SANTA CRUZ COUNTY
Civil Grand Jury

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County Behavioral Health

Challenges Require More Urgency, Demonstration of Value, and Collaboration with the Justice System

Summary

Santa Cruz County faces growing fiscal pressure as General Fund reserves decline, and Behavioral Health continues to require more than **$18 million annually** from County reserves. Despite this significant investment, County leadership and the public lack essential financial, operational, and performance information needed to evaluate the sustainability and value of Behavioral Health services. A Board mandated financial plan—due December 2025—remains "*only 5% complete*," leaving the County without a roadmap for managing rising costs or maximizing federal funding.

A major systemwide challenge is the **lack of coordination with the jail**, which functions as one of the largest behavioral health providers in the county. More than **50% of inmates** experience moderate to severe behavioral health needs, yet the County has "*no systematic data integration or cross-referencing mechanism*" to identify individuals already served by Behavioral Health. This gap contributes to fragmented care, repeated crises, and a revolving door pattern of incarceration. Meanwhile, the County bears the full cost of jail healthcare—nearly **$12 million per year**, or about **$100 per inmate per day**—highlighting the financial stakes of poor coordination.

To ensure long term sustainability, the Grand Jury recommends completing the overdue financial plan, clarifying federal match obligations, adopting actuarial and value-based funding approaches, strengthening quality-to-cost analysis, and reassessing noncore services. Equally important is establishing integrated data systems and proactive reentry coordination with the jail to reduce recidivism, improve continuity of care, and lower long-term costs across County systems.

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Background

The Santa Cruz County General Fund Reserve is projected to drop in fiscal 2027 from $107 million to $88 million. The General Fund Reserve represents savings set aside to weather economic downturns and unanticipated emergencies. Under the Fund Balance Policy established by the Board of Supervisors, the unrestricted General Fund balance must never fall below 10% of budgeted operating expenditures.[i] The Preliminary Budget for the fiscal year 2027 presented by the County CEO indicated that the General Fund will be nearing the “policy minimum” and that balancing the budget “reduces the County’s limited reserves – from 12.5% to 10.4% - resources that will not be available in the coming years”.[ii] These trends do not bode well for our small county, and the drastic decline in reserves requires a sense of urgency in addressing all County services. One of the divisions requiring increased General Fund financing is Behavioral Health. Throughout this report, references to Behavioral Health mean the Health Services Agency, Behavioral Health Division.

Behavioral Health is largely funded by federal and state revenues. When those funding streams are insufficient the County becomes the payor of last resort, using County General Funds. For the fiscal period ending June 2026, the budgeted contribution from the County General Fund for Behavioral Health is over $18 million, which is the result of $162 million in revenues less $180 million in expenses. The preliminary County General Fund budget request for the fiscal year beginning in July 2026 is also over $18 million.[iii] Behavioral Health is also one of the largest expenditures for the County, representing 22% of the $844 million in General Fund expenditures.

As it confronts decisions concerning Behavioral Health funding, County leadership and the public need better information about the performance of the department. While some measures (as mandated by state and federal regulations) are in place, the Grand Jury did not find sufficient information on cost benchmarks, alignment on quality targets, and federal “match” funding requirements. Exacerbating these concerns is a lack of urgency by County leadership in presenting reports or moving forward on initiatives that might help improve our collective understanding of behavioral health financing.

Behavioral Health costs are embedded in many areas outside the single department, and solutions require an integrated approach, including addressing the resources in our jail system. While Santa Cruz leadership has a history of interdepartmental and inter-agency cooperation, some solutions might require giving up something to support the broader goals. Improvements in behavioral health delivery will also have impacts outside of County government, such as hospitals and paramedic services.

Methodology

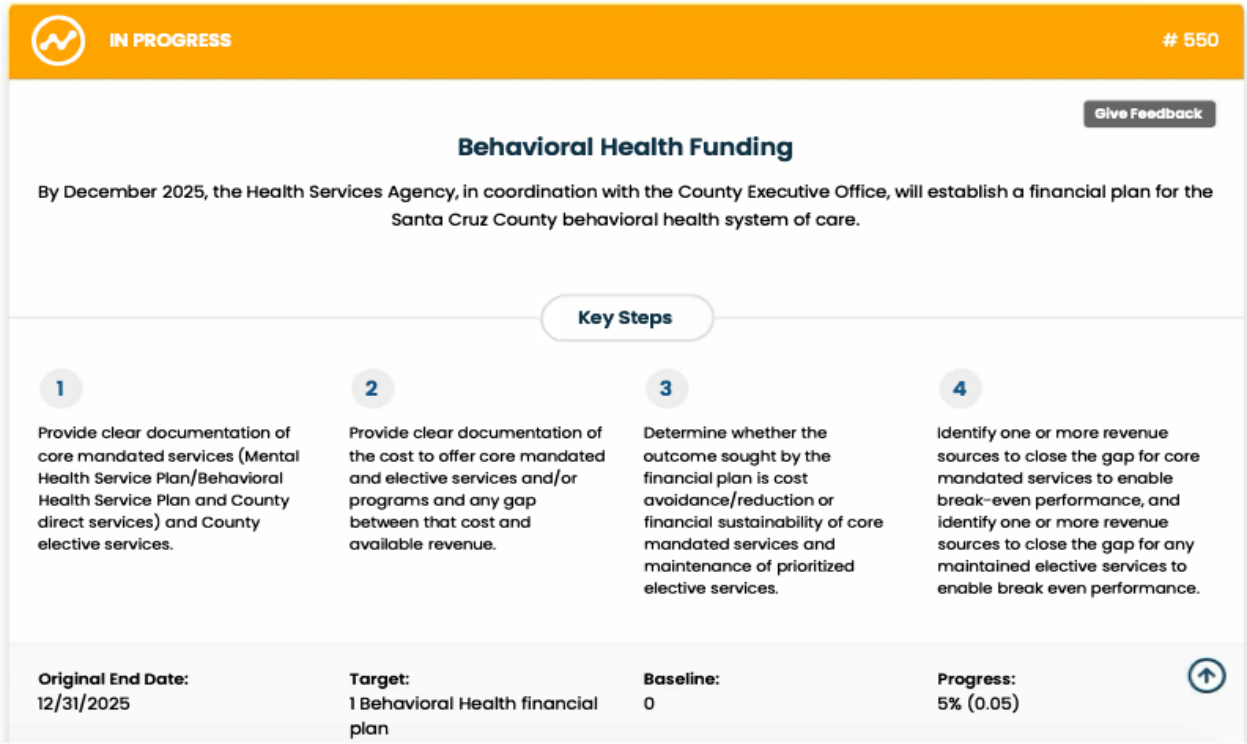
The Grand Jury conducted interviews with several department leaders for the County and the Sheriff's Office. The Grand Jury consulted the County Operations Plan, including updates presented to the Board of Supervisors. Other materials included information obtained from the California Department of Health Services and public information on various County websites.

Throughout our work, we appreciated that everyone was very transparent with information. Furthermore, it is very evident that everyone in local government is committed to treating people experiencing behavioral health issues with dignity. Santa Cruz is fortunate to have such dedicated individuals at all levels of government.

Analysis

Lack of Urgency in Providing Behavioral Health Financing Information

County Behavioral Health has not demonstrated urgency in authoring a report requested by the Board of Supervisors as part of the May 2025 Operations Plan. The status of the plan, which was due on December 31, 2025, is as follows as of April 2026.



Interviews with County leadership during January – April 2026 indicate that unclear role definitions, insufficient project management, and limited cross-department communication have contributed to delays. Addressing these governance deficiencies will require strengthened internal structures, clearer lines of responsibility, and enhanced monitoring to ensure timely completion of mandated tasks. During the Grand Jury interviews, the responses for the delay in the report reflected the following themes:

1. Many other competing priorities due to new federal and state legislation.

2. Turnover of senior leadership in the Health Services Agency and County Executive office.
3. Preparing the report is “not my job”, and that project is “owned by another department”.

Without the plan, the County lacks a cohesive roadmap to address service gaps, establish fiscal safeguards, or define priority investments. The lack of a plan contributes to inconsistent decision-making and limited ability to respond proactively to emerging challenges.

The 2024-2025 Santa Cruz Civil Grand Jury recommended that a monthly update should be provided to the Board of Supervisors on Operations Plan #550.[iv] The response from the County of Santa Cruz in September 2025 to this request was that monthly updates would not be provided and “HSA’s Behavioral Health Division is actively engaged in this effort, and progress will be reported through the County’s established Operational Plan reporting process, as defined by the County Executive Office. Adding a separate monthly reporting requirement would divert limited staff resources and place additional administrative burdens on an already under-resourced system, potentially detracting from the core work of service delivery and system improvement.”

Is $18 million of General Fund support not enough, or is it too much?

For the fiscal period 2025-2026 the Behavioral Health department will require $18 million from the General Fund reserves to cover the costs not reimbursed from federal and state payments. Aside from the financial plan mentioned earlier, County leadership and the public should have a clear understanding of “what they are getting” when General Funds are needed.

Below is an excerpt of the Behavioral Health budget as of May 2, 2026, from the County’s OpenGov Budget Tool:

Santa Cruz County					
FY 2026-27 Proposed Budget - Types					
Download generated on 05/02/2026					
Departments Filter	Behavioral Health				
		2024-25 Actuals	2025-26 Adopted Budget	2025-26 Estimated Actuals	2026-27 Proposed Budget
Revenues		**$ 136,754,915**	**$ 162,464,552**	**$ 162,012,291**	**$ 166,859,803**
Revenues	Intergovernmental Revenues	$ 122,987,862	$ 148,755,501	$ 148,383,804	$ 157,371,323
Revenues	Charges for Services	$ 12,660,481	$ 13,147,747	$ 13,167,183	$ 9,027,176
Revenues	Use Of Money and Property	$ 908,470	$ 240,000	$ 240,000	$ 240,000
Revenues	Miscellaneous Revenues	$ 149,322	$ 219,434	$ 119,434	$ 119,434
Revenues	Fines, Forfeitures & Assessments	$ 48,780	$ 101,870	$ 101,870	$ 101,870
Expenses		**$ 146,988,786**	**$ 180,747,239**	**$ 180,294,979**	**$ 185,554,379**
Expenses	Services and Supplies	$ 80,487,971	$ 107,048,882	$ 102,245,177	$ 122,004,570
Expenses	Salaries and Employee Benefits	$ 41,385,028	$ 42,585,406	$ 43,015,723	$ 46,543,637
Expenses	Other Charges	$ 18,488,978	$ 18,084,480	$ 18,817,083	$ 18,367,953
Expenses	Intrafund Transfers	$ 4,840,136	$ 11,246,046	$ 14,429,590	$ (3,848,499)
Expenses	Services and Suplies-ISF	$ 1,763,314	$ 1,385,406	$ 1,385,406	$ 2,089,699
Expenses	Other Financing Uses	$ -	$ 397,019	$ 402,000	$ 397,019
Expenses	Fixed Assets	$ 23,358	$ -	$ -	$ -
Revenues Less Expenses		**$ (10,233,870)**	**$ (18,282,687)**	**$ (18,282,688)**	**$ (18,694,576)**

Funding streams (intergovernmental revenues) for Behavioral Health include Medi-Cal reimbursements, Realignment allocations, Behavioral Health Services Act revenues, federal block grants, and state general fund allocations[v] Each funding source has its own administrative burdens and compliance expectations, while demanding sophisticated fiscal oversight.

Many of these funding streams are in jeopardy as the County has estimated that up to 30,000 individuals may lose health coverage in the coming year due to a variety of federal and state regulations, including stricter eligibility requirements. Irrespective of whether someone has health insurance, the County is required by law to provide services for those experiencing severe behavioral conditions or substance use disorders.

Some of the funding sources through federal programs have “matching” requirements, where other funds are needed to receive the federal funds. In Grand Jury interviews with County leadership, there was a consensus that General Funds might be required to maximize federal payments, but it was unclear if it was the entire $18 million from the General Fund, or something different.

In considering the “too little or too much” question, some might argue that the annual County General Fund contribution of $18 million represents only 10% of the total operating costs of the Behavioral Health department, as federal, state and other

sources totaling $166 million support the total operating costs of $185 million. Another view might consider the annual operating costs of $185 million spread over the population of the county, resulting in a per-capita cost of about $672. The costs mentioned do not include Health Services Administration costs of another $29 million, some of which are probably directed to supporting the Behavioral Health functions.

This $18 million subsidy reflects a persistent mismatch between service delivery costs and available reimbursements. Contributing factors include the absence of insurer-like financial modeling, inadequate forecasting tools, changes in Medi-Cal, and limited capacity to anticipate fluctuations in service utilization.

Below is a summary of Federal and State Funding in the 2025-2026 budget.

Table 1: Summary of Federal and State Funding

Federal Funding Requiring a "Match"

County G/L Number	County G/L Description	Budget for 2025-2026
40622	Short / Doyle Fed M/Cal	$28,214,804
40624	Short / Doyle Medical Fed	$32,865,136
	Total Federal Client Revenues (Requiring State and Local Funding)	$61,083,940

State and Local Funding to Apply Against the Federal Funding "Match" Requirement

County G/L Number	County G/L Description	Budget for 2025-2026
40471	Motor Vehicle HSA Alignment	$1,610,059
40626	Short / Doyle Mental Health	$19,380,577
40690	Other Health Aid	$5,048,894
40902	AB 118 Local Rev FD PROG	$26,831,252
	Total State and Local Funding	$52,870,782

The Grand Jury's understanding of the County's obligation for federal matching, based on several interviews: The difference between $61 million of federal funding and $52 million of state funding (about $9 million) needs to be provided by the County. The Grand Jury was told that the County fulfils this obligation through the General Fund (where costs exceed the federal and state reimbursements for the specifically funded programs).

The explanation does not reconcile to the $18 million of General Funds needed to fund all the costs in the budget, and this is likely due to costs that are not eligible for the federal match. To have a clear view of the required County financial obligations for federal funds, it is essential that the funding requirement for matching funds that may be needed from the General Fund is clarified in a manner that is easily understandable by policy makers and the public.

Responsibilities of County Behavioral Health

County Behavioral Health agencies in California operate within one of the nation's most complex regulatory and service-delivery environments. Their role extends far beyond providing clinical interventions, encompassing systemwide oversight, fiscal administration, public health responsibilities, and extensive coordination across multiple departments and community partners. Counties are responsible for delivering services ranging from early intervention and crisis stabilization to long-term psychiatric care and substance use disorder treatment. An example of the complexity in funding is shown here: Behavioral Health Funding by Setting

Santa Cruz County acts as both an "insurer" and "provider" of Behavioral Health services:

- Insurer: Most of the costs of operating Behavioral Health ($122 million of the $185 million) are in services. This largely reflects the procurement of care from many providers, both inside and outside of the County. In this scenario, the County is responsible to pay the costs of approved care irrespective of whether they are covered through federal and state funds.
- Provider: The next largest costs ($46 million of $185 million) are Salaries and Benefits, reflecting the 241 FTE's that are providing care or case management to approximately 5,000 individuals served by Behavioral Health each year.

In its role as an insurer, the County should have systems in place to understand the frequency of care, severity of care, and processes to ensure timely care is rendered in the proper setting. Examples found by the Grand Jury where the insurance function could be better managed include:

- Most insurance costs follow the Pareto Principle, meaning that 80% of the costs arise from 20% of the beneficiaries. The Grand Jury found that Behavioral Health has resisted implementing a tool to manage some of the highest cost beneficiaries, despite recommendations from outside regulators. It is unclear if the County is moving forward on a "Level of Care" (LOC) tool[vi] which will help provide case managers with information on the most effective pathways for high-cost patients. The delayed adoption of the LOC tool has impeded efforts to

standardize clinical decision-making and efficiently allocate resources. Without appropriate LOC assessments, individuals may receive services that are insufficient or excessively intensive, undermining both quality and cost-effectiveness.

- The 2024-2025 Grand Jury previously issued a report where the management of high-cost beneficiaries was identified by outside regulators as an area needing improvement, even when compared to other counties[vii] That same data reveals that the number of high-cost beneficiaries receiving Targeted Case Management in Santa Cruz County declined from 80% to 66% over a 4-year period ending in 2023. [viii]
    - Adjacent counties (Monterey, Santa Clara, and San Mateo) also saw declines in the percent of high-cost beneficiaries receiving Targeted Case Management over this period, but it is worth noting that all had a higher percentage than Santa Cruz. Monterey County for example declined from 97% to 90%.
    - The same 2023 data from 14 mid-sized counties reveals a range of 38% to 90%.
- The Grand Jury found that the budgeting process does not apply actuarial tools to understand utilization and cost. In prior Grand Jury reports, recommendations to partner with the Central California Alliance for Health (CCAH) on actuarial services have not been implemented. As background, CCAH is a County Organized Health system Medi-Cal HMO. CCAH is financially responsible for the overall healthcare of Medi-Cal beneficiaries, including “mild to moderate” behavioral healthcare[ix]. Partnering with CCAH to coordinate on the key drivers of health for the County’s “moderate to severe” behavioral health patients might yield important findings to reduce costs or increase quality. CCAH has access to a significant database, analytic staffing, and financial resources to partner with County Behavioral Health in addressing the behavioral healthcare continuum. Many studies have found that severe behavioral health is linked to other health conditions.
- Alongside partnering with CCAH, the Health Services Agency (HSA) should consider redeploying existing analytical staff to support behavioral health data needs. Currently, the HSA possesses significant administrative and data resources across its divisions. This includes 18 full-time equivalents (FTEs) within Public Health—split between Vital Statistics and Healthy Communities—and 11 administrative FTEs within Behavioral Health.[x] Furthermore, the agency’s central Administration and Accounting function comprises 53 FTEs. While these personnel are active contributors to their current roles, their presence suggests that HSA could potentially absorb behavioral health analytics internally without requesting new funding.

- CCAH transitioned the management and coordination of “mild to moderate” behavioral healthcare from Carelon in July 2025. Reviews have not been developed to ensure that appropriate referrals to the County (and associated payment streams) for “moderate to severe” patients are in place. Disruptions in care from changes in providers can cause cases to become more severe.
- Monterey County Behavioral Health produces an annual report entitled “Data Driven Decisions”[xi] which summarizes all the different programs, clients served, service types, primary diagnosis and program goals over an extended period. Information from this report can help understand the frequency, causes, and severity of the population.

Quality Improvement (QI) Work Plan & Outcomes

The Department of Health Care Services (DHCS) enforces behavioral health accountability through performance metrics, financial reporting, and strict licensing. It holds County Behavioral Health Plans accountable to the Behavioral Health Accountability Sets (BHAS)[xii] ensuring plans meet minimum performance levels for access, quality (QI), and equitable care. Santa Cruz Behavioral Health reports this and other QI metrics on a quarterly basis, but the metrics are not linked to targeted financial goals. Without connecting quality outcomes to cost implications—such as reductions in hospitalizations or justice system involvement—the County is unable to fully demonstrate the fiscal benefits of improved service delivery. As a result, quality improvement activities may be undervalued or insufficiently prioritized during budget deliberations.

Expanding the QI framework to incorporate cost modeling, risk assessment, and long-term financial projections would strengthen the County’s ability to evaluate the effectiveness of its interventions. Additionally, integrating QI outcomes with strategic planning would promote alignment across departments and ensure that quality improvement efforts directly support system sustainability.

In its role as provider of services, the County needs to efficiently deliver care via appropriate staffing and coordination. The County’s Quality Improvement Work Plan demonstrates a commitment to continually enhancing service quality, operational consistency, and beneficiary experience[xiii] During the 2024–2025 reporting period, the County tracked 18 quality indicators, meeting 12, partially meeting one, and not meeting five. These metrics provide insight into specific aspects of performance, including timeliness, documentation accuracy, and cultural competence, but do not indicate financial implications.

The Quality Improvement Work plan is published quarterly. For the period ending December 2025, the dashboard identified 7 goal areas[xiv] The progress is summarized as: 3 goals on track (green), 3 goals in progress (yellow), and 1 goal needing attention (red).

- One of the quality initiative goals involving CCAH concerning coordination of care has been deferred (red). It was reported that "staff are attending Central California Alliance for Health led broad community effort to align goals and select an IT vendor for Closed-Loop Referral (CLR) functionality"[xv]
- A more detailed goal concerns documentation of direct service to patients and is broken into various program categories. These goals are important to achieve, as state and federal funding is associated with a higher amount of documented time spent providing patient care. In aggregate, the goals are an annual improvement of 5% from prior periods. Unfortunately, a 5% improvement is well below the long-term goals to sustain federal and state funding. As examples:
    - Federally Qualified Health Center Medication Support for Adults by physicians and nurse practitioners is achieving improvement at 34 contacts per week, but the long-term goal for financial sustainability is 40 per week. It is the understanding of the Grand Jury that federal and state regulators review patient contact statistics to inform network adequacy and funding. Under CalAIM, reimbursement is tied directly to face-to-face minutes spent with the patient.
    - Measurements concerning the percentage of time worked performing billable services have been below targets (yellow), requiring a larger effort to achieve the long-term goals.
- Targeted Case Management documentation was present in only 40% of the cases examined for children, and 70% of the adult cases reviewed.

Quality metrics reported by the County lack associated financial analyses, limiting the ability to evaluate the cost-effectiveness of meeting or failing to meet performance goals. For instance, improving aftercare timeliness following psychiatric discharge may significantly reduce hospital readmission rates and crisis events—both of which carry substantial financial implications. Without quantifying these impacts, the County is unable to fully understand the value of these quality improvements.

Value in Healthcare: A Framework for Funding Decisions

A value-based care framework provides a foundational tool for evaluating behavioral health services by emphasizing the relationship between quality outcomes and the total cost of delivering care. This framework encourages decision-makers to look beyond

immediate expenditures and consider the broader impact of investments on health outcomes, system sustainability, and cross-department efficiencies.

$$\text{Value} = \text{Quality} / \text{Cost}$$

Quality in behavioral health includes dimensions such as clinical effectiveness, patient safety, equitable access, cultural responsiveness, and client experience. Cost encompasses direct service delivery expenses, administrative overhead, crisis-related expenditures, and long-term cost consequences to systems such as housing, criminal justice, and emergency medical services.

By adopting a value-based approach in considering General Fund allotments, the County can make more informed decisions about where to invest resources, which interventions produce the greatest measurable impact, and which services may require redesign or reinvestment. This framework also promotes transparency and supports the development of funding models that incentivize improved outcomes and long-term sustainability.

Value-Based Funding: Benefits and Implications

As the Board of Supervisors and the public consider the question of how much General Fund support should be directed to Behavioral Health, the Grand Jury suggests (as a starting point) adopting value statements in each of the Division's Quality Initiatives demonstrating both quality and cost measurements. Value-based funding offers significant benefits for enhancing system sustainability, strengthening accountability, and maximizing the impact of public investments. By linking funding decisions to measurable outcomes, the County can ensure that limited resources are directed toward interventions that produce demonstrable improvements in clinical outcomes, equity, and community well-being.

This funding model enhances transparency by providing clear connections between performance outcomes and financial impacts. Such clarity enables the Board of Supervisors and the public to better understand the return on investment for behavioral health services, reinforcing trust in the system and supporting more informed policy decisions.

Value-based funding also promotes collaboration across systems by highlighting the shared benefits of effective behavioral health interventions. Improvements in behavioral health outcomes can reduce costs and burdens across housing, justice, and emergency response systems. Recognizing these interdependencies creates opportunities for co-investment, shared accountability, and integrated programming that amplifies impact across multiple public sectors.

System Conversion as an Opportunity

Successfully adapting to a value-based funding approach will require investment in administrative capacity, clearer communication channels, improved data infrastructure, and strengthened internal alignment. Without these improvements, the County may struggle to meet regulatory demands while providing high-quality services during periods of heightened policy change. County Behavioral Health is converting its antiquated clinical information system to a service that is used by many counties in California (SmartCare). It is hoped that once implemented, improved processes for both the insurer and provider roles will assist in demonstrating value.

The Cost of Distractions

Operational alignment is essential in a system that serves as both a clinical provider and a risk-bearing entity. Yet Santa Cruz County has struggled to implement key components of its strategic framework, partially due to the resources spent on non-core services.

During our interviews, there were several comments that the Health Services Agency has taken on a lot of projects that might not be core to the primary mission. These projects may provide for one-time funding, but the ongoing obligations once the funding runs out can be problematic. By its own admission, the Health Services Agency stated this as part of its budget overview for 2026-2027.

> ***Extensive Non-Core Services:*** *HSA provides several services beyond core mandated programs to address local needs and service gaps. These discretionary services include administrative support functions, community wellness and prevention initiatives, health education and outreach efforts, pilot and grant-funded projects, workforce development activities, and community-based partnerships that are not fully reimbursable through state or federal funding.*
>
> *While these services support important community outcomes and help address gaps in the safety net, they often rely on limited or unstable funding sources. As costs increase and revenues remain constrained, sustaining these non-core services becomes more challenging and may require reevaluation of service levels or funding strategies in future budgets.*

The Grand Jury believes that Health Services Agency leadership should prioritize the identification and associated costs of these non-core services, especially as they relate to Behavioral Health. Upon the development of the list, a timeline should be established for swift elimination of each identified non-core service. To prevent further “scope

creep," the Health Services Agency needs to develop a policy concerning future non-core services before any financial obligations are made. Resources that are freed up can be redirected to completing the Financial Plan for Santa Cruz County Behavioral Health System of Care that was mentioned earlier in this document that was due on December 31, 2025.

Strategic Planning, Service Gaps & Performance Metrics

A Behavioral Health Services Integrated Plan is a mandatory, three-year prospective spending and planning document required by the state of California under the Behavioral Health Services Act (BHSA). It outlines exactly how counties will fund, deliver, and track mental health and substance use programs using various local, state, and federal funding streams. The most current version for 2026-2029 is nearing completion for Santa Cruz. The plan identifies various service gaps but does not provide sufficient analytical depth to support targeted policy interventions. Notably, the plan cites lower utilization of specialty mental health services compared to statewide averages but does not explore contributing factors such as demographic patterns, cultural barriers, or the role of jail-based services in overall utilization statistics.

During a recent meeting of the Board of Supervisors, the County Strategic Plan update included an initiative calling for a "50% increase in step-down beds[xvi] As part of the analysis (and supporting a value-based approach) the Grand Jury recommends a demonstration of how the increase in beds improves quality or cost before moving forward on additional funding.

Developing a comprehensive evaluation system that ties service gaps and quality metrics to financial data would enable the County to identify high-impact strategies, quantify return on investment, and make more informed decisions regarding resource allocation.

Greater Coordination and Accountability with the Justice System

The total funding complexity of behavioral health is further heightened by the County's responsibility to deliver care in detention settings, where constitutional mandates require timely and appropriate behavioral health services for incarcerated individuals. The County lacks a reliable method for determining how many individuals in the jail have previously been served by County Behavioral Health. Aside from daily multidisciplinary care conferences, there is no systematic data integration or cross-referencing mechanism that automatically identifies overlap between the jail population and Behavioral Health caseloads. This gap limits the County's ability to plan services, track outcomes, forecast demand, allocate resources, and measure the systemwide impact of behavioral health interventions.

The situation is exacerbated by a perceived revolving-door pattern among many individuals with behavioral health needs who are repeatedly incarcerated, released, and then returned to custody. Each cycle creates disruptions in treatment continuity, medication management, and follow-up care, increasing both clinical risk and long-term costs. Because Medi-Cal coverage is suspended during incarceration, individuals often reenter the community without immediate access to coverage, services, or care coordination, resulting in missed treatment opportunities and measurable impacts on public safety and community health.

Many people in County leadership roles frequently state that the jail is the largest mental health facility in the county. As part of the Department of Healthcare Services Justice Involved initiative,[xvii] it has been reported that:

- 66% of Californians in jails or prisons have moderate or high behavioral health or substance use treatment needs.
- Incarcerated individuals with an active mental health case rose by 63% over the past decade.

Over the past year, the county jail housed an average of 331 individuals. Each month, the facility processes over 550 bookings and 217 formal admissions. According to Grand Jury interviews with Sheriff's Office leadership, more than 50% of these inmates suffer from moderate-to-severe behavioral health conditions—a population that qualifies for County Behavioral Health services. Furthermorea stark one third of the inmate population are chronic recidivists with 43 or more bookings. Altering these trends demands deep, systemic collaboration across county departments.

Financially, the jail's role as a major behavioral health provider is further strained by the fact that incarcerated individuals are suspended from Medi-Cal coverage (or any other forms of health insurance) while in custody. As a result, the County bears full responsibility for all medical and behavioral health costs incurred during incarceration. The costs of providing healthcare in the jail are nearly $12 million per year. To put the $12 million in perspective, the annual amount translates to $100 per jailed inmate per day of health services. Admittedly, some of the services are for non-behavioral health issues, but it highlights the "shadow cost" for behavioral health.

This report is not intended to examine the cost or quality of healthcare in the Jail. Over 2 years ago the Sheriff's office contracted with Naphcare, and all reports seem to indicate the services have vastly improved compared to the prior contractor. The Grand Jury observed that the Naphcare personnel were very forthcoming with information during our tour of the jail facilities.

While there is a “warm handoff” to County Behavioral Health upon the jail release, many interviews revealed that there needs to be something more proactive. The current “warm handoff” results in missed appointments at County Behavioral Health and jail recidivism. California, through the CalAIM Jails Involved Initiative, is requiring each county to have a program in place by September 30, 2026.[xviii] One of the goals of the program is to have an incarcerated person enrolled in Medi-Cal within 90 days of release from the jail. The goals and results of the program should be carefully tracked in Santa Cruz, with regular reports to the Board of Supervisors.

The Sheriff’s Office and County Behavioral Health operate a Focused Intervention Team (FIT). There are over 5 FTE’s devoted to the program, which is capped at no more than 30 clients. The grand jury appreciates that the FIT team has begun tracking important statistics beginning in September 2025. When the FIT team was established, one of the goals was to reduce recidivism by addressing root causes. The premise was that if the focused intervention was successful, there would be a decrease in the resources consumed for emergency services and the criminal justice system. This analysis needs to be completed in light of the CalAIM Jails Involved Initiative program and other reforms to the behavioral health system.

The Sheriff’s Office also staffs a behavioral health crisis response unit. This is another example where the County is providing behavioral health services that are not recorded under the Behavioral Health Division but are incurred more broadly.

The Sheriff has also mentioned in several venues that the current jail does not adequately address the medical needs of an aging population with severe behavioral health and substance use disorders[xix] Across the United States, newer jail facilities incorporate specialized housing units with improved sightlines, sensory-reduced spaces, dedicated treatment rooms, and enhanced staffing configurations conducive to stabilizing individuals experiencing psychiatric symptoms. Santa Cruz County’s facility, by contrast, faces significant limitations in its ability to provide a therapeutic environment, contributing to challenges in managing safety risks, treatment consistency, and crisis episodes. The current main jail, constructed in 1981, reflects an era when mental illness was not as prevalent within incarcerated populations.

As alternative space options are considered for incarcerated individuals requiring care, the Grand Jury observed that there are several areas where physical space appears to be under-utilized in the county and could be redeployed to support behavioral health at a lower cost than building something from the ground up. Examples include the Rountree campus, Emeline campus, Juvenile Hall, and other county owned assets. Intra-agency and regional efforts should also be explored, as Santa Cruz is not unique in the region. As an example, the counties of Santa Cruz, Monterey, and San Benito

could collaborate on an under-utilized physical asset that resides within the school systems, health facilities or other government owned property.

Conclusion

Systemwide Challenges Require Macro Perspective

Santa Cruz County's Behavioral Health system is at a critical juncture. Rising costs, declining reserves, and increasing service demands require a more disciplined, transparent, and value-driven approach to planning and oversight. The Grand Jury concludes that the County must urgently complete the long-delayed financial plan, clarify its federal matching obligations, and adopt actuarial and data-driven tools that support proactive management of high-cost beneficiaries. The County's Quality Improvement efforts demonstrate commitment, but performance metrics must be tied to financial outcomes to fully understand the value of services. A value-based framework—where quality and cost are evaluated together—would allow the County to better demonstrate return on investment and make more informed decisions about resource allocation.

Coordination with the justice system remains an important, but not singular, component of County Behavioral Health system improvement. While the jail population includes many individuals with behavioral health needs, the primary challenge is the absence of integrated systems to track service histories, plan care transitions, and understand broader utilization patterns. Addressing this gap would improve continuity of care and reduce avoidable costs, but it should be viewed as part of a broader effort to modernize Behavioral Health operations.

Ultimately, the Grand Jury concludes that Santa Cruz County must adopt a more integrated, value-based, and analytically grounded approach to Behavioral Health. By strengthening internal processes, improving data systems, and focusing on core responsibilities, the County can deliver higher-quality care while safeguarding limited public resources. The path forward requires urgency, discipline, and sustained collaboration across departments.

Findings, Recommendations and Required Responses

Finding 1: The County Executive Office and County Behavioral Health did not complete the requested financial plan (Operations Plan #550) by December 31, 2025, depriving the Board of Supervisors and the public of critical information needed to make informed decisions about program sustainability, resource allocation, and performance expectations.

Recommendation 1: The Grand Jury recommends that the Board of Supervisors direct the County Executive Office and County Behavioral Health to complete the financial plan report no later than September 30, 2026.

Required Respondent: Santa Cruz County Board of Supervisors

Finding 2: The County Executive Office and County Behavioral Health do not have an aligned understanding of baseline requirements for Federal funding, resulting in allocations from the General Fund that might be more than needed.

Recommendation 2: The Grand Jury recommends that the Board of Supervisors direct the County Executive Office and County Behavioral Health to complete a report to the Board of Supervisors on the minimum County funding requirements for meeting federal and state matching fund requirements for behavioral health services by December 31, 2026.

Required Respondent: Santa Cruz County Board of Supervisors

Finding 3: County Behavioral Health has not implemented a Level of Care (LOC) tool, resulting in missed opportunities to efficiently manage high-cost beneficiaries.

Recommendation 3: The Grand Jury recommends that the Board of Supervisors directs County Behavioral Health, in conjunction with its system conversion to SmartCare, to implement the LOC tool within 90 days after the go-live of the SmartCare system, as recommended in the 2023-2024 External Quality Review for the California Department of Healthcare Services.

Required Respondent: Santa Cruz County Board of Supervisors

Finding 4: County Behavioral Health has not applied actuarial tools concerning the utilization and severity of the Medi-Cal population receiving behavioral health services, resulting in an inability to plan for its key cost drivers.

Recommendation 4: The Grand Jury recommends that the Board of Supervisors direct County Behavioral Health publish a report that summarizes the utilization and costs of the assigned Medi-Cal population for the fiscal year ending June 2026 by

December 31, 2027. The report can be used as a tool to identify targeted improvements for the 2027-2028 fiscal period.

Required Respondent: Santa Cruz County Board of Supervisors

Finding 5: County Behavioral Health has not applied financial measurements to Quality Improvement Initiatives, resulting in an inability to make informed decisions about where to invest resources, which interventions produce the greatest measurable impact, and which services may require redesign.

Recommendation 5: The Grand Jury recommends that the Board of Supervisors direct County Behavioral Health to apply targeted financial measurements that demonstrate potential reductions in costs and/or increases in revenues for each of its Quality Initiatives beginning with the reporting period ending on December 31,2026.

Required Respondent: Santa Cruz County Board of Supervisors

Finding 6: Santa Cruz County has not implemented the CalAIM Justice Involved Reentry System, potentially resulting in the loss of Care Management services through Medi-Cal and costly gaps in care as people transition from the justice system.

Recommendation 6: The Grand Jury recommends that the Board of Supervisors direct County Behavioral Health, in collaboration with the Santa Cruz County Sheriff to prepare a report no later than December 31, 2026 to the County Board of Supervisors summarizing the steps taken to support the implementation of the CalAIM Justice Involved Reentry Program (which has a state mandated implementation date of September 30, 2026). The report shall provide a summary of key metrics that will be measured and regularly reported on to demonstrate program effectiveness or areas of opportunity.

Required Respondent: Santa Cruz County Board of Supervisors

Finding 7: County Behavioral Health has several projects that are not essential to core services, resulting in expenditure of resources that might be better directed to addressing more urgent core priorities.

Recommendation 7: The Grand Jury recommends that the Board of Supervisors direct County Behavioral Health to prepare a report to the County Executive Officer that identifies non-core projects, the associated costs, and the earliest timeframe for elimination of the non-core service by December 31, 2026.

Required Respondent: Santa Cruz County Board of Supervisors

Finding 8: A review on the outcomes of the Sheriff's Office Focused Intervention Team has not been completed, resulting in a lack of knowledge on whether the program has achieved the goals concerning recidivism or a reduction in emergency resources.

Recommendation 8: The Grand Jury recommends that the Sheriff produce a report to the County Board of Supervisors summarizing the progress of the Focused intervention Team in achieving its stated goals concerning recidivism and impact on emergency services by December 31, 2026. The report shall also include a discussion of future resource deployment of the FIT considering the CALAim Justice Involved Reentry program.

Required Respondent: Sheriff, Santa Cruz County

Finding 9: The current jail facilities are not physically designed to address the incarcerated population experiencing severe behavioral health and/or substance used disorder illness, resulting in ineffective treatment and recidivism.

Recommendation 9: The Grand Jury recommends that the Sheriff, in collaboration with County Behavioral Health produce a report concerning the current condition of the jails where the physical space may be deficient in the treatment of incarcerated individuals experiencing severe behavioral health issues by March 31, 2027. The report should include:

a. A list of the current physical space deficiencies
b. An estimate on the number of inmates who might be served on a typical day.
c. A discussion on how County Behavioral Health might collaborate on the use of a facility.
d. An estimate of the potential benefits of the facility (such as reduced recidivism or reduction in high-cost cases for County Behavioral Health).
e. A discussion on potential sites that are currently operated by local government agencies that might be repurposed.
f. A discussion on potential alternative sources of capital funding (if needed) such as Medi-Cal Managed Care initiatives or Housing for Health initiatives.

Required Respondent: Sheriff, Santa Cruz County

Finding 10: Incarcerated individuals who may have been patients seen through County Behavioral Health experience gaps in treatment plans, resulting in resource duplication.

Recommendation 10: The Grand Jury recommends that the Board of Supervisors direct County Behavioral Health, in collaboration with the Sheriff, to author a report to the County Board of Supervisors concerning the identification of the barriers

preventing the ongoing mutual sharing of clinical data between the jail and County Behavioral Health and possible solutions, by March 31, 2027

Required Respondent: Santa Cruz County Board of Supervisors

Commendation

County Health Services and Sheriff's office leadership, staff and associated service providers are dedicated individuals who are devoted to the principles of compassionate care.

Endnotes

[i] County of Santa Cruz Fund Balance Policy
https://santacruzcountyca.gov/Portals/0/County/auditor/Fund%20Balance%20Policy.pdf

[ii] Santa Cruz County Budget Strategic Initiatives Budget Message from CEO April 30, 2026, https://santacruzcountyca.gov/VisionSantaCruz/Budget/BudgetMessage.aspx

[iii] Santa Cruz County Budget Tool
https://santacruzcountyca.opengov.com/transparency#/176758/accountType=revenuesVersusExpenses&embed=n&breakdown=types&currentYearAmount=cumulative&currentYearPeriod=years&graph=bar&legendSort=desc&proration=true&saved_view=818442&selection=56F38E4CB566CC009DA3B2DE96A16DEC&projections=null&projectionType=null&highlighting=null&highlightingVariance=null&year=2027&selectedDataSetIndex=null&fiscl_start=earliest&fiscal_end=latest

[iv] Santa Cruz County Required Response to the 2024-2025 Grand Jury Report" The Challenges Facing the Management of High-Cost Beneficiaries in the Health Services Agency"
https://www.santacruzcountyca.gov/Portals/0/County/GrandJury/GJ2025_final/2025-6a_Measure_BoS_RequiredResponse.pdf

v Understanding County Behavioral Health in California
https://vimeo.com/1153687589/dbd437084b?fl=pl&fe=sh

[vi] 2023-2024 Medi-Cal Specialty Behavioral Health External Quality Review
https://www.santacruzhealth.org/Portals/7/Pdfs/QI/2024/Santa%20Cruz%20MHP%20FY%202023-24%20Final%20Report-26958112.pdf

[vii] Santa Cruz County Required Response to the 2024-2025 Grand Jury Report" The Challenges Facing the Management of High-Cost Beneficiaries in the Health Services Agency"

https://www.santacruzcountyca.gov/Portals/0/County/GrandJury/GJ2025_final/2025-6a_Measure_BoS_RequiredResponse.pdf

[viii] California Department of Health Care Services High-Cost Beneficiaries Receiving Targeted Case Management Dashboard Tool
https://behavioralhealth-data.dhcs.ca.gov/pages/9894cbb6f6644b569ddd60d5287ef3ce

[ix] Behavioral Health Integration in Medi-Cal
https://www.chcs.org/resource/behavioral-health-integration-in-medi-cal-a-blueprint-for-california/

[x] Health Services Agency Staffing by Service
https://www2.santacruzcountyca.gov/CAO/StrategicPlan/Budget/2026-27/dept/24

[xi] Monterey County Behavioral Health Plan Data Driven Decisions
https://www.countyofmonterey.gov/home/showpublisheddocument/143886/639019929902500000

[xii] Department of Healthcare Services Behavioral Health Accountability Set
https://www.dhcs.ca.gov/wp-content/uploads/2026/05/Behavioral-Health-Accountability-MY-2026-RY-2027.pdf

[xiii] Santa Cruz County Behavioral Health QI Workplan FY 24-25 Evaluation
https://www.santacruzhealth.org/Portals/7/Pdfs/BH/FY24%20-25%20QI%20Work%20Plan%20Evaluation_8_1_2025-1245345252.pdf

[xiv] Santa Cruz Behavioral Health QI Work Plan FY 2025-2026
https://www.santacruzhealth.org/Portals/7/Pdfs/BH/FY25%20-26%20QI%20Work%20Plan%20Goals%20and%20Exec%20Summary_FINAL_10_2025.pdf

[xv] Santa Cruz Behavioral Health QI Work Plan FY 2025-2026
https://www.santacruzhealth.org/Portals/7/Pdfs/BH/FY25%20-26%20QI%20Work%20Plan%20Goals%20and%20Exec%20Summary_FINAL_10_2025.pdf

[xvi] County of Santa Cruz Strategic Plan 2026-2032 Presented in May 2026
https://santacruzcountyca.primegov.com/viewer/preview?id=0&type=8&uid=f2dc216f-dc05-44e2-82fc-bfe5dbe57d34

[xvii] Fact Sheet: Transformation of Medi-Cal: Justice Involved
https://www.dhcs.ca.gov/wp-content/uploads/2025/10/CalAIM-JI-a11y.pdf

[xviii] Department of Healthcare Services Justice Involved Reentry Initiative
justice-involved-reentry-initiative

[xix] Santa Cruz Local" Santa Cruz County Sheriff Eyes New Mental Health Jail Facility https://santacruzlocal.org/2025/12/11/sheriff-eyes-new-mental-health-jail/