



THE COST OF SUCCESS

FISCAL STABILIZATION & REFORM

READINESS WORKSHOP

Lake County Behavioral Health Services | Board Workshop

The consequences of successful service expansion, system reform, and state payment mechanics that did not keep pace with county implementation reality.

THE CORE STORY

Lake County expanded access and claiming volume while absorbing payment reform, EHR implementation, contractor growth, and IGT/local-match requirements.

+209%

Service Unit Growth

FY22/23: 35,413 Units
FY23/24: 88,696
FY24/25: 119,742 Units
FY26/27 YTD: 109,662 Units

+57%

Adjusted budget growth

FY22/23 to FY24/25 complete
years
Budget authority grew, but not at
service pace

+188%

Contract payments/invoiced

FY22/23 to FY24/25 complete
years
\$8.7M → \$20.8M

+108%

IGT / local-match growth

FY23/24 to FY25/26 YTD
\$3.3M → \$7.0M as of 6/3/26

FY25/26 is still year-to-date, but by 6/3/26 LCBHS has already recorded 109,662 claimed units, \$25.1M in contract payments/invoices, and \$7.0M in IGT portions.

LCBHS expanded services while payment reform, Electronic Health Record transition and implementation, local-match sequencing/IGT county-match requirements, claims timing, and state offsets changed how quickly services turned into usable cash.

The fiscal challenge is not a contradiction of success. The budget-to-service-unit gap does not mean extra cash is available; it shows service and obligation growth moving faster than cash conversion under a reformed payment system.

WHERE LAKE COUNTY EXCELLED

CalAIM Implementation

Expanded services under new eligibility, payment, documentation, and access expectations.

Mobile Crisis

Maintained 24/7 mobile crisis response as a core access and stabilization function.

DMC-ODS Launch

Moved into organized SUD delivery system operations while building provider capacity

School-Based Access

All school campuses were Medi-Cal site-certified for SMHS access under the MHSSA agreement.

Justice Involved Work

Expanded collaboration around CARE Act, diversion, competency, jail reentry, and peer employment.

Community Partnerships

Strengthened tribal, CBO, harm-reduction, housing, and provider relationships to close gaps.

Service expansion has created fiscal pressure, but it has also produced visible results, state recognition, and model practices.

- Selected to present at DHCS Integrated Care Conference in 2025 and 2026 on rural behavioral health and SUD system transformation
 - Invited and delivered presentations through Words to Deeds, CSAC, CBHDA, and national Opioid Prevention forums
 - Asked to represent Northern California as a governing Board Member and Treasurer for CalMHSA
- Secured major competitive state investments, including **\$7.73M BHCIP Bond Round 1** and **\$2.49M school-based behavioral health expansion funding**
- Built and expanded high-priority services: Mobile Crisis, DMC-ODS, MAT Access, school-based services, CARE Court, justice-involved peer supports, and opioid settlement-funded programming

SUCCESS CREATED A NEW FISCAL OPERATING REALITY

The same period that expanded access also changed the cash mechanics required to sustain the system.

Service expansion → Claiming volume → IGT / match need → Cash timing

More Access

More clients, more encounters, more documentation, more claiming.

More Value

Services generate reimbursable value, but not immediate usable cash.
Our fee-for-service rates were set among the highest in the state.

More Fronting

Local match must be available before federal funds are drawn down.
Because we have high rates, we have a high match requirement.

More Exposure

Delays, offsets, and sequencing create pressure even without "overspending."

- The previous state: Certified Public Expenditures – money stayed "in house."
- In the new reality, the County does not get to hold money – we must keep that in the IGT account as local match to purchase services

STATE IGT FRONTLOAD WAS NOT SCALED TO ACTUAL SMHS VOLUME

As part of CalAIM payment reform, the State frontloaded counties' IGT accounts to support the new local-match financing structure.

For Lake County, the State frontload was \$250,000, based on DHCS' estimates of our monthly service volume.

However, Lake County's actual SMHS IGT need is now closer to \$1M per month. This means the State's frontload covered approximately 25% of one month's SMHS IGT need, creating an immediate cash-flow mismatch.

State frontload: ~\$250K
Actual monthly SMHS IGT need: ~\$1M
Gap: ~\$750K per month
Coverage: ~25% of one month

Takeaway

Lake County built the service capacity CalAIM intended, but the financing support was not calibrated to the scale of services actually delivered.

WHAT CHANGED AROUND THE SAME TIME

The fiscal picture only makes sense when service growth and payment mechanics are viewed together.

03/23 EHR Transition

New workflows and claim-format changes contributed to reimbursement delays.

07/2023 CalAIM Payment Reform

Changed claiming, payment calculation, and IGT sequencing.

03/2024 \$4M bridge loans

County support kept services and operations moving during cash disruption.

03/2025 Earlier Loans Repaid

\$1M DSS and \$1M General Fund loans repaid; \$2M remained.

FY25/26 State Offsets/ Intercept**

Medical revenue reports do not fully equal cash available to operate.

WHAT CHANGED AROUND THE SAME TIME

Allocations and receivables do not automatically become usable cash when State offsets, withholds, and settlement timing reduce what reaches LCBHS.

Realignment: allocation ≠ cash received

Each year shows the same \$2.23M allocation, but State Hospital and Managed Care offsets significantly reduce what is actually received.

FY	Allocation	Offsets	Received	Share
FY 20/21	\$2.23M	\$0.89M	\$1.34M	60%
FY 21/22	\$2.23M	\$0.86M	\$1.37M	61%
FY 22/23	\$2.23M	\$1.46M	\$0.77M	35%
FY 23/24	\$2.23M	\$1.45M	\$0.78M	35%
FY 24/25	\$2.23M	\$1.81M	\$0.42M	19%
FY 25/26	\$2.23M	\$1.45M	\$0.79M	35%

Six-year total: \$13.39M allocated • \$7.92M offset/withheld • \$5.47M received (**41%**)

Cost report, recoupment, and UIS settlements

State fiscal activity can create both receivables and liabilities. Favorable settlements still help only when the cash is received and not offset elsewhere

Due County/Received

\$2.09M

FY17/18 + FY18/19

Due State/Invoiced

\$875.7K

FY16/17 + UIS 2008–2023

Worksheet net shown

+\$344.7K

Net amounts should be presented as timing-sensitive cash activity, not a reserve available for all obligations.

Bottom line: Realignment and settlement activity affect usable cash. LCBHS cannot treat allocations, receivables, or favorable settlements as unrestricted cash for providers, IGT/CFA, payroll, and loan repayment at the same time.

EXECUTIVE SUMMARY: STABILIZATION IS IMPROVING - PAYMENT LAG REMAINS

LCBHS is trending in the right direction, but liquidity still has to cover aged contractor payments, SMHS IGT/CFA timing, and the remaining General Fund loan. The issue is cash timing and risk management - Not a simple budget variance.

BU 145 Revenue Less Expenditures

+\$3.60M

\$23.17M revenue less \$19.56M expenditures

Available operating cash

\$3.45M

After payroll/BHCIP in current worksheet

Current balance owed

\$6.78M

Provider/AP tracker balance owed

Contractor payment lag

4-6 Months

Particularly fee-for-service provider payments

Existing GF Loan

\$2.0M

Remaining balance; no additional GF loan capacity

Current SMHS CFA Balance

\$384,994

Below DHCS warning balance of \$586,902

DHCS deposit recommended

\$788,811

Needed to reach target SMHS CFA balance

FY 25/26 SMHS IGT estimate

\$10.49M

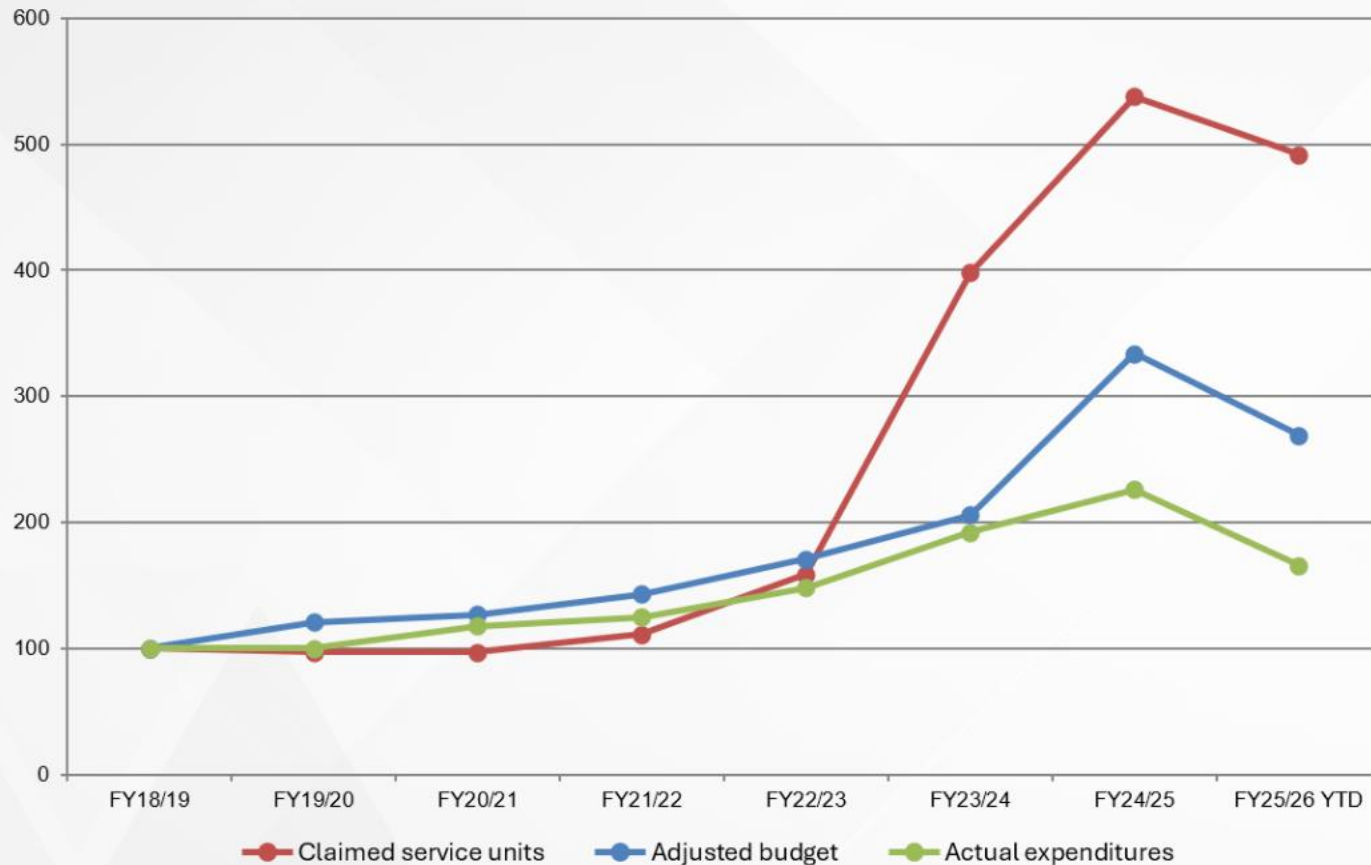
Based on current billing levels; approx. \$1M/month

Central conclusion: Current year operations are positive on paper, but that improvement does not immediately clear the contractor lag, replenish SMHS CFA to DHCS target, and repay the remaining \$2M loan without destabilizing core services.

Full picture: Contractor and fee-for-service payments remain approximately 5-6 months behind, with a current provider/AP balance owed of about \$6.78M. Positive YTD movement helps stabilization, but it is not the same as unrestricted cash available to catch up providers, post IGT, and repay the General Fund loan at the same time.

DHCS IGT Warning: DHCS reported a current SMHS CFA balance of \$384,993.70 against a warning balance of \$586,902.00 and target balance of \$1,173,804.24. DHCS recommends a \$788,810.54 deposit and warned that claims will not be paid if CFA is insufficient to cover County Share for approved claims.

YEAR-OVER-YEAR ANALYSIS: SERVICE GROWTH OUTPACED SPENDING GROWTH



Why indexed?

It puts units, budget, and expenditures on the same baseline so the Board can compare growth rates fairly.

Draft readout

FY24/25 service units were ~438% above FY18/19, while expenditures were ~126% above baseline.

What it does not show

This is not a cash-balance slide. Budget authority, claimed services, and booked revenue are not the same as cash on hand.

MONTHLY CASH FLOW: REVENUE AND EXPENDITURE TIMING IS HIGHLY VOLATILE

What this shows

Even where the 9-month total appears slightly positive, monthly swings are severe. January alone produced a nearly \$4.0M negative month, followed by a large February receipt month.

Why this matters

LCBHS cannot safely maintain payroll, pay down aged providers, and preserve IGT capacity without reserves. Timing volatility is the core cash-flow problem.

Month	Revenue Received	Expenditures Made	Monthly Difference
Jul 2025	\$1.03M	\$0.45M	+\$0.59M
Aug 2025	\$0.95M	\$1.72M	-\$0.77M
Sep 2025	\$2.73	\$2.83M	-\$0.10M
Oct 2025	\$2.36M	\$3.27M	-\$0.91M
Nov 2025	\$2.84M	\$2.19M	+\$0.65M
Dec 2025	\$4.03M	\$2.50M	+\$1.52M
Jan 2026	\$0.96M	\$4.92M	-\$3.96M
Feb 2026	\$5.32M	\$1.97M	+\$3.35M
Mar 2026	\$2.39M	\$1.99M	+\$0.40M
Total	\$22.61M	\$21.83M	+\$0.78M

THE GF LOAN IS RESULTANT OF A CASH-FLOW TIMING ISSUE, NOT A BUDGET ISSUE

A department can be under budget and still need bridge financing if cash arrives too slowly or is offset.

**Beginning cash + actual cash receipts – expenditures paid – provider obligations – IGT/local match – state offsets =
ending cash / loan need**

Receivables ≠ cash

Claims, booked revenue, and AR do not pay obligations until cash is received.

IGT sequencing

County must front local match to draw federal reimbursement.

State offsets

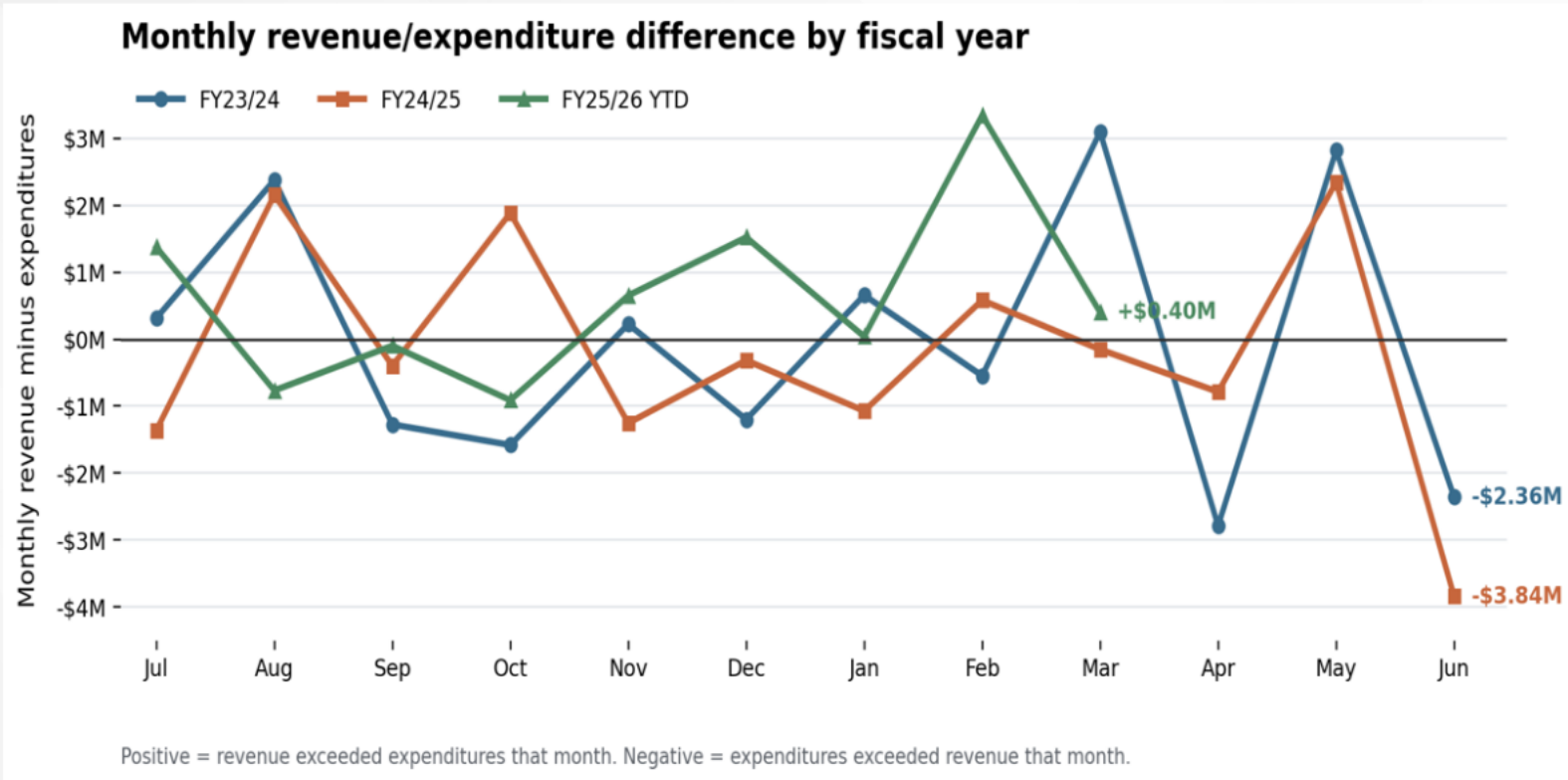
Warrant intercepts reduce usable cash even when revenue appears earned.

Timing

Monthly volatility creates loan pressure.

MONTHLY SWINGS SHOW WHY THIS IS A CASH-FLOW ISSUE

Annual totals can look close, while monthly revenue, expenditures, IGT timing, and offsets/intercepts create short-term pressure.



FY 23/24 annual net

-\$0.24M

Full year revenue and expenditures were nearly even

FY 24/24 annual net

-\$2.20M

Gap widened during payment reform and cash-timing disruption.

FY 25/26 YTD net

+\$1.57M

Improving through March, but still YTD and month-to-month volatile.

Service units are not dollars. They show how much service activity occurred. Spending did increase, but not at the same pace because many costs are fixed, some services are lower-cost, and payment/revenue timing did not keep up with the increased claiming volume.

Why services grew faster than spending. LCBHS delivered and claimed more services, but each service unit does not create an equal new expense. Service growth increased claims, invoices, and IGT/local-match obligations, while cash receipts and payment timing lagged behind.

THE STATE ASKED COUNTIES TO BUILD THE PLANE WHILE FLYING IT

Lake County implemented major reforms in good faith, but state systems and supports did not fully keep pace.

Payment reform complexity

CalAIM changed reimbursement mechanics, local-match requirements, claiming expectations, and timing. These are not small operational shifts.

Small-county cash limits

Counties with limited reserves have less ability to absorb delays, front local match, and wait for reimbursements.

State support gap

LCBHS requested DHCS support/assistance with IGT pressure. The request has not resulted in a responsive solution

Lake County is not asking to step away from reform. We are asking for realistic stabilization support so successful reform can be sustained.

CORRECTIVE ACTIONS ALREADY IMPLEMENTED

Disclosed issue and escalated

Administration was informed when the issue became clear; DHCS/BCG/CalMHSA/CBHDA support was engaged.

Renegotiated STRTP FFS contracts

All STRTP fee-for-service contracts renegotiated down to 45% for FY 2025–26.

Reduced psychiatry provider rates

Re-negotiated primary psychiatry locum tenens/telehealth mid-year. Successfully reduced rates from 65% to 58% of the DHCS rate; another reduced to 55%.

Changed cash governance

Receipt-linked disbursement, AP waves, two-payroll hard floor, and focus on IGT/CFA capacity.

Launched broad RFP reset

Robust RFP process underway for nearly all contracted services, with proposed rate as a top scoring criterion; negotiations start around 45% where appropriate.

Improved modeling and tracking

Building toward claims-to-cash, aid-code, provider rate, IGT/CFA, and vendor aging dashboards

STABILIZATION IS THE NEXT PHASE OF SUCCESS

The goal is not to shrink from the mission; it is to build the fiscal infrastructure needed to sustain it.

1. Cash visibility

Rolling cash forecast, IGT calendar, receivables/payables tracking.

2. Contract discipline

Rates, payment timing, scopes of work, productivity, and match exposure.

3. Claiming optimization

Billable time, documentation quality, denials, reconciliation, and lag reduction.

4. Service prioritization

Protect highest-value mandated and core services while clarifying what can be paused or redesigned.

5. State advocacy

We continue to remain active in CBHDA and CalMHSA to lift up this issue and are not the only county facing challenges. This is a global challenges across all 58 counties.

WHAT WE ARE PROTECTING

Fiscal stabilization should be explicitly tied to protecting what the County has built.

Access

Maintain timely access to medically necessary behavioral health services across Lake County.

Community Trust

Preserve provider, school, tribal, hospital, justice, and CBO partnerships built during reform.

County Credibility

Show that Lake County can implement reform while also improving fiscal controls and transparency.

Workforce Stability

Avoid destabilizing staff and contractors who are essential to the service continuum

The objective is disciplined sustainability — not retreat. Our community needs these services.

BOARD DECISION POINT: STABILIZE WITHOUT NEW GENERAL FUND LOANS

We understand that the County's General Fund position cannot support additional bridge loans to Behavioral Health.

\$2M

Remaining Balance

Current General Fund loan balance requiring a decision

No New Loans

GF Capacity

Stabilization path should not depend on additional General Fund borrowing

Improving

Trend Direction

Cash position and fiscal controls are slowly stabilizing

Sustainability

Decision Goal

Protect services while resolving the remaining balance realistically.

The decision before the Board is how to resolve the remaining balance in a way the Department can actually sustain without impacting critical service delivery and continued reform and expansion requirements resultant of Prop 1 BHSA and Behavioral Health Transformation.

TWO VIABLE OPTIONS FOR THE REMAINING BALANCE

Both options recognize service success, General Fund limits, and the Department's improving fiscal trajectory.

Option 1: forgive all or part of the remaining balance

The Board could forgive the full \$2M balance or a partial amount to recognize that the loan supported County-mandated safety-net services during a State-driven reform and cash-flow disruption.

Best use: if the County wants to preserve stabilization momentum and avoid pulling scarce cash away from services, IGT, and provider obligations.

Option 2: approve an affordable payment plan

The Board could convert the remaining balance into a structured repayment plan based on demonstrated cash capacity, with payments sized so they do not destabilize operations or require new borrowing.

Best use: if the County wants repayment accountability while acknowledging that immediate repayment is not operationally realistic.

Either path should be paired with transparent monthly reporting on cash, receivables, IGT, provider obligations, and repayment feasibility.

RECOMMENDED STAFF POSITION

Resolve the loan in a way that protects stabilization, rather than recreating the cash-flow problem.

Primary Recommendation

Request full or partial forgiveness of the remaining balance, grounded in the fact that the loan preserved mandated behavioral health access during reform-related disruption.

Fallback Recommendation

If forgiveness is not supported, request an affordable payment plan tied to actual cash capacity and reviewed periodically.

What to Avoid

Do not request or rely on additional General Fund loans. Do not agree to a repayment schedule that undermines IGT timing, provider payments, or core services.

A repayment plan that is too aggressive would convert an improving fiscal situation back into an avoidable cash crisis.

Option	Annual payment	Monthly equivalent	Term	Risk
A. Full/partial forgiveness	\$0 or reduced	\$0	Immediate resolution	Best for BH stability, but requires County willingness
B. Recommended: 10-year plan	\$200,000	\$16,667	10 years	Balanced and realistic
C. 5-year plan	\$400,000	\$33,333	5 years	Possible later, but risky while provider lag and IGT pressure remain
D. 3-year plan	\$666,667	\$55,556	3 years	Not recommended; likely destabilizing

WHAT WE NEED FROM COUNTY LEADERSHIP

A successful stabilization plan needs governance support, not just departmental correction.

1. Support the Intense Transformation

Fiscal pressure is a result of service expansion + payment mechanics, not a simple overspending story.

2. Resolve the loan realistically

Consider full/partial forgiveness or an affordable payment plan rather than additional General Fund lending.

3. Back state advocacy

Support escalation to DHCS/State partners regarding IGT assistance and payment-reform impacts.

4. Expect transparent reporting

Use monthly cash, AR, IGT, payables, and service-volume tracking, not just annual budget views.

5. Accept tradeoffs

Stabilization may require phased contract changes and tighter controls while protecting core access. Presently, we are working diligently to align our contracts with our operational and fiscal needs moving into the FY 26/27 contract season.

6. Keep the mission visible

The goal is not merely repayment; it is preserving a functioning behavioral health safety net.

FINAL BOARD MESSAGE

Lake County Behavioral Health did not get here because the Department failed to serve the community.

We got here because the Department succeeded in expanding access during a period when state payment reform, local-match sequencing, reimbursement timing, and cash infrastructure did not keep pace with the new reality.

The work ahead is to convert service success into fiscal sustainability.

That means protecting core services, strengthening fiscal controls, improving cash visibility, advocating for state support, and resolving the remaining loan balance in a way the Department can actually afford.