



Legislation Details (With Text)

File #: 21-1444 **Version:** 1

Type: Agenda Item **Status:** Department Matters

File created: 8/27/2021 **In control:** Board of Supervisors

On agenda: 10/19/2021 **Final action:** 10/19/2021

Title: Health and Human Services Agency recommending the Board receive and file a presentation on the status of structural budget deficits (Public Health, Social Services, and Behavioral Health) within the agency, including a five-year projection of Realignment funding and expenditures, as well as a long-term plan to address all budget deficits.

FUNDING: Public Health, Social Services, and Behavioral Health Realignment.

Sponsors:

Indexes:

Code sections:

Attachments: 1. A - Realignment Budget Presentation (Sep 28, 2021 - Actuals) 10/26/21

Date	Ver.	Action By	Action	Result
10/19/2021	1	Board of Supervisors	Received and Filed	

Health and Human Services Agency recommending the Board receive and file a presentation on the status of structural budget deficits (Public Health, Social Services, and Behavioral Health) within the agency, including a five-year projection of Realignment funding and expenditures, as well as a long-term plan to address all budget deficits.

FUNDING: Public Health, Social Services, and Behavioral Health Realignment.

DISCUSSION / BACKGROUND:

In 1991, in response to a budget shortfall, the California State Legislature shifted significant fiscal and programmatic responsibility for many health and human services programs from the state to counties. This effort is referred to as 1991 realignment. Among the programs shifted to the counties were In Home Support Services (IHSS), Child Welfare, CalWORKs, low-income health care and Mental Health. Many more programs have been 'realigned' from the state to counties over the past 30 years, including 2011 realignment which affected programmatic, administrative, and fiscal responsibility for adult offenders and parolees, additional mental health services, substance abuse treatment, foster care & adoptions, and adult protective services. It should be noted that the 2011 realignment of programs was also done in response to a state budget shortfall.

At the time of these program realignments, the State of California believed these efforts would provide long-term benefits for counties including, more local flexibility for programs and services based on local needs, creating an incentive to encourage county innovation to achieve greater outcomes for clients, and by implementing a 'county share of cost', the State believed it would create an incentive for counties to control program costs.

These realignment efforts were based on four key principles at the time;
1. The counties' share of cost reflect their ability to control costs to the program

2. Revenues generally cover costs over time
3. Flexibility to respond to changing needs and requirements
4. Funding is transparent and understandable

Though there were reported benefits early on, a number of things began to negatively impact these realigned programs over time. New federal rules and legal decisions obligated the State and counties to provide services to anyone who met eligibility rules for certain realigned programs. This greatly limited the State and counties ability to control costs. Policy decisions around things like IHSS provider wages and federal labor rules, along with increased caseload have made the cost of many realigned programs increase over time. Finally, the State of California did not increase realignment revenues or decrease the counties' share of costs in response to these negative impacts.

In 2018, the California Legislative Analyst's (LAO's) Office provided an analysis entitled, "Rethinking the 1991 Realignment." In their conclusion, the LAO's Office found the following;

"Overall, we find that the 1991 realignment structure no longer meets many of the core principles of a successful realignment and likely is not achieving the desired benefits of realignment for the state or counties. In particular, counties' share of cost for many realigned programs today no longer reflects their ability to control program costs. This problem is made worse because realignment revenues alone are no longer sufficient to pay for county social services programs costs over time."

When the State of California originally realigned these programs, they did have the foresight to create some flexibility around addressing some of these challenges. California State 1991 and 2011 realignment legislation allows for a 10% transfer between the Public Health, Social Services and Behavioral Health realignment accounts. Though this strategy can support addressing an immediate budget shortfall, based upon the volatility of realignment revenue and an inability to control program costs, as described, this strategy is not a sustainable approach to meeting service mandates on an ongoing basis.

In El Dorado County, HHSA has gone to the Board on a regular basis since at least 2009 to request up to the 10% transfer, as the agency has continually faced an ongoing budget deficit in Behavioral Health due to the systemic financial and programmatic issues rooted within 1991 and 2011 realignment programs. Over time, it became more apparent that the 10% transfer would eventually not address the inability to control costs within realigned programs, based upon the trend of higher cost placements and service demands increasing year over year. The ongoing and anticipated structural budget issues had been brought to the attention of our Board of Supervisors through past presentations as well as ongoing realignment transfer requests to balance the immediate budget, however the potential for a realignment structural budget deficit that could not be patched with the 10% transfer was not imminent during those discussions and therefore only the immediate budget deficit was largely addressed year-by-year. (Item # 09-0220; Item # 10-0186; Item # 13-1067; Item # 15-0742; Item # 17-0195; Item # 18-1644)

As a part of the mid-year budget process in 2021, HHSA communicated to the Board that the Behavioral Health Division was experiencing both programmatic and Coronavirus Pandemic related impacts that exacerbated the structural budget deficit that had been ongoing over many years. These concerns were not only with current Fiscal Year (FY) 2020-21 revenues and expenditures but also with FY 2021-22 and ongoing. As a result, on May 4, 2021, HHSA requested and the Board of Supervisors approved the 10% transfer from Social Services of \$1.53 million and Public Health of \$400,000 in order to fund a projected revenue shortfall during FY 2020-21, as well as to proactively

create a small fund balance in the Behavioral Health Realignment account going into FY 2021-22. The total transfer to Behavioral Health was \$1.57 million (Item # 21-0409).

HHSA's Fiscal and Behavioral Health Divisions continued to work together throughout the spring to mitigate the projected deficit in FY 2020-21 and FY 2021-22. As part of the FY 2021-22 Recommended Budget, HHSA recommended the inclusion of a second 10% transfer of realignment funding from both Social Services and Public Health into the Behavioral Health realignment account. This budgeted second 10% transfer was estimated at \$1.63 million (\$459k from Public Health & \$1.17 million from Social Services). Without budgeting this second 10% transfer, HHSA would have only had two options; a request to increase general fund support for our Behavioral Health Division or the reduction of services within these programs. The second option would have most likely lead to a significant reduction in force of county employees and a significant negative impact on the community.

As part of the Recommended Budget process, the Chief Administrative Office worked with HHSA and through that process requested that HHSA return to your Board prior to provide a presentation to include a long-term plan to address all structural budget deficits within the agency, and a five-year projection of Realignment funding and expenditures for Public Health, Social Services, and Behavioral Health.

Since the time of the CAO's request, through the State's adopted FY 2021-22 budget, new financial information related to realignment revenues has come available to provide a clearer picture and understanding as to what this fiscal year looks like related to realignment revenues. In addition, both HHSA fiscal and programmatic staff have continued to closely monitor realignment usage across the agency to ensure that costs can be controlled wherever possible while meeting service needs in the community. Program divisions have planned and undertaken a number of actions in an effort to capture as much billable revenue as possible, to improve efficiencies in services, and to plan and prepare for requests for American Rescue Plan Act funding as well as the pursuit of other competitive grant funding opportunities. By competing for and/or capturing more funding, program divisions would be able to add more services types in the community that would allow realigned programs to improve their ability to control expenses, spending less realignment fund balance while meeting residents' needs through offering new levels of service in the community. New levels of service that would be most beneficial to both the budget and while improving services available for residents come from the recommendations through the recent IDEA Consulting Behavioral Health System Assessment and Report.

This presentation will provide the Board with an overview of the described information in this staff report in more detail, as well as additional and specific examples of strategies that can help to correct the structural budget deficit over the coming years, with the Board's support.

ALTERNATIVES:

N/A

PRIOR BOARD ACTION:

1. February 23, 2009, 09-0220, Item No 3; "Realignment Budget Transfer - Resolution 045-2009"
2. June 22, 2010, 10-0186, Item No 5; "Realignment Budget Transfer - Executed Resolution 076-2010"
3. September 18, 2013, 13-1067, Item No 1; "Mental Health Division Overview"
4. June 23, 2015, 15-0742, Item No 29; "Reversal of 10% Transfer to Mental Health from FY 14-15"

5. March 3, 2017, 17-0195, Item No 27; "Behavioral Health Presentation"
6. December 4, 2018, 18-1644, Item No 31; "HHSA 5-year Projection Presentation"
7. February 25, 2020, 20-0171, Item No. 19; "BH Consultant Agmt 4603"
8. March 9, 2021, 21-0298, Item No. 35; "HHSA Behavioral Health Presentation"
9. May 4, 2021, 21-0409, Item No. 16; "PH Realignment Budget Transfer"

OTHER DEPARTMENT / AGENCY INVOLVEMENT:

N/A

CAO RECOMMENDATION:

Receive and file the presentation.

FINANCIAL IMPACT:

There is no financial impact associated with receiving the presentation.

CLERK OF THE BOARD FOLLOW UP ACTIONS

Clerk of the Board to receive and file presentation.

STRATEGIC PLAN COMPONENT:

Healthy Communities and Good Governance

CONTACT

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