

HEALTH AND HUMAN SERVICES

The Health and Human Services Agency oversees departments and state entities that provide health and social services to the most vulnerable and at-risk Californians while providing public health services to Californians. The Governor's Budget includes \$296.1 billion (\$83.7 billion General Fund) for all health and human services programs in 2025-26.

DEPARTMENT OF HEALTH CARE SERVICES

Medi-Cal, California's Medicaid program, is administered by the Department of Health Care Services (DHCS). Medi-Cal is a public health care coverage program that provides comprehensive health care services at no or low cost for low-income individuals. The Department also administers programs for special populations and several other non-Medi-Cal programs, as well as county-operated community mental health and substance use disorder programs. The Medi-Cal budget includes \$174.6 billion (\$37.6 billion General Fund) in 2024-25 and \$188.1 billion (\$42.1 billion General Fund) in 2025-26. Medi-Cal is projected to cover approximately 15 million Californians in 2024-25 and 14.5 million in 2025-26—more than one-third of the state's population.

MANAGED CARE ORGANIZATION TAX AND PROVIDER PAYMENT INCREASES

Proposition 35, approved by the voters in November 2024, requires DHCS to seek federal renewal and reauthorization of the Managed Care Organization (MCO) Tax added by Chapter 13, Statutes of 2023 (AB 119) to permanently continue the tax. Proposition 35 specifies permissible uses of tax revenues starting with the 2025 tax year, for which DHCS must consult with a stakeholder advisory committee to develop and implement. The Budget reflects MCO Tax revenue of \$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 and decreases of \$2.2 billion in 2025-26 and \$1.8 billion in 2026-27. The amendments to the MCO Tax pursuant to Chapters 6 and 39, Statutes of 2024 (SB 136 and AB 160) were approved by the federal government in late December 2024. The Budget includes the net benefit of funding associated with the MCO Tax amendments to entirely support the Medi-Cal program.

Given the passage of Proposition 35, the provider payment increases and investments that were authorized in the 2024 Budget Act are inoperable as of January 1, 2025. The Budget reflects Proposition 35 expenditures for calendar years 2025 and 2026, including the provider rate increases for primary care, maternal care, and non-specialty mental health services that were implemented in calendar year 2024. However, the final spending plan is subject to consultation with the stakeholder advisory committee as required by Proposition 35.

SIGNIFICANT BUDGET ADJUSTMENTS

- **2024-25 Budget**—The Budget includes increased Medi-Cal expenditures of approximately \$2.8 billion General Fund in 2024-25 compared to the 2024 Budget Act. This increase is driven primarily by higher overall enrollment due to continuing unwinding flexibilities and higher-than-projected caseload and pharmacy costs, offset by additional support from the MCO Tax.
- **Year-Over-Year Comparison**—The Budget projects Medi-Cal expenditures of \$42.1 billion General Fund in 2025-26, an increase of \$4.5 billion General Fund compared to the revised 2024-25 expenditures. This increase is driven primarily by reduced support for Medi-Cal from the MCO Tax as well as year-over-year growth in program costs.
- **Pharmacy Expenditures**—Similar to other state Medicaid programs, California's Medi-Cal program has experienced a notable increase in overall pharmacy expenditures. Compared to the 2024 Budget Act, the Budget includes an increase

of \$1.6 billion (\$1.3 billion General Fund) in 2024-25 and a year-over-year increase of \$1.2 billion (\$215.2 million General Fund) in 2025-26 due to projected growth in Medi-Cal pharmacy expenditures. In recent years, increased utilization of high-cost anti-obesity drugs, also referred to as glucagon-like peptide-1 (GLP-1s), have significantly contributed to rising pharmacy costs.

- Public Health Emergency Unwinding Flexibilities and Medi-Cal Caseload**—The Budget includes the continuation of eligibility redetermination flexibilities through June 30, 2025, resulting in reduced Medi-Cal disenrollment and increased costs of approximately \$3 billion (\$1.1 billion General Fund) in 2024-25 compared to the 2024 Budget Act. The Budget reflects Medi-Cal caseload of 15 million in 2024-25, an increase of approximately 450,000 compared to the 2024 Budget Act. Caseload is anticipated to modestly decline in 2025-26 as unwinding flexibilities end; however, the Budget projects an increase in Medi-Cal enrollees with higher average costs. In addition, the implementation of several state and federal policies has led to significant changes in the program in recent years, which has added complexity to Medi-Cal caseload projections. Further variability is possible in the near future due to potential changes in federal policy.

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services (DSS) serves, aids, and protects needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence. The Department's major programs include the California Work Opportunity and Responsibility to Kids (CalWORKs), CalFresh, In-Home Supportive Services (IHSS), Supplemental Security Income/State Supplementary Payment (SSI/SSP), Child Welfare and Adult Protective Services, Community Care Licensing, Disability Determination Services, and Child Care and Nutrition programs. The Budget includes \$62.1 billion (\$22.5 billion General Fund) for DSS programs in 2025-26.

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS

The CalWORKs program, California's version of the federal Temporary Assistance for Needy Families (TANF) program, provides temporary cash assistance to low-income families with children to meet basic needs. It also provides welfare-to-work services so that families may become self-sufficient. Eligibility requirements and benefit levels are

established by the state. Counties have flexibility in program design, services, and funding to meet local needs.

The Budget assumes \$9.5 billion in total TANF expenditures (state, local, and federal funds) in 2025-26. This amount includes \$6.4 billion for CalWORKs program expenditures and \$3.2 billion for other programs such as Child Welfare Services, Foster Care, the Department of Developmental Services (DDS) programs, the California Statewide Automated Welfare System, California Community Colleges Child Care and Education Services, Cal Grants, and the Department of Child Support Services. The average monthly CalWORKs caseload is estimated to be 361,834 families in 2025-26.

SIGNIFICANT UPDATES

- **CalWORKs Work and Family Well-Being Pilot**—In November 2024, California was selected as one of five states to participate in a federal pilot program to test alternative performance measures in the TANF program. The vision for California's pilot is to build upon a strong foundation of supportive and barrier removal services to facilitate employment and well-being. The pilot will leverage the CalWORKs Outcomes and Accountability Review (Cal-OAR) framework to measure successful program outcomes more holistically. The Administration continues to assess further opportunities to advance the vision of the pilot.
- **Projected CalWORKs Grant Increase**—An approximate 0.2-percent increase to CalWORKs Maximum Aid Payment levels, with an estimated cost of \$9.1 million, is projected to begin October 1, 2025. A determination and update of the projected grant increase will be made at the May Revision. These projected increased costs would be funded entirely by the Child Poverty and Family Supplemental Support Subaccount of the 1991 Local Revenue Fund and would be in addition to the 0.3-percent statutory increase in October 2024.

CHILD CARE AND DEVELOPMENT

DSS administers child care and development programs including CalWORKs Stages One, Two, and Three; the Emergency Child Care Bridge Program; Alternative Payment Programs; Migrant Child Care; General Child Care; Child Care for Children with Severe Disabilities; and a variety of local supports for these programs, such as Resource and Referral and Local Child Care Planning Councils, in addition to quality improvement projects. Families can access child care subsidies through centers that contract directly with DSS, local educational agencies, or vouchers from county welfare departments

and Alternative Payment Programs. The Budget includes \$7.1 billion (\$4.6 billion General Fund) for DSS administered child care and development programs.

The Budget maintains funding to continue the Cost of Care Plus Rate monthly payments adopted for state-subsidized child care providers, consistent with requirements related to the reimbursement floor established in the 2024 Budget Act. The Administration continues to work towards a single rate structure and utilization of an alternative methodology for estimating the costs of care. As outlined in Chapter 73, Statutes of 2024, the Administration will provide the Legislature a timeline for transitioning to reimbursement rates informed by the cost of care under the state's alternative methodology, rather than the current structure that is largely informed by private market rates.

The current Memorandum of Understanding with Child Care Providers United–California (CCPU) is set to expire on June 30, 2025. The state will continue to negotiate a successor agreement with CCPU.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The DDS provides individuals with intellectual and developmental disabilities a variety of services that allow them to achieve their goals. The Budget includes \$19 billion (\$12.4 billion General Fund) and estimates that approximately 505,000 individuals will receive services in 2025-26. This increase of nearly 40,000 from 2024-25 is largely attributed to post-COVID-19 Pandemic outreach to young children who are now aging out of Early Start.

The state's developmental services are designed to meet the needs and choices of individuals at each stage of their lives, and support them in their home communities, providing choices that are reflective of lifestyle, cultural and linguistic preferences. DDS continues to work closely with regional centers, service providers, and the community on numerous initiatives to streamline and enhance developmental services and supports statewide, including service provider rate reform, multiple information and process standardization efforts, enhanced transparency, workforce development and investment, and new Individual Program Plan templates and preparation tools.

OTHER HEALTH AND HUMAN SERVICES ADJUSTMENTS

- **Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT) Demonstration**—In December 2024, the federal government approved approximately \$8 billion (state, local, and federal funds) for the BH-CONNECT Demonstration effective January 1, 2025 through December 31, 2029. The funding will support activities and services administered by the DHCS, DSS, and the Department of Health Care Access and Information. The Demonstration includes statewide and county opt-in components to expand and strengthen the behavioral health continuum for Medi-Cal members living with significant behavioral health conditions, with a focus on children and youth, individuals experiencing or at risk of homelessness, and justice-involved individuals.
- **AIDS Drug Assistance Program (ADAP)**—\$8.5 million in 2025-26 and ongoing from the AIDS Drug Assistance Program Special Fund for enhancements to ADAP and the Pre-Exposure Prophylaxis Assistance Program, effective January 2025. The Budget proposes to reimburse Medicare Part B premiums and out-of-pocket costs and expand the employer-based health insurance premium payment program for ADAP enrollees. Compared to revised 2024-25 expenditures, the Budget provides an increase of \$42.3 million total funds for the ADAP program in 2025-26.
- **Diaper Initiative**—Up to \$7.4 million General Fund in 2025-26 and \$12.5 million General Fund in 2026-27 for the Department of Health Care Access and Information to contract for the provision of a three-month supply of diapers at no cost to California families with newborn babies via hospital systems to improve maternal and newborn health outcomes.
- **Prescription Drug Affordability**—Given the rising costs of pharmacy expenditures, the Administration will continue to evaluate the key drivers of prescription drug cost growth, including the impact of pharmacy benefit managers. Building on the goals of the Office of Health Care Affordability and CalRx, the Administration is exploring approaches to increase transparency in the pharmacy supply chain and improve the affordability of prescription drugs in California.
- **Master Plan for Developmental Services**—In March 2025, the Administration plans to release the Master Plan for Developmental Services, which will be generated by community recommendations for a more consumer-friendly and effective experience for individuals and families receiving developmental services. Workgroups of key stakeholders have been meeting to develop the plan, focusing specifically on recommendations to support person-centered, data-driven, lifelong

services from a stable workforce that emphasize quality, equity, and outcomes, while improving regional center accountability.