



STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

GRETCHEN WHITMER
GOVERNOR

ROBERT GORDON
DIRECTOR

June 28, 2019

Greg Hofman, CEO
Lakeshore Regional Entity
5000 Hakes Drive, Suite 500
Norton Shores, Michigan 49441

Stan Stek, LRE Board Chairperson
Lakeshore Regional Entity
5000 Hakes Drive, Suite 500
Norton Shores, Michigan 49441

Dear Mr. Hofman and Mr. Stek:

This communication serves as formal notice that the Michigan Department of Health and Human Services (MDHHS) is cancelling the specialty Prepaid Inpatient Health Plan contract with Lakeshore Regional Entity (LRE) effective September 30, 2019.

MDHHS provided LRE with a 30-day notice of cancellation of their contract on April 25, 2019 due to material default related to not having a viable risk management strategy in accordance with MDHHS standards. In March of 2019, LRE reported they were anticipating overspending their budget by \$16 million for fiscal year (FY) 2019 with no ability to cover their contractually obligated portion of that overspending and this prompted the notice of cancellation.

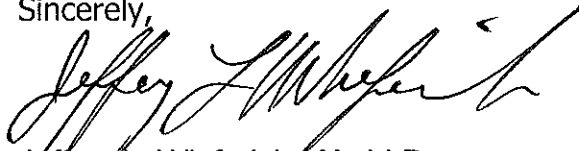
LRE's response to the 30-day notice of contract cancellation was received on May 24, 2019. The response conveyed the strong partnership that has been established with Beacon Health Options in assisting LRE with their managed care functions and provided information on how that partnership was going to make improvements in the region through FY 2020. The response did not address the lack of a risk management strategy for FY 2019 and provided no plan for how the overspending would be covered or corrected.

LRE remains in material default of their contract due to not having a viable risk management strategy for FY 2019 and its inability to cover their contractual obligations for overspending and therefore, the contract will be terminated. This action is being taken pursuant to section 15.0 (Cancellation) of the contract and MCL 330.1232b. LRE has an opportunity for a hearing to contest or dispute MDHHS' findings of material default in accordance with the Administrative Procedures Act of 1969, 1969 PA 306, MCL 24.201 to 24.328.

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LRE is obligated to work with MDHHS in accord with section 16.0 (Closeout) of the contract to transition the necessary financial, administrative and clinical components of its functions to a MDHHS identified successor organization. MDHHS will work with LRE to develop a formal transition plan which will have all activities completed by December 31, 2019. LRE will assure continuity of care for all people being served under this contract during the transition period.

Sincerely,



Jeffery L. Wierich MA, LLP
Director
Bureau of Community Based Services
Behavioral Health and Developmental Disabilities Administration

cc: Robert Gordon
Sarah Esty
Elizabeth Hertel
Dr. Joneigh Khaldun
Dr. George Mellos
Farah Hanley
Leslie Asman