

2025-26 Governor's Budget

Department of Health Care Services Highlights

January 10, 2025

**Governor Gavin Newsom
State of California**

**Secretary Kim Johnson
California Health and Human Services Agency**

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This document provides a summary of the Department of Health Care Services (DHCS) proposed fiscal year (FY) 2025-26 budget, including related statutory changes. The Department’s 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, and to continue 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 proposed 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 2025-26, the Governor’s Budget proposes a total of \$193.4 billion and 4,821.5 positions for the support of DHCS programs and services. Of that amount, \$1.3 billion funds state operations (DHCS operations), while \$192.1 billion supports local assistance (funding for program costs, partners, and administration). The position count for 2025-26 includes the changes requested via budget change proposals.

Total DHCS Budget

(Includes non-Budget Act appropriations)

Fund Source*	FY 2024-25 Enacted Budget	FY 2024-25 Revised Budget	FY 2025-26 Proposed Budget
Local Assistance (LA)			
LA General Fund	\$ 35,332,436	\$ 37,961,008	\$ 42,421,898
LA Federal Funds	\$ 98,934,405	\$107,914,993	\$118,438,068
LA Special Funds	\$ 28,112,326	\$ 30,134,163	\$ 28,162,840
LA Reimbursements	\$ 2,497,137	\$ 2,549,716	\$ 3,086,750
Total Local Assistance	\$164,876,304	\$178,559,880	\$192,109,556
State Operations (SO)			
SO General Fund	\$ 398,444	\$ 518,351	\$ 358,534
SO Federal Funds	\$ 610,909	\$ 608,300	\$ 592,709
SO Special Funds	\$ 392,116	\$ 405,598	\$ 293,196
SO Reimbursements	\$ 25,486	\$ 25,409	\$ 29,649
Total State Operations	\$1,426,955	\$1,557,658	\$1,274,088
Total Funds			
Total General Fund	\$ 35,730,880	\$ 38,479,359	\$ 42,780,432
Total Federal Funds	\$ 99,545,314	\$108,523,293	\$119,030,777
Total Special Funds	\$ 28,504,442	\$ 30,539,761	\$ 28,456,036
Total Reimbursements	\$ 2,522,623	\$ 2,575,125	\$ 3,116,399
Total Funds	\$166,303,259	\$180,117,538	\$193,383,644

* Dollars in Thousands

MAJOR BUDGET ISSUES AND PROPOSALS

Managed Care Organization (MCO) Tax and Proposition 35

Proposition 35, approved by voters at the November 2024 general election, permanently continues the MCO tax added by Assembly Bill 119 (Chapter 13, Statutes of 2023) and specifies permissible uses of tax revenues starting with the 2025 tax year. Provider payment increases and investments that were newly authorized in the 2024 Budget Act are repealed as of January 1, 2025. Tax revenues will continue to support provider rate increases for primary care, maternal care, and non-specialty mental health services that were implemented in 2024. DHCS must consult with a stakeholder advisory committee to develop and implement new or modified payment methodologies pursuant to Proposition 35.

Compared to the 2024 Budget Act, support for the existing Medi-Cal program is estimated to increase by \$1 billion in 2024-25 due to updated estimates of available tax revenues but support for the existing Medi-Cal program is estimated to decrease by \$2.2 billion in 2025-26 due to implementation of Proposition 35's provisions as described above. The spending plan reflected in the Governor's Budget is subject to change, pending consultation with the stakeholder advisory committee.

Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT) Demonstration Approval

The Department applied for a new Medicaid Section 1115 demonstration in October 2023, titled the BH-CONNECT Demonstration, to expand access to and strengthen the continuum of behavioral health services for Medi-Cal members living with behavioral health needs. The federal Centers for Medicare and Medicaid Services (CMS) approved the state's waiver request in December 2024. The waiver is authorized January 1, 2025 through December 31, 2029.

Major components of the demonstration approval include:

- Access, Reform, and Outcomes Incentive Program to support behavioral health delivery systems in strengthening quality infrastructure, improving performance on quality measures, and reducing disparities in behavioral health access and outcomes.
- Activity Funds initiative to improve behavioral health outcomes for children and youth involved in child welfare by providing access to services and activities that support health, community inclusion, and social and emotional wellbeing.
- Transitional rent services for up to six months for eligible high-need members who are experiencing or at risk of homelessness.
- Short-term mental health care provided in inpatient and residential treatment settings that meet the federal institution for mental diseases (IMD) criteria.
- Community Transition In-Reach Services to provide transitional care management services to support individuals with significant behavioral health

needs who are returning to the community after long-term stays in inpatient, subacute, and residential facilities, including IMD settings.

These complement additional BH-CONNECT components that will be implemented under other federal and state authorities to expand access to and strengthen the continuum of community-based behavioral health services for Medi-Cal members, including new specialty behavioral health services such as Assertive Community Treatment (ACT), Forensic ACT, Community Health Worker services, Coordinated Specialty Care for First Episode Psychosis, Supported Employment, and Clubhouse Model services. BH-CONNECT will clarify coverage for evidence-based therapies for children and youth including Multisystemic Therapy, Functional Family Therapy, Parent-Child Interaction Therapy, and High-Fidelity Wraparound. BH-CONNECT includes joint child welfare/specialty mental health assessments upon entry to child welfare; and Centers of Excellence to provide fidelity assessments, training, and monitoring to support counties and providers with practice transformation to implement evidence-based services, among others. Some BH-CONNECT components will be implemented on a statewide basis, and other components will be implemented on a county opt-in basis.

Another major component of BH-CONNECT is the Behavioral Health Workforce Initiative (\$1.9 billion) to be administered by the Department of Health Care Access and Information, which supports workforce recruitment and retention and promotes the increased availability of behavioral health care practitioners who serve Medi-Cal members and underserved populations.

Caseload Impacts Related to Redeterminations

For the Governor's Budget, DHCS projects that Medi-Cal enrollment will be higher than assumed for the 2024 Budget Act. In recent months, reductions in enrollment related to resuming redeterminations as part of the COVID-19 pandemic unwinding appear to have ceased. The Governor's Budget projects that caseload will remain relatively stable or only slightly decline through 2024-25 while unwinding flexibilities remain in effect. The November 2024 Medi-Cal Local Assistance Estimate (referred to as the Medi-Cal Estimate) assumes that discretionary unwinding flexibilities end June 30, 2025, and caseload will decline more steeply from August 2025 through June 2026. Compared to 2024 Budget Act assumptions, revised projections related to redeterminations for the Governor's Budget result in approximately \$1.1 billion in increased General Fund costs in 2024-25.

Senate Bill (SB) 525 Health Care Minimum Wage Impacts

On October 16, 2024, the health care minimum wage increases pursuant to SB 525 (Chapter 890, Statutes of 2023) and as subsequently amended, went into effect as a result of a trigger included in the 2024 Budget Act. Specifically, the minimum wage increases were triggered by DHCS notifying the Joint Legislative Budget Committee that it had initiated the data retrieval process necessary to implement an increase to the Hospital Quality Assurance Fee (HQAF) beginning January 1, 2025, to fund increased supplemental Medi-Cal payments to hospitals. This trigger recognized that an increase

to the HQAF funded supplemental payments would partially mitigate the cost pressures for managed care plans resulting from the health care minimum wage increases, as hospitals will have significant new revenue available through HQAF. On December 11, 2024, DHCS submitted a request to CMS to significantly increase the Private Hospital Directed Payment Program (PHDP) by approximately \$6 billion total funds beginning January 1, 2025 to provide increased supplemental Medi-Cal managed care payments to hospitals for services delivered in 2025, subject to final federal approval.

As part of the 2025 managed care rate setting process, actuaries considered the impact of required supplemental payments, such as those supported by the HQAF, on total provider reimbursement levels in managed care and, consequently, on associated cost pressures faced by managed care plans due to state policies, health care industry trends, and other factors, in the overall projections of the reasonable, appropriate, and attainable costs for managed care plans. Given the magnitude of the additional revenue anticipated to be going to hospitals in 2025, the managed care rate increases for the impact of SB 525 were significantly discounted as part of the actuarial managed care rate setting process to reflect these reduced cost pressures.

Behavioral Health Transformation Update

The 2024 Budget Act provided \$85 million total funds (\$50 million General Fund) for counties to begin administering the Behavioral Health Services Act (BHSA) (SB 326, Chapter 790, Statutes of 2023). The Governor's Budget includes an additional \$93.5 million total funds (\$55 million General Fund) in Local Assistance for 2025-26 for counties to administer BHSA.

Home and Community-Based Spending Plan Update

The 2021 Budget Act appropriated funds made available pursuant to the American Rescue Plan (ARP) Act of 2021 to enhance, expand, and strengthen Home and Community-Based Services (HCBS). The HCBS spending plan includes initiatives that span across six departments. The ARP required HCBS funding to be spent by March 31, 2024. In June 2022, CMS extended the deadline to March 31, 2025, giving states an additional year to spend the funds; however, California's deadline to spend the funds was December 31, 2024.

In December 2024, the state deadline was extended to January 31, 2025 to allow the six departments to post final revenues and expenditures including any corrections to ensure all funds are properly accounted for and reported to CMS.

Trailer Bill Language

DHCS is proposing the following trailer bill language:

- Program of All-Inclusive Care for the Elderly (PACE) Fees
- Dementia Care Aware
- Hospital Financing

- Behavioral Health Services Act Revenue and Stability (to effectuate the forthcoming report to be submitted pursuant to Welfare and Institutions Code 5892.3 (e))

CASELOAD UPDATES

Medi-Cal Program

This section provides an overview of caseload projections for Medi-Cal as reflected in the November 2024 Medi-Cal Estimate. Projected caseload levels are summarized in the tables below:

Estimated Average Monthly Certified Eligibles

November 2024 Estimate

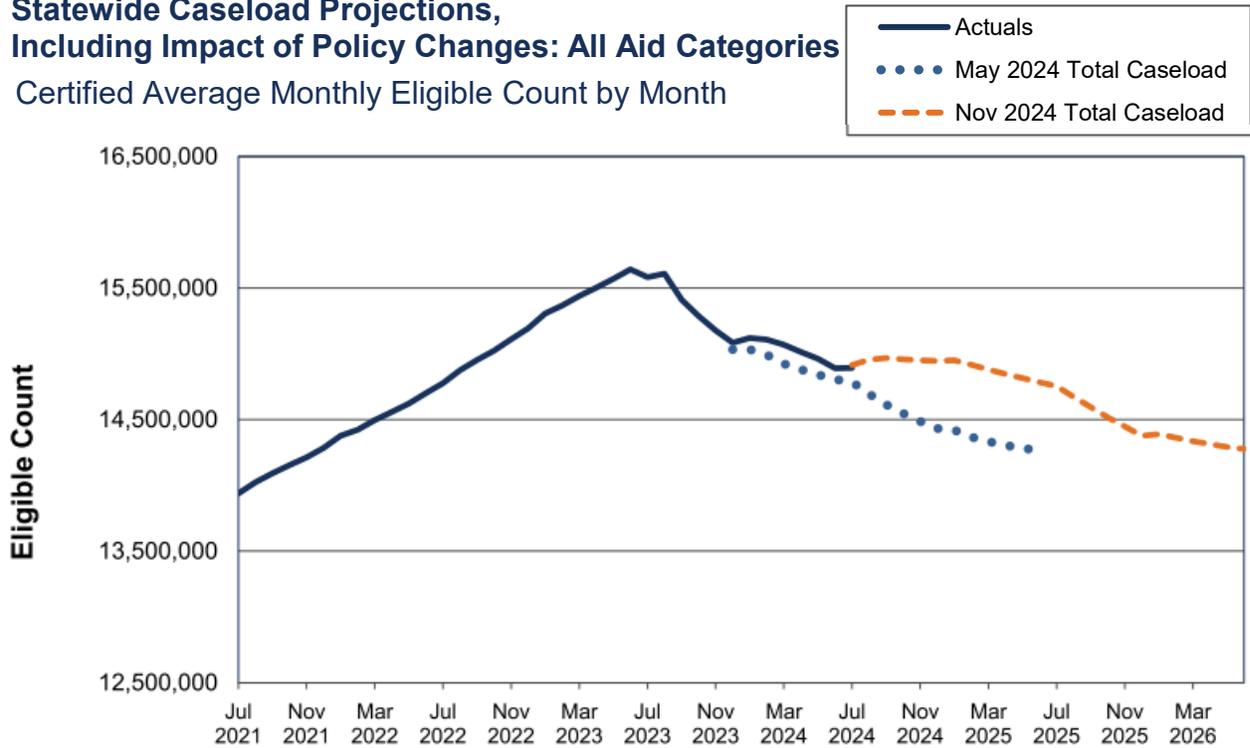
	<u>Eligibles</u>			<u>Year over Year Change</u>	
	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>Percent</u>	
				<u>FY 2023-24 to FY 2024-25</u>	<u>FY 2024-25 to FY 2025-26</u>
Seniors	1,277,700	1,444,200	1,590,200	13.03%	10.11%
Persons with Disabilities	1,064,100	1,041,100	1,022,800	-2.16%	-1.76%
Families and Children	7,709,100	7,348,000	6,919,900	-4.68%	-5.83%
Optional Expansion	5,119,800	5,051,300	4,884,000	-1.34%	-3.31%
Miscellaneous	70,700	67,800	72,800	-4.10%	7.37%
Total	15,241,400	14,952,400	14,489,700	-1.90%	-3.09%

Change from May 2024 Estimate

	<u>Eligibles</u>		<u>Percent</u>	
	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>
Seniors	17,600	182,400	1.40%	14.46%
Persons with Disabilities	12,700	11,900	1.21%	1.16%
Families and Children	10,300	(38,000)	0.13%	-0.51%
Optional Expansion	28,900	296,000	0.57%	6.22%
Miscellaneous	(700)	(8,100)	-0.98%	-10.67%
Total	68,800	444,200	0.45%	3.06%

The plot below displays the projected total Medi-Cal caseload over time.

**Statewide Caseload Projections,
Including Impact of Policy Changes: All Aid Categories**
Certified Average Monthly Eligible Count by Month



The Medi-Cal caseload declined most months from July 2023 through June 2024, the 12 months following the end of the COVID-19 pandemic continuous enrollment requirement. Recent data suggests that the downward caseload trend has stopped. The Governor’s Budget assumes that caseload will be generally steady or only slightly decline through 2024-25. The Governor’s Budget assumes the end of discretionary pandemic unwinding flexibilities that result in fewer discontinuances in June 2025. Consistent with this assumption, enrollment is expected to fall more steeply in 2025-26. Additionally, significant variability is possible in the near future due to potential changes in federal immigration policy.

Family Health Programs

This section provides an overview of caseload projections for the Family Health programs as reflected in the November 2024 Family Health Local Assistance Estimate (referred to as the Family Health Estimate). Projected caseload levels are summarized below.

California Children’s Services (CCS)

	PY	CY	BY	Change from	
	FY 2023-24	FY 2024-25	FY 2025-26	PY to CY	CY to BY
CCS State Only					
November 2024	12,961	15,052	15,052	16.13%	0.00%
May 2024	14,254	17,024			
Change from May 2023	-1,293	-1,972			
% Change from May 2023	-9.07%	-11.58%			

Genetically Handicapped Persons Program (GHPP)

	PY	CY	BY	Change from	
	FY 2023-24	FY 2024-25	FY 2025-26	PY to CY	CY to BY
GHPP State Only					
November 2024	730	701	701	-3.97%	0.00%
May 2024	740	795			
Change from May 2024	-10	-94			
% Change from May 2024	-18.71%	-15.95%			

Every Woman Counts (EWC)

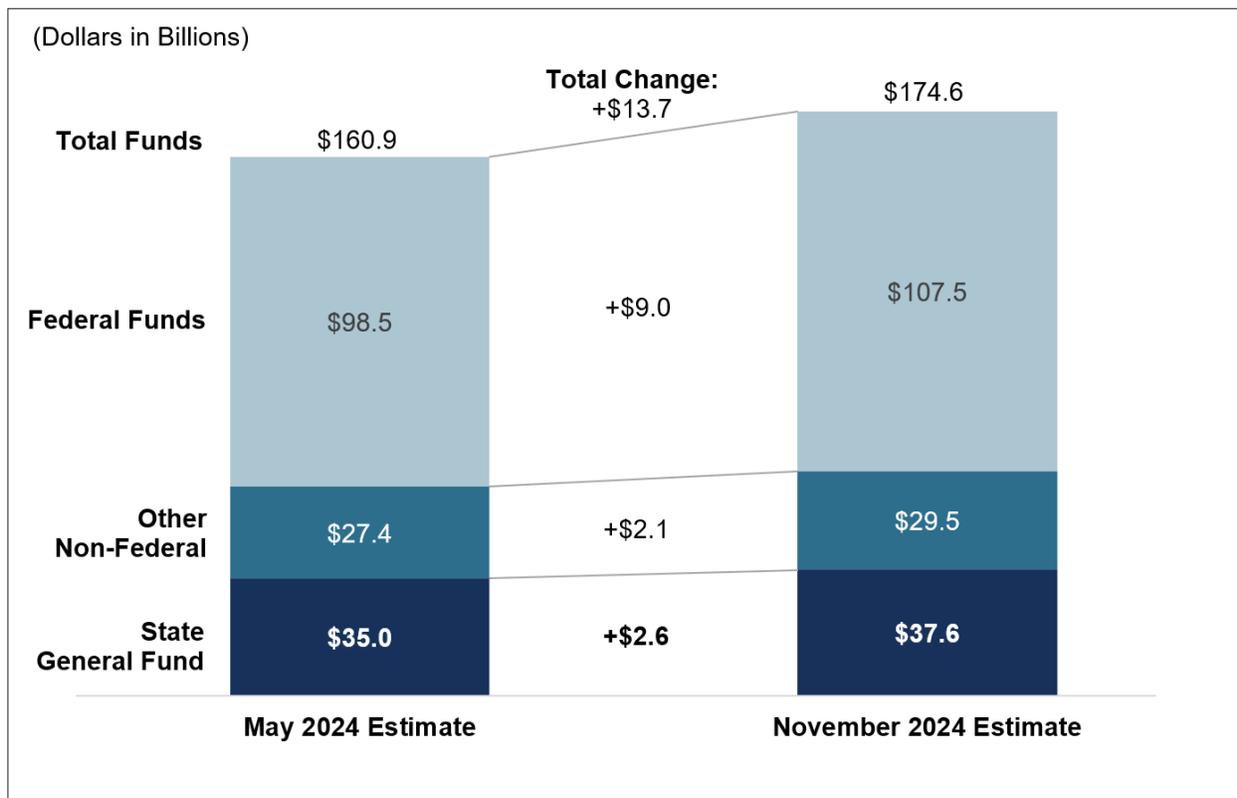
	PY	CY	BY	Change from	
	FY 2023-24	FY 2024-25	FY 2025-26	PY to CY	CY to BY
EWC					
November 2024	15,195	12,668	12,845	-16.63%	1.40%
May 2024	16,503	16,375			
Change from May 2024	-1,308	-3,707			
% Change from May 2024	-7.93%	-22.64%			

SUMMARY OF MEDI-CAL LOCAL ASSISTANCE ESTIMATE INFORMATION

Funding in the Medi-Cal Estimate makes up the vast majority of local assistance spending in the Department’s budget. Other local assistance funding includes support for programs in the Family Health Estimate (described in the next section), Behavioral Health Services Act funding, and a number of other local assistance items primarily consisting of federal behavioral health grants.

The Department estimates Medi-Cal spending to be \$174.6 billion total funds (\$37.6 billion General Fund) in 2024-25 and \$188.1 billion total funds (\$42.1 billion General Fund) in 2025-26. This does not include Certified Public Expenditures of local governments or General Fund expenditures in other state departments. For more information, see the November 2024 Medi-Cal Local Assistance Estimate available on the DHCS website at <https://www.dhcs.ca.gov>.

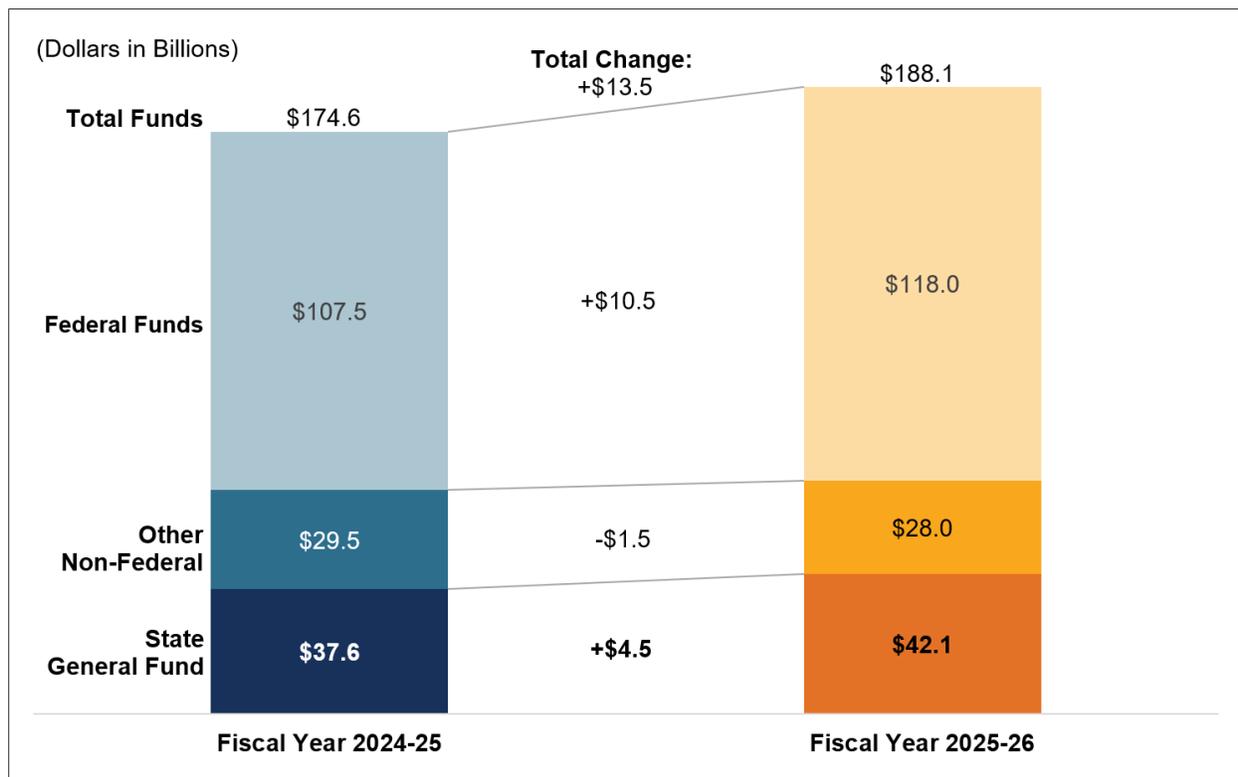
FY 2024-25 Comparison



The November 2024 Medi-Cal Estimate for 2024-25 projects a \$13.7 billion (8.5 percent) increase in total spending and a \$2.6 billion (7.5 percent) increase in General Fund spending compared to the May 2024 Medi-Cal Estimate, including authority from all previous budget acts. Estimated spending from just the 2024 Budget Act is increased by \$2.8 billion. Major factors driving the change in estimated General Fund spending include:

- An approximately \$2.7 billion increase in costs for unsatisfactory immigration status (UIS) members. This increase is primarily driven by higher than anticipated enrollment and increased pharmacy costs.
- An estimated \$540 million General Fund increase due to growth in Medi-Cal pharmacy expenditures beyond the UIS spending growth. Similar to other state Medicaid programs, California’s Medi-Cal program has experienced a notable increase in overall pharmacy expenditures.
- An approximately \$1.1 billion increase in costs from smaller than previously assumed impacts related to redeterminations.
- A \$1 billion reduction in General Fund costs related to the MCO tax. The Governor’s Budget assumes an additional \$453.7 million reduction in General Fund costs related to Proposition 35 passed by voters in November 2024. The Governor’s Budget also assumes an additional \$478.7 million reduction in General Fund costs related to approval of an amendment to the MCO tax related to consideration of Medicare revenue back to January 2024 instead of April 2024.

Year Over Year Change from FY 2024-25 to FY 2025-26



After the adjustments described previously, the Medi-Cal Estimate projects that total spending will increase by \$13.5 billion (7.7 percent) and General Fund spending will increase by \$4.5 billion (11.8 percent) between 2024-25 and 2025-26. Major factors

driving the changes in estimated General Fund spending from 2024-25 to 2025-26 include:

- An approximately \$3.6 billion increase in costs due to changes in the use of available MCO tax revenues. Of this amount, \$2.7 billion relates to implementation of Proposition 35 and another \$478.7 million relates to a one-time adjustment in 2024-25 to reflect the full year of additional MCO revenues from consideration of Medicare revenue back to January 2024 instead of April 2024.
- An approximately \$215.2 million increase due to the projected growth in Medi-Cal pharmacy expenditures. Similar to other state Medicaid programs, California's Medi-Cal program has experienced a notable increase in overall pharmacy expenditures.
- A net \$268.5 million increase in other base costs, reflecting the net impact of growth in average managed care rates, changes in projected enrollment, growth in Medicare premium and Part D costs, and projected fee-for-service utilization other than pharmacy.

SUMMARY OF FAMILY HEALTH LOCAL ASSISTANCE ESTIMATE INFORMATION

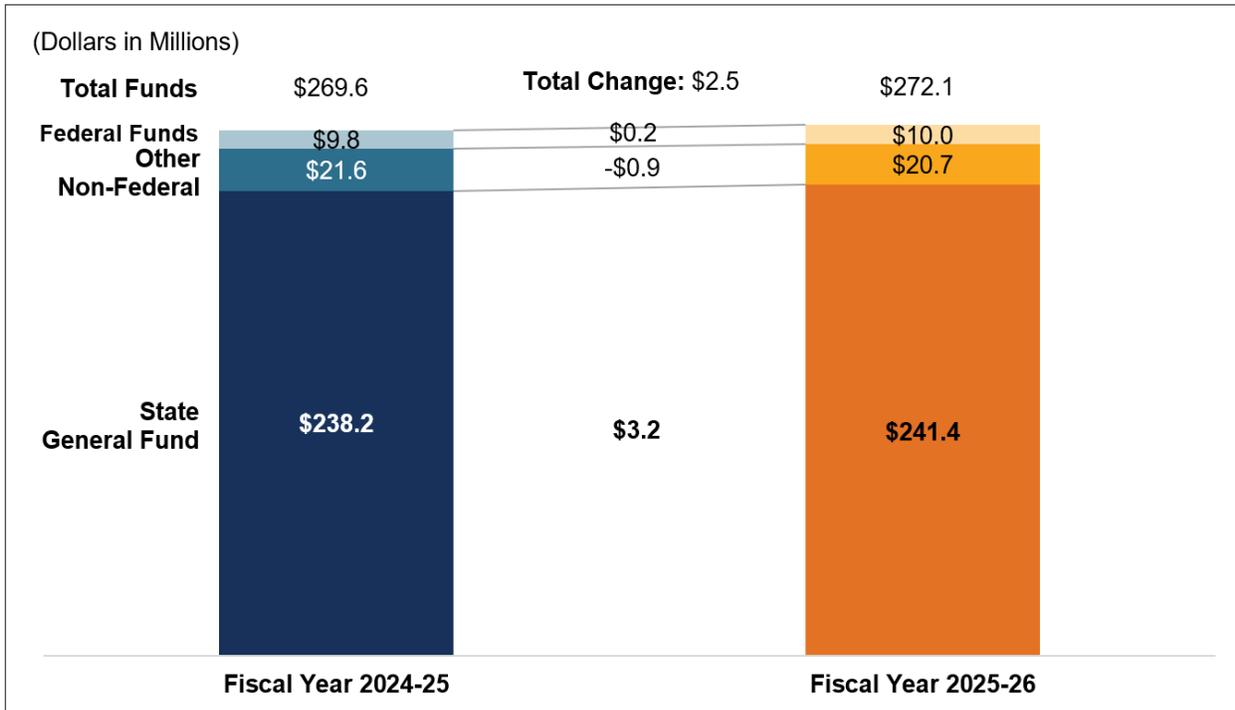
The Department estimates Family Health spending to be \$269.6 million total funds (\$238.2 million General Fund) in 2024-25 and \$272.1 million total funds (\$241.4 million General Fund) in 2025-26. This does not include Certified Public Expenditures of local governments or General Fund expenditures in other state departments. For more information, see the November 2024 Family Health Local Assistance Estimate available on the DHCS website at <https://www.dhcs.ca.gov>.

FY 2024-25 Comparison



The November 2024 Family Health Estimate for 2024-25 projects a \$6.7 million (2.4 percent) decrease in total spending and a \$6.2 million (2.5 percent) decrease in General Fund spending compared to the May 2024 Family Health Estimate.

Year Over Year Change from FY 2024-25 to FY 2025-26



The Family Health Estimate projects that total spending will increase by \$2.5 million (0.9 percent) and General Fund spending will increase by \$3.2 million (1.3 percent) between 2024-25 and 2025-26.

STATE OPERATIONS AND NON-ESTIMATE LOCAL ASSISTANCE BUDGET ADJUSTMENTS

The Budget includes additional expenditure authority of \$44.6 million total funds (\$6.2 million General Fund) for 144 positions (133 Permanent, 11 Limited-Term (LT)).

Detailed budget change proposal narratives can be found on the Department of Finance website at this [link](#). 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.

The DHCS' State Operations budget is anticipated to be reduced pursuant to the 2024 Budget Act Control Sections 4.05 and 4.12.

Budget Change Proposal (BCP) Title	BCP Number	Positions	Total Funds**	General Fund**
AB 186 SNF Workload Standards & Accountability Sanctions	4260-069-BCP-2025-GB	14 Perm	\$2.9	
Civil Rights Compliance	4260-076-BCP-2025-GB	12 Perm	\$2.0	\$1.0
Medi-Cal Administrative Activities for CalAIM Justice Involved Initiative	4260-081-BCP-2025-GB	5 Perm	\$0.8	\$0.4
Naloxone Distribution Project Augmentation	4260-253-BCP-2025-GB		\$8.4***	
PACE Growth and Expansion	4260-082-BCP-2025-GB	33 Perm	\$6.3	
Program Workload	4260-084-BCP-2025-GB	16 Perm 11 LT	\$7.9	\$2.0
Value Strategy for Hospital Payments in Medi-Cal Managed Care	4260-083-BCP-2025-GB	29 Perm	\$11.3	
Chaptered Legislation BCPs				
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
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	\$1.0	\$0.5

Budget Change Proposal (BCP) Title	BCP Number	Positions	Total Funds**	General Fund**
Joint BCPs				
California Electronic Visit Verification (CalEVV) Resources	4260-096-BCP-2025-GB		\$1.0	\$0.8
	Total*	133 Perm 11 LT	\$44.6	\$6.22

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

***Dollars in millions.*

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

*****Chaptered Legislation BCPs are displayed in a single BCP on the Department of Finance website.*

AB 186 SNF Workload Standards & Accountability Sanctions requests resources and expenditure authority to implement and provide program integrity for the Workforce Standards Program and the Accountability Sanctions Program, two new Skilled Nursing Facility financing programs authorized by AB 186 (Chapter 46, Statutes of 2022).

Civil Rights Compliance requests resources and expenditure authority to work toward achieving compliance on all state and federally mandated requirements related to civil rights complaints filed by Medi-Cal and related program members.

Medi-Cal Administrative Activities for CalAIM Justice Involved Initiative requests resources and expenditure authority to establish a Justice-Involved Medi-Cal Administrative Activities program for activities related to the Justice-Involved population in the 90 days prior to release.

Naloxone Distribution Project Augmentation requests an increase in expenditure authority for the Naloxone Distribution Project.

Program of All-Inclusive Care for the Elderly (PACE) Growth and Expansion requests resources and expenditure authority to meet all federal and state requirements related to the administration, operation, and monitoring and oversight of PACE.

Program Workload requests resources and expenditure authority to address the following workloads: California Community Transitions Demonstration project, Medi-Cal Long-Term Care Reimbursement Act, and complementary administrative support for DHCS.

Value Strategy for Hospital Payments in Medi-Cal Managed Care requests resources and expenditure authority to develop, implement, and sustain a comprehensive value strategy for state-directed payments to hospitals in the Medi-Cal program's managed care delivery system.

Chaptered Legislation BCPs

Health Care Coverage: Claim Reimbursement (AB 3275) requests resources and expenditure authority to implement the provisions of AB 3275 (Chapter 763, Statutes of 2024), including but not limited to developing and revising policy, publishing Medi-Cal managed care plan guidance, tracking implementation of developed processes and procedures, providing technical assistance, conducting compliance monitoring and enforcement, and resolving provider payment disputes.

Health Care Coverage: Utilization Review (SB 1120) requests resources and expenditure authority to develop and publish guidance for Medi-Cal Managed Care Plans and Dental Managed Care Plans and support DHCS in monitoring compliance with the provisions of SB 1120 (Chapter 879, Statutes of 2024).

Health Facilities (SB 1238) requests resources and expenditure authority to implement SB 1238 (Chapter 644, Statutes of 2024).

Medi-Cal Providers: Family Planning (SB 1131) requests resources and expenditure authority to implement SB 1131 (Chapter 880, Statutes of 2024).

Medi-Cal: Call Centers: Standards and Data (SB 1289) requests resources and position authority to accomplish new county call center data collection and processing workloads pursuant to SB 1289 (Chapter 792, Statutes of 2024).

Mental Health: Involuntary Treatment: Antipsychotic Medication (SB 1184) requests resources and expenditure authority to implement provisions of SB 1184 (Chapter 643, Statutes of 2024) by expanding existing data collection and reporting requirements pertaining to involuntary detentions under the Lanterman-Petris-Short Act.

Joint BCPs

California Electronic Visit Verification (CalEVV) Resources requests expenditure authority to ensure Medicaid funded care providers are federally compliant with the 21st Century Cures Act, which is required for the state to maintain federal funding for services across California.