Protect Medi-Cal Funding 2025: Behavioral Health

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California's Medicaid program (Medi-Cal) provides a critical investment in the health of Californians. Medi-Cal coverage and services are tailored to meet the unique needs of low-income individuals and families, and provides the most affordable coverage. If Medicaid cuts are enacted, states like California will lose billions of dollars in federal Medicaid funding, shifting financial responsibility for Medicaid services to the states and to enrollees. The loss of billions of dollars in federal Medicaid funding will invariably lead to cuts in services and the loss of affordable coverage. This issue brief explains why Medi-Cal is essential to helping low-income Californians with or at risk of developing mental health conditions and substance use disorders (SUD) access critical and life-saving care. The brief also explores how access to behavioral health services would be harmed by Medicaid funding caps and cuts.

Why Medi-Cal is Critical for Access to Behavioral Health Services:

- **Californians experience a high prevalence of behavioral health conditions.** In 2019, approximately 14% of all adults in the State reported struggling with a mental health condition.[1] That number significanlty increased after the COVID-19 pandemic, with an estimated 22% of adults in California now reporting having a mental health condition.[2] Moreover, over 9% of all children and youth aged 3 to 17 in California received mental health care in 2021, highlighting the need to address mental health problems early on.[3] As the rest of the nation, California also continues to battle an ongoing drug overdose epidemic and other problems associated with SUD. In 2022, over 17% of Californians aged 12 or older had an SUD, including 8.2% of adolescents between the ages of 12 and 17.[4] While the number of overdose deaths has recently decreased, that number is still significantly higher than before the start of the COVID-19 pandemic, with 12,696 Californians having died due to an overdose in 2023.[5]

- **Medi-Cal is the single largest payer of behavioral health services in California.** Mental health conditions and SUD have a disproportionate effect on low-income individuals. In 2019, 8.5% of adults and 10% of children with a serious mental illness in California had incomes below 100% of the federal poverty level (FPL).[6] While people with higher income tend to report higher rates of illicut drug use, many

individuals in need of SUD treatment struggle to access care because of affordability issues.[7] As such, Medi-Cal is instrumental in providing access to mental health and SUD services in California. As a result of the Affordable Care Act's Medicaid expansion, Medi-Cal now accounts for 30% of all mental health expenditures and 28% of all SUD expenditures.[8] Moreover, federal Medicaid funds that increase as need increases are a safety valve for California to ensure ongoing availability of key services during times of heightened behavioral health needs, like the recent pandemics, epidemics, and natural disasters that California has experienced.

- **Medi-Cal provides access to a comprehensive set of mental health and SUD services.** These covered services enable individuals with behavioral health conditions to lead fullfilling lives and, in many cases, they are life-saving. In addition to covering preventive and routine behahioral health services in primary care, Medi-Cal covers specialty mental health and SUD services for individuals with higher needs, emphasizing community-based interventions that are more effective and protect underserved individuals from the risks of institutionalization. These services extend to evidence-based interventions, such as psychiatric services, crisis intervention services, and, at the county option, intensive community-based services. Medi-Cal also provides access to the full continuum of SUD care and ensures access to medications for alcohol and opioid use disorders, as well as the overdose-reversal medicaiton, naloxone. Moreover, Medi-Cal's Early and Periodic Screening, Diagnostic, and Treatment (EPSDT) mandate ensures that beneficiaries under 21 have access to all necessary mental health and SUD services, regardless of whether the State covers the service for other beneficiaries. Through EPSDT, minors in California have secured access to key services including therapeutic behavioral services, intensive care coordination, intensive home based services, and therapeutic foster care.

- **California has leveraged federal flexibilities that allow the State to address the particular needs of Medi-Cal beneficiaries with behavioral health needs.** Through these initiatives, California has expanded covered SUD services as part of the Drug Medi-Cal Organized Delivery System (DMC-ODS), a model that most counties in the State have now adopted.[9] Through the California Advancing and Innovating Medi-Cal (CalAIM) Initiative, the State has addressed the lack of coordination between the different behavioral health systems and facilitated access to care through a no-wrong door approach.[10] As part of CalAIM, as well as through the recently federally approved Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT) Initiative, California also secured access to support and coordination services for beneficiaries with behavioral health needs, including mobile crisis interventions and enhanced care management, and access to evidence-based

interventions at county Behavioral Health Plan option such as Assertive Community Treatment (ACT) and Forensic ACT (FACT), Coordinated Specialty Care for First Episode Psychosis (CSC for FEP), Individual Placement and Support (IPS) Supported Employment, Enhanced Community Health Worker (CHW) Services, and Clubhouse Services and Peer Support Services, as well as services for individuals with stimulant use disorders, which present unique challenges for treatment. Medi-Cal beneficiaries with behavioral needs now also have access to housing support services, underscoring the need to address the prevalence of homelessness among people with mental health conditions and SUD. Finally, the California Justice-Invovled Reentry Initiative enables Medi-Cal to provide key behavioral health services to individuals transitioning out of incarceration, a population that, while disproportionately impacted by behavioral health conditions, has been traditionally unable to access necessary care.[11]

How Funding Cuts Threaten Access to Behavioral Health Services:

- **Funding cuts could lead to eligibility cuts that affect adults with behavioral health conditions.** Cutting federal Medi-Cal funding in any way could lead states to reduce eligibility income limits effectively weakening the Medicaid expansion. Individuals with mental health conditions and SUD who are also adults without dependents and have no other disabilities may be at risk of losing coverage entirely if California were to reduce income limits in response to draconian federal cuts. While state funds account for a portion of county expenses related to behavioral health services, those funds would be vastly insufficient to address the needs of all low-income individuals with mental health conditions and SUD. Even if state funds were able to cover the provision of some behavioral health services, the lack of adequate access to other health care services and supports will likely contribute to higher prevalence of mental health conditions and drug misuse.

- **Funding cuts could lead to reduction in covered behavioral health benefits.** If California is faced with reductions in federal Medicaid funding, the State may opt out of covering certain optional Medicaid benefits. Since most mental health and SUD services for adults are covered under an optional benefit category, including prescription medications, these essential services will likely be under threat. California may decide, for example, to cover only a limited number of naloxone formulations and exclude over-the-counter naloxone from coverage. The State may decide to limit certain mental health benefits to children and youth to comply with EPSDT and may stop covering emergency and support services, such as crisis interventions, peer support, and care management for adults.

- **Funding cuts would likely lead to elimination of initiatives that facilitate access to care for underserved populations.** Facing cuts to federal funding, California will likely seek to prioritize coverage of mandatory benefits and will likely seek to roll back initiatives adopted through federal flexibilities that facilitate access to optional services, including mental health and SUD care. As a result, efforts to improve access and coordination among Medi-Cal behavioral health systems and ensure that individuals do not fall through the cracks while navigating the system could be undermined. Other initiatives that waive certain Medicaid funding restrictions and that are essential to address the behavioral health needs of traditionally neglected populations, such as justice-involved individuals, individuals experiencing homelessness, and individuals with stimulant use disorders could possibly be cut, either through restrictions imposed by the federal administration or through voluntary withdrawal of the programs by California.

- **Funding cuts could increase the risk of institutionalization of people with behavioral health conditions.** Recent efforts have increased the availability and use of federal funding for behavioral health care in large mental health and SUD institutions. California has sought - through the recently approved BH-CONNECT Initiative - to strenghten access to the continuum of community-based behavioral health services by conditioning new residential services to availability of evidence-based community services and otherwise incentivizing counties to expand access to those services.[12] BH-CONNECT also implements various workforce initiatives focused on community-based behavioral health services. Important as they are, however, these initiatives will likely be a target for cuts in the face of federal funding reductions. As a result, individuals with mental health conditions and SUD will face a greater risk of institutionalization to the extent that access to key services outside of these facilities is hampered, leading to worse outcomes and exposure to potentially harmful practices.

- **Funding cuts would likely lead to increases in mental health crises and drug overdoses.** Cutting Medi-Cal eligibility and coverage for people with mental health conditions and SUD will lead to worse health outcomes for these populations. Without stable access to adequate services, individuals will experience higher rates of unaddressed mental health conditions and experience crises on a regular basis. This will inevitably impact people's ability to engage in daily activities. Barriers to accessing SUD treatment will also lead to higher rates of drug overdoses. The recent decreases in overdose deaths relate to the ongoing efforts to improve access to medications for opioid use disorders, naloxone, and other SUD treatment that complement public health efforts. Less Medi-Cal coverage for these services and elimination of strategies that facilitate access will reverse that trend and lead to overdose deaths increasing again.

Conclusion

The Medicaid program is designed to give California wide flexibility in designing and implementing its own Medi-Cal program to meet the particular health needs of its residents. The potential threats to the program on the federal level will not only result into devastating impacts on low-income individuals with behavioral health needs across the state, these threats will also make it necessary for California to impose additional cuts and erect barriers to access life-sustaining care in the future. While it remains unclear what the current 2025 Congress and Trump Administration will do with respect to the Medicaid program, any federal funding cuts or barriers implemented against Medicaid to deter access to comprehensive services must be rejected so low-income individuals with mental health conditions or SUD have access to the quality and affordable comprehensive health care services they need.

ENDNOTES

[1] Wendy Holt, Cal. Health Care Found., *Mental Health in California Almanac – 2022 Edition* 4 (2022), https://www.chcf.org/publication/mental-health-california-almanac/.
[2] Maddy Reinert et al., Mental Health America, *The State of Mental Health in America* 15 (2024), https://www.mhanational.org/research-reports/state-mental-health-america-2024.
[3] Kaiser Fam. Found., Mental Health in California, https://www.kff.org/statedata/mental-health-and-substance-use-state-fact-sheets/california/ (last visited Feb. 25, 2025).
[4] SAMHSA, 2023 National Survey on Drug Use and Health (NSDUH) (2024), https://www.samhsa.gov/data/release/2023-national-survey-drug-use-and-health-nsduh-releases.
[5] CDC, Nat'l Ctr. for Health Stat., *Provisional Drug Overdose Death Counts* (2025), https://www.cdc.gov/nchs/nvss/vsrr/drug-overdose-data.htm.
[6] Holt, *supra* note 1, at 7, 10.
[7] Catherine Tomko et al., *Gaps and Barriers in Drug and Alcohol Treatment Following Implementation of the Affordable Care Act*, 5 DRUG AND ALCOHOL DEPENDENCE REP. 100115 (2022).
[8] Holt, *supra* note 1, at 7, 28. Allison Valentine & Molly Brassil, Cal. Health Care Found., *Substance Use in California Almanac – 2022 Edition* 42 (2022), https://www.chcf.org/publication/substance-use-in-california-almanac/#related-links-and-downloads.

[9] Cal. Dep't Health Care Servs., Drug Medi-Cal Organized Delivery System (DMC-ODS), https://www.dhcs.ca.gov/provgovpart/Pages/Drug-Medi-Cal-Organized-Delivery-System.aspx (last visited Feb. 21, 2025).
[10] Cal. Dep't Health Care Servs., CalAIM: Transforming Medi-Cal, https://www.dhcs.ca.gov/CalAIM/Pages/CalAIM.aspx (last visited Feb. 21, 2025).
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