

AUGUST 20, 2025

Overview of Major Impacts of H.R. 1 – One Big Beautiful Bill Act

PRESENTED TO:

Assembly Budget Subcommittee No. 7 on
Accountability and Oversight
Hon. Gregg Hart, Chair



LEGISLATIVE ANALYST'S OFFICE

Presentation's Focus

- Highlights major impacts to state activities.
- Reflects early understanding of the legislation's changes.
- Describes first order effects and actions for the legislature.
- Does not outline possible state responses to mitigate impacts.



What Are the Major Areas of Focus?

- **Health Care Coverage and Financing.** Limits states' ability to tax Medicaid services in order to draw down federal funding. Limits certain payments to Medicaid providers. Requires many able-bodied adults in Medicaid to work, study, or complete community service. Increases frequency of eligibility redeterminations for childless adults.
- **Food Assistance.** Limits CalFresh eligibility, increases states' share of cost for administration, and shifts a portion of benefit costs to states (depending on error rate).
- **Higher Education.** Expands Pell Grant eligibility to students enrolled in accredited short-term workforce training programs. Places new caps on annual and aggregate federal student loans for all borrowers but undergraduate students. Replaces several existing student loan repayment plans with two new plans. Establishes new accountability earnings test for academic programs to retain federal loan eligibility.
- **Personal and Corporation Taxes.** Extends the provisions of the Tax Cuts and Jobs Act (TCJA, 2017), which largely reduced taxes for most individuals and businesses. Creates several new temporary deductions for seniors, overtime pay, tips, and auto loan interest, as well as increases the State and Local Tax (SALT) deduction. Makes permanent a number of business provisions, including bonus depreciation and full expensing for short-lived Research and Development (R&D) investment permanent.
- **Clean Energy and Electric Vehicle Credits.** Phases out various renewable energy, energy efficiency, and electric vehicle-related tax credits. Rescinds unobligated Inflation Reduction Act funding for various energy and natural resources-related programs.



When Do the Impacts Occur?

Health Care Coverage and Financing

Summary of Major Health Changes

Topic	Description	Starting Date
Medi-Cal Providers		
Provider tax rates	Limits states' ability to disproportionately tax Medicaid services and draw down federal funding.	July 2025 ^a
Abortion providers	Prohibits federal Medicaid payments for family planning services to certain abortion providers.	July 2025
Rural Health Transformation Program	Provides funds (\$50 billion over five years) to states to support rural hospitals and providers.	October 2025
Provider payment limit	Reduces payment limit to providers in managed care system.	January 2028
Provider tax revenue limit	Reduces revenue limit over time.	October 2028
Adults in Medi-Cal		
Community engagement	Requires most able-bodied adults to work, study, or complete community service.	End of 2026 ^b
Redetermination frequency	Increases frequency of eligibility redeterminations for childless adults.	End of 2026
Cost Sharing	Requires states to impose cost sharing on higher-income childless adults.	October 2028
People With Unsatisfactory Immigration Status in Medi-Cal		
Medicaid eligibility	Narrows eligibility for noncitizens.	October 2026
Federal match	Reduces federal match on emergency services.	October 2026
People in Covered California		
Premium tax credits	Narrows eligibility for noncitizens.	January 2027
Automatic re-enrollment	Eliminates automatic re-enrollment for premium and cost-sharing subsidies.	January 2028

^a Secretary of Health and Human Services can grant states up to three years.

^b Secretary of Health and Human Services can grant states option to delay up to two years.

Food Assistance

- **Upon Enactment (Immediate, Pending Federal Guidance):**
 - Expands work requirements for able-bodied adults with dependents.
 - Limits eligibility for non-citizens.
 - Limits allowable utility and internet deductions.
- **October 1, 2026:** Increases the state and county shares of administrative costs.
- **October 1, 2027:** Increases the state share of benefit costs (depending on error rate).



When Do the Impacts Occur?

(Continued)

Higher Education

- **July 1, 2026.** Changes implemented relating to short-term workforce Pell Grants, student loan caps, and loan repayments for new borrowers.
- **2028.** Existing borrowers with certain types of federal student loans have until 2028 to switch into other plans, including the two new plans. Schools can lose eligibility for federal student loans as a result of failing the accountability earnings test beginning in 2028.

Personal and Corporation Taxes

- **2025:** Increases in the SALT, other new individual deductions, and full expensing for R&D are effective this tax year.
- **2026:** Most other provisions (including making TCJA provisions permanent) effective next tax year.

Clean Energy and Electric Vehicle Credits

- **September 30, 2025:** Elimination of electric vehicle tax credit.
- **December 31, 2025:** Elimination of residential solar and energy efficiency improvement tax credits.
- **June 30, 2026:** Elimination of electric vehicle charger tax credit.
- **July 4, 2026:** Utility-scale wind and solar projects must either begin construction by July 4, 2026 or be placed in service by December 31, 2027 to be eligible for tax credits.



Which Changes Require Further Federal Guidance?

Health Care Coverage and Financing

- Several of the major changes impacting Medi-Cal will require additional federal guidance before implementation. For example, the Secretary of Health and Human Services will be required to promulgate guidelines for the implementation of community engagement requirements by June 2026. Additionally, the new rural health transformation program will require federal guidance on how funds will be distributed and specific requirements on program eligibility.

Food Assistance

- Changes to work requirements and eligibility (which likely cannot be implemented until guidance is issued).
- Federal government likely to issue further guidance on the remaining changes, although the impacts of those changes are relatively clear based on the legislation.

Higher Education

- Nearly all changes require further federal guidance. Beginning in July 2025, the federal government began rolling out new guidance, with further guidance expected over the next year or two.

Personal and Corporation Taxes

- Several provisions, especially the new deductions, will require additional Internal Revenue Service (IRS) guidance and regulations. In particular, guidance is needed to clarify eligibility requirements and lay out claiming instructions. The IRS anticipates releasing guidance starting in the fall.

Clean Energy and Electric Vehicle Credits

- Limited, but guidance is expected on the definition of “beginning construction” as well as restrictions around the amount of assistance provided by certain foreign entities.



Which Changes Could Require Implementing State Legislation?

Health Care Coverage and Financing

- ***Extent of Statutory Changes Needed Unclear at This Time.*** Until the state receives further federal guidance, the extent of statutory changes is unknown. We anticipate at least some changes will be required.
- ***Many Administrative Actions Likely.*** The Department of Health Care Services (DHCS) and counties—who administer Medi-Cal—will need to take a variety of steps to implement the federal changes. For example, DHCS likely will need to update regulations and could need to submit Medicaid State Plan Amendments. Counties will need to implement conforming changes and update processes for changes to redeterminations and eligibility.

Food Assistance

- ***Potential Changes Related to Eligibility.*** Possible that some changes related to eligibility will require statutory changes to facilitate implementation, pending federal guidance.
- ***Potential Impacts to the California Food Assistance Program (CFAP).*** The CFAP provides benefits to certain individuals not eligible for CalFresh due to their immigration status. The changes to federal CalFresh eligibility may mean the Legislature will want to consider how the rules of CFAP compare to the new federal rules.



What Changes Could Require State Action in the Current Year?

Health Care Coverage and Financing

- ***Potentially Restructuring the Managed Care Organization (MCO) Tax and Addressing Financing Shortfall.***
 - While changes to provider taxes take effect immediately, the Secretary of Health and Human Services has discretion to grant three-year extensions. If the state is unable to secure an extension, DHCS would need to restructure the tax to comply with the new rules. Due to the constraints under Proposition 35 (2024), the new tax could be significantly smaller than the current version, effectively eliminating budgeted state savings.
 - The most recent spending plan includes General Fund savings of \$4.2 billion in 2025-26 and \$2.8 billion in 2026-27 from the existing version of the MCO tax. Absent this financing mechanism, the state would need to identify ways to backfill these funds or reduce costs.
- ***Potentially Restructuring the Hospital Quality Assurance Fee (HQAF).*** If the federal government does not approve the state's recently submitted HQAF, DHCS would need to restructure the fee to comply with the new rules. The fiscal impact to the state would depend on how the state restructures the fee.

Food Assistance

- ***Eligibility Changes.*** Once federal guidance is issued, the state will have greater clarity as to whether statutory changes or other actions are required to effectuate the new requirements. The Legislature also may wish to consider implications for CFAP.
- ***Others.*** While not immediately required, the Legislature likely will want to start considering approaches for mitigating state costs in CalFresh due to federal changes (such as reducing the error rate).



What Changes Could Require Action in the Budget Year?

Based on our current understanding of the bill and its implementation, there are a few steps the Legislature likely will want to consider. As additional guidance and information is released, there may be additional steps the state will be required to take. We also recommend the Legislature ask the administration for regular updates on new guidance as it is released, as well as any initial steps departments may be taking.

Health Care Coverage and Financing

- *Prepare for Implementation of Eligibility Rules.*

Food Assistance

- *Develop Approaches for Reducing Error Rate.*
- *Consider Options for Improving Efficiency in Program Administration.*

