



DMH and SAPC Directors' Report for the Behavioral Health Commission: Response to the Governor's Budget

Budget Highlights:

- The budget assumes modest revenue, not accounting for downturn risk, which could negatively impact state revenue by \$20-\$30 billion, according to various estimates. This reflects a "workload budget" approach, which maintains most baseline funding but does not include additional spending commitments. The Governor's Office anticipates that it will have updated state revenue and expenditure numbers for the May Revise. Trailer Bill Language, or the implementing language of the California State Budget Bill, was released in February and continues to be updated, including Aligning Evidence-Based Standards for Substance Use Disorder Treatment and a proposal regarding stabilizing BHSA revenue. The Departments are continuing to analyze and assess the potential impacts of the trailer bill language.
- **H.R. 1:** Changes from H.R. 1 are significantly impacting Medi-Cal overall, and the Governor's budget does not propose to backfill the loss of Medi-Cal coverage or access with state funding. Nor does the Governor propose to rescind the cuts to State-only full-scope Medi-Cal for individuals who have unsatisfactory immigration status that were enacted with the final 2025-2026 State budget.

SAPC's DMC-ODS funding is not directly impacted by this budget. DMH's budget will be impacted by one proposal (see "Medi-Cal Mobile Crisis Services" section below). However, due to the implementation of H.R. 1 and the Medi-Cal program changes in the 2025-2026 State budget, the Medi-Cal system and the safety net overall are affected, and it remains to be seen how and if this will eventually impact DMC-ODS and DMH in the May Revise. Medi-Cal expenditures will increase due to H.R. 1 impacts, including:

- Reduction of Medi-Cal enrollment due to work eligibility requirements and unsatisfactory immigration status (UIS) restrictions. Individuals with an SUD or disabling mental disorder, and those participating in drug and alcohol treatment programs are exempt from work requirements.
- Prohibition of Managed Care Organization (MCO) tax revenue, which will reduce Medi-Cal revenue. The current MCO Tax is not consistent with an H.R. 1 requirement that prohibits taxing Medicaid providers at higher rates than non-Medicaid providers.
- Funds needed to backfill H.R. 1 cuts to Medicaid/Medi-Cal and other safety net programs. They are not included in this budget as they are currently designated as a risk, but not a liability.

- **BHSA:** The Behavioral Health Services Fund includes a \$150 million placeholder in the Behavioral Health Services Fund, in lieu of the General Fund, for workforce and prevention programming through HCAI and CDPH. The specifics of the proposal will be updated at the May Revise.
- **2011 Realignment:** 2011 realignment estimates are relatively flat. Local estimates are \$6.786 billion, a marginal increase from the prior year. As such, SAPC projects similar base 2011 realignment revenues for FY 2025-26 and FY 2026-27.
- **State Housing and Homelessness Agency:** The Governor's Reorganization Plan established a dedicated state housing and homelessness agency to institutionalize the state's progress now and in the long term. The new Agency will integrate housing programs, advance and protect civil rights, and simplify the administration of affordable housing programs.
- **Cannabis Tax Fund:** The Budget includes funding for Cannabis Tax Fund programs in 2026-27. SAPC's provider network is eligible for grants from the Education, Prevention, and Treatment of Youth Substance Use Disorders and School Retention program (\$242.3 million). SAPC is not involved in allocations for LA County, as the state issues grants directly to CBOs.
- **Prop 47:** The Budget estimates net GF savings of \$81.3 million in 2026-27 from Prop 47.
- **Prop 36:** Prop 36 was expected to increase California Department of Corrections and Rehabilitation's (CDCR) population. Projections now indicate Proposition 36 impacts will be 562 in 2025-26 and approximately 1,200 upon full implementation. The budget opens the door to "new" Prop 36 funding from savings in Prop 47.
- **Medi-Cal Mobile Crisis Services:** The Governor is proposing to change the Medi-Cal Mobile Crisis Services benefit from a state-mandated benefit to an optional benefit. This would allow every county to choose whether or not it wants to continue offering the benefit to its residents. The financial effect of changing the benefit from a state-mandated to county optional benefit is to shift the cost of the non-Federal share of the program from the State (and the State General Fund) to counties.

The Department of Mental Health's preliminary analysis of this budget proposal shows that if this proposal is adopted, then the County would assume new costs of approximately \$8.5M annually, assuming that the current level of Medi-Cal mobile crisis services holds steady. If the non-federal share of cost were to shift from the State to the county (as proposed in the Governor's January budget proposal) and the level of service were to increase, then the County's cost to opt in and maintain this Medi-Cal benefit would increase above \$8.5M annually.