Hello Community Partners,

Governor Gavin Newsom introduced his proposed 2025-2026 Budget on January 10th, and CBHA is pleased to provide an overview of key behavioral health highlights.

At the start of 2025, California's fiscal outlook reflects cautious optimism. With a projected revenue of $16.5 billion, the state is navigating significant economic uncertainties, including inflationary pressures and federal policy shifts, that may influence future fiscal stability.

While the Budget includes challenging adjustments, it also demonstrates a continued commitment to protecting and expanding investments in behavioral health services—a foundation for a healthier and more equitable California.

With the Legislature required to pass a balanced budget by June 15, 2025, CBHA staff will actively engage in Budget Committee discussions and collaborate with policymakers during this critical process. Our priority remains advocating for the needs of behavioral health providers and the communities they serve. We are grateful for the Governor's focus on behavioral health and for your ongoing partnership in achieving these goals.

If you have questions about this budget overview, please contact CBHA's Senior Advisor for Policy & Legislative Affairs, Carli Stelzer, at: cstelzer@cccbha.org.

In Service,

Le Ondra Clark Harvey, Ph.D.
Chief Executive Officer

Budget Analysis Overview: Fiscal Year 2025-26

Introduction

Projected revenue for the 2025-26 Budget stands at **$16.5 billion higher than initial projections**, reflecting a stronger-than-expected economic outlook. However, California faces significant fiscal risks tied to national economic volatility, including fluctuating stock and commodity prices, potential federal policy changes, and the continuing threat of inflation.

CBHA is closely monitoring these developments and advocating for the stability and expansion of behavioral health services statewide. Below, we provide key highlights and implications of the proposed budget from a behavioral health perspective.

Fiscal Reserves and Spending

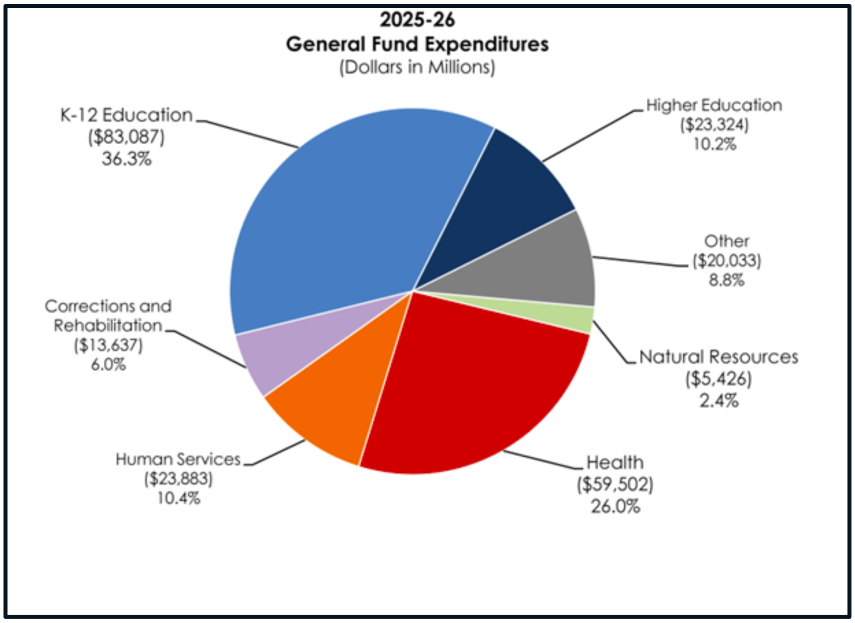
Reserves: The budget includes $16.9 billion in fiscal reserves, allocated as follows:

- $10.9 billion in the Budget Stabilization Account ("Rainy Day Fund")
- $1.5 billion in the Public School System Stabilization Account
- $4.5 billion in the Special Fund for Economic Uncertainties

Total Spending: The 2025-26 budget proposes $322.3 billion in total expenditures, distributed as follows:

- **$228.9 billion** in the General Fund
- **$86.8 billion** in Special Funds

This allocation represents the state’s commitment to maintaining a balanced budget while addressing ongoing needs in health, housing, and social services.



2025-26 Total State Expenditures by Agency
(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	$8,198	$4,968	$374	$13,541
Business, Consumer Services & Housing	517	1,338	538	2,392
Transportation	754	17,299	97	18,151
Natural Resources	5,426	2,749	2,466	10,640
Environmental Protection	137	4,308	369	4,814
Health and Human Services	83,385	43,294	437	127,115
Corrections and Rehabilitation	13,637	3,964	-	17,601
K-12 Education	83,087	104	1,513	84,704
Higher Education	23,324	105	566	23,995
Labor and Workforce Development	963	1,157	-	2,119
Government Operations	3,590	175	12	3,778
General Government:				
Non-Agency Departments	1,303	2,069	171	3,543
Tax Relief/Local Government	556	3,634	-	4,191
Statewide Expenditures	4,016	1,670	1	5,686
Total	**$228,892**	**$86,834**	**$6,543**	**$322,269**

Note: Numbers may not add due to rounding.

Behavioral Health and Medi-Cal Highlights

Health and Human Services:

A total allocation of **$296.1 billion** is proposed for health and human services, including **$83.7 billion** from the General Fund. Key changes affecting behavioral health include:

- **Medi-Cal Budget: $188.1 billion i**s allocated, with $42.1 billion from the General Fund. Caseload adjustments predict a modest decline from 15 million enrollees in 2024-25 to 14.5 million in 2025-26, coinciding with the unwinding of pandemic-related eligibility flexibilities. Despite the decrease, average costs per enrollee are projected to rise due to higher pharmacy and caseload costs.
- **BH-CONNECT Demonstration:** Federal approval secures **$8 billion** (state, local, and federal funds) for the Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT) demonstration. This initiative prioritizes services for Medi-Cal members experiencing significant behavioral health conditions, focusing on children, youth, individuals facing homelessness, and justice-involved populations.
    - Another major component of BH-CONNECT is the **Behavioral Health Workforce Initiative** which allocates **$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.
- **Public Health Emergency Unwinding Flexibilities:** The continuation of eligibility redetermination flexibilities through June 30, 2025, is projected to cost **$3 billion** ($1.1 billion General Fund) in 2024-25. Medi-Cal enrollment is expected to temporarily increase by approximately 450,000 enrollees compared to the 2024 Budget Act.

Managed Care Organization (MCO) Tax: The renewed MCO tax is projected to generate $7.9 billion in 2024-25, $4.4 billion in 2025-26, and $3.3 billion in 2026-27 to support the Medi-Cal program. Compared to the 2024 Budget Act, this is an increase of $1 billion in 2024-25, but reductions of $2.2 billion in 2025-26 and $1.8 billion in 2026-27. Notably, these funds will sustain provider rate increases for primary care, maternal care, and non-specialty mental health services implemented in 2024.

Key Behavioral Health Initiatives

Children and Youth Behavioral Health Initiative (CYBHI):

- Implementation grants for the California Community Schools Partnership Program will support over 2,000 public schools with integrated educational, health, and mental health services.
- Beginning January 1, 2025, all Local Educational Agencies (LEAs) may apply to participate in the CYBHI Fee Schedule Program, which enables reimbursement for behavioral health services provided by schools and community-based partners through Medi-Cal and commercial health plans.

Workforce Development: Despite a delay in funding disbursements, nearly **$1 billion** remains earmarked for workforce initiatives. Key elements include:

- Social work initiatives, addiction psychiatry fellowships, and university/college grants for behavioral health professionals.
- Expansion of Master of Social Work slots and support for local psychiatry behavioral health programs.

Infrastructure Investments: Proposition 1, the Behavioral Health Infrastructure Bond Act of 2024, allocates **$6.4 billion** to modernize and expand behavioral health facilities. These investments will improve the accessibility and quality of care for vulnerable populations.

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.

Social Services and Housing

Department of Social Services: A proposed allocation of **$62.1 billion** ($22.5 billion General Fund) will support critical programs such as CalWORKs, CalFresh, In-Home Supportive Services (IHSS), and Adult Protective Services. Specific highlights include:

- A projected CalWORKs caseload of 361,834 families in 2025-26, supported by **$9.5 billion** in total TANF expenditures.
- An approximate 0.2% increase in CalWORKs Maximum Aid Payments beginning October 1, 2025, funded entirely by the Child Poverty and Family Supplemental Support Subaccount.

Housing: Funding of **$1.5 billion** will continue to support transitional housing programs, despite adjustments in funding sources and disbursement timelines.

Homelessness:

- $100 million remains allocated for the Encampment Resolution Fund, with additional measures proposed to increase accountability among local governments.
- Plans to establish a new California Housing and Homelessness Agency aim to align housing initiatives with complementary policy areas such as behavioral health, transportation, and climate policies. CBHA will closely monitor the development and initiatives shared by the agency.

Future Considerations

Master Plan for Developmental Services: Scheduled for release in March 2025, the plan will focus on lifelong, person-centered services emphasizing equity, accountability, and improved outcomes. The Department of Developmental Services anticipates serving approximately 505,000 individuals in 2025-26, an increase of 40,000 from the prior year.

Reproductive Health Access Demonstration Waiver: One-time funding of $200 million in 2024-25 will support access to reproductive health services, with anticipated federal offsets of $85 million by 2026-27.

California Housing and Homelessness Agency: The proposed reorganization seeks to improve strategic alignment and strengthen the state’s ability to address housing and homelessness challenges holistically.

Conclusion

CBHA recognizes the Administration’s efforts to sustain behavioral health investments amid fiscal uncertainties. By continuing to prioritize initiatives such as BH-CONNECT, workforce development, and housing, California is laying the groundwork for a more equitable and effective behavioral health system. For additional information or questions, please contact CBHA’s Senior Advisor for Policy & Legislative Affairs, Carli Stelzer, at: cstelzer@cccbha.org.