions are incorporated into this Enabling Resolution:

**ENABLING PROVISIONS
OTTAWA COUNTY CMHSP AUTHORITY**

- A. **Creation**: There is hereby created an Ottawa County CMHSP Authority (“The Authority”), which shall be a public CMHSP authority pursuant to Michigan Mental Health Code (“Code”), specifically MCL 330.1205.
- B. **Board and Director**: The current Ottawa County Mental Health Board and (“Authority Board”) Ottawa County CMHSP Director are hereby empowered to operate The Authority under the authority of the Code and the provisions of this Resolution. Thereafter, the Ottawa County Board of Commissioners will continue to appoint the members of The Authority Mental Health Board as provided in the Code. The Director shall be appointed and may be removed by the Authority Board as may be more specifically detailed in an employment contract.
- C. **Enabling County**: The County of Ottawa, Michigan is the only municipality creating The Authority. The Authority Board shall have the right to determine if The Authority affiliates or merges with any other CMHSP Authority, in whole or in part.
- D. **Purpose**: The purpose of The Authority is to comply with MCL 330.1205 and to exercise all the powers, authority, rights and responsibilities of a CMHSP authority under the Code.
- E. **Effective Date**: The Authority shall begin its existence upon approval of this Enabling Resolution. However, operationally, the Ottawa County CMHSP shall be totally merged therein upon approval by the Michigan Department of Health and Human Services (“Department”) or no later than one year from the approval of this Enabling Resolution, whichever is earlier (“Effective Date”). In this regard, a transition plan will be developed between the Ottawa County Administrator and The Authority which will address specific switch over dates for personnel, buildings and equipment, accounting, human resources, pension management, union contract transition, and other services, which may be different than the official merger date recognized by the Department (“Plan”).
- F. **Duration**: The Authority shall continue indefinitely unless terminated by the Ottawa County Board of Commissioners, merged into another CMHSP through a merger approved by The Authority Board or through dissolution. If The Authority is terminated or dissolved, all assets and real and personal property, net of liabilities, shall be transferred to the succeeding CMHSP that replaces The Authority.
- G. **Real Property**: Pursuant to the Plan, the following real estate, buildings and furnishings shall be leased by the County of Ottawa to The Authority, including the James Street Headquarters, Parcel #70-16-16-400-039, 12263 James St, Holland Township; portions of the James Street Annex, Parcel 70-03-21-425-001; all portions of 1111 Fulton St, Grand Haven, 70-03-21-425-001; and portions of the

Hudsonville County Building at 3050 Port Sheldon, Georgetown Township, 70-03-21-351-0056 according to the cost allocation plan of the County for the duration of the Transition Agreement and, thereafter at lawful rates to be negotiated between the County and the Authority;

- H. **Other Property:** Pursuant to the Plan, all assets, debts, and obligations of the Ottawa County CMHSP, including but not limited to equipment furnishings, supplies, cash and other personal property shall be transferred from the County of Ottawa to The Authority pursuant to MCL 330.1205(3)(a).
- I. **Privileges:** The Authority shall have all privileges and immunities from liability and exemptions from laws, ordinances, and rules that are applicable to the Ottawa County CMHSP and its board members, officers, and administrators, and county elected officials and employees of the Ottawa County CMHSP are retained by The Authority pursuant to MCL 330.1205(3)(b).
- J. **Transfer and Protection of Personnel:** Pursuant to the Plan, the Executive Director and all employees of the Ottawa County CMSHP shall be transferred to The Authority pursuant to MCL 330.1205(2)(e) and the privileges defined thereunder. Thereafter, such personnel shall no longer be employees of the County of Ottawa and The Authority shall be the “employer” regarding all laws pertaining to employee and employer rights, benefits, and responsibilities.
- K. **Governance:** As noted above, The Authority shall be governed by its Authority Board appointed Executive Director and the Authority Board appointed by the Ottawa County Board of Commissioners under MCL 330.1222.
- L. **Powers:** The Authority shall have all powers granted to a community mental health services program under the Code and such additional powers as identified and limited in MCL 330.1205(4), (10), (11), (12) and (13). In addition, if not specifically authorized by the foregoing, The Authority shall have all the following powers:
 - (1) To fix and collect charges, rates, fees or other charges and to collect interest.
 - (2) To make purchases and contracts.
 - (3) To transfer, divide, or distribute assets, liabilities or contingent liabilities.
 - (4) To accept gifts, grants or bequests that determine the way those gifts, grants or bequests, consistent with the donor's request.
 - (5) To acquire, own, operate, maintain, lease or sell real or personal property, including the power to determine the location of property purchased, leased, and/or operated.
 - (6) Enter into contracts and agreements in the Authority's name.
 - (7) Employ staff in the Authority's name.
 - (8) Acquire, construct, manage, maintain, or operate buildings or improvements in the Authority's name.

- (9) Acquire, own, operate, maintain, lease or dispose of real or personal property in the Authority's name.
- (10) Incur debts, liabilities, or obligations in the Authority's name that do not constitute the debts, liabilities, or obligations of Ottawa County.
- (11) Commence litigation and defend itself in litigation.
- (12) To receive and expend funds for the purposes of a CMSP Authority.
- (13) To invest funds in accordance with statutes regarding investments.
- (14) To set up reserve accounts utilizing state funds in the same proportion that state funds relate to all revenue sources; to cover vested employee benefits, including but not limited to accrued vacation, health benefits, the employee payout portion of accrued sick leave, if any, and Workers' Compensation. In addition, The Authority may set up reserve accounts for depreciation of capital assets and for expected future expenditures for an organizational retirement plan.

- (15) To develop a charge schedule for services provided to the public and utilize the charge schedule for first and third-party payers. The charge schedule may include charges that are higher than cost for some service units by spreading nonrevenue service unit costs to revenue-producing service unit costs with total charges not exceeding total cost. All revenue over cost generated in this manner shall be utilized to provide services to priority populations.

- (16) To determine the method and extent to which The Authority secures and maintains insurance, including but not limited to self-insurance and re-insurance.
- (17) To request that the Ottawa County Board of Commissioners place on the ballot a new or renewed community mental health millage and then to levy and appropriate such funds to The Authority if approved by the voters.

M. **Additional Obligations:** The Authority shall also:

- (1) Provide to the Ottawa County Board of Commissioners through the Director, an annual report on the financial, operational and service status of The Authority;
- (2) Provide to Ottawa County by February 28th of each year a copy of an annual independent audit performed by a certified public accountant in accordance with governmental auditing standards issued by the comptroller of the United States; and
- (3) Approve the attached Transition Agreement between The Authority and the County, which is hereby approved by the County. Thereafter, The Authority may discharge this responsibility through direct staff or by contracting for services.

- N. **Transfer of Liabilities:** After the Effective Date of The Authority, the County of Ottawa shall not be liable for any intentional, negligent, or grossly negligent act or omission, for any financial affairs, or for any obligation of The Authority, its Executive Director, the Authority Board, or its board, employees, representatives, or agents.

- O. **Levy:** The Authority shall not levy any type of tax or, except as provided MCL 330.1205(13), issue any type of bond in its own name or financially obligate any unit of government other than itself.

- P. **FOIA and OMA:** To the extent required by law, The Authority, as a governmental entity, shall be subject to the Open Meetings Act, being MCL 15.261 et seq and the Freedom of Information Act, being MCL 15.231 et. seq.

BE IT FURTHER RESOLVED that all resolutions and parts of resolutions insofar as they conflict with this Resolution are hereby repealed.

YEAS: Commissioners: _____

NAYS: Commissioners: _____

ABSTENTIONS: Commissioners: _____

RESOLUTION ADOPTED.

 Josh M. Brugger, Chairperson,
 Ottawa County Board of Commissioners

 Justin Roebuck, Ottawa County
 Clerk/Register

Appendix III —Westlaw AI analysis of whether a County’s General Fund may underwrite CMH Medicaid deficits

Question: “Is there a state statute that authorizes Michigan counties to underwrite the Michigan Medicaid program?”

Michigan law does not authorize counties to underwrite the Michigan Medicaid program. The administration and funding of Medicaid in Michigan are primarily the responsibility of the Michigan Department of Health and Human Services (MDHHS), which serves as the single state agency designated to administer the program in compliance with federal requirements. Counties are not tasked with underwriting Medicaid but may have limited roles in specific contexts, such as operating county-owned facilities or participating in certain Medicaid-related programs.

Answer: Administration And Funding Of Medicaid In Michigan

The Michigan Medicaid program is administered jointly by the federal government and the state, with MDHHS designated as the single state agency responsible for its administration. MDHHS contracts with Community Mental Health Services Programs (CMHSPs) and other entities to execute Medicaid services in their respective service areas. This structure ensures that Medicaid programs are administered at the state level, not by counties ([Wiesner v. Washtenaw County Community Mental Health, 340 Mich.App. 572 \(2022\)](#)) [1].

Medicaid funding in Michigan is shared between the federal government and the state. The state legislature appropriates funds for Medicaid, and MDHHS administers these funds according to reimbursement formulas set forth in annual appropriation acts. Counties are not responsible for underwriting Medicaid but may be involved in specific programs or facilities that receive Medicaid funding ([Ingham County v. State, 62 Mich.App. 683 \(1975\)](#)) [2].

Answer: County Roles In Medicaid-Related Programs

Counties in Michigan may operate facilities that provide Medicaid services, such as nursing homes or hospitals, and are subject to specific financial obligations in these contexts. For example, counties may reimburse a "maintenance of effort rate" for Medicaid nursing home services provided to eligible individuals in county-owned long-term care facilities. This rate is determined annually and is based on the costs of services provided, but it does not constitute underwriting the Medicaid program itself ([M.C.L.A. 400.109](#)) [3].

Additionally, counties may participate in programs related to mental health services. Historically, counties delivered mental health services through county community mental

health programs, but the responsibility for these services has shifted over time. Since 1995, CMHSPs have taken over the role of administering mental health services, including Medicaid-funded services, under contracts with MDHHS ([Mason County v. Dep't of Community Health, 293 Mich.App. 462 \(2011\)](#)) [4].

A. Constitutional And Statutory Limitations On County Responsibilities

Michigan courts have consistently held that the state cannot shift its constitutional or statutory responsibilities for Medicaid to counties. For example, in [Oakland County v. Department of Mental Health](#), the court emphasized that care for the mentally ill is a state responsibility and rejected arguments that counties could be required to assume financial responsibility for such services ([Oakland County v. Department of Mental Health, 178 Mich.App. 48 \(1989\)](#)) [6]. Similarly, in [Muskegon County v. Department of Health and Human Services](#), the court affirmed that MDHHS, not counties, is responsible for Medicaid payments, even when disputes arise over reimbursement for services ([Muskegon County v. Department of Health and Human Services, 346 Mich.App. 28 \(2023\)](#)) [7].

These rulings underscore that counties are not authorized to underwrite Medicaid and that any attempt to impose such responsibilities would likely violate constitutional provisions, such as the Headlee Amendment, which prohibits the state from reducing its financing obligations for services required by law ([Oakland County v. State of Mich., 456 Mich. 144 \(1997\)](#)) [8].

Michigan law does not authorize counties to underwrite the Michigan Medicaid program. The administration and funding of Medicaid are the responsibility of MDHHS, with counties playing limited roles in specific contexts, such as operating facilities or participating in mental health programs. Statutory and constitutional provisions further prevent the state from shifting Medicaid underwriting responsibilities to counties.

Legal References

1. [Wiesner v. Washtenaw County Community Mental Health](#)

Court of Appeals of Michigan. · February 17, 2022 · 340 Mich.App. 572 · 986 N.W.2d 629

"...I. PERTINENT FACTS AND PROCEEDINGS. The Medicaid program is "generally a need-based assistance program for medical care that is funded and administered jointly by the federal government and individual states." [Hegadorn v. Dep't. of Human Servs. Dir., 503 Mich. 231, 245, 931 N.W.2d 571 \(2019\)](#). [To receive federal Medicaid funds, states must develop a plan consistent with federal requirements. 42 USC 1396-1. Each state must designate "a single State agency to administer or to supervise the administration of the plan\(.\)" 42 USC 1396a\(a\)\(5\); see also 42 CFR 431.10\(b\)\(1\) \(2019\)](#). The Michigan Department of Health and Human Services (MDHHS) is the single state agency responsible for administering Michigan's Medicaid program...."

"...II. DISCUSSION. Moreover, respondent was bound by the decision because the MDHHS bears sole responsibility for administering Michigan's Medicaid program, and it fulfills this responsibility by contracting with CMHSPs, such as respondent, which execute the Medicaid program in their service areas. Respondent provides the Medicaid services and supports available under the MDHHS programs to eligible enrollees who live in respondent's service area, and it appears to provide the only avenue for participation in the particular Medicaid programs in which petitioner is engaged. Medicaid programs are the responsibility of the MDHHS, as the single state agency, and therefore, when the MDHHS issues a final decision involving Medicaid beneficiaries in one of its programs, respondent is bound by that decision and may not appeal it...."

4. Mason County v. Dep't of Community Health

Court of Appeals of Michigan · August 02, 2011 · 293 Mich.App. 462 · 820 N.W.2d 192

"...B. STATUTORY HISTORY. In sum, according to the language of the statutes, the goal as of 1974 was to shift responsibility for mental health services from the state to the counties, whereas in 1995 the goal became to shift the state's responsibility to CMHSPs. In other words, the state has always retained primary responsibility for mental health services, but the objective since 1974 has been to shift responsibility to localities and, in 1995, the local entity changed from counties to CMHSPs...."

"...B. STATUTORY HISTORY. When the Mental Health Code was enacted in 1974, counties delivered mental health services through "county community mental health programs." 1974 PA 258, S 200 et seq. These entities should not be confused with CMHSPs, which came into being under 1995 PA 290 and will be further discussed later in this opinion. With respect to the 1974 county community mental health programs, S 210 of 1974 PA 258 provided that a single county or combination of adjoining counties could elect to establish a county community mental health program by a majority vote of each county's board of commissioners. Section 204 provided that a county community mental health program would be "an official county agency." 1974 PA 258, S 204. Section 212 provided for the establishment of a 12-member county community mental health board, to be appointed by the county board of commissioners. Id. at S 212. The county community mental health board could not have more than four county commissioners unless the county community mental health board was made up of more than four counties, at which point the number of county commissioners could equal the number of counties and the 12-person board would increase in size to accommodate the extra appointments. Id. at S 222. A county board of commissioners could remove a county community mental health board member for neglect of official duty or misconduct in office. Id. at S 224. The county board of commissioners would approve the county community mental health board's annual plan and budget before it was sent to the DMH, and the county community mental health board would submit annual requests for county funds to the county board of commissioners. Id. at S 226(c) and (e). The county was responsible for 10 percent of the net costs for services "provided by (DMH), directly or by contract, to a resident of that county." Id. at S 302. Subject to certain qualifications, DMH was responsible for

90 percent of the annual net cost of a county community mental health program. Id. at S 308...."

7. Muskegon County v. Department of Health and Human Services

Court of Appeals of Michigan. · March 09, 2023 · 346 Mich.App. 28 · 11 N.W.3d 538

"...Plaintiffs, Muskegon County and its agency, HealthWest, argue on appeal that HealthWest should receive payment from defendants, the state of Michigan and the Department of Health and Human Services (the DHHS), for Medicaid-eligible mental-health services under MCL 330.1308 and MCL 330.1310; Const. 1963, art. 8, S 8; and Const. 1963, art. 9, S 29. The DHHS channels Medicaid funds for mental-health services to prepaid inpatient health plans (PIHPs), and the PIHPs contract with community-mental-health-services programs (CMHSPs), such as HealthWest, for the services. Lakeshore Regional Entity (LRE)-the PIHP that contracted with HealthWestpurportedly failed to reimburse HealthWest for more than \$12 million in services funded by Medicaid, so plaintiffs filed this suit demanding reimbursement from the DHHS for the Medicaid services. But the DHHS disclaimed liability, contending that it bore no responsibility to pay HealthWest for those services, so HealthWest had to seek redress from its PIHP, i.e., LRE. The Court of Claims agreed with the DHHS's analysis, and so do we, so we shall affirm...."

"...I. FACTUAL BACKGROUND. To complicate matters, HealthWest provided some non-Medicaid-funded services as well as traditional Medicaid-funded services, and payment for the non-Medicaid-funded services came, in part, directly from the DHHS and out of " 'General Funds.' " That occurred because the DHHS is bound by Michigan law to pay for 90% of the non-Medicaid-funded services. Specifically, MCL 330.1308 and MCL 330.1310 contemplate such funding. Under MCL 330.1308(1), subject to some exceptions, "the state shall pay 90% of the annual net cost of a community mental health services program that is established and administered in accordance with chapter 2.

TRANSITION PLAN

RECITALS

WHEREAS, the Ottawa County (the “County”) wishes to transition its Community Mental Health **Department** into a **CMH Authority** pursuant to MCL §330.1205 et al (“Mental Health Code”), for the residents of Ottawa County;

WHEREAS, the Mental Health Code provides that such a transition shall not be effective until approved by the State Department of Health and Human Services (“DHHS”) and the latter’s approval depends in part on an adequate transition plan of the CMH Department and the CMH Authority;

WHEREAS, the **County’s Enabling Resolution** envisions the development of such a transition plan in order to protect the interests of CMH consumers, employees and vendors.

NOW THEREFORE, in consideration of the foregoing, the Ottawa County Board of Commissioners hereby approves the following **CMH Authority Transition Plan**:

ARTICLE I GOALS

The **County** recognizes and establishes the following goals and objectives for this Transition:

- Goal #1: Minimize financial risk to taxpayers in the CMH system, making sure that the State of Michigan is the underwriter of any entitlement deficits not the Ottawa County taxpayers;
- Goal #2: Retain and protect CMH employees, through measures that include the following:
 - a. Protecting retirement benefits, including those employees who are still on a defined benefit pension plan as well as those and future employees who are receiving and will receive a defined contribution, and Section 457 match
 - b. Protecting current pay scales, rates of pay, longevity pay, and vacation accruing rates for at least a year and thereafter, such pay and benefits can become comparable to other public and private mental health systems.
 - c. Obtaining comparable employee health care insurance benefit; and
 - d. Obtaining comparable workers and unemployment compensation insurances;
- Goal #3: Retain quality community mental health services to Ottawa County citizens, recognizing that 90% of CMH’s budget involves federal entitlements and the County is committed to its maintenance of effort on the 10%, GF side;

- Goal #4: Leverage and utilize County infrastructure and resources as much as possible;
- Goal #5: Limit impact to remaining County departments with the removal of CMH funding and oversight;
- Goal #6: Decrease County bureaucracy and administrative layers to allow CMH to address and adapt to changing mental health benefits and standards;
- Goal #7: Ensure fiscal security of CMH Authority via loan agreements and cash flow assistance agreements;
- Goal #8: Ensure that the CMH Authority has the leadership and resources to become a free-standing CMH Authority.

II MEANS TO ACHIEVE GOALS

- Goal #1: Taxpayer protection is achieved through the creation of Authority offers additional protection to taxpayers and general under MCL 330.1205(6).
- Goal #2: Employee protection is achieved through the following:
 - (a) Fiscal Services and HR will work with MERS to set up a new MERS account for both defined benefit and contribution plans. The BOC will decide how much above the minimum underfunding percentage to fund before transfer.
 - (b) Section 1205 transfers union contracts automatically; but HR and the County will bargain to make sure that unit is successfully transferred. HR will continue to process payroll under the Service Agreement and so wages, and comparable benefits will be preserved by HR.
 - (c) HR and CMH CEO will secure a comparable health care plan.
 - (d) HR and CMH CEO will secure statutory workers and unemployment compensation coverage and/or systems.
- Goal #3: Consumer service protection is achieved through the following:
 - (a) The adoption of Enabling Agreement preserves the current Mental Health Board and Director's status so that they can assure consistent delivery of services;
 - (b) The adoption of Enabling Agreement permits borrowing which the County cannot undertake so as to smooth over budgetary deficits until the State of Michigan and/or PIHP cover them;

(c) The creation of an Authority through adoption of Enabling Agreement brings greater State accountability for underfunding, since it aligns Ottawa with the other 78 county CMHSPs;

(d) The adoption of the Services Agreement provides County cash flow services to maintain steadiness of payment to vendors and consumer services.

Goal #4: Leverage of County infrastructure and resources is achieved through the Service Agreement and Lease/transfer of the County Facilities in the Enabling Agreement.

Goal #5: Minimization of effect on the County is achieved through the approval of the Services Agreement.

Goal #6: Creation of Authority through Enabling Agreement decreases the CMHSP bureaucracy and eliminates one administrative layer to allow CMH to address and adapt to changing mental health benefit and standards;

Goal #7: Adoption of Service Agreement ensures cash flow fiscal security of CMH Authority adoption of Enabling Agreement facilities currently nonexistent financing authority to also offer fiscal stabilization.

Goal #8: Adoption of Enabling Agreement preserves Mental Health Board and Director and hiring of a CFO ensure that the CMH Authority has the leadership and resources to become a free-standing CMH Authority.

III TIMETABLE

1. January 13, 2026 BOC Meeting: Approve for “public discussion only” an enabling resolution and related CMH Authority documents and also notice the three public hearings and direct the Administration to distribute the proposed enabling resolution, transition plan and service agreement for public comment.
2. January/February 2026: Hold the three hearings.
3. February 2026 BOC Meeting: Adopt Enabling Agreement; Transition Plan and Service Agreement.
4. Day after February BOC meeting, notify the State of Michigan DHHS and advise them of the Enabling Agreement and requesting an early effective date of October 1, 2026.
5. March 2026: HR and CMH CEO and CFO to secure workers compensation and unemployment compensation system and to bargain transition with Union.
6. April 2026: Fiscal, HR and CMH CEO and CFO to secure MERS Account and BOC to set underfunding level.
7. May 2026 BOC and Mental Health Board complete lease agreements and any other necessary steps.