



To: Board of Directors & Staff

From: LHPC Staff

Subject: Highlights from Governor's Proposed Budget for 2026-27

Date: January 9, 2026

This memo includes highlights from Governor Newsom's Proposed Budget for 2026-27, specifically health and human services proposals of relevance to local plans. See the [Governor's Budget Summary](#), [DHCS Budget Highlights](#), and the [DHCS Medi-Cal Estimate](#) for additional details (references and page numbers are provided throughout the memo). LHPC will continue to review and analyze Budget proposals impacting local plans and provide additional information as it becomes available. Please contact Rebecca Sullivan at [rsullivan@lhpc.org](mailto:rsullivan@lhpc.org), Katie Andrew [kandrew@lhpc.org](mailto:kandrew@lhpc.org), or Beau Bouchard [bbouchard@lhpc.org](mailto:bbouchard@lhpc.org) with any questions.

## State Budget Overview

The following highlights provide a snapshot of California's overall State Budget:

- **Total Budget:** \$348.9 billion total fund (\$248.3 billion General Fund) in FY 2026-27 (Summary Chart, p. 11). This reflects General Fund revenues that are \$42.3 billion above what was projected for the current budget window (2024-2025 to 2026-2027) in the 2025 Budget Act.
- **Reduced Revenues and Budget Shortfall:** The FY 2026-27 budget anticipates a shortfall of \$2.9 billion. The Governor presented a balanced budget by proposing the following:
  - **Reserves** — \$23 billion
    - \$14.4 billion in Budget Stabilization Account (BSA)
    - \$4.5 billion in the Special Fund for Economic Uncertainties (SFEU)
    - \$4.1 billion in the Public School System Stabilization Account

The Governor noted that this budget reflects general fund revenues that are higher by more than \$42 billion due to higher cash receipts, higher stock market levels, and improved economic outlook. Although general fund revenues are higher than expected, this budget projects a general fund shortfall due to constitutional funding requirements, the need for adequate budget reserves and higher program costs. The Governor warns that there are several risk factors that could negatively affect the state's revenues, including federal policy changes stemming from H.R. 1 as well as risks around stock market and assets price declines due to artificial intelligence investments being unsustainable, unpredictable federal policies,

and uncertainty regarding tariffs and immigration. H.R. 1 is projected to cost \$1.4 billion (\$1.1 billion is from Medi-Cal policy changes). The Governor also notes that the budget is predicted to have a shortfall of roughly \$22 billion in the next two fiscal years.

Reference: Governor's Budget Summary, pp. 1-6

### **Significant Medi-Cal Budget Items**

#### **Overall Medi-Cal Budget**

- *2026-27 Budget estimate:* \$222.4 billion (\$48.8 billion General Fund) (DHCS Budget Highlights, p.12).
- *Total projected enrollment:* The FY 2026-27 projected average monthly caseload is 14.0 million, a decrease of 3.5% from FY 2025-2026. (DHCS Budget Highlights, p. 7)

Reference: DHCS Medi-Cal Estimate, p. 6; DHCS Budget Highlights, p. 12

#### **Caseload Impacts Related to Redeterminations and Residency Verification**

For the Governor's Budget, DHCS projects that Medi-Cal enrollment will be lower than assumed in the 2025 Budget Act due to steeper caseload decline August 2025 through June 2026 as a result of the COVID-19 unwinding flexibilities sunset in July 2025. The budget reflects a caseload of 14.5 million for the Medi-Cal program in 2025-26, a decrease of 307,600 from the 2025 Budget Act, and estimates a 14-million-member caseload in 2026-27.

Residency verification improvements will impact caseloads downward, however implementation shifted from FY 2025-26 to FY 2026-27, resulting in increased GF costs of \$90.6 million in 2025-26. Although caseloads were lower than anticipated this delay resulted in increased GF costs of \$63.8 million compared to assumptions in the 2025 Budget Act.

The Governor's budget assumes continued impact from the sunset of unwinding flexibilities will result in a year-over-year increase of \$1.2 billion (\$783.2 million GF) savings in 2026-27 and an additional \$114 million GF savings as result of implementation of residency verification.

Reference: DHCS Budget Highlights, p. 5-6; Governor's Budget Summary, p. 75

#### **H.R 1 Impacts**

The Governor's proposed budget recognizes the significant impact that the passing of H.R. 1, signed into law by President Trump on July 4, 2025, will have on the Medi-Cal program, estimating \$471.9 million GF increase for H.R. 1 policies effective in 2026-2027 and an overall reduction in caseload of 1.8 million. Note that the budget expressly indicates that the key eligibility provisions of H.R. 1 will be applicable to both UIS and SIS populations.

*UIS Emergency Affordable Care Act (ACA) Federal Medical Assistance Percentage (FMAP) Adjustment.* Change in FMAP from 90% to 50% for emergency services for UIS ACA Adult Expansion population (effective October 1, 2026). Estimated increase of \$658 million GF in 2026-2027. Note that the budget does not address CMS guidance re: Emergency Medicaid articulated in [State Medicaid Director # 25-003](#).

*Work and Community Engagement Requirement.* Estimate that the caseload reductions (233,000 in 2026-2027 and 1.4 million in outyears) resulting from new requirements (effective January 1, 2027) will result in a cost reduction of \$373.3 million (\$102.4 million GF) in 2026-2027.

*ACA Adult Expansion Population 6-month Redetermination.* Estimate that the caseload reductions (~289,000, increasing to 395,000) from increased frequency of redeterminations from every 12 months to every 6 months (effective January 1, 2027) will result in a cost reduction of \$463.3 million (\$74.1 million GF) for 2026-2027.

*Reduced Retroactive Medi-Cal Timeframes.* Reduction of retroactive Medi-Cal coverage for ACA Adult Expansion population (M1 aid code) from 3 months before an individual's application date to 1 month and 2 months for all other eligible groups (effective January 1, 2027) will result in an estimated savings of \$23 million (\$9.6 million GF) in 2026-2027.

*Restrictions on Immigrant Eligibility.* Expect a reduction in federal funding due to the narrowing of the definition of qualified non-citizens eligible for federal funds. Governor's Proposed Budget proposes to move non-citizens that are no longer eligible for federal funds to restricted scope Medi-Cal, impacting an estimated 200,000 Medi-Cal members. The administration estimates that keeping this population on full-scope Medi-Cal would cost \$786 million GF in 2026-2027 and \$1.1 billion GF ongoing.

*County Administration.* Increased frequency of redeterminations and implementation of Work and Community Engagement requirements will put a strain on county eligibility workers. DHCS is engaging with counties to evaluate additional county support needs.

Reference: DHCS Budget Highlights, p. 4; Governor's Budget Summary, p.76-77

#### **Other Federal Impacts to Budget**

*Improvements & Efficiencies.* In part, related to the increased federal scrutiny on fraud, waste, and abuse (FWA) in the Medicaid program, the Governor's Proposed Budget notes DHCS' intention to explore ways to achieve General Fund savings by identifying improvements and efficiencies through 1) enhancing oversight, monitoring, and enforcement of managed care plans; 2) improving program integrity; and 3) aligning provider payments

with value. Estimate to save \$120 million GF in 2026-2027. DHCS has engaged a consulting group to carry out this work, which will be further defined in the upcoming months.

Reference: DHCS Budget Highlights, p. 5

#### ***Managed Care Organization (MCO) Tax***

The current MCO Tax is not consistent with H.R. 1 requirement that prohibits taxing Medicaid providers at higher rates than non-Medicaid providers. Under recent federal guidance, states will have a transition period through June 30, 2026, which is anticipated to cost the general fund roughly \$1.1 billion in FY 2026-27. However, this Budget assumes California will receive a full transition period through December 31, 2026. We anticipate more insight after next week's PAHCA-SAC meeting. Additionally, the Governor notes that H.R. 1 and Proposition 35 requirements significantly limit the size of any future MCO Tax, which results in a substantial reduction in ongoing support for the Medi-Cal program.

Reference: DHCS Budget Highlights, p. 12; Governor's Budget Summary, p. 77

#### ***Hospital Quality Assurance Fee (HQAF)***

Compared to the 2025 Budget Act, this budget projects a decrease in HQAF funding to support the Medi-Cal program of roughly \$92 million in FY 2025-26 and \$142.1 million in FY 2026-27 attributed to the federal government's notification that California's waiver request would not be approved as submitted. California has until mid-March to submit a revised model to the federal government.

As a reminder, HQAF includes an administrative assessment by the state which supports the General Fund.

Reference: DHCS Budget Highlights, p. 5; Governor's Budget Summary, p. 78

#### ***CalAIM***

The Governor's Budget estimates \$2.75 billion in expenditures for CalAIM ECM and Community Supports, an increase of \$412.0 million from FY 2025-26. This increase is due to increases in ECM, Community Supports, and Transitional Rent costs.

	Total Fund	General Fund	Federal Funds
Community Supports	\$1,143,121,000	\$468,813,000	\$674,308,000
Enhanced Care Management	\$1,380,950,000	\$582,169,000	\$798,780,000
Transitional Rent	\$224,675,000	\$91,789,000	\$132,887,000
<b>Total for FY 2025-26</b>	<b>\$2,748,746,000</b>	<b>\$1,142,771,000</b>	<b>\$1,605,975,000</b>

Reference: DHCS Medi-Cal Local Assistance Estimate, pp. 138-140

### **Behavioral Health**

*Behavioral Health Funding.* Includes \$150 million (placeholder) in Behavioral Health Services Fund for HCAI and CDPH for workforce and prevention programming. This will be updated at May Revise.

Reference: Governor's Budget Summary, p. 84

*Community-Based Mobile Crisis Services.* DHCS' enhanced federal funding for community-based mobile crisis response services will expire December 31, 2026, and the mobile crisis services will sunset March 31, 2027 (pending submission and approval of SPA). The Governor's Budget proposes to make mobile crisis services as an optional benefit beginning April 1, 2027. Includes \$431.5 million total funds (\$50.7 million Prop 35 funds, \$347 million federal funds, \$28.2 million 988 funds, and \$5.6 million GF) to continue this benefit across 2025-26 and 2026-27.

Reference: DHCS Budget Highlights, p. 5

### **Other Human Services Proposals**

#### ***H.R. 1 Impacts on CalFresh***

*Cost-Sharing Provisions.* Due to the federal share of CalFresh administrative costs reduction from 50% to 25%, the Governor's Proposed Budget assumes a General Fund increase of \$382.9 million in 2026-2027.

*Eligibility Provisions.* Eligibility changes (i.e., ineligibility for certain lawfully present non-citizens; updated Able-bodied Adults without Dependents work requirements, and State Utility Assistance Subsidy limitations) at the federal level will result in fewer individuals being eligible for CalFresh benefits, resulting in a reduction of \$66.2 million GF in 2026-2027.

#### ***Federal Rural Health Transformation Program***

Includes \$233.6 million in federal funds for federal fiscal year 2026 for HCAI to support the expansion of access to care, workforce development, and health care infrastructure in rural and frontier communities.

#### ***Reproductive Health Grant Program***

Includes \$60 million one-time GF to HCAI to provide grants to reproductive health care providers (note that this is in addition to \$90 million MCO Tax funds and \$56 million Abortion

Access Fund in 2025-26 to support reproductive health care providers). Highlighting that based on conversation with the Department, this will be the solution for funding planned parenthood during the funding ban and we do not anticipate proposal for plans to pay Planned Parenthood through a claims based approach.

***Menopause Services***

Includes \$3.4 million (~\$3 million GF) in 2026-2027 and \$391,000 Managed Care Fund ongoing to support health care coverage for perimenopause and menopause related services.

***In-Home Supportive Services (IHSS)***

Includes a reduction of \$86 million in 2026-27 by aligning Medi-Cal and IHSS eligibility processes. The Governor's budget also proposed to reduce \$3.5 GF to eliminate the IHSS Backup Provider system due to low utilization of these services and further savings of \$233.6 million GF to remove state's share of cost for IHSS hours per case growth beginning in 2027-28.

Reference: Budget Summary, p. 84

***TBL Section***

The following list outlines trailer bill language of interest to local plans. LHPC will be monitoring for trailer bill language in the coming weeks and will share more information once available:

- H.R. 1 – Conforming State to Federal Law
- Community-Based Mobile Crisis Intervention Services
- Skilled Nursing Facility Financing Reauthorization