

This document is an extract of a larger publication.

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## Site Visits

Canvassing of all five County Supervisorial Districts for SB 1193 signage compliance.

Visited public events that included Farmworker Reality Tours and Rising at the Rio.

May 15, 2025 Monterey County Human Trafficking Symposium.



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## **If You Can't Measure It, You Can't Manage It.**

### **The Challenges Facing the Management of High-Cost Beneficiaries in the Health Services Agency**

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#### **Summary**

For several years, the Santa Cruz County Health Services Agency has been made aware of deficiencies in tracking and reporting on their highest-cost clients. Since 2021, two external state-mandated reports recommended that the Health Services Agency develop a Level of Care tool for identifying and managing Behavioral Health and Substance Use Disorder patients. There is a large subset of these patients whose total cost of care is considerably above normal expectations. A recent accreditation report stated that 15% of clients account for 55% of the claimed services, clients who are labeled as high-cost beneficiaries by the external regulators.

High-cost beneficiaries present a complex challenge for Santa Cruz County. Effective strategies to address their needs require improvements in three major areas:

1. the administration and coordination of programs and services;
2. increased financial support of programs and staff, and
3. an enhanced focus on the underlying clinical issues resulting from homelessness, physical, and mental health conditions.

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## Background

In California, the government-funded healthcare program is referred to as Medi-Cal. Medi-Cal offers plans and pays for healthcare for low- or no-income individuals, with some enrolled in [Medi-Cal Managed Care](#) plans. These plans feature provider networks (doctors, pharmacies, etc.) and cover standard health benefits, plus prescription drugs, and behavioral health. The behavioral health program for Medi-Cal enrollees in Santa Cruz County (**the County**) is a shared financial responsibility between the County and two Medi-Cal Health Maintenance Organizations (**HMO's**). Those two HMO's are Kaiser Permanente (Kaiser) and the [Central California Alliance for Health](#) (**the Alliance**). The majority of Medi-Cal beneficiaries in the County are enrolled through the Alliance. Specifically with respect to behavioral healthcare treatment, California has split the financial responsibility:

- The County is financially responsible for any costs in excess of Medi-Cal payments for clients with severe behavioral health and/or substance use disorders.
- The Alliance and Kaiser are financially responsible for any costs in excess of Medi-Cal payments for clients with mild to moderate behavioral health issues. The Alliance and Kaiser are also financially responsible for the majority of other healthcare services to these clients, such as preventative care, specialist care, hospitalization, surgeries, radiology, lab, and pharmacy.

The County's Health Services Agency (**HSA**) provides services to County residents under four broad categories: Behavioral Health, Environmental Health, Health Centers, and Public Health. The Health Centers serve approximately 15,000 Medi-Cal residents annually, offering primary care, substance use disorder (**SUD**) and mild to moderate behavioral health services to these clients. The Behavioral Health division serves about 5,700 Medi-Cal residents annually, addressing SUD and moderate to severe behavioral health issues.<sup>[1][2]</sup>

About 15-20% of those 5,700 behavioral health Medi-Cal patients in the County use more than half (55%) of the health services provided by HSA.<sup>[3][4]</sup> In Fiscal Year 2022-2023, one individual incurred costs of \$1,574,102. In Fiscal Year 2023-2024, one individual incurred costs of \$667,209.<sup>[2]</sup> These two patients, and others like them, are known as High-Cost Beneficiaries (**HCB**) or High-Cost Utilizers. The 2024-2025 Santa Cruz County Grand Jury (**the Jury**) will use the term HCB for the remainder of the report.

HCBs are individuals who, due to frequent and repeated interactions with city and/or county agencies, incur substantial costs. These outliers are costly to the County not only when measured by dollars spent, but more importantly, the cost and time involved in managing HCBs strains the entire health care system. Such strains are cumulative and affect the availability of staff, bed space, and services. Every day, the needs of HCBs put pressure on the services and resources needed by the other clients.

While many of the services required by the State of California under Medi-Cal are paid through State and federal funding, that funding does not cover the total costs to the County. As a result, HSA's 2023-2024 budget required an additional funding of \$18.6 million from the County's general fund.<sup>[5]</sup>

Today, as Santa Cruz County faces an ever-shrinking budget while the need for services only increases, it is imperative that the County develop and implement cost-effective solutions to better manage their clients. In particular, the County needs to be able to better manage the cost burden of treating HCBs. They must be able to quickly identify these clients, understand the critical incidents that lead to any given patient becoming a high-cost client, and provide services that will improve patient outcomes. In the long run, better management will improve outcomes for all patients, control costs, and reduce the number of HCBs.

The Jury found that the HSA does not regularly report on the number of clients they serve, the frequency of services, or the types of services their clients use. The HSA does not have data benchmarks such as a Level of Care (**LOC**) tool that can lead to a better understanding of costs and utilization of the services provided to all HSA clients.

In addition to tracking and managing the HCB's, the Jury found that the clinical operations of HSA need to prioritize reporting tools for all clients. Through improved reporting, the leadership can gain a greater understanding of costs, monitor clinical productivity, and establish both data integration and reporting protocols with subcontracted entities.

## Scope and Methodology

The Jury sought to understand the reasons why so many services are needed by individuals which then result in them becoming high-cost beneficiaries. The Jury wondered: if the number of HCBs could be reduced, how might that impact the County's general fund contribution to the HSA? How do various County and community agencies work with HCBs? How could Kaiser and the Alliance reduce the number of HCBs?

The Jury interviewed people from different agencies, including HSA divisions and departments. The Jury spoke with law enforcement to help understand the scope and severity of community issues around HCBs. And the Jury talked with County contracted service providers.

The Jury collected data on the costs incurred by HSA clients, reviewed documents that were prepared by external review agencies, and combed through data on websites including California's Department of Health Care Services, the HSA, and the Alliance. Finally, the Jury reviewed the mandated responsibilities for the County HSA to provide Medi-Cal services.

## Investigation

### ***Funding Behavioral Health and Substance Use Disorder Services***

A substantial portion (95%) of the funding for Behavioral Health and Substance Use Disorders comes through Medi-Cal, which is a combination of Federal and State funds. Despite this, the operating costs of these services in Santa Cruz County exceed the Federal and State funding, which then requires a General Fund contribution from the County. General Funds paid towards Behavioral Health and SUD have been \$40,302,996 for the past 3 years. The following is a summary:

| Fiscal Period             | Unduplicated Number of Behavioral Health and Substance Use Disorder Patients | Total Program Costs (excludes allocations of HSD Administration) | Total Program Costs per Patient per Year | Federal, State, and Insurance Funding | General Fund Support | General Fund Support per Patient per Year |
|---------------------------|------------------------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------|---------------------------------------|----------------------|-------------------------------------------|
| 2021-22 Actuals           | 5,750                                                                        | \$108,778,527                                                    | \$18,918                                 | \$100,174,667                         | \$8,603,860          | \$1,496                                   |
| 2022-23 Actuals           | 5,777                                                                        | \$129,052,424                                                    | \$22,339                                 | \$111,128,635                         | \$17,923,789         | \$3,103                                   |
| 2023-24 Estimated Actuals | 5,922                                                                        | \$137,940,711                                                    | \$23,293                                 | \$124,165,364                         | \$13,775,347         | \$2,326                                   |

**Figure 1. Summary of Santa Cruz County Behavioral Health Services Division Revenues, Expenses, and Patient Volumes** <sup>[2] [6] [7]</sup>

As a result of the General Fund contributions to operate the program, the County is essentially the insurer or financial backstop for costs in excess of Federal and State funding. As an insurer, most healthcare organizations develop a number of tools and business models to manage the underlying risk. Those tools are put in place with identified benchmarks. As an example from the above figure, the Jury is unable to determine, because of a lack of benchmarks, if the level of expenditures or General Fund support was too much or too little per patient. The identified goal by the County HSA Director and County Executive Officer for FY 2026 is to significantly reduce the General Fund support.<sup>[8]</sup> When making decisions concerning the ongoing funding for services, the HSA should be providing industry benchmark data or trending targets to the general public, its Advisory Commissions, and the Board of Supervisors.

One common management risk tool is the [Pareto Principle](#), often referred to as the “80/20” rule. In the health care setting, this principle suggests that 80% of patient care costs and services are incurred by 20% of the clients. As a consequence, it is important as an insurer that the County and HSA have the mechanisms in place to effectively manage the high-cost beneficiary, approximately 20% of all clients.

In reviewing the program costs by service, the values on a “per patient per year” basis can be skewed, as some patients might access multiple programs. As an example, an “Access and Crisis” patient might also be included under “Substance Use Disorder” in the same year. Patients can receive care under multiple programs with varying funding sources and protocols. The total cost trends for the departments are shown below.

As an observation, salaries and benefits represent about 25% of the program costs, with the majority of costs arising from contracted services. Consequently, managing the total costs of care requires an important alignment between the County (as the insurer) and its vendors. Organizations like the Alliance have a larger share of medical delivery costs as contracted services and have developed tools to more closely monitor costs as HCB outlier cases unfold.

| Behavioral Health Program Name        | 2024-25<br>Adopted<br>Budget | 2024-25<br>Estimated<br>Actuals | 2025-26<br>Proposed +<br>Supplemental<br>Budget | Program Costs as a % of Total County<br>Behavioral Health Service |                                 |                                                 |
|---------------------------------------|------------------------------|---------------------------------|-------------------------------------------------|-------------------------------------------------------------------|---------------------------------|-------------------------------------------------|
|                                       |                              |                                 |                                                 | 2024-25<br>Adopted<br>Budget                                      | 2024-25<br>Estimated<br>Actuals | 2025-26<br>Proposed +<br>Supplemental<br>Budget |
| Substance Use Disorder                | \$44,486,031                 | \$41,144,557                    | \$46,490,753                                    | 24.41%                                                            | 24.52%                          | 25.79%                                          |
| Adult Mental Health                   | \$30,868,822                 | \$28,282,402                    | \$28,346,756                                    | 16.94%                                                            | 16.86%                          | 15.73%                                          |
| Behavioral Health Administration      | \$30,429,499                 | \$24,795,823                    | \$26,683,073                                    | 16.69%                                                            | 14.78%                          | 14.80%                                          |
| Mental Health Managed Care            | \$23,344,094                 | \$23,305,588                    | \$21,505,354                                    | 12.81%                                                            | 13.89%                          | 11.93%                                          |
| Children's Mental Health              | \$18,761,775                 | \$14,092,070                    | \$22,235,806                                    | 10.29%                                                            | 8.40%                           | 12.34%                                          |
| Residential Mental Health             | \$16,962,125                 | \$17,832,894                    | \$20,098,224                                    | 9.31%                                                             | 10.63%                          | 11.15%                                          |
| Access and Crisis                     | \$8,137,014                  | \$6,818,499                     | \$6,706,731                                     | 4.46%                                                             | 4.06%                           | 3.72%                                           |
| Behavioral Health Support             | \$5,222,214                  | \$5,834,318                     | \$4,774,302                                     | 2.87%                                                             | 3.48%                           | 2.65%                                           |
| Quality Improvement                   | \$3,464,249                  | \$3,617,496                     | \$3,416,301                                     | 1.90%                                                             | 2.16%                           | 1.90%                                           |
| Specialty Mental Health               | \$600,172                    | \$2,047,275                     | -\$4,458                                        | 0.33%                                                             | 1.22%                           | 0.00%                                           |
| Total Expenses                        | <u>\$182,275,995</u>         | <u>\$167,770,922</u>            | <u>\$180,252,842</u>                            | <u>100.00%</u>                                                    | <u>100.00%</u>                  | <u>100.00%</u>                                  |
| Salaries and Benefits as a % of Total | 26%                          | 24%                             | 24%                                             |                                                                   |                                 |                                                 |
| Services and Supplies as a % of Total | 57%                          | 57%                             | 60%                                             |                                                                   |                                 |                                                 |

**Figure 2. Expenses by Program Type**  
**Santa Cruz County Behavioral Services Division** [2] [6] [7]

The Jury sought to understand what mechanisms HSA has deployed to manage utilization and cost for patients seeking behavioral health and substance use disorder services. Those mechanisms could include the LOC tool that had been recommended in previous independent credentialing reviews.

### ***Definition and Identification of High-Cost Beneficiaries***

There is no standard definition of HCBs used by the County; the criteria vary from program to program.<sup>[9] [10] [11]</sup> There is, however, general agreement that HCBs incur much higher-than-average costs to the County. The Jury learned:

- Identification of HCBs occurs through various methods, including attempts to track individuals with severe mental illness, homelessness, and frequent emergency room use, as well as those involved with the justice system.<sup>[9] [12] [13]</sup>
- Common factors contributing to high utilization of services include co-occurring mental health and substance use disorders, homelessness, chronic health conditions, lack of support for seniors, and justice system involvement.<sup>[14] [15]</sup>
- HCBs comprise at least 15% of the members served by Behavioral Health in the County (compared to 4.5% statewide) and account for over 55% of the claimed services (compared to 34% statewide).<sup>[3]</sup>

Identifying HCBs has proved elusive because there are no system-wide or cross-provider data collection and reporting standards for identifying potential and current HCBs, the services they use, and the overall cost to the County.

### ***County Health Services Programs and Resources***

In addition to County-run clinics and staff, HSA has programs available to serve and help manage HCBs, as does the Alliance and the Santa Cruz County Sheriff's Office (**Sheriff's Office**). The Jury finds that each program provides critical services to HCBs and, although they have overlapping goals and likely clientele, too, there is little to no coordination for tracking clients that receive services from one or more of the following programs:

**Integrated Housing and Recovery Team (IHART)**: An Integrated Housing and Recovery Team within the Behavioral Health Division that helps people experiencing homelessness and mental illness.<sup>[16]</sup>

The **24/7 Mobile Crisis Response Team** was launched by the County in December 2024. In the words of their website:

*Mobile Crisis Response Teams provide culturally responsive and clinically appropriate services in the community. We respond quickly to urgent behavioral health emergencies to help stabilize youth, support families and provide linkages to additional services. We help remove barriers to access by meeting individuals where they are, whether that's a park, school, or other safe site like a faith-based location.*<sup>[17]</sup>

**Enhanced Care Management (ECM):** This Alliance program targets Alliance clients who meet their internal HCB criteria and other high-risk clients. The program provides cross-disciplinary case management for an individual's physical, mental, and social needs.<sup>[18]</sup>

**Focus Intervention Team (FIT):** The Focus Intervention Team is a partnership between the Sheriff's Office and HSA that aims to provide services to individuals who are habitually arrested and also suffer from mental health or substance use disorders. This program aims to reduce recidivism by connecting individuals with necessary services, such as mental health treatment, substance use counseling, and housing assistance. FIT teams are staffed by deputy sheriffs and social workers who together identify each client's particular needs and work one-on-one with the client to secure the services, whether it is a new ID or driver's license, arranging medical appointments, or contacting a family member.<sup>[13]</sup>

**Care Alert:** Launched January 2025, Care Alert is a voluntary registry that allows community members to share critical information about individuals with cognitive or behavioral challenges that may affect their safety, communication or conduct during interactions with 911, 988 (Suicide and Crisis Lifeline), or law enforcement. This is a proactive approach that can help ensure the individual receives appropriate care, minimize duplication of services, and potentially reduce health care costs. The Mental Health Advisory Board (**MHAB**) has recommended that Care Alert and the Mobile Crisis Response Team explore ways to share data.<sup>[19]</sup>

## **Other Resources for the County**

**Serving Communities Health Information Organization (SCHIO):** Established in 1996 by local physicians, SCHIO is now a non-profit organization whose board includes members from the Alliance, HSA, both hospitals in the County, as well as other County health care providers and organizations. As a Health Information Organization, SCHIO facilitates the exchange of health information to improve care management, reduce redundancy, and enhance patient safety.

The Jury believes the SCHIO partnership has not been adequately leveraged, especially for monitoring HCBs. The Jury strongly suggests that as a member of the SCHIO Board, HSA, together with the Alliance, establish data-sharing for all County HCBs.

**Mental Health Advisory Board:** The MHAB provides advice to the Board of Supervisors (**BoS**) and the Behavioral Health Division. They are charged with reviewing and evaluating the community's mental health needs, services, facilities, and special problems. According to the County's website, MHAB provides oversight and monitoring of the local mental health system, as MHAB's stated goals include:

- Advise the Behavioral Health Division on current and ongoing issues and potential solutions as they relate to the quality and effectiveness of Behavioral Health Services for the County.

- Develop skills, identify resources, and utilize best practices to maximize the effectiveness of the Santa Cruz County Mental Health Advisory Board.
- Increase community awareness on issues, services, and solutions related to Behavioral Health to ensure inclusion and dissemination of accurate and relevant information.

MHAB's goals align with the goals noted in the April 2025 report released by the Rand Corporation: [Funding the Service Gap for Adult Outpatient Mental Health Services in California](#).

The Jury believes the MHAB Board could be an advocate for improving coordination of care between the County and the Alliance and securing additional funding for County and Alliance programs. An initial step in this direction is MHAB's written request that the BoS find ways to allow data sharing between the two Behavioral Health programs.<sup>[19]</sup>

**[Central California Alliance for Health](#)**. The Governing Board of the Alliance includes a member of the County's Board of Supervisors and the Director of the County's Health Service Agency. The Alliance has been a contracted health care partner with the HSA since 1996, almost 30 years. As a County health services contractor, the Alliance has helped meet the County's ever-increasing need for services by enrolling and insuring approximately 79,000 of the County's 82,000 Medi-Cal patients.<sup>[20] [21] [22] [23]</sup>

The Jury believes the County and the Alliance would both benefit from better integrated services, standards of care, and data sharing. The Jury also believes the Alliance is in a unique position to enhance funding of County behavioral health and substance abuse projects and programs.

### ***A Special Program and Partner: The Central California Alliance for Health***

The Alliance has an outsized and unique impact on County HSA services and HCBs because it has worked with the County for almost 30 years. The Alliance is a Managed Care Organization and insurer licensed to serve Medi-Cal clients. Since its inception in Santa Cruz County in 1996, the Alliance has grown to cover more than [440,000](#) Medi-Cal beneficiaries (99% of its members) in five central California counties: Mariposa, Merced, Monterey, San Benito, and Santa Cruz.

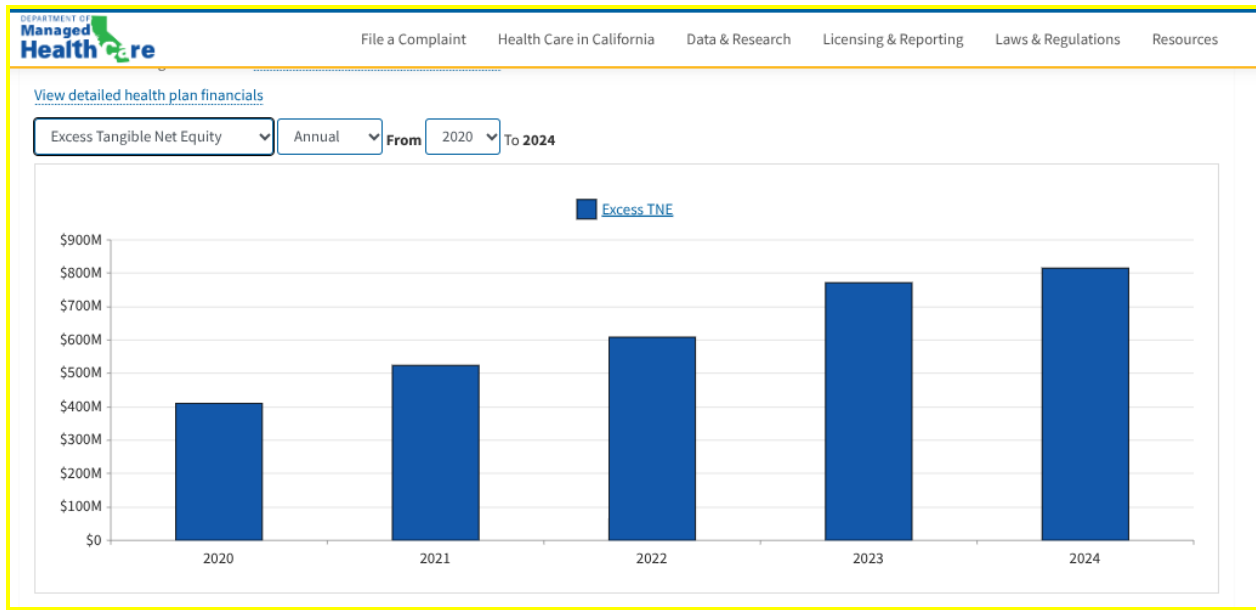
**HCB Data and Metrics at the Alliance.** The Alliance uses internal metrics and reports to track and manage high-cost clients, including clients with complex medical and social needs.<sup>[24]</sup> Regular internal reports are generated, including monthly and quarterly reviews of utilization metrics and performance against strategic goals. Those tools and reports are appropriately directed towards healthcare services under the responsibility of the Alliance, but this does not include County responsibilities (like severe mental health or substance use disorders).

- The Alliance defines high utilizers as individuals with two or more chronic conditions and either four Emergency Department visits or three inpatient admissions within a rolling 12-month period.
- Defining criteria for HCBs also includes 30-day readmission rates, post-discharge follow-ups, and Enhanced Care Management enrollees.
- Approximately 2% of County Alliance members meet the Alliance's high utilizer criteria.
- An internal and confidential High Utilizer Dashboard provides the Alliance staff with detailed insights into demographics, chronic conditions, and care management for the Alliance's HCBs.

**Behavioral Health Coordination with the County.** The Alliance reports that it collaborates with the County's Mental Health Plan (**MHP**) to ensure effective care coordination for members receiving behavioral health services. This partnership includes interdisciplinary team meetings and regular data sharing to address member needs. This collaboration needs to be strengthened.

- According to the most recent credentialing report, about 15% of the County Behavioral Health patients consume over 55% of the resources.
- Most of these same patients are likely receiving other healthcare through the Alliance.
- It seems logical that both the County MHP and the Alliance make stronger efforts to collaborate on a Level of Care tool, as recommended by the external credentialing report.

**The Alliance's Finances.** The State requires the Alliance to maintain financial reserves, which are called its "[tangible net equity](#)" (**TNE**). As of December 31, 2024, the required TNE for the Alliance was \$76 million, and the actual TNE was \$891 million. The Alliance has excess financial reserves that are \$815 million, or 11 times the required minimum.<sup>[25]</sup>



**Figure 3. Financial Information (Excess Tangible Net Equity) for the Central California Alliance for Health as reported to the California Department of Managed Health Care**<sup>[25]</sup>

The governing board of the Alliance has established some guidelines on how the excess reserves shall be used. One of the opportunities that would be of mutual benefit to the Alliance and the County would be to leverage systems and tools to build a Level of Care tool, as recommended to the County during the most recent accreditation.

**The Challenge for the County and the Alliance.** The Alliance has been a contracted health care partner with the HSA since 1996, almost 30 years. During that time, the HSA budget for health services has decreased. For the coming fiscal year, FY 2025-26, HSA expects yet another decrease despite growing demand and increased costs. This spiral exacerbates the HSA budget gap between service costs and Medi-Cal funding, thus increasing what the County needs from the General Fund. HCBs can have a significant impact on the HSA budget and staffing levels. In FY2023-2024 the HSA needed \$18.6 million of County general funds to break even.<sup>[26]</sup>

During this time, the Alliance has regularly increased its annual budget, expanded its in-house services, added staff, and built a healthy cash reserve – its Tangible Net Equity. At the close of FY 2024, the Alliance posted a TNE that is 11 times the required minimum.<sup>[25]</sup>

**Partner Engagement.** The County and the Alliance share many patients. County efforts to work with the Alliance to develop tools to assist coordinated care have yet to produce shared data or standard reports.<sup>[9] [18]</sup>

This Jury strongly believes that both parties should sit down and begin leveraging their relationship with the goal of better serving the County and Alliance's clients beyond these necessary financial exchanges. While challenges might arise concerning patient confidentiality, the parties could form appropriate contractual arrangements or management service agreements to coordinate the information.

The Jury strongly suggests that the County and the Alliance agree to expand their relationship by together developing, with their in-house staffs and funding, a Level of Care (**LOC**) tool. The LOC tool can be the foundation for, first, managing shared HCBs and, eventually, used by the County for all of its Health Care clients. This tool could also be used by the Alliance to manage the almost half a million clients it serves throughout five Central California Counties.

### ***The County has Challenges***

The Jury finds that behavioral health and substance use disorder programs across the County operate in silos. Each administers its own programs or clinics. Each collects its own client data. Each is funded separately. At the same time, all rely on a variety of sometimes overlapping funding sources to serve ever-growing and sometimes overlapping populations. Fragmentation hinders collaboration on services, finances, and program administration.<sup>[14] [18] [27] [28]</sup>

**Administrative and Clinical Fragmentation.** The County, the Alliance, the Sheriff's Office, and the County's two hospitals often treat the same HCB clients but, there is little to no coordination between programs that would allow staff to provide the widest array of services without duplication. Minimizing duplication could reduce patient costs and improve patient outcomes.<sup>[29] [30]</sup> For example, an emergency room visit could automatically link a client to other needed services, such as a social worker or primary care provider visits, freeing the hospital social worker to meet with other patients.

**Data Fragmentation:** There is no comprehensive public report detailing the number of HCBs, their service utilization, and their associated costs. Data is regularly collected, but the County does not have standard, regular reports to document services used or costs incurred at the individual level.<sup>[14]</sup> Throughout the review of the HSA, the Jury discovered that there are many reports prepared, but it is not clear what cost or utilization benchmarks the department was using to measure progress. As an example, a recently announced expansion of inpatient services, while laudable in addressing the impact of housing and behavioral health, does not have clear benchmarks to identify clinical or financial improvements.<sup>[31]</sup>

**Information Sharing Restrictions:** Privacy laws, such as the Health Insurance Portability and Accountability Act ([HIPAA](#)) and [Title 42 Code of Federal Regulations](#), limit the sharing of mental health and substance use disorder information among agencies and programs. SCHIO and the California Health Foundation have developed methods for sharing data that allow for better care and better outcomes. The County is not making use of these methods.

**Resource Constraints:** Limited resources and staffing hinder the County’s ability to provide comprehensive services and address the complex needs of HCBs. The situation is exacerbated with the latest County budget for the HSA, which reduces funding from \$313.1M in 2023-2024 to a proposed budget of \$304.1M for 2025-2026, as well as the proposed elimination of 74 positions. A [2023-2024 Grand Jury report](#) addressed many of the staffing issues.<sup>[26] [32]</sup>

**Homelessness and Housing:** Homelessness is compounded by the high cost of housing and the housing shortage in the County. Both issues drive up the cost of services and also affect the County’s ability to place clients in less costly settings as their health issues improve.<sup>[27] [33]</sup>

### ***Continued Planning for CalAIM Initiatives***

California Advancing and Innovating Medi-Cal ([CalAIM](#)) is a long-term plan by the California Department of Health Care Services to transform California’s Medi-Cal program. It aims to improve the health and well-being of Medi-Cal members by integrating health and social services, focusing on whole-person care, and reducing complexity in the system.

There are several important initiatives under CalAIM that County leadership will be devoting resources to over the next two years, with some funding coming from the Behavioral Health Infrastructure Bond Act of 2024.

No later than January 1, 2027, the County must combine the administration of specialty mental health and substance use disorders into a single integrated specialty behavioral health program. Under CalAIM, patient behavioral health services are reimbursed regardless of initial diagnosis. There is a “no wrong door” policy that provides reimbursement for the initial diagnosis, even when patients later require other levels of care. Using CalAIM’s Enhanced Care Management framework will result in greater coordination of clients with co-occurring conditions, addressing both physical health and behavioral health needs for both HSA and the Alliance.<sup>[34] [35]</sup>

### ***Frameworks for Establishing Administrative, Financial, and Clinical Coordination***

In March 2022, the California Healthcare Foundation released a report titled, “[How California Can Build On CalAIM to Better Integrate Physical and Behavioral Health Care](#).” Key components of the report that are relevant to the County and the Alliance for managing HCB’s include:

- Physical and behavioral health providers often do not receive information about the co-occurring needs or treatment plans of their patients and therefore, are constrained in how they can deliver whole-person care. This fragmented care then leads to higher costs — people with serious behavioral health conditions

incur greater spending on care, and these costs are largely attributable to increased physical health spending. For example, someone with a severe behavioral health condition may incur an injury that requires hospitalization.

- Efforts to improve physical-behavioral health integration must occur across various system functions, including financing, administration, and clinical care delivery.
- The building blocks of integration include:
  - Infrastructure such as data sharing and health information exchange.
  - A licensing and regulatory environment related to integrated care delivery.
  - Quality measurement that assesses outcomes across the full continuum of services.
  - Provider readiness supports for integrated care delivery.
  - Payment methods and financial incentives for integrated practices, including the development of Value Based Purchasing (**VBP**) models across physical and behavioral health. VBP models are a type of health care delivery model where providers are paid based on the quality and outcomes of the care they provide, rather than just the quantity of services rendered. VBP aims to improve quality, efficiency, and patient experience while reducing costs.

In April 2025, the [Rand Corporation](#) released a comprehensive report: [Funding the Service Gap for Adult Outpatient Mental Health Services in California](#). The report provides a detailed assessment of the discrepancy between existing mental health services available and what, financially and programmatically, is required to adequately serve the state's population. The report points out that 1 in 26 Californians (approximately 1,500,000) live with serious mental illness. In the County, that translates to potentially just over 10,000 County residents.

According to their data, a fully funded system capable of providing evidence-based outpatient mental health care for all eligible Californian adults who need services would be \$12.7 billion. The report concludes that such an investment is unlikely. At the same time, it again points out the discrepancies and realities of the ongoing financial and service challenges the County faces.

The report recommends that California improve mental health services by:

- developing care guidelines and training staff so the volume and scope of evidence-based care can be increased statewide.
- increasing outreach to ensure that all eligible individuals can receive the care they need.

- increasing funding across the mental health care system to ensure there is adequate workforce capacity to meet the needs of the 1 in 26 Californians who need mental and behavioral health services.

Under Federal Regulation 42, each state must conduct independent, outside reviews of their managed care organizations. These reviews must report on the quality of care and the program operations of each County's behavioral health and substance abuse programs. The [FY2023-24 Medi-Cal Specialty Behavioral Health External Quality Review Santa Cruz County Final Report](#) included these recommendations for improvement:

- Investigate reasons and determine service patterns related to HCBs and level of care; consider implementing an LOC tool for adults.
- Develop and implement strategies for increased Information Services and analytic support.
- Explore the needs of contract providers to ensure that the necessary service capacity is maintained. This includes the timely contracting in order to reimburse for services provided.

These three reports offer a framework for the County HSA and the Alliance to collaborate. The reports also provide added evidence for the Jury's findings that the County does not effectively track and manage what is a growing unmet need for mental and behavioral health services; that the current services are under-funded and under-staffed; and that the County cannot measure this need and is struggling to manage it.

In addition to the above reports, these topic briefs published by the [California Health Care Foundation](#) provide additional examples and potential starting points for exploring coordination and integration of services, finances, and administrative functions.

- How California Can Build On CalAIM to [Better Integrate Physical and Behavioral Health Care](#).
- How California's 1115 Demonstration, [BH-CONNECT](#), Will Impact Behavioral Health Care for Medi-Cal Members.
- [Braiding Medicaid Funds](#) to Support Person-Centered Care: Lessons from Medi-Cal.

### ***The Jury's Challenge to the HSA and the Alliance***

The Jury has learned from confidential interviews and its own review of publicly available data, that designing and implementing processes and tools to improve outcomes for all HSA and Alliance clients, especially HCBs, could begin by using existing in-house expertise and collaborating with strategic partners such as the MHAB and SCHIO.

Therefore, the Jury challenges the HSA and the Alliance to develop an LOC and other tools that will prioritize the needs of HCBs by:

- improving administrative and clinical integration of behavioral and physical healthcare services.
- improving data sharing to reduce service overlaps.
- prioritizing housing for HCBs through increased capital funding from the Alliance.

### ***The County's Directive to HSA***

As part of the financial and operational planning process presented to the Board of Supervisors on May 6, 2025, the County Executive Officer developed the following Operational Plan Objective #91:

By December 2025, the Health Services Agency, in coordination with the County Executive, will establish a financial plan for the Santa Cruz County behavioral health system of care.<sup>[8]</sup>

A critical step in the plan is for the HSA to:

Provide clear documentation of the cost to offer core mandated and elective services and/or programs and any gap between that cost and available revenue.

Based on confidential interviews, the 2024-2025 Santa Cruz County Grand Jury finds that the HSA reporting structure does include data that can help meet this directive. However, the HSA does not have administrative processes or reports in place that can be readily tapped to meet the directive requirements. A significant commitment of staff time and resources is needed to ensure that HSA can meet the December 31, 2025 due date.

## **Findings**

- F1. Data:** The Health Services Agency has not developed and deployed analytic, data-driven reports to address the financial challenges in managing the Behavioral Health and Substance Use Disorder services, despite recommendations from accreditation reviews. Data driven tools and regular reporting are required for the County to manage High-Cost Beneficiaries as well as all Behavioral Health and Substance Use Disorder clients.

- F2. Administrative:** The Jury finds that many programs, such as the Focus Intervention Team, Integrated Housing And Recovery Team, 24/7 Mobile Crisis Response Team, and Enhanced Care Management, provide critical services to High-Cost Beneficiaries. Although they have overlapping goals there is little to no coordination for tracking clients that receive services from one or more of these programs. The lack of coordination leads to higher costs in an era of shrinking resources.
- F3. Clinical:** Santa Cruz County does not have a Level of Care Tool to track and manage High-Cost Beneficiaries. The Central California Alliance for Health does have a Level of Care Tool to track and manage High-Cost Beneficiaries. The parties are partners in the delivery of services and their resources could be leveraged to create a unified Level of Care tool.
- F4. Administrative:** Santa Cruz County programs and resources for High-Cost Beneficiaries, and all Health Services Agency behavioral health and substance use disorder services, are siloed and fragmented across HSA departments and contract providers. For example, clinical, financial, and operational benchmarks are not being used to report the cost of services and track patient acuity. As new programs are being developed, the financial, operational, and administrative targets are not established in advance or integrated into operations. County and Alliance collaboration and coordination can pave the way to overcome fragmentation.
- F5. Data, Clinical & Administrative:** The Central California Alliance for Health (Alliance) has substantial financial reserves, and Santa Cruz County has seats on the governing board of the Alliance. Clinical, financial and operational collaboration between these agencies, who are both insurers and providers, needs to be better coordinated and integrated at all levels to improve treatment and outcomes for all clients.
- F6. Administrative:** The Jury finds that the Serving Communities Health Information Organization and the Mental Health Advisory Board partnerships with Santa Cruz County could be better leveraged to have greater impact on Behavioral Health. Failure to leverage these partnerships results in missed opportunities to coordinate programs and services.
- F7. Compassion:** Throughout the Grand Jury investigation, the Jury found that the staff and leadership of the Health Services Agency, Santa Cruz County Sheriff's Office, and the Central California Alliance for Health are compassionate in the treatment of people experiencing behavioral health or substance use disorder. Patients are treated with dignity and respect, despite sometimes difficult conditions.

## Recommendations

- R1. Administrative Integration.** The Board of Supervisors recently adopted Operational Plan #91 which calls for establishing a financial plan for the County behavioral Health system by December 31, 2025. Given the urgency of reduced funding, the Santa Cruz County Health Services Agency should provide a monthly progress report beginning August 1, 2025 to the Santa Cruz County Board of Supervisors on Operational Plan #91.
- R2. Ongoing External Reporting.** Given the urgency of diminishing funding, the Santa Cruz County Health Services Agency should publish a monthly report on its public website no later than October 1, 2025. The website should summarize patient volumes, cost benchmarks, quality benchmarks, provider productivity, number of patients being tracked for high utilization, and number of patients enrolled in Enhanced Care Management (through the Alliance). An appropriate subset of reports specific to Behavioral Health and Substance Use Disorder should be provided to the Mental Health Advisory Board beginning October 1, 2025.
- R3. Ongoing External Reporting:** In order to leverage their partnership with the Mental Health Advisory Board (MHAB) and raise public awareness around Behavioral Health in Santa Cruz County, the Health Services Agency and the Central California Alliance for Health should jointly report to the MHAB. Their reporting should occur at least bi-annually starting no later than June 30, 2026. Their report should discuss their collaborative efforts towards implementing a LoC tool, their progress towards developing value-based financing and should include Year-to-Date statistics on HCBs.
- R4. Ongoing External Reporting:** At least bi-annually beginning no later than September 30, 2025, Health Services Agency (HSA) and the Central California Alliance for Health (Alliance) should meet jointly with Serving Communities Health Information Organization (SCHIO). The meeting agenda should include a review of the data HSA and the Alliance submit to SCHIO and the SCHIO data and reporting features that HSA and the Alliance use. The goal is to leverage their partnership and better integrate the dissemination of accurate information to health care professionals and law enforcement about the treatment and needs of their clients. The outcome of the meeting should be reported to the Mental Health Advisory Board.
- R5. Clinical Integration.** Annually, beginning January 1, 2026, the Santa Cruz County Health Services Agency and the Central California Alliance for Health should review, align, and jointly publish their aligned clinical and program delivery methods and goals for all levels of Behavioral Health and Substance Use Disorder patients.
- R6. Administrative, Financial & Clinical.** By July 1, 2026, the Santa Cruz Health Services Agency and the Central California Alliance for Health should have a shared database and shared criteria for identifying potential High-Cost

Beneficiaries. This Level of Care tool should track costs, services, and outcomes for not only Behavioral Health and Substance Use Disorder High-Cost Beneficiaries, but for all clients. The following California Health Care Foundation brief provides a starting point for building a more integrated system of care over the long term: [Better Integrate Physical and Behavioral Health Care](#).

- R7. Administrative Integration.** The Santa Cruz County Health Services Agency and the Central California Alliance for Health should develop a seamless administrative process that uses standardized and shared data, reports and goals. No later than December 31, 2026, a report shall be submitted to the respective governing boards outlining the processes established to integrate network management, provider payment, and data collection and reporting.
- R8. Financial Integration.** On or before July 1, 2027, the County Health Services Agency and the Central California Alliance for Health should report to their respective governing boards the steps they have taken towards financial integration of all behavioral health services and substance use services using a value based financing process. [Braiding Medicaid Funds](#) described in the August 2024 Brief from the California Health Care Foundation provides a framework for achieving this necessary integration.

## Required Responses

| <i><b>Respondent</b></i>                                | <i><b>Findings</b></i>     | <i><b>Recommendations</b></i>  | <i><b>Respond Within/<br/>Respond By</b></i> |
|---------------------------------------------------------|----------------------------|--------------------------------|----------------------------------------------|
| Santa Cruz County Board of Supervisors                  | F1, F2, F3, F4, F5, F6, F7 | R1, R2, R3, R4, R5, R6, R7, R8 | 90 Days /<br>September 24, 2025              |
| Governing Board, Central California Alliance for Health | F3, F5, F7                 | R3, R4, R5, R6, R7, R8         | 90 Days /<br>September 24, 2025              |

## Invited Responses

| <i><b>Respondent</b></i>                           | <i><b>Findings</b></i>     | <i><b>Recommendations</b></i>  | <i><b>Respond Within/<br/>Respond By</b></i> |
|----------------------------------------------------|----------------------------|--------------------------------|----------------------------------------------|
| Director, Santa Cruz County Health Services Agency | F1, F2, F3, F4, F5, F6, F7 | R1, R2, R3, R4, R5, R6, R7, R8 | 60 Days /<br>August 25, 2025                 |
| CEO, Central California Alliance for Health        | F3, F5, F7                 | R3, R4, R5, R6, R7, R8         | 60 Days /<br>August 25, 2025                 |

## Definitions

- **24/7 Mobile Crisis Response Team:** Provides culturally responsive and clinically appropriate services in the community 24 hours a day, seven days a week.
- **988:** Suicide and Crisis Lifeline
- **Alliance:** Central California Alliance for Health, a regional Medi-Cal managed care plan that provides health insurance for children, adults, seniors, and people with disabilities.
- **Behavioral Health:** The Behavioral Health Division of the Health Services Agency provides a wide range of prevention and treatment options for Santa Cruz County adults, children, and their families.
- **CalAIM:** California Advancing and Innovating Medi-Cal is a multi-year initiative by the California Department of Health Care Services to transform and improve the Medi-Cal program, California's Medicaid system
- **County:** Santa Cruz County
- **ECM:** Enhanced Care Management targets Alliance clients that meet their internal HCB criteria and other high-risk clients. The program provides cross-disciplinary case management for an individual's physical, mental, and social needs.
- **FIT:** The Focus Intervention Team is a partnership between the Sheriff's Office and the HSA that aims to provide services to individuals who are habitually arrested and also suffer from mental health or substance use disorders
- **Fragmentation:** The process or state of breaking or being broken into small or separate parts.
- **FY:** Fiscal Year
- **HCB:** High-cost beneficiaries
- **HIPPA:** Health Insurance Portability and Accountability Act
- **HMO:** Health Maintenance Organization
- **HSA:** Santa Cruz County Health Services Agency
- **IHART:** An integrated housing and recovery team within the Behavioral Health Division that helps people experiencing homelessness and mental illness
- **Jury:** The 2024-2025 Santa Cruz County Civil Grand Jury
- **LOC:** Level of Care
- **Medicaid:** A joint federal and state program that helps cover medical costs for some people with limited income and resources

- **Medi-Cal:** A public health insurance program which provides needed health care services for low-income individuals including families with children
- **MCO:** Managed Care Organization
- **MHAB:** The Mental Health Advisory Board reports to the Board of Supervisors. They are charged with reviewing and evaluating the community's mental health needs, services, facilities, and special problems. According to the County's website, MHAB provides oversight and monitoring of the local mental health system
- **MHP:** Mental Health Plan
- **Pareto Principle:** Also known as the [80/20 rule](#), is a concept that states that approximately 80% of consequences come from about 20% of the causes.
- **SCHIO:** Serving Communities Health Information Organization was established in 1996 by local physicians, SCHIO now is a non-profit whose board includes members from the Alliance, the HSA, hospitals, as well as County health care providers and organizations. As a Health information Organization, SCHIO facilitates the exchange of health information to improve care management, reduce redundancy and enhance patient safety.
- **SUD:** Substance Use Disorder
- **TNE:** Tangible Net Equity - State mandated financial reserves
- **VBP:** Value Based Purchasing, a payment model that incentivizes providers to deliver high-quality, cost-effective care and improve patient outcomes. It shifts the focus from fee-for-service to performance-based payments.

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