CBHA CALIFORNIA BEHAVIORAL HEALTH ASSOCIATION

CALIFORNIA BEHAVIORAL HEALTH ASSOCIATION (CBHA)
2025-26 MAY REVISION ANALYSIS

May 2025

Introduction

The May Revision of the 2025-26 Budget presents a mixed outlook for California's behavioral health system, offering targeted investments while proposing cuts which could reduce access to community-based services. While the fiscal situation could have been far more severe given the uncertainty of the economic climate, the proposal is a setback to hard-won expansions to healthcare access and social services. The proposal seeks to balance the Budget at the expense of critical safety net protections for California's most vulnerable populations. Considering potential threats at the federal level to Medicaid, Medicare, and other social programs, the state has a duty to shore up its resources in defense of the health and well-being of all Californians. This analysis is developed for CBHA members to provide clarity and insight into the Budget and how its provisions may impact behavioral health safety net providers and the clients they serve.

Landscape Analysis

The 2025-26 Budget seeks to close a projected $12 billion deficit through a combination of spending cuts, freezes, and delays. The May Revision proposes $226.3 billion in General Fund expenditures for 2025-26, a reduction of nearly $7 billion from 2024-25. This reflects the decrease in revenue that resulted from the impact of federal tariffs, stock market volatility, and spikes in health care costs. As Congress looks likely to pass a federal budget which institutes cuts in funding to Medicaid and other programs dependent on significant federal aid, the state is looking to reduce expenditures ahead of time as a precaution.

The Budget proposes $302.4 billion in spending for health and human services programs in 2025-26 inclusive of $85.6 billion General Fund, federal funding, and special fund revenues. The proposal seeks to control increases in spending spurred by rising health care costs – especially for Medi-Cal, Developmental Disabilities, and In-Home Supportive Services (IHSS). This is where the spending reductions will have the greatest impact, not only on the state's fiscal stability, but for access to care and services for the most vulnerable communities. The Budget proposes significant cuts to access to Medi-Cal, rolling back the recent expansion of eligibility to undocumented Californians and increasing the number of uninsured. Additional cuts to IHSS, foster care rate reform, limits to certain benefits, and other key programs underscore the danger the proposal presents to patients and the providers who serve them.

Additionally, the Budget fails to invest in solutions to address critical threats to providers, including the insurance coverage crisis and the Proposition 36 treatment mandate. The insurance coverage crisis is especially impactful on agencies serving youth and families involved in the child welfare system, as insurers either drop coverage or refuse to issue new policies. This is an existential threat to these providers as they are unable to legally and safely provide critical behavioral health and support services. The treatment mandate for certain drug-related felonies under Proposition 36 threatens to overwhelm the capacity of substance use disorder (SUD) providers without a complementary increase in funding. Without additional funds, providers won't be able to scale up capacity to meet the increase in demand and service complexity for justice-involved clients.

Further Details on Specific Budget Items and Programs Can Be Found in the Analysis Below.

HEALTH AND HUMAN SERVICES

The May Revision includes approximately $2.4 billion in funding in 2025 – 26 to support and restructure behavioral health systems, including workforce development, Medi-Cal adjustments, and crisis services.

988 Suicide and Crisis Lifeline Centers — $17.5 Million (One-Time)

One-time funding from the 988 State Suicide and Behavioral Health Crisis Services Fund will support crisis centers managing the growing call, chat, and text volumes associated with the 988 line. This funding is intended to preserve existing capacity.

Behavioral Health Workforce Initiative – $1.9 Billion (Starting January 2026)

The budget provides a multiyear investment combining General Fund ($143 million), Designated State Health Program ($808 million), and federal funds ($950 million) to address workforce shortages in behavioral health. Funding will support clinical training, stipends, supervision, and professional development. The initiative, part of California's BH-CONNECT waiver, aims to build sustainable pipelines for licensed and paraprofessional providers.

Medical Providers Interim Payment Fund Loan – $3.4 Billion (2024-25), $1.3 Billion (2025-26)

Establishes a no-interest loan program for medical providers impacted by delays in Medi-Cal payments, helping stabilize operations during ongoing transitions in payment processing systems. Loan repayments are scheduled to begin in 2027-28.

Full-Scope Medi-Cal Expansion Freeze – Enrollment Pause Starting January 2026

While maintaining coverage for current enrollees, the budget halts new enrollment for individuals, regardless of immigration status, over the age of 19 in full-scope Medi-Cal. This rollback undermines recent expansion efforts and introduces new gaps in care for uninsured populations.

Medi-Cal Premiums for State-Only Programs – Implemented January 2027

Beginning in 2027, individuals with certain statuses, those who will eventually be covered with federal funds, and those enrolled in Medi-Cal full-scope expansion will be required to make monthly payments for care. These individuals covered under state-only Medi-Cal programs will be required to pay a $100 monthly premium. For those unable to pay this premium, they will no longer be eligible for Medi-Cal until they can adjust their immigration status to re-qualify or make other changes to lose federal coverage. This policy is expected to result in decreased enrollment and cost savings but may also lead to greater instability in care for low-income individuals.

Elimination of Prospective Payment System (PPS) Payments to Federally Qualified Health Centers and Rural Health Clinics — $452.5 Million Cut

Eliminates PPS for providers serving individuals under state-only Medi-Cal eligibility categories, including undocumented individuals. Reimbursement will default to fee-for-service or negotiated managed care rates. This change is a substantial structural cut to safety-net providers and raises serious concerns about access for uninsured and undocumented communities.

Prescription Drug Utilization Management

Medi-Cal will implement prior authorization and step therapy for drug coverage, aiming to achieve savings between $200 million and $400 million. Although cost-effective, these tools may introduce delays in medication access, particularly for individuals on psychiatric regimens.

Provider Overtime and Travel Hours – $707.5 Million in General Fund Saving

The Budget enforces a 50-hour cap for IHSS providers, which is expected to generate significant savings.

Conform IHSS Residual Program with Medi-Cal Coverage

A reduction of $110.6 million General Fund in 2025-26 is proposed in order to conform the IHSS Residual Program coverage with the timing of Medi-Cal coverage.

IHSS for Full-Scope Medi-Cal Expansion Adults 19 and Older

A reduction of $158.8 million General Fund in 2025-26 and ongoing to eliminate IHSS benefits for individuals, regardless of immigration status, aged 19 and older is proposed.

Delay of Foster Services Tiered Rate Structure

The proposed shift to a tiered rate reimbursement model for children's services, including foster care, will be deferred until fiscal conditions improve.

Family Urgency Response System Reduction – $13 Million General Fund Reduction (ongoing), $17 Million Maintained

A reduction in funding for the Family Urgency Response System (FURS), a statewide support service for children and families in crisis, including those in foster care is proposed. These reductions could diminish timely access to behavioral health crisis services.

Health and Safety Waiver Assistance

A reduction of $3 million ongoing General Fund to eliminate health and safety waiver application assistance is proposed.

Implicit Bias Training

A reduction of $5.6 million ongoing General Fund to eliminate dedicated resources for refreshing regional center implicit bias training is proposed.

Elimination of Direct Support Professional Training Program - $17.6 Million (One-Time), $36.8 Million (Ongoing)

The proposed cut removes investments in building the paraprofessional behavioral health workforce. Given ongoing staffing challenges, this rollback could limit provider ability to onboard and retain essential frontline personnel.

Self-Determination Program

A reduction of $22.5 million General Fund in 2025-26, and $45.5 million General Fund annually thereafter, has been proposed in order to reflect new guardrails that protect the sustainability of the program.

Department of State Hospital Programs

The May Revise reduces resources for various state hospital programs, including the Incompetent to Stand Trial Program, Community-Based Restoration and Felony Diversion programs, and isolation unit needs. Estimated savings are $195.5 million General Fund in 2025-26, $273.1 million General Fund in 2026-27, and $191.6 million General Fund in 2027-28 and ongoing. The May Revision maintains funding to continue to support these programs based on actual program expenditures.

Incompetent to Stand Trial (IST) Program Reduction – $428 Million

Reflecting programmatic changes, the May Revision reduces $232.5 Million in unspent county grants and $195.5 million in infrastructure funds previously dedicated to IST-related community placements. The administration cites implementation delays and redirection of strategy toward cost containment as justification.

Medi-Cal Asset Test Limits for Seniors and Disabled Adults

As a cost saving measure, Medi-Cal asset limits for seniors and disabled adults will be reinstated. A limit of $2,000 for individuals and $3,000 for a couple will become effective January 1, 2026. This reversal of the recent, equity-driven change will add further instability for vulnerable populations.

HOUSING AND HOMELESSNESS

The May Revision introduces the California Housing and Homelessness Agency (CHHA) as a centralized body to coordinate the state's multifaceted response to housing and homelessness. CHHA will oversee programs spanning homelessness prevention, affordable housing, rental assistance, and homeownership, while also assuming roles in civil rights enforcement including fair housing and equitable access. To support its information, the proposal allocates $4.2 million ($4 million General Fund) in 2025-26, followed by $6.4 million in 2026-27 and $6.2 million ongoing. These funds will facilitate the restructuring of the Business, Consumer Services, and Housing Agency and help launch CHAA alongside the Housing Development and Finance Committee (HDFC).

Proposition 35 Flexible Housing Subsidy Pools – $200 Million

This funding supports rental assistance and wraparound services aligned with Housing First strategies, specifically targeting individuals with behavioral health conditions. The allocation will be distributed over two years and represents a continuation of the state's investment in integrated housing and care models.

CRIMINAL JUSTICE AND JUDICIAL BRANCH

The May Revision includes $21.5 million General Fund in 2025-26 to improve care transitions and pre-release services for incarcerated individuals with behavioral health needs.

CalAIM Justice-Involved Initiative – $21.5 Million

Funding is allocated to expand Medi-Cal coverage for incarcerated individuals up to 90 days prior to release. The goal is to reduce recidivism through early connection to medical, mental health, and SUD services in the Community.

CDCR Licensure Waiver Extension

This proposal will allow the Department of Corrections and Rehabilitation to employ pre-licensed professionals in behavioral health roles. This helps address workforce shortages within the correctional system.

Incompetent to Stand Trial Evaluations

A reversion of $9.1 million General Fund in 2023-24 and 2024-25 associated with unspent funds provided to the Judicial Branch for improvements to Incompetent to Stand Trial evaluations is proposed.

WORKFORCE AND PREVENTION INFRASTRUCTURE

The May Revision includes approximately $392.1 million in funding to support behavioral health workforce development and youth substance use prevention programming.

Workforce Innovation and Opportunity Act (WIOA) Alignment – $119.6 Million

The proposal aligns federal WIOA funds with state workforce development efforts. This includes career pathways relevant to behavioral health, although specific behavioral health allocations are not detailed.

Proposition 64 Youth Substance Use Prevention and Treatment – $272.5 Million

Continued funding from cannabis tax revenues to support school, and community-based prevention, early intervention, and youth SUD treatment services across California.

ECONOMIC OUTLOOK

The May Revise presents a cautious economic outlook, highlighting persistent inflationary pressures and slower growth across key sectors. The Governor's budget reflects expectations of weaker state revenues and restrained labor and housing market performance through 2026.

"Growth Recession"

California is anticipated to experience a "growth recession" in which GDP grows slowly but does not contract. This outlook results in reduced state revenues and complicates the state's ability to fund new or ongoing programs. The slow recovery trajectory necessitates restrained spending and deferred policy expansions, particularly in areas dependent on General Fund dollars.

Inflation Projected to Spike in 2025 and 2026

Inflation is forecasted to climb above three percent in 2025 and 2026, primarily due to increases in housing, health care, and energy costs. Higher inflation reduces consumer purchasing power and increases pressure on government-funded services, including behavioral health and SUD treatment programs.

CA Job Growth to Slow and Remain Subdued

The state projects that job growth will decelerate significantly in 2025, with modest recovery extending into 2026. Employment levels in health care and social assistance sectors remain below pre-pandemic projections, which could prolong staffing shortages in behavioral health and SUD treatment programs.

CA Real Wage Growth Downgraded

Real wage gains are expected to remain weak through 2026 due to inflation outpacing nominal wage increases. For community-based organizations, this trend complicates recruitment and retention efforts as salaries fail to keep up with cost-of-living demands.

CA Housing Permits Significantly Downgraded

Permits for new housing construction are forecasted to fall short of previous estimates. Lower housing development weakens the infrastructure necessary for behavioral health initiatives, especially those tied to state housing bond funds or Prop 1 allocation.

Conclusion

CBHA recognizes the Administration's efforts to preserve behavioral health investments, despite the state's ongoing fiscal constraints. The continued prioritization of initiatives like BH-CONNECT, behavioral health workforce expansion, and integrated housing supports, demonstrates a commitment to long-term system transformation. At the same time, the May Revision underscores the importance of vigilance, as reduction and delays pose real challenges for providers and communities. For additional information or questions, please contact CBHA's Senior Advisor for Policy & Legislative Affairs, Carli Stelzer, at: cstelzer@cccbha.org

For more information on the Governor's May Revise:

- Governor's Budget Summary
- California Budget & Policy Center
- Department of Health Care Services Highlights
- Multiyear Budget Projection Summary