Early On® Michigan Interagency Coordinating Council
Fiscal Ad Hoc Committee
Report and Recommendations
November 18, 2016

Workgroup Charge

On February 19, 2016, the Michigan Interagency Coordinating Council (MICC), established the Fiscal Ad Hoc Committee with the following purpose: to review all available funding sources in light of Michigan’s existing system(s), to determine what could or should be pursued, and to develop a fiscal plan for Early On – a path to developing a fiscally sound early intervention system.

Statement of the Problem

Annually, Early On® Michigan provides specialized early intervention services and supports to approximately 19,000 infants and toddlers with disabilities and developmental delays, and their families. The Individuals with Disabilities Education Act (IDEA) did not intend to fund direct services primarily with federal dollars and, therefore, federal funds provide limited support to the IDEA Part C system. A 2013 audit conducted by the Michigan Office of the Auditor General concluded that there are deficiencies in Michigan’s system and that additional funding is necessary for the early intervention system to find, evaluate, serve, and support infants, toddlers, and their families.

Research on Child Development and the Positive Impact of Early Intervention

The National Forum on Early Childhood Program Evaluation and the National Scientific Council on the Developing Child report that “early experiences determine whether a child’s brain architecture will provide a strong or weak foundation for all future learning, behavior, and health.” Positive early experiences are essential prerequisites for later success in school, the workplace, and the community. Services to young children who have or are at risk for developmental delays have been shown to positively impact outcomes across developmental domains, including language and communication, cognitive development, social/emotional development, and health. Families benefit from early intervention by being able to better meet their children’s special needs from an early age and throughout their lives. Benefits to society include reducing economic burden through a decreased need for subsequent special education.

Understanding Michigan’s Current System – including Structural Deficiencies

Michigan has a proud history of pioneering services to infants and toddlers since 1971 under the Michigan Mandatory Special Education Act. This provision of services pre-dates the federal mandate to provide early intervention services, establishing an infrastructure of special education supports and services for infants and toddlers and making Michigan one of five “birth mandate” states nationwide. Then, in 1986, Michigan responded to the new federal mandate and created a system for early intervention under what is now Part C of IDEA/Early On; we defined eligibility more broadly.
than eligibility under Michigan special education, creating two eligible populations under IDEA for birth to 3. Currently, approximately 40% of infants and toddlers in Early On statewide are also eligible for Michigan Mandatory Special Education (MMSE) services; therefore, 60% are “Early On Only.” Implementation of MMSE for birth to 3 varies considerably throughout Michigan. Additionally, there is a wide range in special education identification rates, with significant differences in identification rates among ISDs, indicating uneven service delivery throughout the State and unequal access to important services for young children with delays and disabilities. (see Figure 1 below and Appendix A-Financing Early Intervention at the Intermediate School District). Factors contributing to these differences include variations on the availability of local millage funding, philosophy about “labeling” young children, and local leadership and decision making on use of funds.

Figure 1

<table>
<thead>
<tr>
<th>Percent Eligible for MMSE</th>
<th>Number of ISDs</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>2</td>
</tr>
<tr>
<td>1.0 – 9.9%</td>
<td>8</td>
</tr>
<tr>
<td>10.0 – 19.9%</td>
<td>8</td>
</tr>
<tr>
<td>20.0 – 29.9%</td>
<td>12</td>
</tr>
<tr>
<td>30.0 – 39.9%</td>
<td>6</td>
</tr>
<tr>
<td>40.0 – 49.9%</td>
<td>8</td>
</tr>
<tr>
<td>50.0 – 59.9%</td>
<td>4</td>
</tr>
<tr>
<td>60.0 – 69.9%</td>
<td>3</td>
</tr>
<tr>
<td>70.0 – 79.9%</td>
<td>2</td>
</tr>
<tr>
<td>80.0 – 89.9%</td>
<td>2</td>
</tr>
<tr>
<td>90.0 – 99.9%</td>
<td>1</td>
</tr>
</tbody>
</table>

(source: EarlyOnData.com)

The issues facing Michigan’s system for infants and toddlers who are eligible for Early On Only are unlike those facing any other state. The Michigan Association of Administrators of Special Education report, Comparing Early Childhood Systems: IDEA Early Intervention Systems in Birth Mandate States (2014), found that none of the other birth mandate states (Maryland, Minnesota, Nebraska, and Iowa) maintain two sets of eligibility for birth to three. Upon the advent of the federal requirements, our peer states created one unified system of early intervention services for birth to three. Michigan’s bifurcated system contributes to the Auditor General’s 2013 finding that “infants and toddlers who were eligible for Early On Only did not have access to a comprehensive selection of early intervention services delivered by qualified personnel and that they may not have received the most appropriate type and quantity of early intervention services for their condition.” In many service areas in Michigan, infants and toddlers who are eligible for Early On Only receive services once per month; and sometimes less frequent than that.

Recommendation 1

In collaboration with representatives of the Office of Special Education and stakeholders with appropriate expertise and representation, establish a workgroup whose charge it is to determine appropriate steps and criteria for the creation of a single unified system that serves a single cohort of infants and toddlers eligible for both Early On early intervention services and Michigan Mandatory Special Education.
Consideration of Potential Sources of Funding

In order to ensure that Michigan is fully exhausting all financial and programmatic resources available for early intervention, Michigan representatives participated in the national Infant and Toddler Coordinators Association (ITCA) Part C Fiscal Initiative. As a member of a cohort of states, team members were able to learn from national leaders and other states about state structures for financing early intervention services. As a result, the MICC Fiscal Ad Hoc Committee was formed and the following activities were conducted: the Part C State Fiscal Self-Assessment, a review of the 2014 ITCA Finance Survey report of states' Part C funding to identify possible untapped sources, and a review of the 2013 Michigan Great Start, Great Investment, Great Futures appendix of 85 state and federal programs to identify possible new partnerships and/or ideas for sharing of resources. The following potentially underutilized sources of funding for early intervention services were identified:

- Medicaid
- Temporary Assistance for Needy Families (TANF)
- Private Insurance
- State Allocation of Funding

**Medicaid**

Medicaid is a state-federal cost-sharing reimbursement program for health care. For all Medicaid covered expenses, the federal Medicaid program will reimburse states for at least half of their costs for a dollar to dollar match (50% cost share or Federal Medical Assistance Program rate) and the federal share goes up for states with lower per capita income compared to the nation. Michigan’s federal match rate for the current fiscal year 2017 is 65.15%. This means that when reimbursing its providers such as hospitals, pharmacies, dentists, nursing homes and school districts for the costs they expend, the State of Michigan share is only 35%, while the federal share is 65%. Thus, for every dollar the State can allocate for services, the greater the amount that can be matched with federal Medicaid funds.

The Michigan Medicaid Agency (the Medical Services Administration within the Michigan Department of Health and Human Services) received federal Medicaid (Centers for Medicare and Medicaid Services) approval in 1993 for its School-Based Services (SBS) program. This allows school districts to receive federal Medicaid dollars to partially reimburse for Early On and special education services the districts deliver in accordance with IDEA Part B and Part C and MMSE. When the Michigan Medicaid SBS program began, a formula was developed to reimburse the ISDs at a rate of 35-40% of their costs. Every intermediate school district (ISD) in the State participates in the Medicaid SBS program. Michigan’s Medicaid SBS reimbursement pays ISDs a portion of their state and local sourced costs for services defined as early intervention/developmental, as well as medical/therapies, for infants, toddlers and students from birth to age 21 years. However, not every ISD is claiming Medicaid reimbursement for services they deliver to infants and toddlers birth to three years of age who are in Part C/Early On Only and who do not qualify for special education.

The 2010 report from ITCA, *Options and Considerations When Accessing Medicaid Early Periodic Screening Diagnosis and Treatment (EPSDT) for Part C Services*, states: “The majority of state Part C systems utilize Medicaid as a partner in funding services to enrolled infants, toddlers and their families.” The ITCA report further adds, “There isn’t consensus among special education administrators about the appropriate and maximum use of Medicaid funding for birth to 3 early intervention under Part C.” In 2014, ITCA conducted a Finance Survey of all the states to determine how they support IDEA Part C services. The study found that Medicaid is the second largest source of revenue for IDEA Part C services nationally.
Because Michigan participated in the ITCA Fiscal Initiative in 2014-16, we learned of the wide variety of reimbursement structures used by other states. We learned that in some states, Medicaid reimburses for services delivered by early interventionists, a specialty profession that is generally not licensed by a state’s health licensing agency.

Because the Medicaid program matches state and local expenditures with federal dollars, the most significant challenge with Michigan ISDs maximizing Medicaid reimbursement for Early On services is finding non-federal matching funds. Typically the initial expenditure for ISD services is the federal Part C grant, which, as federal dollars, cannot be used as a match for Medicaid. Additionally, the amount of state and local funding provided to ISDs has diminished severely in the past 20 years, leaving fewer dollars to spend on early intervention services, thus decreasing opportunities to draw Medicaid. The districts continue to cobble together resources inconsistently across the state for the 60% of Early On Only eligible children.

**Recommendation 2**

As Michigan continues to face financial challenges, we must maximize our state’s ability to utilize federal resources to support families with young children. In addition to observing the success of the Michigan SBS program, the team involved with the ITCA Fiscal Initiative learned from other states that if there was an annual allocation of state dollars to each ISD for Early On services, the opportunity to increase the amount of federal Medicaid reimbursement to each ISD should occur. Such a simple solution should produce outcomes similar to those other states have experienced: financial support of early intervention services, and a stronger Part C system in terms of infrastructure and quality of care to very young children and their families (Medicaid Resource and Technical Assistance Paper, ITCA, 2005).

a. Support a study, jointly sponsored by the Michigan Department of Health and Human Services and the Michigan Department of Education, to identify mechanisms that will allow Michigan to maximize federal Medicaid reimbursement to support Early On in the ISDs.

b. Work with stakeholders including the Michigan Medicaid agency, to develop a proposal to add early intervention services provided by early interventionists to the covered services in the Michigan Medicaid SBS program.

**TANF**

The federal Temporary Assistance for Needy Families (TANF) is “designed to help needy families achieve self-sufficiency.” States receive TANF funds as a block grant that allows the state to design and operate programs that meet the TANF program’s goals while also meeting the state’s needs. TANF funds can be used for a variety of programming including basic assistance; work, education and training programs; early care and education; child welfare services; services for children and youth; and others. Currently, TANF funds are not used to support Early On services in Michigan. At the end of fiscal year 2015, Michigan had an on unobligated TANF fund balance of $57.4 million.

There are two clear connections between TANF and Early On that go above and beyond the TANF requirement to help needy families: 1) states’ ability to serve children in Part C who are at-risk of developmental delays and 2) the federal requirement through the Child Abuse Prevention and Treatment Act (CAPTA) that children who have experienced maltreatment must be referred to early intervention services through IDEA Part C. Only two states – Texas (Health and Human Services is the lead agency) and Indiana (Family and Social Services is the lead agency) – utilize TANF funding in their Part C systems, and information was only obtained from Texas. Specifically, in FY2015, Texas spent over $16 million in federal TANF funds to cover non-medical expenses (e.g., family supports, nutrition and developmental services) for non-Medicaid Early Childhood Intervention (ECI) children and their families with an annual family income of less than $63,000. Local service contractors enter service information into TKIDS (Texas Kids Intervention Data System), Texas state staff pulls the data, and Financial Services uses the information to use TANF as a Method of Finance to pay
the contractors’ contract payments. The type of data contractors enter include services provided, Medicaid status and income; and then staff at the state office figure out eligible expenses that meet the criteria for reimbursement.

**Recommendation 3**

In partnership with the Michigan Department of Health and Human Services, the State Budget Office and/or the House/Senate Fiscal Agency, better understand what Temporary Assistance to Needy Families (TANF) resources may be available to Michigan and what the State would need to do to start using TANF for Early On, such as amending the Michigan TANF State Plan. Specifically, the MICC Fiscal Ad Hoc Committee recommends exploring TANF funds to support the 5125 referrals to Early On that are made through the Child Protective Services as part of the federal Child Abuse Prevention and Treatment Act mandate.

**Private Insurance**

Twenty-five states that responded to the question on the 2014 Finance Survey indicated that they access private insurance to fund early intervention and 21 indicated that they have related statutory language. Due to Michigan’s birth mandate and state implementation through the education agency, it is unclear whether Michigan has jurisdiction or authority to bill private insurance for early intervention services. Questions were raised about whether there is a potential conflict between the state guarantee to pay for special education supports for a portion of the Early On population and the ability to bill private insurance and whether it is possible for the state or local agencies to bill private insurance for early intervention services.

**Recommendation 4**

Request an opinion of the Department of Insurance and Financial Services about whether Early On Michigan has the authority to bill private insurance for the cost of publicly provided early intervention services.

**State Allocation of Funding**

Nationally, the ITCA Finance Survey found that the largest source of revenue to support early intervention is a State appropriation to support Part C services, second is Medicaid, and third is State General Funds (see Figure 2).

With the creation of IDEA Part C, Congress intended that states would provide funding to support service delivery; however, Michigan never designated a specific line item of funding for Part C Early On. State special education funding supports only the 40% of infants and toddlers in Early On who are eligible under MMSE. Michigan’s sole reliance on federal funds has proven insufficient to support appropriate intervention from qualified professionals that provide services such as speech therapy, physical therapy, or special instruction. The Michigan Department of Education estimates that appropriate service provision would cost approximately $8,000 per child per year (based on the provision of services twice per week, for 50 weeks). The Part C allocation is inadequate to meet the needs of eligible infants and toddlers. Using the state’s cumulative count, the federal allocation provides only $632 per child per year ($12M divided by 19,000 children). Using the state’s “snapshot”/point-in-time count, the federal allocation provides only $1241 per child per year ($12M divided by 9,666 children). Local and intermediate school districts are left to supplement this funding utilizing State special education dollars (for the 40% of children who are also eligible for MMSE), local millage dollars, and any other discretionary pots of funding, none of which are consistently available across the state. Further, ISDs that coordinate Early On services with their local public health and community mental health agency partners have faced additional challenges as those community-based partners have also been subjected to significant cuts in the State budget. Thus, for many ISDs, eligible children – particularly infants and toddlers eligible for Early On Only – often receive minimal services that are likely insufficient to ensure optimal development and a sound foundation for later educational achievement.
Education leaders in Michigan recognize that in order to meet indicators of success such as high school graduation rates and third grade reading proficiency, we must support key early childhood initiatives. In their effort to make Michigan a “Top 10 Education State in 10 Years” the State Superintendent and Board of Education have prioritized attainment of State funding for *Early On* Michigan as an important strategy for meeting their first goal, which is to provide access to high quality education from early childhood to postsecondary attainment, to maximize learning and success, for all Michigan children and students.

*Recommendation 5*

Work in partnership with Superintendent Whiston, the legislature, and the Governor to request a **budget line item/State allocation** in support of *Early On* early intervention services. Renew the MICC request to the Governor to provide State funding for *Early On* early intervention services.
Appendix A Financing Early Intervention at the Intermediate School District

Each Intermediate School District (ISD) is required to develop a plan for the provision of early intervention services to children from birth to three and for special education programs and services in compliance with the Michigan Administrative Rules for Special Education (MARSE) and the Individuals with Disabilities Education Act (IDEA). In Michigan, a child from birth to three with a qualifying need or condition may be eligible for services only under Early On (Early On Only) or may be eligible for services under both Early On and Michigan Mandatory Special Education. The ISD Plan varies from county to county as it pertains to the provision of programs and services and payment for the costs. There are several components that are consistent across ISDs and this section will highlight and discuss the similarities. The Early On requirements are found in Part C of the IDEA and the Early On State Plan. The Special Education requirements are found in Part B of the IDEA and the Michigan Administrative Rules for Special Education. Key terms or concepts that need explanation are:

1. **Membership or Foundation** – the estimated Foundation payment from the State for each “Membership” for a student is approximately $7,600 on an annual basis. That is known as the FTE (full-time equivalent – commonly used in reference to personnel, but here for children/students). These funds are available for infants and toddlers who are eligible for special education.

2. **Federal IDEA Part C allocation** – the State of Michigan receives approximately $12 million in Federal IDEA Part C funds. This amount has not increased in more than two decades other than as the entire pool available to the nation has increased. MDE distributes funds to each ISD based upon a formula; in 2013 this formula was changed in order to be more equitable. The distribution of the base amount takes into consideration the service area’s census of children ages birth through 2, modified annually according to birth records, as well as making adjustments in areas where the ISD boundaries do not align completely with county lines. With this formula, ISDs do not have a financial incentive to identify more infants and toddlers as eligible to receive services as there is no reimbursement for each child served. As well, greater funds through this stream are not provided based on severity or type of disability. Funds are not targeted or weighted toward ISDs/service areas with greater need based upon poverty or other factors.

3. **Special Education Allowable costs** – The MDE distributes an allowable cost report annually which identifies the positions, types of costs, formulas and other criteria the State will use to calculate an allowable reimbursement for special education services provided to an ISD’s or local district’s Early On system for providing services to special education-eligible kids.

4. **Special Education Cost Report (SE 4096)** – this report is due each October from an ISD or LEA which identifies the allowable special education costs incurred during the previous school year for the provision of services to eligible children that may be reimbursed through State funds. A year after that, the funds are partially reimbursed based upon a formula.

5. **ISD Millage/Act 18 funds** – each ISD establishes, through local elections, a set amount for millage funds that are earmarked for special education and Early On. Millage funds depend upon taxable property values. When property values decrease, as has happened in the past eight years due to the Great Recession, the Headlee Amendment and Proposal A caps will limit how much they can rise as property values climb back up. One large county in Michigan, for example, lost $23 million in property tax revenue which will take 15 to 20 years to reach prior amounts. The loss of support is compounded each year, so that over the 15-20 years, the ISD will lose a few hundred million dollars, which would have provided services to infants, toddlers and school-age children. Other ISDs are impacted by the type of business or industry in their county. Prisons, schools, and state and national forests do not pay property taxes.

6. **Local district funds** – oftentimes ISDs experience a shortfall in meeting the requirements of the Early On and Special Education services required for eligible children. Some ISD plans require the shortfall to be made up by local funds in the form of “bill-backs.” This means that the local district is billed by the ISD for services provided to that district’s students.
Example: ISD Operated Early On/Michigan Special Education Services for 400 children birth to three who are all also eligible for special education services.

The services for the 400 children are rendered by the following staff:

<table>
<thead>
<tr>
<th>Staff Position</th>
<th>Number of Staff</th>
<th>Total Estimated Costs (salary, benefits, supplies, travel)</th>
<th>Source of Funds</th>
<th>Eligible for Reimbursement from SE?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early On service coordinators</td>
<td>2</td>
<td>$100,000.00</td>
<td>Federal IDEA Part C Grant</td>
<td>No, these staff are employed for Early On Only.</td>
</tr>
<tr>
<td>Early Childhood Special Education teachers (ZS endorsement)</td>
<td>2</td>
<td>$150,000.00</td>
<td>ISD Millage</td>
<td>Yes, subject to limits</td>
</tr>
<tr>
<td>Speech and language pathologist</td>
<td>1</td>
<td>$100,000.00</td>
<td>ISD Millage</td>
<td>Yes, subject to limits</td>
</tr>
<tr>
<td>School psychologist</td>
<td>1</td>
<td>$100,000.00</td>
<td>ISD Millage</td>
<td>Yes, subject to limits</td>
</tr>
<tr>
<td>School social worker</td>
<td>1</td>
<td>$100,000.00</td>
<td>ISD Millage</td>
<td>Yes, subject to limits</td>
</tr>
<tr>
<td>Occupational therapist</td>
<td>1</td>
<td>$100,000.00</td>
<td>ISD Millage</td>
<td>Yes, subject to limits</td>
</tr>
<tr>
<td>Physical therapist</td>
<td>1</td>
<td>$100,000.00</td>
<td>ISD Millage</td>
<td>Yes, subject to limits</td>
</tr>
<tr>
<td>Secretary</td>
<td>1</td>
<td>$50,000.00</td>
<td>ISD Millage</td>
<td>Yes, subject to limits</td>
</tr>
<tr>
<td>Director/Supervisor</td>
<td>.5</td>
<td>$60,000.00</td>
<td>ISD Millage</td>
<td>Yes, subject to limits</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10.5 FTE</strong></td>
<td><strong>$860,000.00</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The above chart shows a total estimated cost for 10.5 staff FTEs of $860,000. As the bottom chart shows, we are assuming a $100,000 contribution of federal Part C funds leaving a cost of $760,000 to be covered by the district. For an over-simplification of the process for the purpose of clarification, let’s assume that all special education staff (excludes the Early On service coordinators) spend their time with students who are eligible for special education. If this were the case, the entire $760,000 would be multiplied by .28 (the 28% of special education costs that the State has agreed to pick up as a result of the Durant lawsuits) yielding approximately $212,800 in reimbursement that the district is potentially eligible to receive. The actual reimbursement is based on a calculation of the total FTEs of eligible students (memberships) times the foundation allowance of $7,600. The FTE or “membership” is based upon the amount of time the student or child receives instruction and other allowable educational services. In order to bill for FTEs to a student, instructional/educational services must be provided for a minimum of 72 hours over a calendar year.

Typically, less than 30% statewide of the Part C eligible children receive special education services that qualify for an FTE and those children that capture an FTE are only attending a program for a few hours per week which captures only a partial FTE per child.

Under these rules and this scenario, the ISD might have only 10 child FTEs (25 children serviced for 72 hours in one year at .4 FTE equals 10 full child FTEs) yielding only approximately $76,000.00 out of the possible $212,800 available.
The remainder of the $212,800 eligible for reimbursement is made up by the State reimbursement based upon allowable costs submitted on the SE 4096. As shown below, this leaves a gap of $547,200 to be picked up by local districts, by general fund dollars, or by any other funding source that can be found.

Chart 1.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of the <em>Early On</em> Birth to Three Program at the ISD</td>
<td>$860,000.00</td>
</tr>
<tr>
<td>Minus costs covered by IDEA Part C funds(^1)</td>
<td>$100,000.00</td>
</tr>
<tr>
<td><strong>Allowable costs eligible for reimbursement</strong></td>
<td>$760,000.00</td>
</tr>
<tr>
<td>Minus FTE (Foundation Grant) captured</td>
<td>$76,000.00</td>
</tr>
<tr>
<td>Minus Maximum SE Reimbursement allowable costs</td>
<td>$136,800.00</td>
</tr>
</tbody>
</table>

Amount that the ISD would need to cover from local \(^2\) funds $547,200.00

Note\(^1\) – IDEA Part C Federal funds were used only for the *Early On* Service Coordinators and cannot be used to request reimbursement from the State.

Note\(^2\) - local funds could be a combination of ISD millage funds, general funds or “bill-backs” due from LEAs to cover shortfall.

Note\(^3\) - In order to bill for special education funding, a district must provide a special education teacher to supervise activities. Not all districts have teachers available to meet the funding requirements. Further, if a child only needs occupational therapy, it cannot be billed unless a teacher is meeting with the child and supervising the therapist. Also, not all districts have enough service providers to provide the minimum amount of service required to meet the requirements of 72 hours annually. Finally, services must be specified on the IFSP.

Note\(^4\) – *Early On* Only services are not eligible for special education reimbursement. These could include mandatory referrals for established conditions (toxic lead exposure, Down Syndrome) that do not yet show significant delay but need service to prevent delay.
Summary of Recommendations

Recommendation 1

In collaboration with representatives of the Office of Special Education and stakeholders with appropriate expertise and representation, establish a workgroup whose charge it is to determine appropriate steps and criteria for the creation of a single unified system that serves a single cohort of infants and toddlers eligible for both Early On early intervention services and Michigan Mandatory Special Education.

Recommendation 2

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i Center on the Developing Child at Harvard University. (2010). *The foundations of lifelong health are built in early childhood.*


ix Hebbeler, K., Spiker, D., Bailey, D., Scarborough, A., Mallik, S., Simeonsson, R., & Singer, M.


xi Center on the Developing Child at Harvard University (2010). *The foundations of lifelong health are built in early childhood.*


xii Hebbeler, Spiker, Bailey, Scarborough, Mallik, Simeonsson & Singer.


xiv Hebbeler, Spiker, Bailey, Scarborough, Mallik, Simeonsson & Singer.
MICC Fiscal Ad Hoc Committee Members:

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Christy Callahan, Clinton County RESA Office of Innovative Projects

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