

2024-25 BUDGET ACT

**Department of Health Care Services Highlights
July 1, 2024**

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State of California**

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This document provides a summary of the enacted fiscal year (FY) 2024-25 Budget for the Department of Health Care Services (DHCS), including related statutory changes. The DHCS budget builds on the Administration's previous investments and enables DHCS to continue to transform Medi-Cal and Behavioral Health to operate more effectively and efficiently for its millions of members and California as a whole. The budget supports the Department's purpose to provide equitable access to quality health care leading to a healthy California for all.

GENERAL BUDGET OVERVIEW

For FY 2024-25, the DHCS budget includes a total of \$166.3 billion and 4,688.5 positions for the support of DHCS programs and services. Of that amount, \$1.4 billion funds state operations (DHCS operations), while \$164.9 billion supports local assistance (funding for program costs, partners, and administration). These expenditures are consistent with the final Budget Act of 2024, as reflected in Chapter 22, Statutes of 2024 (AB 107) and the amending Budget Bill Jr., as reflected in Chapter 35, Statutes of 2024 (SB 108).

Total DHCS Budget

(Includes non-Budget Act and Multi-Year appropriations)

Fund Source*	FY 2023-24	FY 2023-24	FY 2024-25
	Enacted Budget	Revised Budget	Enacted Budget
Local Assistance (LA)			
LA General Fund	\$ 37,909,465	\$ 37,621,326	\$ 35,332,436
LA Federal Funds	\$ 90,872,402	\$ 97,430,773	\$ 98,934,405
LA Special Funds	\$ 24,535,692	\$ 23,970,064	\$ 28,112,326
LA Reimbursements	\$ 1,979,491	\$ 2,068,271	\$ 2,497,137
Total Local Assistance	\$ 155,297,050	\$ 161,090,434	\$ 164,876,304
State Operations (SO)			
SO General Fund	\$ 356,427	\$ 553,313	\$ 398,444
SO Federal Funds	\$ 619,778	\$ 680,002	\$ 610,909
SO Special Funds	\$ 339,383	\$ 409,415	\$ 392,116
SO Reimbursements	\$ 25,612	\$ 26,190	\$ 25,486
Total State Operations	\$ 1,341,200	\$ 1,668,920	\$ 1,426,955
Total Funds			
Total General Fund	\$ 38,265,892	\$ 38,174,639	\$ 35,730,880
Total Federal Funds	\$ 91,492,180	\$ 98,110,775	\$ 99,545,314
Total Special Funds	\$ 24,875,075	\$ 24,379,479	\$ 28,504,442
Total Reimbursements	\$ 2,005,103	\$ 2,094,461	\$ 2,522,623
Total Funds	\$ 156,638,250	\$ 162,759,354	\$ 166,303,259

* Dollars in Thousands

MAJOR BUDGET ISSUES AND PROPOSALS

Proposition 1 - Behavioral Health Transformation (BHT)

Behavioral Health Transformation will improve access to care, increase transparency, and expand treatment facilities for Californians in need. It is supported by the passage of Proposition 1 in March 2024.

- **Behavioral Health Services Act (BHSA) (Senate Bill (SB) 326, Chapter 790, Statutes of 2023).** Modernizes and reforms the Mental Health Services Act, which was originally passed by voters in 2004. SB 326 updates behavioral health funding to provide services to those with the most serious illness and to treat substance use disorders. BHSA modernizes county allocations to require the following priorities and encourages innovation in each focus area: housing interventions, full-service partnership programs, and behavioral health services and supports. The BHSA creates new statewide, state-led investments such as investments in population-based programming, investments to expand a culturally competent and well-trained workforce, and improved statewide outcomes.
- **Behavioral Health Infrastructure Bond Act (Assembly Bill (AB) 531, Chapter 789, Statutes of 2023).** Funded by Proposition 1 includes approximately \$4.4 billion in bonds for the Department to support new behavioral health treatment beds, as well as outpatient capacity to help serve tens of thousands of people annually. It also includes approximately \$2 billion in bonds for the Department of Housing and Community Development to support permanent supportive housing units for Californians with Behavioral Health needs, including veterans.
- **Initial Funding for State and County Implementation.** The Budget includes \$126.9 million total funds (\$16.9 million General Fund, \$28.2 million Behavioral Health Services Fund, \$31.6 million Opioid Settlement Fund, \$10.4 million Behavioral Health Infrastructure Bond Act, and \$39.8 million federal funds) in 2024-25 for the Department to begin implementation of BHT. The Budget also includes \$85 million total funds (\$50 million General Fund) for County Behavioral Health Departments to begin administering their functions under Proposition 1. The Department will be proposing clean-up trailer bill language with technical changes.

Community Assistance, Recovery and Empowerment (CARE) Act

As implementation of CARE Act proceeds, the Budget adjusts estimated county funding to align with recent utilization trends. The Budget includes \$27.2 million General Fund in 2023-24 and \$37.8 million General Fund in 2024-25.

Home and Community-Based Services Waiver Slot Increase

The Budget reflects \$10.8 million in net General Fund savings in 2024-25 related to slot expansions in the Assisted Living and the Home and Community-Based Alternatives Waivers. The net savings is due to some Medi-Cal members shifting from higher-cost institutional care to lower-cost community-based care resulting in a better overall quality of life.

Children and Youth Behavioral Health Initiative (CYBHI) Fee Schedule Third Party Administrator (TPA)

As part of CYBHI, the Department is required to establish a statewide all-payer fee schedule to reimburse school-linked behavioral health providers who provide services to students at or near a school-site. Specifically, the Department is required to:

- Develop and maintain a school-linked statewide fee schedule for medically necessary outpatient mental health or substance use disorder services provided to a student 25 years of age or younger at or near a school site, who is an enrollee of the plan or delivery system.
- Develop and maintain a school-linked statewide provider network of school site behavioral health counselors.

Commercial health plans, disability insurers, and the Medi-Cal delivery system, as applicable, must reimburse these school-linked providers at the published fee schedule rate, regardless of network provider status. The Budget continues to include \$10 million from the Behavioral Health Services Fund.

Children and Youth Behavioral Health Initiative (CYBHI) Wellness Coach Benefit

The Budget will establish the wellness coach benefit in Medi-Cal effective January 1, 2025, in accordance with the build out of the CYBHI plan. Wellness coaches will primarily serve children and youth and operate as part of a care team, including in school-linked settings; however, wellness coaches could be deployed across the Medi-Cal behavioral health delivery system. Wellness coaches will offer six core services, including: 1) wellness promotion and education; 2) screening; 3) care coordination; 4) individual support; 5) group support; and 6) crisis referral. Implementation is expected to phase-in over several years with estimated costs of \$9.5 million total funds (\$4.1 million General Fund) starting in 2024-25.

Medi-Cal Caseload Impacts of Redeterminations

Following the end of the COVID-19 public health emergency continuous enrollment requirement, the Medi-Cal caseload peaked in June 2023 and began declining in July 2023, consistent with the resumption of eligibility redeterminations. Redeterminations are estimated to reduce Medi-Cal spending by \$1.9 billion total funds (\$688 million

General Fund) in 2023-24 and \$6 billion total funds (\$2.1 billion General Fund) in 2024-25.

Children's Hospital Directed Payments

The Budget includes new directed payments for children's hospitals in the amount of \$230 million total funds annually (\$115 million General Fund). The directed payments will support access to critical hospital services for California's most vulnerable children being treated for the most serious and life-threatening diseases.

Increase Directed Payments to Public Hospitals

The Budget increases directed payments to public hospitals through programs such as the Enhanced Payment Program (EPP) and Quality Incentive Pool (QIP). In connection with this, the Department will create an administrative fee on intergovernmental transfers related to these directed payment programs. Taken together, these actions are estimated to result in General Fund reimbursements of \$37 million in 2024-25 and \$74 million in 2025-26 and ongoing while also providing additional support for public hospitals.

Managed Care Organization (MCO) Tax and Medi-Cal Provider Rate Increases and Investments

The Budget includes \$133 million in 2024-25, \$728 million in 2025-26, and \$1.2 billion in 2026-27 for new targeted Medi-Cal provider rate increases and investments from the MCO Tax. Rate increases and investments include physician services, emergency department physician services, abortion and family planning, services and supports for clinics, ground emergency transportation, air ambulances, community-based adult services, congregate living health facilities, clinic services and supports, community health workers, pediatric day health centers, private duty nursing, non-emergency medical transportation, and continuous Medi-Cal coverage for children until the age of five. Some new rate increases will be effective January 1, 2025, and others January 1, 2026. Additionally, \$40 million one-time is allocated in 2026-27 to strengthen and support the development and retention of the Medi-Cal workforce. These increases are in addition to the approximately \$300 million that became effective January 1, 2024. If the MCO Tax initiative on the November 2024 ballot is approved by the voters, the 2024 Budget Act MCO Tax package becomes inoperable, since both cannot be fiscally sustained.

The Budget reflects an increased MCO Tax of \$5.1 billion in 2024-25, \$4.6 billion in 2025-26, and \$4 billion in 2026-27 to support the Medi-Cal program compared to the 2023 Budget Act, reflecting the addition of the Early Action and Medicare revenue amendments to increase the MCO Tax. In total, the MCO Tax helps maintain existing services in the Medi-Cal program with \$6.9 billion in 2024-25, \$6.6 billion in 2025-26, and \$5 billion in 2026-27.

In recent years, Proposition 56 revenues have not been sufficient to fully cover the cost of Proposition 56-funded provider payments due to continued revenue decline. The Budget reduces Proposition 56 funding for physician services supplemental payments by \$193.4 million (\$77.1 million Proposition 56) in 2024-25 and includes \$145.4 million one-time from the MCO Tax to support the Medi-Cal family planning, women's health, and physician services supplemental payments in 2024-25. The Administration will work with the Legislature to develop a plan for these Proposition 56 provider payments in future years.

Reproductive Health Access Demonstration 1115 Waiver

The Budget includes \$200 million total funds (\$100 million General Fund) in 2024-25 to provide funding for the California's Reproductive Health Access Demonstration (CalRHAD). By 2026-27, \$85 million of the General Fund cost will be offset by the Designated State Health Programs (DSHP) federal funding stream. CalRHAD is pending CMS approval with program operations to begin no sooner than July 1, 2024. CalRHAD will promote the following objectives:

- Support access to family planning and related services for Medi-Cal members, as well as other individuals who may face barriers to access.
- Support the capacity and sustainability of California's reproductive-health safety net.
- Promote system transformation for California's reproductive-health safety net.

Respiratory Syncytial Virus (RSV) Vaccine Impacts

The federal Food and Drug Administration (FDA) and Centers for Disease Control and Prevention (CDC) approved two RSV vaccines and one injectable drug to protect against RSV. The vaccines are targeted to older adults and pregnant individuals, with an optional injectable drug for healthy children. The RSV vaccines and injectable drugs were available starting in October 2023. The Budget includes \$205.4 million total fund (\$90.7 million General Fund) in 2024-25.

Funding for Hope the Mission Mobile Mental Health Equipment

The Budget includes \$1 million General Fund for the Department to distribute mobile mental health equipment to Hope the Mission.

Budget Solutions

In addition to changes to the use of MCO Tax revenues to fund existing Medi-Cal services described earlier, the Budget Act includes several actions to reduce General Fund costs considering the state's overall General Fund situation:

- **Behavioral Health Bridge Housing (BHBH) Reduction.** The Budget includes a reduction in BHBH funding by \$132.5 million General Fund in 2024-25 and \$207.5 million General Fund in 2025-26. An additional \$90 million in Behavioral

Health Services Act funding will be provided in 2025-26, resulting in a net reduction of \$117.5 million for that year.

- **Behavioral Health Continuum Infrastructure Program (BHCIP) Reduction.** The Budget includes a reduction of BHCIP funding by \$70 million General Fund in 2024-25 and \$380.7 million General Fund in 2025-26.
- **Changes to Children and Youth Behavioral Health Initiative**
 - **School-Linked Health Partnership and Capacity Grants (Community Colleges).** The Budget eliminates \$100 million in grants for community colleges (including \$30 million in 2023-24 and \$70 million in 2024-25).
 - **School-Linked Health Partnership and Capacity Grants (CSUs and UCs).** The Budget eliminates \$50 million in other higher education grants in 2024-25.
 - **Evidence-Based and Community-Defined Behavioral Health Program Grants.** The Budget reduces grant funding by \$47.1 million in 2024-25.
- **Funding for Behavioral Health Services and Supports Platform.** Due to a contract structure that includes tiered payments based on utilization, which the Department expects to ramp up over time, the previously planned funding is not needed. Therefore, the Budget reduces previously planned funding for the CYBHI platform by \$140 million General Fund in 2024-25. Proposed outyear funding allocations will still be needed to support ongoing operations.
- **Eliminate the Major Risk Medical Insurance Program (MRMIP).** The Budget eliminates MRMIP and redirects \$78.9 million from the Health Care Services Fines and Penalties Fund (that supports MRMIP) to pay for existing Medi-Cal costs.
- **Eliminate Health Enrollment Navigator Funding.** The Budget eliminates \$18 million General Fund in remaining funding for Health Enrollment Navigators. The remaining \$8 million General Fund for Navigators for Clinics remains in the Budget.
- **Forego Transfer of Remaining Clinic Workforce Stabilization Retention Payment Funding to Department of Health Care Access and Information (HCAI).** The Budget Act of 2022 provided \$70 million for these payments, with any unspent funds to be transferred to HCAI for workforce purposes. The Budget foregoes the transfer of an estimated \$14.9 million in unspent funds.
- **Freeze Medi-Cal County Administration Increases.** The Budget freezes funding levels for county administration of Medi-Cal eligibility functions, reflecting reduced General Fund costs of \$20.4 million in 2024-25 through 2027-28.

- **Institute Intergovernmental Transfer (IGT) Administration Fee for Enhanced Payment Program (EPP) and Quality Incentive Pool (QIP).** As previously described, the Budget creates a fee on IGTs in the public hospital EPP and QIP programs that is estimated to result in General Fund reimbursements of \$37 million General Fund in 2024-25 and \$74 million annually thereafter.
- **Naloxone Distribution Project Funding and Medication Assisted Treatment.** The Budget reduces \$57.3 million General Fund from local assistance, and \$3.7 million General Fund from state operations in 2024-25 and ongoing. This reduction reverses the funding that the Department received through the 2022-23 Budget Change Proposal (BCP) entitled Medication Assisted Treatment Expansion Project.
- **Reduce Equity and Practice Transformation (EPT) Payments to Providers.** The Budget eliminates funding for the EPT payments program beyond the \$140 million total funds (\$70 million General Fund) that was appropriated in the Budget Act of 2022. This results in \$280 million reduced General Fund costs, including \$43.8 million in 2024-25. As a result of this reduced funding, the Cohort 1 EPT program timeline and/or milestones will be revised.
- **Reduce Medi-Cal Drug Rebate Fund Reserve.** Typically, the Department targets a reserve of approximately \$220 million in the Medi-Cal Drug Rebate Fund to cushion against volatility in drug rebate collections that otherwise would be deposited in the General Fund. The Budget allows the full amount of projected drug rebate collections to flow to the General Fund, instead of maintaining rebate transfers at 2023 Budget Act levels in 2023-24 and targeting a \$220 million reserve in 2024-25. This results in General Fund savings of \$135.1 million in 2023-24 and \$27.6 million in 2024-25.
- **Use Quality Sanctions to Support Medi-Cal Program.** The Budget uses quality sanctions assessed on Medi-Cal managed care plans to support existing costs in Medi-Cal, estimated at \$1 million in 2024-25.
- **Withdraw Buyback of Two-Week Checkwrite Hold.** The 2023 Budget Act deferred until 2024-25 the planned buy-back of an existing two-week hold on fee-for-service Medi-Cal payments each June until the following fiscal year. The Budget withdraws the proposed buy-back, resulting in an estimated General Fund savings of \$532.5 million in 2024-25.
- **Withdrawal from Safety Net Reserve.** The Budget assumes the withdrawal of \$900 million from the Safety Net Reserve in 2024-25 to maintain existing program benefits and services for the Medi-Cal and CalWORKs programs.

Trailer Bill Language

SB 159 (Committee on Budget and Fiscal Review, Chapter 40, Statutes of 2024) the health omnibus budget trailer bill legislation, enacts the following, as it relates to DHCS:

- COVID-19 Vaccine Administration Rates
- Elimination of the Major Risk Medical Insurance Program
- Freeze Medi-Cal County Administration Increase
- Public Hospitals
- Quality Sanctions Penalties
- Behavioral Health Services Act (SB 326 (Eggman, Chapter 790, Statutes of 2023)) Cleanup
- Managed Care Organization Tax Targeted Rate Increases and Investments
- Children and Youth Behavioral Health Initiative Third Party Administrator
- Clinic Workforce Stabilization Payments – Reversion of Unexpended Funds
- Children's Hospital Directed Payments
- Health Worker Minimum Wage (SB 525 (Durazo, Chapter 890, Statutes of 2023)) Cleanup

SB 136 (Committee on Budget and Fiscal Review, Chapter 6, Statutes of 2024) enacted the Managed Care Organization Tax in Early Action and AB 160 (Committee on Budget, Chapter 39, Statutes of 2024) enacted the subsequent amendment to include Medicare revenue.

STATE OPERATIONS AND NON-ESTIMATE LOCAL ASSISTANCE BUDGET ADJUSTMENTS

The Budget includes additional expenditure authority of \$480.9 million total funds (\$33.3 million General Fund) for 73 positions (67 Permanent, 4 limited-term (LT) to Permanent, and 2 LT-funded).

Detailed budget change proposal narratives can be found on the Department of Finance website at [link](#). To view Department requests, select the appropriate budget year (2024-25) and search for org code 4260 in the search bar located in the middle of the website.

Budget Change Proposal Title	Budget Change Proposal Number	Positions	Total Funds**	General Fund**
Abortion Provider Protections (SB 487)	4260-204-BCP-2024-MR	3 Perm	\$0.5	\$0.2
Behavioral Health (SB 43)	4260-205-BCP-2024-MR	6 Perm	\$1.1	\$0.5
Behavioral Health Transformation: Behavioral Health Services Act	4260-206-BCP-2024-MR		\$116.5	\$27.9
Behavioral Health Transformation: Behavioral Health Infrastructure Bond Act	4260-293-BCP-2024-MR	3 LT to Perm	\$340.4**	
Funding Transition to State Operations for California Advancing and Innovating Medi-Cal (CalAIM) Managed Long-Term Services and Supports and Dual Eligible Special Needs Plan Integration Activities	4260-056-BCP-2024-GB		\$6.6	\$3.3
Hope California: Secured Residential Treatment Pilot Program (AB 1360)	4260-208-BCP-2024-MR	1 Perm	\$0.2	\$0.2
Local Educational Agencies Medi-Cal Billing Option Program (AB 483)	4260-209-BCP-2024-MR	19 Perm	\$1.9	
Managed Care Capitation Payment Systems Support	4260-058-BCP-2024-GB	5 Perm	\$0.9	\$0.2
Medi-Cal Targeted Provider Rate Increases & Investments Workload	4260-069-BCP-2024-GB	26 Perm 1 LT to Perm	\$4.6	
Medi-Cal Targeted Provider	4260-321-BCP-2024-MR		(\$4.6)	

Rate Increases & Investments Workload				
Medi-Cal Targeted Provider Rate Increases & Investments Workload	4260-345-BCP-2024-L		\$2.0	
Medicare Part A Buy In (SB 311)	4260-211-BCP-2024-MR	5 Perm 1 LT	\$1.0	\$0.5
Mobile Optometric Office (SB 502)	4260-319-BCP-2024-MR	2 Perm	\$0.3	
Naloxone Distribution Project Augmentation	4260-314-BCP-2024-MR		\$4.0**	
Naloxone Distribution Project Tribal Governments Technical Assistance Workload (AB 1233)	4260-212-BCP-2024-MR	1 LT	\$0.2	
Narcotic Treatment Program Licensing Trust Fund	4260-063-BCP-2024-GB		\$0.5	
One-Time Funding for the California Bridge Center	4260-326-BCP-2024-L		\$4.0**	
Robert F. Kennedy Farm Workers Medical Plan (AB 494)***	4260-214-BCP-2024-MR			
Support for Foster Care Rate Reform	4260-338-BCP-2024-L		\$0.8	\$0.4
	Total	67 Perm 4 LT to Perm 2 LT*	\$480.9	\$33.3

Dollars in millions and chart totals may not match due to rounding.

**Resources equivalent to limited-term positions.*

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

**** Resources begin FY 2026-27.*