

HEALTH AND HUMAN SERVICES

The Health and Human Services Agency includes 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.

Expenditures in health and human services programs have significantly increased, from \$161 billion (\$35 billion General Fund) at the 2017 Budget Act, to an estimated \$283.9 billion (\$76.8 billion General Fund) in 2024-25. This increase is primarily driven by Medi-Cal, Developmental Services, and In-Home Supportive Services (IHSS), with significant increases projected to continue over the multi-year outlook. The May Revision proposes General Fund solutions to align program expenditures with available revenue to maintain a balanced budget. The May Revision includes \$302.4 billion (\$85.6 billion General Fund) for 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 \$179 billion (\$37.4 billion General Fund) in 2024-25 and \$194.5 billion (\$44.6 billion General Fund) in

2025-26. Medi-Cal is projected to cover approximately 15 million Californians in 2024-25 and 14.8 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, specifies permissible uses of specified tax revenues starting with the 2025 tax year, for which DHCS must consult with a stakeholder advisory committee to develop and implement. The May Revision reflects Managed Care Organization (MCO) Tax revenue of \$9 billion in 2024-25, \$4.2 billion in 2025-26, and \$2.8 billion in 2026-27 to support the Medi-Cal program. Compared to the Governor's Budget, this is an increase of \$1.1 billion in 2024-25 and decreases of \$200 million in 2025-26 and \$400 million in 2026-27. The May Revision reflects \$804 million in 2024-25, \$2.8 billion in 2025-26, and \$2.4 billion in 2026-27 for the MCO Tax and Proposition 35 expenditure plan. In addition to the amounts supporting the Medi-Cal program, \$1.6 billion across 2025-26 and 2026-27 will support increases in managed care payments relative to calendar year 2024 for primary care, specialty care, ground emergency medical transportation, and community and hospital outpatient procedures.

SIGNIFICANT BUDGET ADJUSTMENTS

- **2024-25 Budget Update**—The May Revision reflects a net \$1.9 billion increase in Medi-Cal expenditures in 2024-25 compared with the Governor's Budget, which are covered by the Medi-Cal Provider Interim Payment Loan. This is in addition to the \$2.8 billion General Fund early action appropriation assumed in the Governor's Budget. This increase is driven primarily by increased caseload associated with the continuation of eligibility-related flexibilities, costs for providing full-scope Medi-Cal to income-eligible individuals regardless of immigration status, retroactive managed care rate adjustments, and higher overall costs in managed care, fee-for-service, and pharmacy.
- **Year-Over-Year Comparison**—The May Revision projects Medi-Cal General Fund expenditures of \$44.6 billion in 2025-26, an increase of \$7.2 billion, compared with the revised 2024-25 expenditures. The increase is primarily due to lower MCO Tax revenue available to support the Medi-Cal program, growth in managed care costs, and increased costs for individuals with certain statuses, those who will eventually qualify for federal funds as well as individuals, regardless of immigration status, enrolled in the Medi-Cal full-scope expansion (Medi-Cal full-scope

expansion). This increase is offset by \$1.3 billion Medi-Cal Provider Interim Payment loan.

- **988 Suicide and Crisis Lifeline Centers**—The May Revision includes \$17.5 million one-time 988 State Suicide and Behavioral Health Crisis Services Fund to support suicide and crisis lifeline center contact volume capacity.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Enrollment Freeze for Full-Scope Medi-Cal Expansion, Adults 19 and Older**—A freeze on new enrollment to full-scope coverage for individuals, regardless of immigration status, aged 19 and over, effective no sooner than January 1, 2026. Estimated General Fund savings are \$86.5 million in 2025-26, increasing to \$3.3 billion by 2028-29.
- **Medi-Cal Premiums, Adults 19 and Older**—Implementation of \$100 monthly premiums for individuals with certain statuses, those who will eventually qualify for federal funds and individuals enrolled in the Medi-Cal full-scope expansion aged 19 and over, effective January 1, 2027. Estimated General Fund savings are \$1.1 billion in 2026-27, increasing to \$2.1 billion by 2028-29.
- **Prospective Payment System Payments to Federally Qualified Health Centers and Rural Health Clinics**—Elimination of Prospective Payment System rates to clinics for state-only funded services provided to individuals with certain statuses, those who will eventually qualify for federal funds and individuals enrolled in the Medi-Cal full-scope expansion. Clinics would receive reimbursement at the applicable Medi-Cal fee-for-service rate and at the Medi-Cal managed care negotiated rate. Estimated General Fund savings are \$452.5 million in 2025-26 and \$1.1 billion in 2026-27 and ongoing.
- **Elimination of Long-Term Care**—Elimination of long-term care benefits for individuals with certain statuses, those who will eventually qualify for federal funds and individuals enrolled in the Medi-Cal full-scope expansion, effective January 1, 2026. Estimated General Fund savings are \$333 million in 2025-26 and \$800 million in 2026-27 and ongoing.
- **Elimination of Dental Benefits, Adults 19 and Older**—Elimination of full-scope dental coverage for Medi-Cal members with certain statuses, those who will eventually

qualify for federal funds and individuals enrolled in the Medi-Cal full-scope expansion aged 19 and over, effective July 1, 2026. This population will continue to have access to restricted-scope, emergency dental coverage. Estimated General Fund savings are \$308 million in 2026-27 and \$336 million in 2028-29 and ongoing.

- **Pharmacy Drug Rebates**—Implementation of a rebate aggregator to secure state rebates for individuals with certain statuses, those who will eventually qualify for federal funds and individuals enrolled in the Medi-Cal full-scope expansion. Projected General Fund savings are approximately \$300 million in 2025-26 and \$362 million ongoing. Additionally, the May Revision reflects additional General Fund savings of \$75 million in 2025-26 and \$150 million ongoing associated with increasing the minimum rebate for HIV/AIDS and cancer drug rebates.
- **Specialty Drug Coverage for Weight Loss**—Elimination of coverage for Glucagon-Like Peptide-1 (GLP-1) drugs for weight loss effective January 1, 2026. Estimated General Fund savings are \$85 million in 2025-26, growing to \$680 million by 2028-29 and ongoing.
- **Medi-Cal Asset Test Limits**—Reinstatement of the Medi-Cal asset limit for seniors and disabled adults of \$2,000 for an individual or \$3,000 for a couple, effective no sooner than January 1, 2026. Estimated General Fund savings are \$94 million in 2025-26, \$540 million in 2026-27 and \$791 million ongoing, inclusive of IHSS impacts.
- **Proposition 56 Supplemental Payments**—Elimination of approximately \$504 million in 2025-26 and \$550 million ongoing for Proposition 56 supplemental payments to dental, family planning, and women's health providers.
- **Medical Providers Interim Payment Fund Loan**—The May Revision proposes to utilize \$2.1 billion of the cash loan in 2024-25 and \$1.3 billion in 2025-26 and begin repayment of the loan in 2027-28.
- **Medi-Cal Minimum Medical Loss Ratio**—The May Revision proposes to increase the minimum medical loss ratio for managed care plans, commencing January 1, 2026, resulting in projected General Fund savings of \$200 million in 2028-29 and ongoing.
- **Prescription Drug Utilization Management**—Implementation of utilization management, step therapy protocols, and prior authorization for prescription drugs resulting in estimated General Fund savings of \$200 million in 2025-26 and \$400 million in 2026-27 and ongoing.
- **Skilled Nursing Facilities**—Elimination of the Workforce and Quality Incentive Program and suspension of the requirement to maintain a backup power system for

no fewer than 96 hours, resulting in General Fund savings of \$168.2 million in 2025-26 and \$140 million ongoing.

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services (DSS) serves, protects, and supports the people of California experiencing need in ways that empower wellbeing and disrupt systemic inequities. The Department's major programs include the California Work Opportunity and Responsibility to Kids (CalWORKs), CalFresh and Nutrition Programs, IHSS, Supplemental Security Income/State Supplementary Payment (SSI/SSP), Child Welfare and Adult Protective Services, Community Care Licensing, Disability Determination Services, and Child Care. The May Revision includes \$53.4 billion (\$22.8 billion General Fund) for DSS programs in 2025-26.

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, LEAs, or vouchers from county welfare departments and Alternative Payment Programs. The May Revision includes \$7 billion (\$4.5 billion General Fund) for DSS administered child care and development programs.

The Administration continues to work towards a single rate structure and utilization of an alternative methodology for estimating the costs of care. Additionally, the Administration is working to meet the federal requirement that the state determine and submit rates informed by the preapproved Alternative Methodology no later than July 1, 2025. The Administration will also continue to provide point-in-time updates for the implementation of the new single rate structure through the quarterly reports to the Legislature.

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

The May Revision 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. Additionally, an increase of \$44.8 million in 2025-26 is provided for Child Care and Development Agencies to administer these payments outside of service-contract payments.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Child Care Cost-of-Living Adjustment**—A reduction of \$60.7 million General Fund in 2025-26 and ongoing to suspend the child care cost-of-living adjustment in 2025-26.
- **Emergency Child Care Bridge**—A reduction of \$42.7 million General Fund in 2025-26 and ongoing. The proposal maintains \$51 million in annual ongoing funding for the Emergency Child Care Bridge program.

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 to support economic mobility. Eligibility requirements and benefit levels are established by the state. Counties have flexibility in program design, services, and funding to meet local needs.

The May Revision assumes \$9.5 billion in total TANF expenditures (state, local, and federal funds) in 2025-26. This amount includes \$6.2 billion for CalWORKs program expenditures and \$3.3 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 projected to be 363,766 families in 2025-26.

SIGNIFICANT UPDATE

- **Streamlining the CalWORKs Program**—The May Revision includes statutory changes to the CalWORKs program, resulting in efficiencies for families and counties. These

changes include: (1) expanding the allowable welfare-to-work activities, (2) making Job Club an optional welfare-to-work activity, (3) simplifying the curing of sanctions, and (4) replacing the county welfare-to-work reporting requirements with administrative data extracts.

FOOD AND NUTRITION

The CalFresh program, California's version of the federal Supplemental Nutrition Assistance Program (SNAP), provides federally funded benefits for eligible families to purchase food needed to maintain adequate nutrition.

The May Revision includes \$4.5 billion in total CalFresh and nutrition expenditures. In addition, \$13.3 billion in food benefits is provided directly to recipients by the federal government. The average monthly CalFresh caseload is projected to be 3,338,191 households in 2025-26.

SIGNIFICANT UPDATE

- **Summer Electronic Benefits Transfer (SUN Bucks)**—SUN Bucks provides \$120 per child (\$40 per month for June, July, and August) in federally-funded food benefits to children who lose access to free and reduced-price meals during the summer school closure period. The May Revision includes \$115.8 million (\$57.5 million General Fund) in 2025-26 for transactions costs and outreach to allow California to provide an estimated \$815.9 million in federal food assistance to children.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes a General Fund solution to achieve a balanced budget. This includes:

- **California Food Assistance Program (CFAP) Expansion**—Statutory language that would make the expansion of the CFAP to adults 55 and over, regardless of immigration status, subject to a trigger-on, based on the availability of General Fund in spring 2027.

IN-HOME SUPPORTIVE SERVICES

The IHSS program provides domestic and related services such as housework, meal preparation, and personal care services to eligible low-income individuals with disabilities, including children and adults, as well as low-income individuals who are ages 65 and over. These services are provided to assist individuals to remain safely in their homes and prevent more costly institutionalization.

The May Revision includes \$28.3 billion (\$10.3 billion General Fund) for the IHSS program in 2025-26.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Provider Overtime and Travel Hours**—A reduction of \$707.5 million General Fund and ongoing to cap IHSS provider overtime and travel hours at 50 hours per week beginning in 2025-26.
- **Conform IHSS Residual Program with Medi-Cal Coverage**—A reduction of \$110.6 million General Fund in 2025-26 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.
- **Community First Choice Option Late Penalties**—A reduction of \$81 million General Fund in 2025-26 to reflect the assumed costs for counties to cover the IHSS, Community First Choice Option reassessment late penalties.
- **Medi-Cal Assets Test Limits**—A reduction of \$25.5 million General Fund in 2025-26 to conform IHSS with the reinstatement of the Medi-Cal asset limit.

CHILDREN'S PROGRAMS

Child Welfare Services include family support and maltreatment prevention services, child protective services, foster care services, and adoptions. California's child welfare system provides a continuum of services to children who are either at risk of, or have

suffered, abuse and neglect. Program success is measured in terms of improving the safety, permanence, and well-being of children and families served.

The May Revision includes \$973.3 million General Fund in 2025-26 for services to children and families in these programs. When federal and 1991 and 2011 Realignment funds are included, total funding for children's programs is in excess of \$9.9 billion in 2025-26.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Tiered Rate Structure Implementation**—Statutory language that would make the implementation of the Tiered Rate Structure subject to a trigger-on, based on the availability of General Fund in spring 2027.
- **Family Urgency Response System Reduction**—A reduction of \$13 million General Fund in 2025-26 and ongoing. The proposal maintains \$17 million ongoing General Fund for the System.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Development Services (DDS) provides individuals with intellectual and developmental disabilities a variety of services that allow them to achieve their goals. 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.

The May Revision includes \$18.7 billion (\$12.2 billion General Fund) and estimates that over 490,000 individuals will receive services in 2025-26.

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.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Health and Safety Waiver Assistance**—A reduction of \$3 million ongoing General Fund to eliminate health and safety waiver application assistance.
- **Implicit Bias Training**—A reduction of \$5.6 million ongoing General Fund to eliminate dedicated resources for refreshing regional center implicit bias training.
- **Direct Service Professional Workforce Training and Development**—A reduction of \$17.6 million General Fund in 2025-26 and 2026-27, and \$36.8 million General Fund in 2027-28 and ongoing to eliminate the Direct Services Professional Workforce Training and Development program, which has not yet been implemented.
- **Self-Determination Program**—A reduction of \$22.5 million General Fund in 2025-26, and \$45.5 million General Fund annually thereafter, to reflect new guardrails that protect the sustainability of the program.
- **Rate Reform Hold Harmless**—A reduction of \$75 million General Fund in 2025-26 to reflect ending the rate reform hold harmless policy in February 2026 instead of June 30, 2026.
- **Porterville Developmental Center**—A reduction of \$10 million General Fund starting in 2026-27 and ongoing, reflecting historical savings.
- **Increased Reimbursements and Cost Recovery**—Assumed out-year savings associated with improved processes to increase reimbursements and evaluation of options to recoup costs for certain services.
- **Require Provider Mandates for Quality Incentive Program Eligibility**—A reduction of \$221.7 million General Fund in 2026-27 and ongoing associated with requiring compliance with Electronic Visit Verification, annual audits, and Home and Community-Based Services rules as a pre-condition of eligibility for the quality incentive component of the rate models.

OTHER HEALTH AND HUMAN SERVICES

SIGNIFICANT BUDGET ADJUSTMENTS

- **Behavioral Health Workforce Initiative**—The May Revision includes \$1.9 billion (\$143 million Behavioral Health Services Fund, \$808 million Designated State Health Program Funding, and \$950 million federal funds) for the Department of Health Care Access and Information to implement the Behavioral Health Workforce Initiative beginning in January 2026.
- **Proposition 35 Reproductive Health Investments**—The May Revision reflects \$90 million in the Health Care Oversight and Accountability Subfund as part of the Proposition 35 expenditure plan for reproductive health investments for emergent needs including midwifery loan repayments and scholarships and education capacity expansion for midwives at the Department of Health Care Access and Information.
- **Pharmacy Benefit Managers Licensure**—The May Revision proposes statutory changes to establish licensure and data reporting requirements for pharmacy benefit managers to increase transparency in the pharmacy supply chain, understand cost drivers, and develop approaches to improve the affordability of prescription drugs in California.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Department of State Hospital Programs**—Reduced 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 Infrastructure Grant Program**—A reduction of \$232.5 million one-time General Fund included in the 2022 Budget Act from unspent grant funds for counties to increase residential treatment housing capacity for individuals designated Incompetent to Stand Trial.