

2025-26 Budget Act

Department of Health Care Services Highlights July 1, 2025

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State of California**

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This document provides a summary of the Department of Health Care Services' (DHCS) enacted Budget for fiscal year (FY) 2025-26, including related statutory changes. DHCS' budget builds on the Administration's previous investments, within a responsible budgetary structure, and enables DHCS to continue to transform Medi-Cal to create a more coordinated, person-centered, and equitable health system that works for its millions of members and California as a whole. The Budget also continues to modernize the behavioral health delivery system, improve accountability and transparency, and strengthen the continuum of community-based behavioral health care for all Californians. The Budget supports DHCS' purpose to provide equitable access to quality health care leading to a healthy California for all.

GENERAL BUDGET OVERVIEW

For FY 2025-26, the Budget includes a total of \$202.7 billion and 4,4945.5 positions to support DHCS programs and services. Of that amount, \$1.4 billion funds state operations (DHCS operations), while \$201.4 billion supports local assistance (funding for program costs, partners, and administration). These expenditures are consistent with the final Budget Act of 2025, as reflected in Chapter 4, Statutes of 2025 (Senate Bill (SB) 101) and the amending Budget Bill Jr., as reflected in Chapter 5, Statutes of 2025 (Assembly Bill (AB) 102).

Total DHCS Budget

(Includes non-Budget Act appropriations)

Fund Source*	FY 2024-25	FY 2024-25	FY 2025-26
<i>(* Dollars in Thousands)</i>	<i>Enacted Budget</i>	<i>Revised Budget</i>	<i>Enacted Budget</i>
Local Assistance (LA)			
LA General Fund	\$35,332,436	\$37,792,628	\$45,283,036
LA Federal Funds	\$98,934,405	\$109,247,726	\$120,075,811
LA Special Funds	\$28,112,326	\$34,458,871	\$32,965,030
LA Reimbursements	\$2,497,137	\$2,544,939	\$3,061,014
Total Local Assistance	\$164,876,304	\$184,044,164	\$201,384,891
State Operations (SO)			
SO General Fund	\$398,444	\$474,525	\$320,641
SO Federal Funds	\$610,909	\$590,437	\$639,335
SO Special Funds	\$392,116	\$403,710	\$368,717
SO Reimbursements	\$25,486	\$25,409	\$26,367
Total State Operations	\$1,426,955	\$1,494,081	\$1,355,060
Total Funds			
Total General Fund	\$35,730,880	\$38,267,153	\$45,603,677
Total Federal Funds	\$99,545,314	\$109,838,163	\$120,715,146
Total Special Funds	\$28,504,442	\$34,862,581	\$33,333,747
Total Reimbursements	\$2,522,623	\$2,570,348	\$3,087,381
Total Funds	\$166,303,259	\$185,538,245	\$202,739,951

MAJOR BUDGET ISSUES

2024-25 Budget Act Deficiency

The Governor's Budget projected an increase in General Fund spending of \$2.8 billion above the 2024 Budget Act for 2024-25. The Medi-Cal budget was increased by this amount through AB 100 (Chapter 2, Statutes of 2025).

General Fund Savings to Address 2025-26 Budget Shortfall

To address the projected statewide budget shortfall, the Budget includes General Fund savings to achieve a balanced budget, including the following:

- **Enrollment Freeze for Full Scope State-Only Medi-Cal Expansion, Adults 19 and Older** – The Budget adopts a freeze on new enrollment to full scope state-only coverage for otherwise eligible undocumented individuals, aged 19 and over, who do not have satisfactory immigration status (SIS) or are unable to establish SIS. The enrollment freeze does not apply to Qualified Non-Citizens (also referred to as “Newly Qualified Immigrants”) under the five-year bar, individuals claiming Permanently Residing Under Color of Law, and pregnant individuals. The policy is effective January 1, 2026. Estimated General Fund savings are \$77.9 million in 2025-26, increasing to \$3.3 billion by 2028-29.
- **State-Only Medi-Cal Premiums, Adults 19 through 59 with Unsatisfactory Immigration Status (UIS)** – The Budget includes implementation of state-only \$30 monthly premiums for individuals with UIS aged 19 through 59, effective July 1, 2027. Estimated General Fund savings are \$695.7 million in 2027-28.
- **Elimination of State-Only Prospective Payment System Rates to Federally Qualified Health Centers and Rural Health Clinics for Individuals with UIS** – The Budget eliminates Prospective Payment System payment rates to clinics for state-only-funded services provided to UIS individuals, effective July 1, 2026. Clinics will receive reimbursement at the applicable Medi-Cal Fee Schedule rate in the fee-for-service delivery system and at the applicable negotiated rate between a Medi-Cal managed care plan and the clinic in the managed care delivery system. Estimated General Fund savings are \$1 billion in 2026-27 and \$1.1 billion in 2027-28 and ongoing.
- **Elimination of State-Only Dental Benefits, Adults 19 and Older with UIS** – The Budget eliminates full scope dental coverage for Medi-Cal members aged 19 and over with UIS, effective July 1, 2026. These individuals will continue to have access to restricted scope emergency dental coverage. Estimated General Fund savings are \$308 million in 2026-27 and \$336 million in 2028-29 and ongoing.
- **Medi-Cal Asset Test Limits** – The Budget reinstates the Medi-Cal asset limit to consider resources, including property and other assets, when determining Medi-Cal eligibility for applicants or members whose eligibility is not based on modified adjusted gross income financial methods, effective January 1, 2026. The asset

limit for a household will be \$130,000 for an individual, increased by \$65,000 for each additional household member. Estimated General Fund savings are \$45.3 million in 2025-26, \$342.6 million in 2026-27, and \$510.2 million ongoing.

- **Medical Providers Interim Payment (MPIP) Fund Loan** – The Budget utilizes \$2.2 billion of the 2024-25 cash loan in 2024-25 and \$1.2 billion in 2025-26. The budget utilizes an additional \$1 billion from the MPIP in 2025-26. Repayment of these amounts will begin in 2027-28.
- **Reduction to the Children and Youth Behavioral Health Initiative (CYBHI) Behavioral Health Services and Supports Platform** – The Budget reduces support for the CYBHI Behavioral Health Services and Supports Platform by \$3 million General Fund in 2025-26 and \$69 million in 2026-27 and ongoing.
- **Pharmacy Drug Rebates** – The Budget assumes implementation of a rebate aggregator to secure state rebates for individuals with UIS. Projected General Fund savings are approximately \$370 million in 2025-26 and \$600 million ongoing. Additionally, the Budget reflects additional General Fund savings of \$75 million in 2025-26 and \$150 million ongoing associated with minimum rebate for human immunodeficiency virus (HIV)/acquired immunodeficiency syndrome (AIDS) and cancer drug rebates.
- **Elimination of Certain Over-the-Counter Drug Coverage** – The Budget eliminates pharmacy coverage of certain drug classes, including COVID-19 antigen tests, over-the-counter vitamins, and certain antihistamines, such as dry eye products. Estimated savings are \$3 million General Fund in 2025-26 and \$6 million in 2026-27 and ongoing.
- **Prescription Drug Utilization Management** – The Budget assumes implementation of utilization management and prior authorization for prescription drugs, resulting in estimated General Fund savings of \$25 million in 2025-26 and \$50 million in 2026-27 and ongoing.
- **Step Therapy Protocols** – The Budget assumes implementation of a step therapy strategy to promote utilization management and control prescription drug costs, resulting in estimated General Fund savings of \$87.5 million in 2025-26 and \$175 million ongoing.
- **Prior Authorization for Continuation of Drug Therapy** – The Budget assumes elimination of continuing care status for pharmacy benefits under Medi-Cal Rx. The policy, effective January 1, 2026, requires members to obtain drugs no longer on or removed from the Medi-Cal Rx contracted drug list (CDL) through the prior authorization process rather than allowing continuing care based upon prior drug usage. Estimated savings are \$62.5 million General Fund in 2025-26 and \$125 million in 2026-27 and ongoing.

- **Elimination of Glucagon-Like Peptide-1 (GLP-1) Coverage for Weight Loss** – The Budget assumes elimination of coverage for GLP-1 drugs for weight loss, effective January 1, 2026. Estimated General Fund savings are \$85 million in 2025-26, increasing to \$790 million by 2028-29 and ongoing.
- **Program of All-Inclusive Care of the Elderly (PACE) Organization Capitation Payments** – The Budget limits the capitation payments for PACE providers, except for newly enrolled providers receiving enhanced rates for the first two years, effective January 1, 2027. General Fund savings include \$13 million in 2026-27 and \$30 million ongoing.
- **Proposition 56 Dental Supplemental Payments** – The Budget eliminates approximately \$362 million General Fund in 2026-27 and ongoing for Proposition 56 supplemental payments to dental providers.
- **Suspension of the Proposition 56 Loan Repayment Program** – The Budget suspends a final cohort of the loan repayment program to create General Savings totaling \$26 million in 2025-26.
- **Skilled Nursing Facilities** – The Budget eliminates the Workforce and Quality Incentive Program (WQIP) and suspends the requirement to maintain a backup power system for at least 96 hours, resulting in General Fund savings of \$168.2 million in 2025-26 and \$140 million ongoing.
- **Prior Authorization for Hospice Services** – The Budget assumes implementation of prior authorization requirements for hospice services, effective July 1, 2026. This is expected to result in General Fund savings of \$50 million in 2026-27 and ongoing.
- **Behavioral Health Services Fund (BHSF) General Fund Offset** – The Budget replaces \$40 million General Fund in 2024-25 and \$45 million General Fund in 2025-26 for the Behavioral Health Bridge Housing Program and an additional \$55 million General Fund for Behavioral Health Transformation County Funding in 2025-26 with BHSF funds.
- **Health Care Services Plan Fines and Penalties Fund General Fund Offset** – The May Revision uses \$20.4 million from the Health Care Services Plan Fines and Penalties Fund to offset General Fund costs in Medi-Cal in 2025-26.

Managed Care Organization (MCO) Tax and Proposition 35

Proposition 35, approved by voters in November 2024, permanently continues the MCO Tax added by AB 119 (Chapter 13, Statutes of 2023) and specifies permissible uses of tax revenues starting with the 2025 tax year, for which the Department must consult with a stakeholder advisory committee to develop and implement.

The 2025-26 Budget reflects MCO Tax revenue of \$9 billion in 2024-25, \$4.2 billion in

2025-26, and \$2.8 billion in 2026-27 to support existing and increased costs in the Medi-Cal program. Compared to the Governor's Budget, this is an increase of \$1.1 billion in 2024-25 and decreases of \$200 million in 2025-26 and \$400 million in 2026-27.

The 2025-26 Budget reflects \$804 million in 2024-25, \$2.8 billion in 2025-26, and \$2.4 billion in 2026-27 for the MCO Tax and Proposition 35 expenditure plan. This includes \$1.6 billion across 2025-26 and 2026-27 to support increases in managed care base rates relative to calendar year 2024 for primary care, specialty care, ground emergency medical transportation, and hospital outpatient procedures.

Funding for Proposition 36 Implementation

The Budget includes \$50 million General Fund in 2025-26 for DHCS to provide non-competitive grants to county behavioral health departments to support the implementation of Proposition 36. Grant funding will be utilized for authorized treatment services, in addition to activities to support planning and capacity building needed to expand and accelerate services. Allowable expenditures include capital for housing and treatment; hiring, training, and development of policies and procedures; support for information technology infrastructure costs; and changes needed for reporting data and case tracking.

Title X Funding Restoration

The Budget includes \$15 million General Fund in 2025-26 to replace the expected loss of federal Title X funding for family planning providers.

Resources for CalHOPE Warm Line

The Budget includes \$5 million ongoing from the BHSF to support the continuation of the CalHOPE Warm Line in 2025-26 and beyond.

Funding for Next Generation Digital Therapeutics

The Budget includes \$2 million General Fund in 2025-26 for Next General Digital Therapeutics as part of the CYBHI.

Additional Support for Adverse Childhood Experiences (ACEs) Provider Trainings

The Budget includes \$2 million total funds (\$1 million BHSF and \$1 million federal funds) in 2025-26 to support additional ACEs provider trainings.

TRAILER BILL LANGUAGE

AB 116 (Committee on Budget, Chapter 21, Statutes of 2025), the health omnibus budget trailer bill legislation, enacts the following related to DHCS:

- Utilization Management for COVID-19 Services (SEC 6 & 106)
- Suspension of Skilled Nursing Facility Backup Power Requirement (SEC 36)
- HIV and Cancer Drug Rebates (SEC 38 & 116)

- Reinstatement of Medi-Cal Asset Limit (SEC 50-72, 76-92 & 108-109)
- Policy Changes Related to Individuals with UIS (SEC 73-75 & 112)
- Prior Authorization for Continuation of Drug Therapy (SEC 93-97)
- Medi-Cal Anti-Fraud Special Deposit Fund (SEC 98)
- Skilled Nursing Facility Workforce and Quality Incentive Program (SEC 99-100)
- Prior Authorization of Hospice (SEC 101 & 107)
- Eliminate Prospective Payment System Reimbursement for State-Only Services (SEC 103 & 104)
- Cognitive Health Assessment Training and Reporting (SEC 105)
- Nondesignated Public Hospital Supplemental Fund and Intergovernmental Transfer Programs (SEC 110 & 111)
- Home and Community-Based Alternatives Waiver and PACE Sanctions (SEC 113)

STATE OPERATIONS AND NON-ESTIMATE LOCAL ASSISTANCE BUDGET ADJUSTMENTS

The Budget includes additional expenditure authority of \$192.7 million total funds (\$12.1 million General Fund) for 274 positions (250 permanent positions (Perm), 7 limited-term (LT) to Permanent, and 17 LT-funded).

Detailed budget change proposal narratives can be found on the Department of Finance [website](#). To view Department requests, select the appropriate budget year (2025-26) and search for org code 4260 in the search bar located in the middle of the website.

Budget Change Proposal (BCP) Title	BCP Number	Positions	Total Funds** (In Millions)	General Fund** (In Millions)
AB 186 SNF Workforce Standards & Accountability Sanctions	4260-069-BCP-2025-GB	14 Perm	\$2.9	
Behavioral Health Infrastructure Bond Act	4260-259-BCP-2025-MR	22 Perm	\$13.5	
Centers for Medicare & Medicaid Services (CMS) Interoperability	4260-261-BCP-2025-MR	6 LT	\$1.1	\$0.2
Civil Rights Compliance	4260-076-BCP-2025-GB	12 Perm	\$2.0	\$1.0
Federally Qualified Health Center (FQHC) Policy Guide	4260-263-BCP-2025-MR		\$0.7	
Health Care Coverage: Claim Reimbursement (AB 3275)	4260-171-BCP-2025-GB	2 Perm	\$0.3	\$0.2
Health Care Coverage: Utilization Review (SB 1120)	4260-170-BCP-2025-GB	2 Perm	\$0.3	\$0.2
Health Facilities (SB 1238)	4260-175-BCP-2025-GB	7 Perm	\$1.2	\$0.6
Human Resources Plus Modernization (HR+ Mod)	4260-264-BCP-2025-MR	3 Perm	\$3.7	\$1.8
Medicaid Managed Care, Access, and Eligibility Final Rules	4260-303-BCP-2025-MR	40 Perm 7 LT to Perm	\$7.8	\$3.9
Medi-Cal Administrative Activities for CalAIM Justice Involved Initiative	4260-081-BCP-2025-GB	5 Perm	\$0.8	\$0.4
Medi-Cal Providers: Family Planning (SB 1131)	4260-173-BCP-2025-GB	1 Perm	\$0.2	\$0.02
Medi-Cal: Call Centers: Standards and Data (SB 1289)	4260-174-BCP-2025-GB	6 Perm	\$1.0	\$0.5
Mental Health: Involuntary Treatment: Antipsychotic Medication (SB 1184)	4260-172-BCP-2025-GB	6 Perm	\$1.1	\$0.5

Budget Change Proposal (BCP) Title	BCP Number	Positions	Total Funds** (In Millions)	General Fund** (In Millions)
Program Workload	4260-084-BCP-2025-GB	16 Perm 11 LT	\$7.9	\$2.0
Transforming Maternal Health (TMaH) Model	4260-265-BCP-2025-MR	2 Perm	\$1.1	
Joint BCPs				
988 Suicide and Crisis Lifeline Allocation Increase	4260-385-BCP-2025-MR		\$17.5***	
Behavioral Health Transformation: Behavioral Health Services Act Continued Implementation	4260-260-BCP-2025-MR	104 Perm	\$126.0	
California Electronic Visit Verification (CalEVV) Resources	4260-096-BCP-2025-GB		\$1.0	\$0.8
Long-Term Care Staffing & Payment Transparency Final Rule	4260-266-BCP-2025-MR	8 Perm	\$2.6	
	Total	250 Perm 7 LT to Perm 17 LT	\$192.7	\$12.1

**Chart totals may differ from BCP totals within an individual BCP due to rounding.*

***Dollars in millions.*

****Resources include Non-Estimate Local Assistance Items.*