Center for Health Care Strategies

How California's 1115 Demonstration, BH-CONNECT, Will Impact Behavioral Health Care for Medi-Cal Members

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On December 16, 2024, the Centers for Medicare & Medicaid Services (CMS) approved California's Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT) Section 1115 demonstration. The demonstration is part of a broader statewide BH-CONNECT initiative that aims to transform access to care for the growing number of Medi-Cal members, including children, with serious mental health conditions or substance use disorders (SUD) who struggle to find treatment. BH-CONNECT leverages 1115 waiver and state plan authorities, as well as existing authorities under Medi-Cal, to broaden the array of community-based services to address these member needs, scale the use of evidence-based practices that have been shown to improve outcomes, and strengthen the behavioral health workforce to deliver these services.

BH-CONNECT also aligns with other California initiatives, such as the Behavioral Health Services Act (BHSA), that address housing and behavioral health delivery for individuals with serious behavioral health conditions, including people experiencing homelessness. Approval for this waiver brings significant resources to expand access to community-based services and evidence-based practices within Medi-Cal's behavioral health system.

This Center for Health Care Strategies *Policy Cheat Sheet*, developed with support from the California Health Care Foundation, explores what this initiative means for behavioral health care in California. The sections below detail the respective components of BH-CONNECT, which are outlined in Exhibit 1.

Exhibit 1. Overview of BH-CONNECT Components

Component	Statewide or County Option	Timeline	Authority
Enhanced Community-Based Services	County option	Rolling basis, no sooner than January 2025	State Plan Amendment
Federal Funding for Care in Institutions for Mental Diseases (IMDs)	County option	Rolling basis, no sooner than January 2025	Section 1115
Workforce Initiative	Statewide	Beginning July 2025	Section 1115
Access, Reform and Outcome Incentive Program	County option	Beginning January 1, 2025	Section 1115
Activity Funds Initiative	Statewide	No sooner than July 2025	Section 1115
Transitional Rent Services	County option	Beginning July 1, 2025; mandatory by January 1, 2026	Section 1115

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BH-CONNECT will expand access to community-based services and evidence-based practices.

The following services, established as covered Medi-Cal services as of January 1, 2025, are described as evidence-based practices, reflecting the robust evidence base for their impact on key outcomes related to health and well-being.* Services may be covered by county behavioral health plans (BHPs), which include County Mental Health Plans (MHPs), Drug Medi-Cal Organized Delivery (DMC-ODS), and Drug Medi-Cal (DMC) programs.

- **Assertive Community Treatment (ACT):** A community-based, team-based service to help individuals cope with the symptoms of their mental health condition and develop or restore skills to function in the community. *(Covered by MHPs only.)*
- **Forensic ACT (FACT)**: A model of care that adapts ACT for justice-involved populations. *(Covered by MHPs only.)*
- **Coordinated Specialty Care (CSC) for First Episode Psychosis (FEP)**: A community-based, team-based service to help adolescents and young adults cope with the symptoms of their initial psychotic episode(s) and remain integrated in the community. *(Covered by MHPs only.)*
- **Individual Placement and Support (IPS) Model of Supported Employment:** Supports for individuals with significant behavioral health needs to find and maintain competitive employment. *(Covered by MHPs, DMC-ODS, DMC programs.)*
- **Peer Support Services including a forensic specialization:** Services by individuals with lived experience with behavioral health conditions (or their family members), including a forensic specialization focused on serving justice-involved Medi-Cal members, which builds on the optional Medi-Cal Peer Support Services benefit launched in 2022. *(Covered by MHPs, DMC-ODS, and DMC programs.)*
- **Enhanced Community Health Worker (CHW) Services:** Services that take a preventive approach to controlling and preventing chronic conditions, mental health conditions, and SUD through health education and navigation, screening and assessment, and individual support or advocacy. Enhanced CHW Services include all of the components and requirements of CHW preventive services; however, Enhanced CHW Services are tailored to members with behavioral health conditions who meet the access criteria for specialty mental health and/or SUD services. *(Covered by MHPs, DMC-ODS, and DMC programs.)*
- **Clubhouse Services**: Clubhouses are inclusive, community-based environments rooted in empowerment that support members living with mental health conditions in their recovery. Clubhouses provide opportunities for employment, socialization, education, and skill development to improve individuals' physical and mental health and overall quality of life and well-being. *(Covered by MHPs only.)*

All counties in California have the option to implement some or all of the community-based services listed above. While many of these services are already delivered in some counties through other funding streams (e.g., BHSA Full Service Partnerships or federal block grants), BH-CONNECT will substantially expand the ability of county BHPs to offer these services and receive federal Medicaid matching for them.

To support high-fidelity implementation of evidence-based practices, BH-CONNECT will use administrative funding for statewide Centers of Excellence that will offer training and technical assistance related to ACT, CSC for FEP, IPS Model of Supported Employment, and Clubhouse Services, as well as for certain evidence-based practices for children and youth.

* Approved State Plan Amendments (SPAs) address evidence-based practices, supported employment, and enhanced CHW services; each SPA contains further information about service definitions, components, provider types, and rate methodologies. DHCS released a draft evidence-based practices policy guide for public comment in December 2024 with more information about these services.

Medi-Cal will cover and receive federal funding for short-term inpatient psychiatric care in counties that choose to participate in this aspect of the demonstration.

Historically, state Medicaid agencies have been unable to receive federal matching funds for services in Institutions for Mental Diseases (IMDs), which are defined in federal statute as facilities with more than 16 beds that primarily provide care for people with mental health conditions. IMDs may include, but are not limited to, acute psychiatric hospitals, mental health rehabilitation centers, special treatment programs at skilled nursing facilities, and short-term residential therapeutic programs that meet IMD criteria.

As of December 2024, there are 87 IMDs in California, per California Department of Health Care Services' (DHCS) *Facilities and Programs Defined as Institutions for Mental Diseases* quarterly report. Legislation passed in 1991 — known as the 1991 realignment — created a dedicated funding source for mental health services (from sales tax and vehicle license fee revenue) and required county responsibility for community mental health services, including services provided in IMDs. Due to the federal prohibition, counties must cover all costs for these services and do not receive federal matching for IMD care.

CMS released guidance in 2018 allowing states to develop Section 1115 demonstration waivers to pay for short-term inpatient psychiatric care in IMDs for people with serious mental illness and serious emotional disturbance. As of January 2025, 15 states have approved waivers for mental health services in IMDs and 10 states have pending waivers. Notably, California's DMC-ODS program, approved in 2015, was the first in the country to have the IMD exclusion waived for SUD residential care; 37 states now have approved SUD IMD waivers under federal guidance released in 2017.

Under BH-CONNECT, county BHPs can opt into receive federal matching for mental health care provided during short-term stays in qualifying IMDs, as long as those counties also:

1. Cover a full array of enhanced community-based services and evidence-based practices;
2. Reinvest savings generated by the demonstration into community-based care; and
3. Meet accountability requirements to ensure that services in IMDs meet quality standards and are used only when clinically appropriate.

The opportunity for IMD funding is limited to stays no longer than 60 days, with a requirement for a statewide average length of stay of 30 days. IMD stays that do not meet these requirements can continue to be funded by 1991 realignment revenue without a federal match.

Counties that opt into IMD funding must implement all of the community-based services listed in the previous section, except for Clubhouse services, which remain optional. Counties that opt into IMD funding must implement required services within three years of the opt-in date with specific deadlines for each service:

- Upon opting in, begin providing Enhanced CHW Services;
- Within one year, fully implement ACT;
- Within two years, begin providing FACT and CSC for FEP; and
- Within three years, begin providing IPS Supported Employment.

Public comments on BH-CONNECT offered a range of feedback on this proposal. Some commenters opposed expanding institutional care in IMDs, especially for children and youth, because of concerns about overuse of restrictive care settings. Following the first public comment period and further stakeholder engagement, DHCS proposed an additional service, Community Transition In-Reach Services. These intensive case management

services reflect a focus on supporting people with the most significant behavioral health needs to transition from institutional settings (including IMDs) into community-based treatment and bolster recovery-oriented treatment.

All county BHPs, regardless of whether they choose to receive federal matching for IMD services, may apply to deliver Community Transition In-Reach Services. These services are intended to reduce lengths of institutional stays and facilitate transitions to community-based settings. Community Transition In-Reach Services can be delivered for up to 180 days before discharge and may only be provided by community-based multidisciplinary teams — not directly by the inpatient, subacute, or residential settings in which the individual resides. County BHPs must meet specific criteria and receive state approval before offering this service.

BH-CONNECT includes statewide initiatives to support both the workforce and infrastructure needed to deliver enhanced community-based services.

BH-CONNECT also incorporates components to improve the delivery of behavioral health care and ensure that county BHPs and providers are equipped to support members with behavioral health conditions. Efforts include:

- **Workforce Initiative**: Five distinct workforce funding opportunities aim to expand the workforce pipeline to serve people with serious behavioral health needs: (1) behavioral health scholarship opportunities; (2) loan repayment program; (3) community-based provider training program; (4) residency training program; and (5) recruitment and retention initiatives. The Workforce Initiative seeks to ensure that the state's behavioral health workforce is prepared to deliver culturally and linguistically appropriate care in all regions and address the workforce shortages for those who serve children and youth. For example, the behavioral health community-based provider training program will fund up to $10,000 per participant for education and training for alcohol or other drug counselors, CHWs, and peer support specialists. Projected expenditures for this program are approximately $1.9 billion. DHCS will administer these workforce investments in partnership with the California Department of Health Care Access and Information (HCAI).
- **Access, Reform and Outcomes Incentive Program**: This program aims to strengthen the ability of county BHPs to measure quality and report on key BH-CONNECT outcomes related to access to care, health outcomes and quality of life, and specific behavioral health delivery system reforms, such as access to new evidence-based practices. County BHPs may earn incentive payments for certain measures related to the implementation of evidence-based practices through a high-performance pool. County BHPs can earn incentive payments related to access to behavioral health services, health outcomes and quality of life, and targeted behavioral health delivery system reforms. Up to 80 percent of counties may participate in this program, with selection based on where funding is most needed. Specific measures and performance targets will be submitted for CMS' approval as part of an incentive program protocol. Projected expenditures for this program are approximately $1.9 billion.
- **Activity Funds Initiative**: BH-CONNECT includes funding for extracurricular activities for children and youth involved with the child welfare system who have or are at risk for behavioral health conditions. These funds may support specific types of activities and goods that promote physical and mental wellness.
- **Other BH-CONNECT components** will strengthen the coordination and quality of care for populations of focus, particularly for children and youth, through development of aligned Child and Adolescent Needs and Strengths (CANS) policies across specialty mental health and child welfare systems; a newly required managed care plan (MCP) county child welfare liaison role; and statewide clarification of coverage of evidence-based practices for children and youth under Early and Periodic Screening, Diagnostic and Treatment (EPSDT).

BH-CONNECT includes up to six months of rental assistance for eligible individuals, covered by MCPs.

BH-CONNECT primarily focuses on specialty behavioral health systems, which are carved out of MCPs. In contrast, a new transitional rent benefit will be delivered by MCPs. Transitional rent is approved as a health-related social needs service effective July 1, 2025 (see more detail below). This benefit will include rental assistance, either as room alone or room and board together; however, clinical services are not included in the rental assistance payment. Medi-Cal members will be able to receive transitional rent services for no more than six months over the five-year demonstration period, and these services must be deemed medically appropriate as measured by all three of the following criteria:

1. **Social Risk Factors**: Member is homeless or at risk for homelessness;
2. **Clinical Risk Factors***:* Member is eligible for Medi-Cal specialty behavioral health services ***or*** meets other specified clinical risk factors (i.e., pregnancy through 12 months postpartum, or one or more serious chronic physical health conditions, or physical, intellectual, or developmental disabilities); and
3. **Specific Populations**: Member is transitioning out of a specific type of setting, system or facility (i.e., unsheltered homelessness, foster care, carceral settings, homeless shelter/interim housing (including domestic violence), transitional housing or rapid-rehousing, recuperative care or short-term post-hospitalization housing, or an inpatient, institutional or residential treatment facility) or be eligible for BHSA Full Service Partnership.

The transitional rent benefit will be phased in. MCPs have the option to offer this benefit beginning July 1, 2025. The benefit must be offered by MCPs to people with significant behavioral health needs by January 1, 2026, and then to all eligible populations no earlier than January 1, 2027.

This transitional rent benefit will complement other CalAIM Community Supports housing interventions. DHCS must establish partnerships with state and local entities to ensure that transitional rent services do not supplant other funding sources for housing supports. There are also restrictions on how housing interventions may be sequenced. For Medi-Cal-funded housing interventions that incorporate room and board — such as BH-CONNECT's transitional rent and CalAIM's recuperative care and short-term post-hospitalization housing — Medi-Cal members may receive no more than six months of services within a rolling 12-month period. This means that a member cannot, for example, have a three-month stay in recuperative care followed by an additional six months of transitional rent services. However, MCPs are encouraged to link individuals to non-Medi-Cal housing interventions, such as those funded by BHSA (see below for more information) or the U.S. Housing and Urban Development Continuum of Care program. In addition, Community Supports that do not include room and board, such as housing transition and navigation services, housing deposits, and housing tenancy and sustaining services, can be provided in tandem with transitional rent.

BH-CONNECT aligns with other initiatives that will transform behavioral health funding and increase access to community-based services, and the impact of both BH-CONNECT and Proposition 1 (2024) on county-level behavioral health funding will be complex.

BH-CONNECT builds on other recent initiatives within and outside of Medi-Cal to expand community-based behavioral health services. As outlined in the demonstration application, these include children- and youth-focused initiatives (e.g., Children and Youth Behavioral Health Initiative), enhanced supports for populations of focus (e.g., Behavioral Health Bridge Housing, Justice-Involved Reentry Initiative), and other initiatives to strengthen the continuum of care (e.g., CalAIM Enhanced Care Management and Community Supports).

In March 2024, California voters approved Proposition 1, which includes two components: (1) a significant overhaul of BHSA, previously known as the Mental Health Services Act; and (2) a $6.38 billion general obligation bond to fund building new treatment beds and residential care facilities, as well as supportive housing. Counties will be authorized to begin using BHSA funding to treat primary SUD conditions, and BHSA funding levels will be based on new allocations at the state and county level starting July 1, 2026. BHSA is funded by a one percent tax on income over $1 million that passed in 2004 and represents nearly one-third of overall county behavioral health spending.

Following the passage of Proposition 1, counties will be required to shift funding toward identified services for people with significant behavioral health conditions and expend BHSA funds on the categories of activities prioritized in the BHSA statute. Counties must allocate specified levels of BHSA funds for housing interventions, BHSA Full Service Partnership programs, and behavioral health services and supports, including early intervention. The specific impacts of Proposition 1 components on individual county-specific expenditures on different service types may vary. Similarly, the financial impacts of BH-CONNECT for counties are also difficult to quantify.

The relationship between county expenditures for BH-CONNECT and Proposition 1 at the county level will vary depending on how BHSA requirements alter the landscape of county services. This includes, for example, whether counties decide to opt into the IMD waiver and if not, decide to offer enhanced community-based services. BHSA requires all counties to begin submitting a unified Integrated Plan that will cover all county behavioral health services and funding sources (including Medi-Cal federal financial participation, BHSA, realignment, and other funds) by June 30, 2026. BH-CONNECT will create opportunities for counties to claim federal Medi-Cal matching for some services that may have been previously funded by BHSA alone. Under the unified Integrated Plan, County BHPs are required to maximize the use of Medi-Cal when services can be covered under Medi-Cal and federal matching claimed. Counties may use BHSA as the non-federal share for Medi-Cal covered services, but cannot rely on BHSA alone to fund services when Medi-Cal matching are also available.

Stakeholder engagement at the county and local levels in behavioral health transformation initiatives will be critical.

With approval of BH-CONNECT and BHSA, attention now turns to counties to shape implementation and make decisions about how to meaningfully drive behavioral health transformation to address local needs. These initiatives include a focus on transparency and accountability and will require stakeholder engagement in the design and implementation at the county and local levels.

There will be ample opportunities for stakeholder engagement at the county and state level to inform early planning and implementation of BH-CONNECT and BHSA, but the timelines are ambitious. Stakeholders can participate in this planning process for their respective county Integrated Plans in 2025, which will also address

county decisions about if and how they will opt into the IMD waiver and offer enhanced community-based services under BH-CONNECT.

Additionally, the BH-CONNECT demonstration approval notes that stakeholders will be engaged in developing BH-CONNECT tools, such as a patient assessment tool for children and youth who receive specialty behavioral health services and a bed tracking service for inpatient and crisis stabilization beds. Further into the demonstration, stakeholders must be engaged in a mid-point assessment of the IMD funding opportunity, which is required by late 2027.

Other BHSA stakeholder engagement opportunities relate to county bond applications to build new behavioral health facilities and permanent supportive housing, as well as county plans for housing resources and services for people experiencing homelessness. The state published a guide for stakeholders on local opportunities to inform behavioral health transformation that walks through the key questions and considerations for these initiatives. Exhibit 1, included at the beginning of this document, outlines the key BH-CONNECT components including their respective timelines, statewide or county-option status, and enabling authorities.

ADDITIONAL RESOURCES

- **BH-CONNECT Waiver Approval**, Centers for Medicare & Medicaid Services, December 2024.
- **California State Plan Amendment, 24-0042**, Centers for Medicare & Medicaid Services, December 2024.
- **Assessing the Continuum of Care for Behavioral Health Services in California**, California Department of Health Care Services, January 2022.

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