

# Federal Funding Developments Impacting Mental Health and Substance Use Disorder Programs

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# Overview

- Medicaid Changes Impacting Mental Health and Substance Use Disorder Treatment Access
- Rural Health Transformation Program
- Update on MH and SUD Block Grants and Other Funding

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# Medicaid Program Basics

- Health care coverage for people with limited income
- Covers over 70 million people
  - Including ~12.5 million dual eligibles who are 65 or older and/or have a disability – Medicaid supplements Medicare
- Federal and state partnership
  - Federally established national guidelines
  - States get federal matching funds for covered services
    - Federal medical assistance percentage (FMAP): federal share of state costs for services
    - Varies from state-to-state and is based on state per capita income

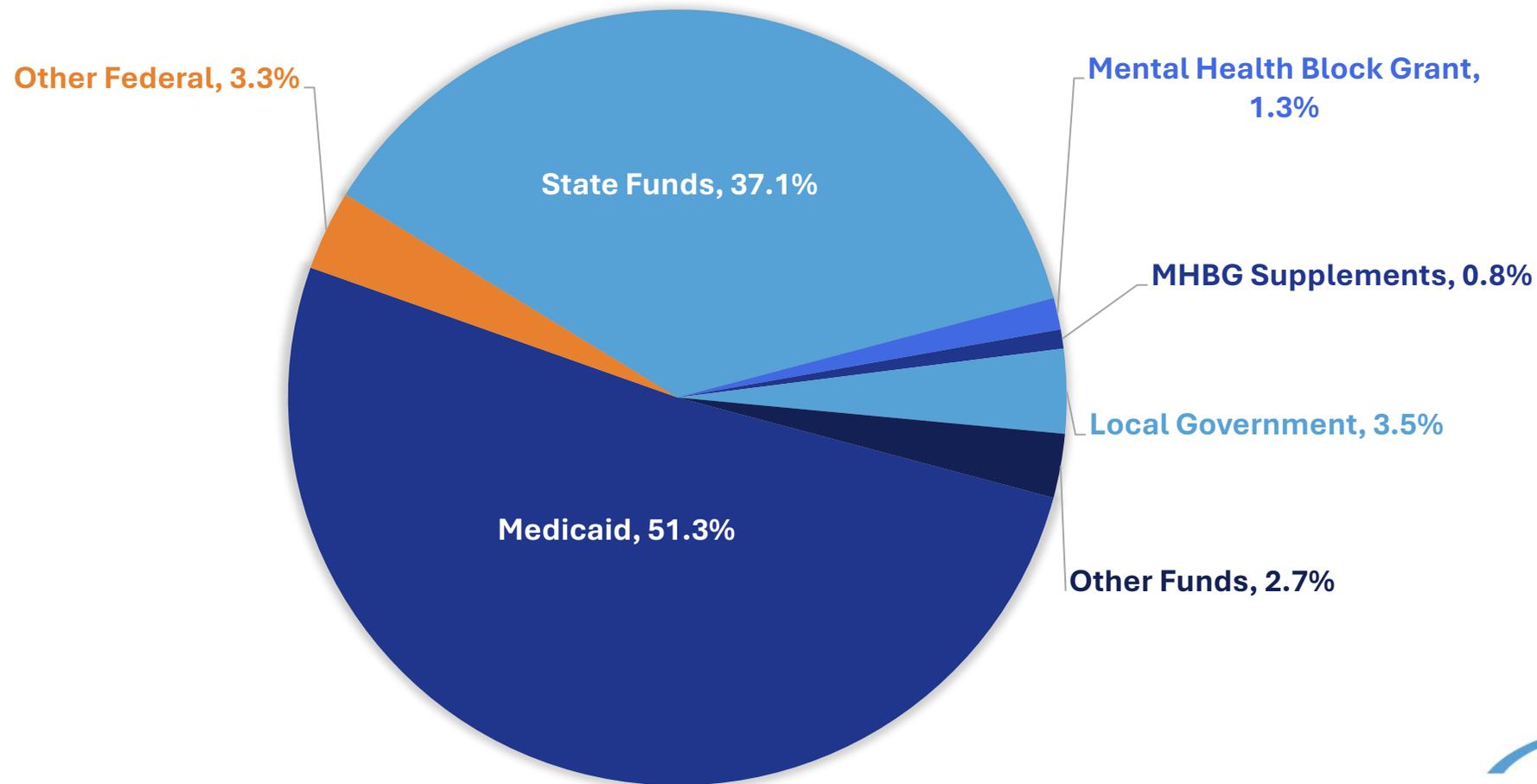
# Importance of Medicaid for Access to MH and SUD Treatment and Services

- Higher prevalence of MH conditions and SUDs among Medicaid enrollees:
  - 33% of adult enrollees with mental illness & 24% with SUDs in 2023  
(General population: 23% with MH conditions and 17% with SUDs)
  - 30% of child enrollees have MH conditions in 2021 (v. 21% in general)
  - Drug overdose rate in enrollees - twice the national average in 2020
- 40 states & DC have expanded Medicaid to childless adults with incomes up to 138% of poverty
- Research shows improved access to MH & SUD treatment due to Medicaid coverage including among expansion population

# Primary Source of Federal Funding for MH and SUD Treatment

- Medicaid - largest source of federal funding for MH and SUD treatment and services
- Medicaid - \$58 billion on mental health treatment and services and \$17 billion on SUD treatment in services
- Medicaid comprised almost 50% of spending for MH treatment and over 55% of spending for substance use disorders

# State Mental Health Agency Funding Sources: FY 2024



# Medicaid Changes in Budget Reconciliation Act Impacting MH/SUD

- ~ \$990 billion cut in Medicaid and Children's Health Insurance Program under Budget Reconciliation Act 2025
- Estimated 10 million more uninsured over next 10 years
- Primarily from new restrictions for states that expanded Medicaid to childless adults including --
  - Documentation of work/community service/education 80 hrs./month requirement for Medicaid expansion population starting Jan. 1, 2027
    - Expected to result in 5.2 million people dis-enrolled and \$325.6 billion cut in spending
    - Exceptions for individuals with SUDs or "disabling" mental illness
    - States can request up to two-year delay of effective date
    - Implementation funding for States - \$200 million in FY 2026

# Additional Medicaid Changes in Budget Reconciliation Act Impacting MH/SUD

- Eligibility redetermination for Medicaid expansion - every six months (instead of annually) – starting Oct. 1, 2027
  - Potentially 700,000 more uninsured and \$62.5 billion federal spending cut
- Cost-sharing required for expansion population with incomes over poverty level - up to \$35 co-pay – starting Oct. 1, 2028
  - MH and SUD services exempt
- Restrictions on how states raise matching funds with provider taxes starting Oct. 1, 2027 - \$191 billion spending cut over 10 years
  - Budget pressures likely to result in cuts to optional benefits
  - MH and SUD benefits are mostly optional

# Optional Medicaid Benefits for MH and SUD

- Rehabilitative Services optional benefit - widely used to cover MH and SUD services including --
  - Individual and group therapy, crisis stabilization, peer support, care coordination, recovery supports
- Other optional benefits include --
  - Certified Community Behavioral Health Clinic services, health home services, case management, clinic services, prescription medications
- Section 1115 demonstrations allowing coverage of psychiatric hospitals and residential treatment settings
- Home and Community Based Services (HCBS) –alternatives to institutional care, e.g., home care, transportation, skills training
  - 1915(c) and 1915(i) authorities
  - 31% of adults who use HCBS have mental illness
  - Budget Reconciliation expands eligibility – starting July 2028

# Optional Medicaid Eligibility Groups

- Low-income childless adults (incomes at or below 138% FPL)
- Individuals deemed “medically needy” due to high health care costs
  - Including children with special health care needs – 60% have behavioral health conditions
- People with incomes over federal minimum requirements for children, parents, pregnant women, individuals with disabilities, elderly people
  - Including children and pregnant women over 138% FPL

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# Rural Health Transformation Program

- CMS to award \$50 billion to states ~\$10 billion a year FY 2026-2030
  - 50% divided evenly among states in alignment with five goals:
    - Improving health in rural areas *including behavioral health*
    - Promoting sustainable access through regional collaboration and shared resources
    - Developing the workforce including a broader array of providers for rural communities
    - Advancing innovative care models to improve care coordination and outcomes
    - Supporting technology innovation to promote efficient care delivery and data security
  - 50% awarded based on rural and other factors – at discretion of CMS Administrator
  - Eligible providers include Community Mental Health Centers, CCBHCs and Opioid Treatment Programs serving rural areas
- Applications due Nov. 5, 2025

# Rural Health Transformation Funding: Allowable Uses

- Applications must specify how states will use funds to address at least three permissible uses:
  - Promoting prevention and management of chronic diseases including with consumer-facing technology
  - Improving reimbursement for health care providers
  - Supporting use of data and technology to improve access to rural hospitals and health care including with remote monitoring, robotics, AI
  - Enhancing recruitment and training to increase clinicians in rural areas
  - Providing technical assistance, software, hardware for IT to improve efficiency, outcomes, and cybersecurity

# Rural Health Transformation Funding: Allowable Uses(continued)

- Helping rural communities right size health care delivery systems
- Supporting access to OUD, SUD, and MH treatment
- Developing value-based care and alternative payment models
- Additional allowable uses:
  - Investing in existing rural health care facility buildings, e.g., renovations and equipment upgrades– not new construction
  - Fostering collaboration through local and regional strategic partnerships between rural facilities and other health care providers to promote quality, improve stability, and expand access

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# Mental Health and Substance Use Disorder Federal Funding Proposals

- President's FY 2026 Budget Proposals:
  - Proposed to combine Mental Health Block Grant (MHBG) and Substance Use Prevention, Treatment, Recovery Services (SUPTRS) Block Grant and State Opioid Response (SOR) Grants
  - Fold SAMHSA into Administration for a Healthy America
  - Significant Reductions to total Block Grant and SOR funding (~\$600M cut) and cuts to other programs
    - Except 988 and CCBHCs would be level funded
  - Would eliminate most of Programs of Regional and National Significance (PRNS)

# MH & SUD Federal Funding Proposals (continued)

- House FY 2026 Labor-HHS-Education Appropriations
  - No changes to structure of SAMHSA and Block Grants
    - MHBG - \$10 M increase to \$1.017B
    - SUPTRS BG - \$5 M increase to \$2.013B
    - SOR Grants – level funded at \$1.575B
  - Proposes to eliminate some PRNS
- Senate FY 2026 Labor-HHS-Education Appropriations
  - No changes to structure of SAMHSA and Block Grants
    - MHBG – level funded at \$1.007B
    - SUPTRS BG – \$20 M increase to \$2.028B
    - SOR -- \$20 M increase to \$1.595B (\$20M increase)
  - PRNS – mostly level funded or decreased

Questions?

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