



To: Board of Directors & Plan Staff

From: LHPC Staff

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

Date: May 14, 2026

This memo includes highlights from Governor Newsom's May Revision 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, Katie Andrew kandrew@lhpc.org or Beau Bouchard bbouchard@lhpc.org with any questions.

State Budget Overview

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

- **Total Budget:** After accounting for budget solutions, \$349.4 billion total fund (\$246.6 billion General Fund, \$1.8 billion lower than estimated in January) in FY 2026-27 (Summary Chart, p. 7). General Fund revenues are \$16.5 billion higher than what was projected in the Governor's proposed January budget over the three-year budget window.
- **Higher Revenues and Positive Year End Balances:** The FY 2026-27 budget anticipates positive year end balances in both FY 2026-27 and FY 2027-28. The Governor presented a balanced budget by proposing the following:
 - *Reserves* —\$29.9 billion
 - \$15.1 billion in Budget Stabilization Account (BSA)
 - \$4.5 billion in the Special Fund for Economic Uncertainties (SFEU)
 - \$10.3 billion in the Public School System Stabilization Account
 - *Surplus Holding Account* —\$9.7 billion
 - The Surplus Holding Account was established in 2024 and allows the state to set aside a portion of anticipated surplus funds and allocate them in a subsequent fiscal year.

The Governor projects General Fund revenues from the state's three major tax sources, Personal Income, Corporate, and Sales and Use Taxes, to be \$16.5 billion higher than estimated in January across the three-year budget window, primarily driven by stronger-than-expected personal income tax collections and a spike in capital gains realizations. While the economic outlook remains relatively stable, the revised revenue forecast supports a balanced budget for 2026-27 and maintains positive year-end balances and substantial reserves over the next two fiscal years. The proposal also reduces projected future operating deficits by more than half

through a combination of revenue and spending solutions, resulting in operating reserves of \$4.5 billion in 2026-27 and \$2.1 billion in 2027-28. In addition, the May Revision includes a \$9.7 billion transfer into the Surplus Money Investment Fund to help maintain a positive operating balance in 2027-28, marking the first time the state budget has made a deposit into the fund.

Reference: Governor's Budget Summary, pp. 1-4

Significant Medi-Cal Budget Items

Overall Medi-Cal Budget

- *2025-2026 Budget estimate:* \$194.4 billion (\$48.6 billion General Fund)
- *2026-27 Budget estimate:* \$216.7 billion (\$44.9 billion General Fund, a decrease of \$3.7 billion compared to FY 2025-26)
- *Total projected enrollment:* The FY 2026-27 projected average monthly caseload is 13.9 million, a decrease of 3.75% from FY 2025-2026. (DHCS Budget Highlights, p. 8)

Reference: DHCS Medi-Cal Estimate, p. 3; DHCS Budget Highlights, pp. 11-12

Caseload Impacts Related to Redeterminations and Residency Verification

The May Revision projects Medi-Cal enrollment declines from FY 2024-2025 to FY 2026-2027, including a decline of 14.9 million in 2024-2025 to 14.4 million in 2025-2026 (-3.25% year over year) to an additional decline from 14.4 million in 2025-2026 to 13.9 million in 2026-2027 (-3.75% year over year). This is in part to a steeper caseload decline beginning August 2025 through June 2026 as a result of the COVID-19 unwinding flexibilities sunset in July 2025. Further decline is anticipated as a result of the reinstatement of the asset limits test and the full-scope enrollment freeze, as well as eligibility and enrollment changes resulting from H.R. 1.

Reference: DHCS Budget Highlights, p. 8-9; Governor's Budget Summary, pp. 31-32

Coverage Changes to the Unsatisfactory Immigration Status (UIS) Medi-Cal Population

Transition UIS Medi-Cal Members to Fee-for-Service System. New federal policy changes noted in the State Medicaid Directors Letter (SMDL 25-003) in September of 2025 disallows covering federally-eligible emergency Medicaid services within a risk-based managed care delivery system for the UIS population. As a result, the May Revision proposes to transfer approximately 2 million UIS members from the managed care delivery system into full-scope Medi-Cal within the fee-for-service system effective January 1, 2027. To continue to provide emergency Medi-Cal services to the approximate 2 million UIS members within a state-only managed care program would cost approximately \$6 billion GF annually. The May Revise proposal is estimated result in a cost reduction of \$583.8 million (\$471.6 million GF) in 2026-2027 and \$1.5 billion (\$1.2 billion GF) ongoing.

Reference: Governor's Budget Summary, p. 33; DHCS Budget Highlights, p. 6

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Reduction in Federal Medical Assistance Percentage (FMAP) for Emergency Services. Increase in state costs to account for the FMAP reduction for emergency services from 90 to 50 percent for the UIS ACA adult expansion population resulting from H.R. 1 (effective October 1, 2026). Cost of approximately \$669 million GF with a net savings of \$51.5 million in 2026-2027, and \$718 million GF ongoing. LHPC is working to get clarity from DHCS to understand how the state is scoring net savings in 2026-2027 and confirm the ongoing costs to the General Fund of \$718 million in the out years.

Reference: Governor's Budget Summary, p. 33; DHCS Budget Highlights, p. 5

Eligibility Changes for Qualified Non-Citizens. Changes made to federal Medicaid eligibility for individuals with certain immigration categories resulting from H.R.1. significantly reduces the federal funding available to provide full-scope Medi-Cal to approximately 200,000 Medi-Cal members. The May Revision proposes delaying the October 1, 2026 transition of these members into restricted scope Medi-Cal by 9 months (effective July 1, 2027). Instead, this subset of UIS members will transition with the entirety of the UIS population into full-scope fee-for-service Medi-Cal prior to being transitioned to restricted scope July 1, 2027. To keep the population on full-scope Medi-Cal in FFS would cost an additional \$1.3 billion GF annually. The May Revision proposal will cost \$668.1 million in 2026-2027, with ongoing savings of \$294 million in 2029-2030 and ongoing. LHPC is working to obtain clarification from DHCS of costs and/or savings in 2027-2028.

Reference: Governor's Budget Summary, p. 34; DHCS Budget Highlights, p. 5

In addition, the May Revise proposes a \$30.8 million GF increase in 2026-2027 to align with the 9-month delayed transition to restricted-scope Medi-Cal for those qualified non-citizens whose eligibility for federal Medicaid funds changed as a result of H.R. 1.

Reference: Governor's Budget Summary, p. 39

Monthly Premium Increase for the UIS Adult Population. The May Revision proposes to increase the monthly premium for the adult UIS population ages 19 to 59 from the \$30 per month that was approved in the 2025 Budget Act to \$50 per month, effective July 1, 2027. The proposal would achieve an approximate General Fund savings of \$427.3 million in 2027-2028 and decreasing to approximately \$314.3 million annually in 2029-2030.

Reference: Governor's Budget Summary, p. 35; DHCS Budget Highlights, p.6

Full Reinstatement Asset Limit Test

Reinstatement of the asset limit test when determining Medi-Cal eligibility for seniors and disabled adults to \$2,000 for an individual or \$3,000 for a couple effective no sooner than January 1, 2027. Would provide an estimated \$94 million GF savings in 2025-2026, \$278.3 million in 2026-2027, and \$495.6 million ongoing inclusive of IHSS impacts (\$62.6 million GF in 2026-2027).

Reference: Governor's Budget Summary, p.35 & 39; DHCS Budget Highlights, p. 6-7

Medi-Cal Efficiencies

The May Revision proposes to achieve General Fund savings of \$68 million in 2026-2027 up to \$552 million in 2029-2030 through the following efficiencies:

- Implement utilization management for the applied behavioral analysis and transportation benefits.
 - DHCS published a [fact sheet](#) that outlines their proposal to strengthen the ability of DHCS and MCPs to conduct appropriate UM in the Medi-Cal program by adding in additional safeguards around the ABA/BHT and NEMT/NMT benefits.
- Eliminating the incentive component of the Quality Withhold and Incentive Program.

It is noted that the administration will continue to identify other potential efficiencies in the Medi-Cal program and include a placeholder amount in the out-years as it looks to identify additional opportunities.

Reference: Governor's Budget Summary, p. 35; DHCS Budget Estimate, p. 6

H.R.1 Eligibility and Enrollment Changes

The May Revise projects reductions from implementation of work requirements and reduced retroactive Medi-Cal coverage is collectively \$392.2 million (\$105 million GF) in FY 2026-27. Impacts for six-month redeterminations are not anticipated until FY 2027-28, further details below. Projected disenrollments for work requirements and six-month redeterminations is 43,000 in 2026-27 which is significantly lower than the 233,000 disenrollment projection in the Governor's budget.

Work and Community Engagement Requirements

The May Revise projects a decrease of 190,000 Medi-Cal disenrollments from the Governor's January Budget due refined estimates for beneficiaries meeting exemption criteria through medical frailty and CalFresh Able-Bodied Adults Without Dependents. The May Revision projects 43,000 disenrollment as a result of community engagement requirements in FY 2026-27 and 1.1 million disenrollments by FY 2029-30. Note that DHCS Budget estimates are slightly higher, citing 44,000 in 2026-27 and 1.3 million by 2029-30.

The May Revision estimates a \$357.6 million (\$90.3 million GF) reduction in 2026-27 and \$9.6 billion (\$2.4 billion GF) reduction by 2029-30.

ACA Adult Expansion Six-Month Redeterminations

Based on recent CMS guidance clarifying implementation expectations for six-month redeterminations, impact from this federal policy change is not anticipated until FY 2027-28 with projected disenrollments totaling 278,600 by 2029-30. The May Revision includes a reduction of \$747.3 million (\$186.4 million GF) in FY 2027-28 and \$2.5 billion (\$633 million GF) by 2029-30.

Reduced Retroactive Medi-Cal Timeframes

H.R. 1 policies modify the existing three-month retroactive Medi-Cal coverage policy down to one month for ACA adult expansion and two months for all other members beginning January 1, 2027. As a result, the May Revision projects a reduction of \$34.6 million (\$14.7 million GF) in 2026-27 and \$75.5 million (\$32.1 million GF).

County Medi-Cal Administration

The May Revision includes one-time augmentation of \$262 million (\$74 million GF) in 2026-27, \$33 million (\$16.7 million GF) in each 2027-28 and 2028-29 to support increased county workload as a result of implementation of H.R. 1 changes to eligibility and enrollment. For FY 2026-27, this reflects over \$30 million in excesses of the county budget ask to support county eligibility workforce but significantly less than what was requested for FY 2027-28. In March 2026, LHPC signed onto a Child and Welfare Director's Association (CWDA) coalition letter requesting \$230.9 million GF for 2026-27 and \$307.7 million GF for 2027-28 to support county eligibility workforce.

The May Revise includes a total of \$2.8 billion (\$705.3 million GF) for Medi-Cal county administration in 2026-27.

Reference: Governor's Budget Highlights pp. 33-35, DHCS Budget Highlights pp. 3-5

Managed Care Organization (MCO) Tax

The May Revision reflects current MCO Tax revenues of \$4.5 billion in FY 2025-26 and \$2.5 billion in FY 2026-27 to support the Medi-Cal program. The May Revision also includes \$1.3 billion in FY 2025-26, \$2.4 billion in FY 2026-27, and \$150 million in FY 2027-28 to support payment increases for hospital, community clinic, behavioral health, and other provider payments, relative to CY 2024. These amounts include \$1.9 billion in excess MCO Tax revenues from CY 2025 and CY 2026 after fulfilling the spending requirements under Prop 35. These revenues are not new dollars; they are backfilling the General Fund for expenditures already incurred or previously allocated.

The May Revision also proposes submission of a new MCO Tax model, effective January 1, 2027. As proposed, the new model would consist of two separate components. The first component is intended to comply with Proposition 35 requirements, under which DHCS would seek renewal of the current MCO Tax by submitting a substantially similar tax structure to the existing model. However, DHCS does not expect this component to receive CMS approval because it would not meet the requirements established under H.R. 1.

The second component is designed to comply with the H.R. 1 uniformity requirements and would be authorized by the legislature, but would not be tied to Proposition 35. Under this proposal, DHCS would impose an \$8.85 PMPM tax on both Medi-Cal and non-Medi-Cal entities to support the Medi-Cal program and sustain the targeted rate increases (TRI) for primary care, maternal health, and non-specialty mental health services that were implemented in January

2024. This new tax is expected to result in \$575 million in FY 2026-27, \$2.3 billion in FY 2027-28 and FY 2028-29, and \$1.7 billion in FY 2029-30.

Reference: DHCS Budget Highlights, p. 4; Governor’s Budget Summary, p. 32

Hospital Quality Assurance Fee (HQAF)

The May Revision assumes \$84.7 million in 2025-26 and \$1.7 billion in 2026-27 to support children’s coverage, which results in increased General Fund costs of \$1.2 billion in 2025-26 and General Fund savings of \$286.8 million in 2026-27 compared to the Governor’s Budget. The CY 2025 HQAF program is estimated to provide hospital net-benefit payments of \$5.5 billion.

Reference: DHCS Budget Highlights, p. 6; Governor’s Budget Summary, p. 34

CalAIM

The Governor’s Budget estimates \$2.71 billion in expenditures for CalAIM ECM, Community Supports and Transitional Rent. The May Revision proposes reductions to both the ECM and Community Supports expenditures by refining eligibility criteria and referral pathways, service definitions, and utilization management criteria, and assumes a decrease in FY 2026-27 expenditures of \$116 million. Additionally, DHCS posted a [fact sheet](#) that outlines their proposed refinements.

| | Total Fund | General Fund | Federal Funds |
|---------------------------------|------------------------|------------------------|------------------------|
| Community Supports | \$1,233,553,000 | \$500,218,000 | \$733,335,000 |
| Enhanced Care Management | \$1,334,682,000 | \$563,967,000 | \$770,716,000 |
| Transitional Rent | \$137,998,000 | \$55,018,000 | \$82,980,000 |
| Total for FY 2026-27 | \$2,706,233,000 | \$1,119,203,000 | \$1,587,030,000 |

Reference: DHCS Budget Highlights, p. 7; DHCS Medi-Cal Estimate, pp. 141-143

Behavioral Health

Behavioral Health Funding. The Governor’s January budget included a placeholder of \$150 million in Behavioral Health Services Fund for HCAI and CDPH for workforce and prevention programming. The May Revision includes \$174.8 million for CDPH and \$131.1 million for HCAI as required by Proposition 1. Within the proposed amounts, \$119.8 million of the CDPH funding and \$94.2 million of the HCAI funding will be allocated to implement new population-based prevention and workforce programs focused on behavioral health for 2026-2027 and to continue workforce initiatives through BH-CONNECT.

Reference: Governor’s Budget Summary, p. 41

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 May Revision maintains the Governor's Budget proposal to make mobile crisis services as an optional benefit beginning April 1, 2027 and projects a \$20.1 million GF offset from the BHSA Fund in 2026-27.

Reference: DHCS Budget Highlights, p. 14

Children and Youth Behavioral Health Initiative (CYBHI). Projects a \$5.1 million GF offset for the Wellness Coach Benefit and \$56.5 million GF offset for CYBHI services and platform from the BHSA Fund in 2026-2027.

Reference: DHCS Budget Highlights, p. 15

Medical Loss Ratio Remittance Redirection

The May Revision proposes to redirect medical loss ratio remittances from the loan repayment program to the General Fund. This redirection of funds is estimated to reduce the General Fund by \$25 million ongoing beginning in FY 2027-28.

Reference: DHCS Budget Highlights, p. 7; Governor's Budget Summary, p. 36

Other Human Services Proposals

Program of All-Inclusive for the Elderly (PACE) Rate Cap

Effective January 1, 2027, the May Revise proposes to implement a rate cap for PACE organizations to the lower bound, except for the first two years for new entrants. The General Fund assumes a reduction of \$33.7 million in FY 2026-27 and \$80.9 million ongoing.

Elimination of Optional Adult Acupuncture Benefit

Effective January 1, 2027, the General Funds assumes a reduction of \$5.4 million in FY 2026-27 and 13.1 ongoing by eliminating the optional adult acupuncture benefit.

Hospitals in Immediate Financial Distress

The May Revision allows for an augmentation for up to \$50 million General Fund in FY 2026-27 for the Department of Health Care Access and Information to provide short-term support for hospitals in immediate and significant financial distress.

Able-bodied Adults Without Dependents County Administrative Augmentation

Due to H.R. 1, CalFresh Able-Bodied Adults Without Dependents who do not meet applicable work requirements or qualify for an exemption will be limited to three months of countable benefits. The May Revision includes a \$30 million one-time General Fund to support county administration workload in FY 2026-27.

A One-time CalFood Increase

The May Revise includes a one-time \$30 million General Fund increase for food banks in FY 2026-27.

Covered California State Subsidy Program

To expand the state premium subsidy program to Covered California enrollees up to 200 percent of the Federal Poverty Level, the May Revise proposes \$300 million ongoing to the Health Care Affordability Reserve Fund. This is an increase of \$110 million compared to the Governor's Proposed Budget.

Statewide Menopause Campaign

Includes \$3 million one-time General Fund for a statewide public awareness campaign to support greater understanding of perimenopause and menopause.

Sickle Cell Centers of Excellence Support

Includes \$30 million General Fund, over five years, for the Department of Public Health to support Sickle Cell Centers of Excellence to provide treatment and health care for individuals with sickle cell disease.

Reference: DHCS Budget Highlights, p. 7; Governor's Budget Summary, pp. 35-36, 38, 42

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 Implementation (Update)
- 988 Suicide and Crisis Lifeline
- California Advancing and Innovating Medi-Cal (CalAIM) Renewal
- Medi-Cal Provider Oversight
- Reinstate Medi-Cal Asset Limit
- County Administration
- Managed Care Organization Tax
- Medical Loss Ratio Remittances
- Adult Acupuncture Services Elimination
- Medi-Cal Premiums