



**BOARD OF SUPERVISORS  
AGENDA LETTER**

**Agenda Number:**

**Clerk of the Board of Supervisors**  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

**Submitted on:**  
**(COB Stamp)**

**Department Name:** County Health Department  
**Department No.:** 041  
**Agenda Date:** October 7, 2025  
**Placement:** Departmental Agenda  
**Estimated Time:** 60 Minutes  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** Majority

**TO:** Board of Supervisors  
**FROM:** Department Director: Mouhanad Hammami, County Health Department  
Contact: Gus Mejia, Chief Financial Officer, County Health Department  
Lindsay Walter, Deputy Director, Clinical Services  
**SUBJECT:** County Health Department Budget Rebalancing Plan to Address Revenue Shortfall for Federally Qualified Health Centers in FY 2025-26

Signed by:

*Mouhanad Hammami*  
CD0E0674C89245C...

**County Counsel Concurrence**

As to form: Yes

**Other Concurrence:** CEO, Human Resources

As to form: Yes

**Auditor-Controller Concurrence**

As to form: Yes

**Recommended Actions:**

That the Board of Supervisors:

- a) Receive and file a report on the County Health Department's budget and fiscal outlook;
- b) Approve the County Health Department's Rebalancing Plan to reduce 55.2 FTE salary positions in the FY 2025-26 Adopted Budget; and
- c) Determine that the recommended actions are not a "Project" within the meaning of the California Environmental Quality Act (CEQA) and are exempt pursuant to CEQA Guidelines section 15378(b)(5), because the recommended actions consist of organizational or administrative activities of government that will not result in direct or indirect physical changes in the environment.

**Summary Text:**

This item is before the Board to address the anticipated Medi-Cal reimbursement shortfall for the County Health Department's (CHD) Federally Qualified Health Centers (FQHCs) due to evolving federal and state changes. This budget rebalancing plan will decrease anticipated budgeted revenue and associated expenditures in the amount of \$5,186,482 for the remainder of the current FY 2025-

26 Adopted Budget (based on an annualized amount of \$8,182,934). To implement this plan, CHD requests Board approval to reduce 55.2 FTE (full-time equivalent) salary positions to align budgeted expenditures with revised budget revenues. The change will result in the layoff of some employees, effective January 5, 2026, estimated at 36.6 FTE.

### **Discussion:**

A recent federal change is intended to designate Federally Qualified Health Centers (FQHCs) as a federal public benefit. The intended change to the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, which sets the rules for who can access federal public benefits, will impact who qualifies to receive care at Federally Qualified Health Centers (FQHCs). County Health's five Health Centers are FQHCs that are legally required to follow this legislation. While we have always complied with Medi-Cal requirements to verify eligibility, this new designation would mean the facilities themselves are restricted from serving patients identified by Medi-Cal as having "unsatisfactory immigration status" (UIS).

Although there is litigation regarding the federal change and an injunction in place in California to stay implementation of the federal change, currently there is no assurance on how long the injunction will last. Beginning the process of transitioning patients now ensures continuity of care and gives patients control of their medical decisions so they have time to choose a provider.

The most direct impact of such decision is the loss of patient revenue. There are also anticipated changes in health coverage and federal funding that require adjustments to our current budget to reflect losses.

It is estimated that up to 25% of the total assigned Medi-Cal patients to CHD's FQHCs are individuals with UIS. CHD is therefore expected to lose approximately 7,500 patients who will no longer be able to receive health care services at our County Health Centers. This is calculated to result in a near-term estimated reduction of revenue of \$5,186,482 for the remainder of the fiscal year following passage of the CHD FY 2025-26 Adopted Budget. In addition, CHD is still analyzing the number of non-Medi-Cal patients (e.g., self-pay clients) with UIS who will no longer be able to receive health care services at our County Health Centers and anticipates that will result in further revenue reduction.

To support continuity of care, CHD is working with CenCal Health to transition patients that the County can no longer serve and actively reassign these patients to other primary care providers. We continue to actively coordinate with community partners and health care providers to ensure care coordination is maintained while patients are transitioned from County Health to other care providers.

### **Cost Mitigation Strategies**

In anticipation of these intended federal and state changes, CHD foresaw that salary, benefits, and other costs would soon exceed the approved FY 2025-26 budget projections and proactively implemented a stringent hiring review process. As a result, only critical vacancies required to meet mandated and primary (or essential) functions, including grant funded positions, have been filled. CHD will continue this practice for the remainder of FY 2025-26, and through FY 2026-27 due to projected ongoing fiscal impacts as a result of federal and state changes, including those to the Medicaid program.

To compensate for the loss of revenue in this fiscal year, CHD has thoroughly evaluated its staffing resources, including use of locum tenens providers, independent contractors, extra help, and regular

employees, and has taken priority actions to uphold applicable Civil Service Rules, while prioritizing staffing and clinical services with regular employees. Major efforts to minimize service level reductions and retain optimal workforce levels have been exhausted. Unfortunately, CHD has not been able to strategically re-balance service and staffing within the budget given with the projected revenue reductions in the current fiscal year.

Where County Purchasing has already been granted authority and in accordance with applicable contract terms, approximately 20 independent contractors (clinical providers) will be notified of their agreement reductions and/or terminations (potential annual ongoing cost reduction of \$974,800). For any Board contracts, CHD would return to your Board at a future date to request contract termination and/or amendment, as applicable. However, to retain essential clinical care services for the substantial number of patients still assigned to County Health, it has been necessary to maintain a minimal number of independent contractors and locum tenens (physicians or advanced practice providers who temporarily fill in for clinicians while they are unavailable), particularly where clinical expertise and licensure is required to preserve patient care. These decisions have been based on industry standards for healthcare staffing to ensure clinical best practices and accreditation requirements are met to ensure safe, effective and patient-centered services.

This cost mitigation strategy alone, however, is insufficient to re-align FQHC revenues and expenditures. As a result, this Board action requests authorization for a reduction in 55.2 FTE salary positions as part of its overall cost mitigation strategy. These regular salaried positions include:

**Table 1. Staffing Changes at Health Centers.**

Staffing Reductions	Total FTE			Estimated
	Reductions	Vacant FTEs	Filled FTEs	Cost Reduction
Admin Office Pro II	9.90	4.00	5.90	750,382
Health Care Program Coordinator	1.00	0.00	1.00	82,488
Health Educ Associate	1.00	0.00	1.00	41,862
Healthcare Practitioner	2.80	2.00	0.80	525,788
Hlth Svc Mgr I	1.00	1.00	0.00	200,726
Hlth Svc Mgr II	1.00	1.00	0.00	146,496
Laboratory Assistant	4.50	1.00	3.50	173,953
Medical Assistant	19.75	2.50	17.25	1,061,825
Public Health Nurse	0.10	0.10	0.00	17,068
Registered Dietitian	1.30	1.30	0.00	192,938
Staff Nurse	7.75	2.60	5.15	742,715
Staff Nurse Supv	3.00	1.00	2.00	344,590
Staff Physician	2.10	2.10	0.00	749,288
<b>Total Staffing Reduction</b>	<b>55.20</b>	<b>18.60</b>	<b>36.60</b>	<b>\$ 5,030,119</b>

As indicated above, 18.6 of these positions are currently vacant (as of September 11, 2025) due to attrition and the proactive hiring pause implemented by CHD effective July 21, 2025. Where positions are not vacant, CHD will be working with the County Human Resources Department to assist employees with navigating potential options for placement or re-assignment, where feasible, and connecting them with the benefits and resources available to them.

#### Current Year Reductions in Service

To ensure that transition of care for the patients impacted is as seamless as possible, CHD and CenCal will begin to notify UIS patients that they will be reassigned to other providers, and we will begin

working with community partners to transfer care by January 1, 2026. CHD will continue to focus on its core mission of primary care services (e.g. adult care and pediatrics) but will no longer be able to continue specialty care services at its FQHCs. Agreements with other providers will be established, where required, to comply with the Health Resources and Services Administration (HRSA) scope of practice guidelines for FQHCs.

Specifically, the following specialties are currently being evaluated as a potential cost mitigation measure. We will assess each service and consider actions as appropriate to ensure that continuum of care is maintained:

- Subspecialties of Internal Medicine (Endocrinology, Gastroenterology, Nephrology, Neurology, Orthopedics, Urology)
- Clinical Laboratory (blood draw stations)
- Obstetrics (Pregnancy Testing, Gestational Diabetes Care, High Risk Obstetrics, and Postpartum Care)

Additionally, there are planned service reductions in the healthcare for the homeless outreach program to align anticipated services reductions related to the UIS patient population.

CHD will continue to provide healthcare services at its Health Centers and homeless shelters based on HRSA guidelines. Specifically, Primary Care, Family Planning, Gynecology, Immunizations, Pharmacy, Nutrition Services, and Well Child Exams will continue to be offered. These healthcare services are within the required scope of services for FQHC designation, which is necessary to operate the County's Health Centers.

#### Financial Projections for FY 2026-27

CHD continues to monitor and plan for further changes in the upcoming fiscal year (FY 2026-27). Consistent with the County Executive Office's Five-Year Financial Forecast to your Board on January 7, 2025, an additional forecasted structural deficit in the amount of approximately \$7.6 million is currently projected for next fiscal year, primarily driven by increasing salary and benefit costs which are outpacing revenues. Financial impacts are also expected to be compounded by state and federal budget actions that have occurred since adoption of the FY 2025-26 budget. While the revenue reductions from these state and federal budget impacts are still uncertain, CHD is continuing to assess the potential impacts on services, including:

- Federal Decision to Rescind Grants – Projected and Realized Impacts

***Centers for Disease Control (CDC) rescinded grants.*** In March 2025, CHD received notice that the CDC was rescinding Epidemiology and Laboratory Capacity, Immunization, and California Equitable Recovery Initiative grants. As part of the final budget adjustments, CHD unwound \$1.67 million of extra help positions, services and supplies, and capital assets. CHD will be preparing a budget revision for Board approval to unwind the \$446,700 remaining of the Epidemiology and Laboratory Capacity grant budgets in FY 2025-26. *(This financial impact was felt at the end of FY 2024-25 and affects FY 2025-26 and beyond because the grant end dates were in FY 2026-27 and later.)*

- House Resolution 1 (H.R. 1) – Projected Impacts

***Health Care Coverage and Financing.*** Limits certain payments to Medicaid providers. Requires many able-bodied adults in Medicaid to work, study, or complete community service. Increases frequency of eligibility redeterminations for childless adults. *(Financial Impact: Unknown)*

***Supplemental Nutrition Assistance Program Education (SNAP-Ed or CalFresh Healthy Living).*** Eliminates SNAP-ED grant program, a federally-funded program in the United States that provides

nutrition education and obesity prevention services to people who are eligible for or receiving SNAP benefits (formerly known as food stamps). (*Financial Impact: Estimated impact of \$103,833 in FY 2025-26; and \$623,000 in FY 2026-27*)

- State Budget Act of 2025 – Board approval of today’s recommended actions would mitigate potential future impacts identified below since CHD will no longer be assigned UIS patients.

**Medi-Cal Enrollment Limitations.** Limits enrollment for undocumented immigrants to those age 19 years of age and older beginning January 1, 2026. (*Financial Impact: Unknown*)

**State Reimbursements Cuts to FQHCs.** Proposes to eliminate Prospective Payment System (PPS) per-visit rate reimbursements for state-only services provided by FQHCs for individuals with UIS status after July 1, 2026. (*Financial Impact: \$6.6 million; but only if UIS patients were still assigned to County Health FQHCs*)

While many of the potential financial impacts to CHD and its FQHCs are still evolving, it is anticipated that reduced patient volumes (lower Medi-Cal eligible patients) may exacerbate pressures on the financial viability of FQHCs and rural health clinics in California.

### **Next Steps:**

As a result of the ongoing uncertainty from these federal and state changes, CHD will continue to work closely with the CEO’s budget office to monitor expenditures and revenues over the course of the fiscal year. The five-year forecast and fiscal issues report, as well as the April budget workshops, will provide opportunity to update the Board on the departmental finances. Additionally, the department may return to your Board with a budget revision at a later date.

This also gives CHD the needed time to plan for its recommended FY 2026-27 budget and any cost mitigations that might be necessary. The department is working with the County Executive Office to develop a plan to bring expenditures in line with available revenues for FY 2026-27, which will be presented to the Board at the spring budget hearings.

These include the evaluation of the following:

- Review of operational ability to support all FQHC site locations, which may result in the consolidation of services to fewer health center locations;
- Implement staffing ratios based on anticipated patient services and industry standards to ensure adequate staffing levels and support;
- Evaluation of other non-mandated or required services, including but not limited to, surgery services, residency programs, and pharmacy; and
- Review of administrative overhead and support staffing levels due to decreases in funding and departmental staffing.

Ongoing evaluation and planning will be necessary because of these current and future federal and state changes, including impacts from H.R. 1 and state budget impacts to ensure fiscal responsibility and minimize risks to the County budget.

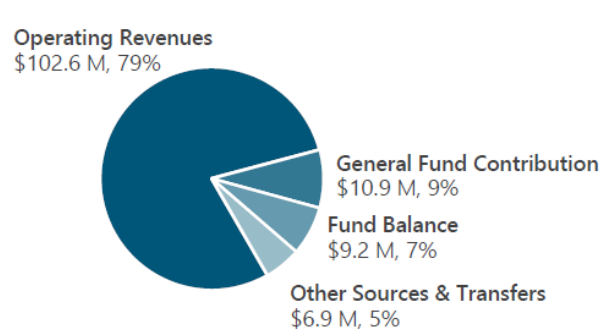
### **Background:**

The County Health Department’s mission is to improve the health of our communities by preventing disease, promoting wellness and health equity, while ensuring access to needed health care, and maintaining a safe and healthy environment. CHD has seven budget programs: Health Care Centers; Community Health Programs; Disease Prevention and Health Promotion; Regulatory Programs and Emergency Preparedness; Administration and Support; Animal Services; and Opioid Settlement. Through these programs, CHD:

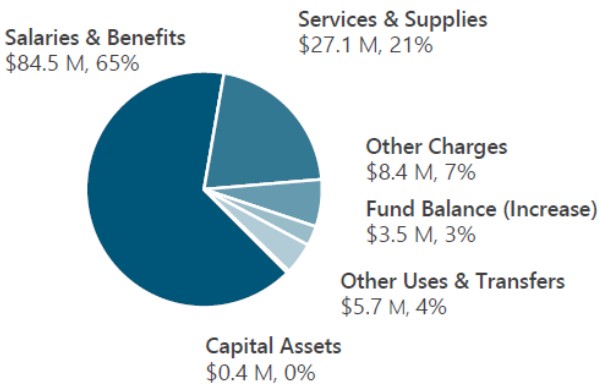
- Provides access to necessary health care for adults, children, low-income families, and individuals with special needs at five federally qualified health centers and three homeless shelter clinics;
- Provides support, case management, and enrollment assistance to a variety of programs for adults and children;
- Prevents and investigates communicable disease outbreaks, and educates and promotes healthy behaviors for our communities;
- Protects the health and well-being of the community by controlling environmental hazards and ensuring the highest quality emergency medical care through an integrated and coordinated system of services; and
- Maintains a safe and healthy environment for our animal population, protecting them from potential harm.

On June 17, 2025, your Board approved an operating budget for FY 2025-26 in the amount of \$129.6 million, with sources and use of funds indicated in the following graph:

Source of Funds



Use of Funds



CHD depends largely on state and federal sources to fund programs and services. State and federal sources have not kept up with the cost of doing business, which has created a structural deficit within CHD.

Over the past several years, CHD has relied on the use of fund balance to close this structural deficit; however, if no action is taken, as of the end of FY 2026-27, CHD is forecasting that it will have exhausted all available departmental fund balance given projected increases in salaries and benefits, pharmaceuticals, and health care costs. This does not consider the projected decline in Medi-Cal enrollment forecasted following passage of H.R. 1 (“One Big Beautiful Bill Act”) or other state budget impacts.

**Fiscal Analysis:**

Funding Source	FY [2025-26]	FY [2026-27 and On-going]	Total
General Fund			
State	(\$5,186,482)	(\$8,182,934)	(\$13,369,416)
Federal			
Fees			
[Other Source]			
Total	(\$5,186,482)	(\$8,182,934)	(\$13,369,416)

**Narrative:** The anticipated savings associated with cost reduction measures already implemented by the department as well as the proposed position reductions included in this letter total \$5,186,482 in FY 2025-26 (\$8,182,934 annually) bringing expenditures in line with anticipated revenues. The Health Department will work closely with the CEO's Office to monitor expenditures and revenues over the course of the fiscal year. The five-year forecast and fiscal issues report, as well as the April budget workshops, will provide opportunity to update the Board on the departmental finances. Additionally, the department may return to the Board with a budget revision at a later date.

**Staffing Impacts:**

This action will also result in the reduction of 55.2 FTE salary positions in CHD to align budgeted expenditures with revised budget revenues. These decisions have been based on industry standards for healthcare staffing to ensure clinical best practices and accreditation requirements are met to ensure safe, effective and patient-centered services.

Employees affected by position eliminations have various rights under County civil service rules, labor agreements, and policies and access to various benefits to assist with employment transition. CHD and the County Human Resources Department are working with employees and their labor representatives to address the impact of these staffing reductions.

**Special Instructions:**

Request the Clerk of the Board to provide a copy of the minute order to the County Health Department, [PHDGROUPContractsUnit@sbcphd.org](mailto:PHDGROUPContractsUnit@sbcphd.org).

**Contact Information:**

Lars Seifert  
Deputy Director of Operations  
[Lseifert@sbcphd.org](mailto:Lseifert@sbcphd.org)

Gus Mejia  
Chief Financial Officer  
[GMejia@sbcphd.org](mailto:GMejia@sbcphd.org)