

COA Opinion: Community mental health authority entitled to rent reimbursement because contract with County was result of an arms-length transaction

9. August 2011 By Michael Azzi

In *Huron Behavioral Health v. Department of Community Health, No. 295740*, the Court of Appeals held that Huron Behavioral Health (“HBH”), which is a community mental health authority, is a legally distinct entity from Huron County (“County”), is largely autonomous and run independent of the County, and as a consequence, HBH was engaged in arms-length transactions with the County for purposes of rental cost reimbursement under Office of Management and Budget (“OMB”) Circular A-87.

In *Huron Behavioral Health*, HBH and the Department of Community Health (“Department”) entered into a service contract where HBH agreed to provide mental health services to residents of the County in exchange for reimbursement from the State of Michigan. The contract required HBH to submit its budget and costs to the OMB. From 1999 to 2006, HBH provided annual budgets to the Department and the OMB, which included the amount of rent paid to the County for use of its facilities. In 2008, the Department concluded that the rental contract between HBH and the County was not an arms-length transaction under OMB Circular A-87, and the Department demanded reimbursement for rent paid since 1999.

HBH sought a review hearing, but the hearing referee found for the Department. The circuit court, however, reversed the hearing referee, holding that (1) HBH was entitled to equitable relief “because it relied to its detriment on [the Department’s] approval of the budget for many years”; and (2) the contract was the result of an arms-length transaction, and the Department was not entitled to reimbursement.

The Court of Appeals held that the circuit court “erred to the extent that it applied equity to reverse the administrative decision,” but affirmed the circuit court’s determination that HBH and the County were engaged in an arms-length transaction. The Court determined equity was not a proper ground for reversal, because such a remedy was not expressly authorized by the Administrative Procedures Act, which governs administrative proceedings. However, the error was harmless given that the transaction was correctly determined to be arms-length. In affirming the circuit court, the Court noted that MCL 330.1204(1), which defines “community mental health authority,” expressly states that such an authority “is a public government entity separate from the county . . . that establish[ed] it.” As further support for its holding, the Court also noted that the County lacked the authority over HBH necessary to render the transaction less than arms-length because the County did not have managerial authority over HBH, the County did not hold a majority position on HBH’s board, and the County did not have the ability to control or influence HBH through its power to dissolve such entities.