

California State Assembly



Assembly Budget Agenda

Assembly Budget Subcommittee No. 1 on Health

Assemblymember Dawn Addis, Chair

Tuesday, May 19, 2026

2:00 P.M. – State Capitol, Room 126

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Items To Be Heard

4400 Department of State Hospitals

Issue 1: DSH May Revision Proposals

Background on the Department of State Hospitals

The Department of State Hospitals (DSH) manages California's inpatient forensic mental health hospital system. Most patients admitted to DSH are court-mandated for treatment, with over 90 percent classified as forensic commitments. These individuals have been accused or convicted of crimes related to their mental illness and are referred to DSH through the criminal court system.

In addition to forensic commitments, DSH also treats individuals designated by a judge or jury as Sexually Violent Predators. These patients have completed prison sentences for crimes specified under the Sexually Violent Predator Act and are committed to DSH for continued treatment until a judge determines they no longer pose a threat to the community. The remaining DSH population includes civil commitments – individuals deemed by a court to be a danger to themselves or others, commonly known as Lanterman-Petris-Short (LPS) commitments.

DSH operates five state hospitals located in Atascadero, Coalinga, Metropolitan-Los Angeles, Napa, and Patton. Its administrative offices are based in Sacramento. Beyond its state hospital services, DSH also oversees programs in jail-based competency treatment (JBCT), community-based restoration (CBR), community inpatient facilities, pre-trial felony mental health diversion, and the Conditional Release Program (CONREP).

This subcommittee reviewed the Department of State Hospital's proposed 2026-27 budget at its May 4, 2026 hearing.

DSH May Revision Proposals

The Governor's May Revision includes the following proposals related to DSH:

- 1- County Bed Billing Reimbursement Authority.** Decreases General Fund reimbursements by \$12,363,000 in 2025-26, and \$5,811,000 in 2026-27 and ongoing to reflect a delay in the implementation of a new bed billing allocation methodology for the treatment of Lanterman Petris Short patients.
- 2- Limited Public Contract Code Exemption Authority.** Includes provisional language to provide the department with limited Public Contract Code exemption authority for

contracts associated with online services and subscriptions providing health care or pharmaceutical information.

- 3- Reversion of Unspent Funds.** Reverts \$20 million of unspent General Fund from the 2024 Budget Act
- 4- Incompetent to Stand Trial Program.** Decreases General Fund expenditures by \$11 million in 2025-26 and \$102.2 million in 2026-27 to reflect anticipated savings related to the phase-in of activations for Diversion and Community-based Restoration Programs.
- 5- Metropolitan: Central Utility Plant Replacement.** Reverts \$50,445,000 in existing, unspent resources from the Public Buildings Construction Fund and appropriates \$58,072,000 one-time Public Buildings Construction Fund (resulting in a net increase of \$7,627,000) for the construction phase of a central utility plant replacement at DSH-Metropolitan. Includes provisional language authorizing the Department of State Hospitals and the Department of General Services to execute documents necessary to sell State Public Works Board lease revenue bonds.
- 6- Continuum Electronic Health Record System.** Appropriates \$27,553,000 one-time General Fund in 2026-27 and re-appropriates \$6.3 million General Fund from the 2024 Budget Act to support the first year of implementation for the Continuum Electronic Health Record System project.
- 7- Conditional Release Program (CONREP) Non-Sexually Violent Predators (SVP).** Realigns \$6.1 million from the Incompetent to Stand Trial (IST) Solutions funding in FY 2026-27 and ongoing to correctly reflect funding intended for CONREP to support the activation of a 24-bed Mental Health Rehabilitation Center (MHRC) unit. DSH anticipates a total contracted caseload of 862 in FY 2025-26 and 877 in FY 2026-27.
- 8- Workforce Development.** Proposes \$10.3 million in reimbursements from the Behavioral Health Services Act (BHSA) Behavioral Health Workforce Initiative in 2026-27 and \$10.9 million in 2027-28 and ongoing to support its existing workforce development programs including psychiatric residency, fellowships and psychiatric technician training. The BHSA reimbursement is proposed to offset general fund expenditures for these programs and occur via an interagency agreement with Department of Health Care Access and Information. DSH also proposes \$3.8 million in 2026-27 and \$3.5 million in 2027-28 and ongoing in BHSA reimbursement to add an additional Psychiatric Technician Apprenticeship (PTA) Fast Track cohort to train an additional 30 psychiatric technician apprentices to help address DSHNapa's psychiatric technician (PT) vacancy rate and increase the number of PTs available to serve community programs. This item is part of a broader proposal related to BHSA funding discussed in Issue #4.

May Revision Trailer Bill

The Governor’s May Revision includes a trailer bill related to Conditional Release Program - Independent Placement Panels. According to DSH, this proposal would remove the June 30, 2026, sunset date for the Independent Placement Panel program.

Panel

- Department of State Hospitals
- Department of Finance
- Legislative Analyst’s Office

Staff Comments

Staff recommends that the Administration provides additional information on the following May Revision issues:

- 1- County Bed Billing Reimbursement Authority
- 2- Limited Public Contract Code Exemption Authority
- 3- Reversion of Unspent Funds
- 4- CONREP Independent Placement Panels Trailer Bill

4120 Emergency Medical Services Authority

Issue 2: EMSA May Revision Proposals

Background on the Emergency Management Services Authority (EMSA)

EMSA is the state entity providing statewide coordination for the planning, development, and implementation of local Emergency Management Services (EMS) systems. California has 34 local EMS systems that are providing emergency medical services for California's 58 counties.

Broadly, EMSA has three core functions:

- **Quality and Planning:** EMSA regulates local EMS systems through review of local EMS plans; provides oversight of state specialty care systems (e.g. trauma centers); and manages the California Poison Control system.
- **Professional Standards:** EMA sets standards for training, certification, licensing, and scope of practice for emergency medical services professionals including Emergency Medical Technicians (EMTs), paramedics, and public safety personnel (firefighters, peace officers, lifeguards); oversees the licensure and disciplinary management of paramedics statewide; and approves first aid and CPR training programs required for childcare providers and bus drivers
- **Disaster Medical Services:** EMSA coordinates California's medical response to disasters, is required and provides medical response resources to local governments in support of their disaster response when the disaster exceeds local capability.

This subcommittee reviewed the Emergency Management Services Authority's proposed 2026-27 budget at its April 20, 2026 hearing.

EMSA May Revision Proposals

The Governor's May Revision includes the following proposals related to EMSA:

- 1- **988 and the Behavioral Health Crisis Continuum Implementation Supports.** Provides \$203,000 one-time from the 988 State Suicide and Behavioral Health Crisis Services Fund in 2026-27 to support statewide guidance on behavioral health crisis response for local Emergency Medical Services Agencies.
- 2- **Enterprise Services Data Management System.** Includes \$4,264,000 General Fund in 2026-27 and \$4,414,000 in 2027-28 to support operations of three components of the

Enterprise Services Data Management System: Electronic Physicians Order for Life Sustaining Treatment, Central Registry System, and California Emergency Medical Services Information System, as well as implementation of a replacement system for the California Emergency Medical Services Information System.

Panel

- Emergency Medical Services Authority
- Department of Finance
- Legislative Analyst's Office

Staff Comments

Staff does not have concerns with the proposals.

4150 Department of Managed Health Care

Issue 3: DMHC May Revision Proposals

Background on the Department of Managed Health Care (DMHC)

The Department of Managed Health care is tasked with consumer protection of health care rights and safeguarding the stability of the health care delivery system. Key responsibilities of the Department include:

- **Licensing and regulating** the full scope of managed care models, including all Health Maintenance Organizations (HMO), Preferred Provider Organizations (PPO), Exclusive Provider Organizations (EPO), Point-of-Service (POS) products and Medi-Cal managed care plans.
- **Enforcing** the Knox-Keene Health Care Service Plan Act of 1975 which regulates health care service plans.
- **Conducting medical surveys and financial examinations** to verify that health plans are complying with the law and are financially stable to serve their enrollees
- **Operating a 24-hour-a-day Help Center** to resolve health care consumer complaints and administer the Independent Medical Review program.
- **Reviewing proposed health plan rate changes** for sufficient justification and reasonableness.
- **Monitoring the financial solvency** of the medical groups with whom health plans contract to provide health benefits to their enrollees.
- **Convening the Financial Solvency Standards Board**, comprised of people with expertise in the medical, financial and health plan industries, to advise the Director on strategies to keep the managed care industry financially stable.

This subcommittee reviewed the Department of Managed Health Care's proposed 2026-27 budget at its April 20, 2026 hearing.

DMHC May Revision Proposals

The Governor’s May Revision includes the following proposals for DMHC:

- 1- **California Managed Care Complaint System Resources and Project Implementation.** Provides \$3,336,000 one-time from the Managed Care Fund in fiscal year 2026-27 to implement the California Managed Care Complaint System in the Help Center, to meet mandated required timeframes for reviewing consumer and provider complaints, and strengthen customer service support.

- 2- **Electronic Filing and Analysis of Claims Settlement Data Project Implementation.** Appropriates \$2,420,000 in 2026-27 and \$2,026,000 in 2027-28 from the Managed Care Fund to implement the Electronic Filing and Analysis of Claims Settlement Data Project pursuant to the requirements of Chapter 763, Statutes of 2024 (AB 3275), including new filing types, additional data elements, and automated compliance reporting.

Panel

- Department of Managed Health Care
- Department of Finance
- Legislative Analyst’s Office

Staff Comments

Staff does not have concerns with the proposals

Behavioral Health (Various Departments)

Issue 4: Overview of Behavioral Health Services Act Proposals

Background: Behavioral Health Services Act Funding

Passed by voters in March 2024, Proposition 1 restructured California's Mental Health Services Act, renaming it the Behavioral Health Services Act (BHSA) and redirecting how its revenues are allocated. The BHSA is funded by a 1% tax on personal income above \$1 million.

Beginning in 2026-27, Proposition 1 restructures the revenue allocation, with counties receiving 90% of total BHSA revenues. The remaining 10% is reserved for state purposes, with specific allocations:

- 3% of state-level funds must go to the Department of Health Care Access and Information to implement a statewide behavioral health workforce initiative.
- 4% of state-level funds must go to the California Department of Public Health for population-based mental health and substance use disorder prevention programs.
- 3% of state-funds must go towards statewide administration, including oversight and monitoring, development of statewide goals, overseeing county outcomes, training and providing technical assistance to counties and providers, research and evaluation, and administering programs.

BHSA State Spending Plan

BHSA revenues for 2026-27 are projected to be approximately \$4.37 billion. Under the 90/10 split described above, counties are estimated to receive \$3.93 billion. The May Revision provides the Administration's proposed spending plan for the state's share of BHSA revenues:

- **For HCAI and workforce**, the Administration proposes \$131.1 million to HCAI, including \$65.8 million for the Behavioral Health Workforce Initiative and \$28.5 million for the BH-CONNECT Workforce Initiative.
- **For CDPH and population-based prevention**, the Administration proposes \$174.8 million to CDPH, including \$119.8 million for new prevention programs.
- **For state administration**, the Administration proposes drawing on both new 2026-27 revenues and a carry-forward balance from prior years, with total resources of

approximately \$357 million and proposed expenditures of \$335.2 million, leaving an ending balance of just \$21.8 million.

Most significantly, the May Revision proposes using BHSA funds to replace General Fund support for several existing programs, generating an estimated \$211.9 million in General Fund savings in 2026-27. These substitutions span all three state-level spending buckets:

General Fund Offsets Using BHSA:

- **Workforce:**
 - Children and Youth Behavioral Health Initiative (CYBHI) Services and Supports Platform / Mental Health Apps (\$11.9 million)
 - CYBHI Wellness Coach Benefits (\$5.1 million)
 - CYBHI Carryover Funds (\$8.5 million)
 - Department of State Hospitals Psychiatry Workforce Pipeline Programs (\$10.3 million)
 - California Department of Corrections and Rehabilitation (CDCR) Mental Health Training and Outreach Coordination Program (\$1.0 million)
 - Total: \$36.8 million

- **Population-Based Prevention:**
 - CYBHI Behavioral Health Services and Supports Platform / Mental Health Apps (\$44.6 million)
 - CDCR Staff Training Programs (\$1.3 million)
 - Department of Industrial Relations Equal Representation in Construction Apprenticeship Grant (\$3.5 million)
 - CDPH Office of Suicide Prevention (\$2.8 million)
 - CDPH Overdose Prevention Initiative (\$0.2 million)
 - CDPH Alcohol Harms Prevention Initiative (\$0.8 million)
 - CDPH Future of Public Health Behavioral Health Program (\$1.8 million)
 - Total: \$55.0 million

- **State-Directed Purposes:**
 - Drug Medi-Cal Organized Delivery System (\$100.0 million)
 - Community-Based Mobile Crisis Services (\$20.1 million)
 - Total: \$120.1 million

- **Grand Total General Fund Savings 2026-27: \$211.9 million**

Panel

- Department of Finance
- Legislative Analyst's Office

Staff Comments

The May Revision's use of BHSA revenues to offset General Fund costs warrants additional review. Voters approved Proposition 1 for specific behavioral health services and activities, and using those revenues to backfill existing General Fund commitments raises questions about whether the Administration is displacing those intended investments.

For example, the Administration's use of Proposition 1 Workforce and Population-Based Prevention dollars to backfill the CYBHI mental health app platform -- a program already supported by the General Fund -- is a particular example the Subcommittee may wish to examine.

Additionally, it is unclear as to why the Administration proposes to eliminate funding administered by the Commission for Behavioral Health, specifically the reduction to innovation and partnership grants and the elimination of community advocacy grants. Those reductions are discussed in the following issue on this agenda.

4560 Commission for Behavioral Health

Issue 5: Commission for Behavioral Health May Revision Proposals

Background on the Commission for Behavioral Health

The Behavioral Health Services Oversight and Accountability Commission (BHSOAC), also known as the Commission for Behavioral Health and formerly the Mental Health Services Oversight and Accountability Commission, was initially established in 2004 through Proposition 63 to oversee implementation of the Mental Health Services Act and to drive innovation and accountability in California's community-based mental health system.

With the passage of Proposition 1, the Behavioral Health Services Act, in 2024, the Commission is now made up of 27 members selected by the Governor, Attorney General, State Superintendent, Assembly, and Senate. The Commission is tasked with analyzing data, identifying gaps, and advancing solutions to improve services, reduce disparities, and address emerging issues. The Commission also aims to build a more effective and responsive behavioral health system through grant programs, technical assistance, and collaborating with community members and local and state agencies.

This subcommittee reviewed the Commission's activities at its May 4, 2026 hearing.

Commission for Behavioral Health May Revision Proposals

- 1- Funding Reduction: Innovation Partnership Grant Program.** The May Revision reduces the Behavioral Health Services Act Innovation Partnership Fund (IPF) from \$20 million to \$10 million in 2026-27.
- 2- Funding Elimination: Community Advocacy Grants.** The May Revision eliminates \$6.7 million ongoing for community advocacy grants administered by the Commission and funded through the Behavioral Health Services Fund.

Panel

- Commission for Behavioral Health
- Department of Finance
- Legislative Analyst's Office

Staff CommentsInnovation Partnership Fund Reduction

A key responsibility of the Commission under Proposition 1 is the administration of the Innovation Partnership Fund (IPF). Proposition 1 authorizes up to \$20 million annually from the Behavioral Health Services Fund for the IPF, for fiscal years 2026-27 through 2030-31 for a total of \$100 million. Funding beyond that period will be subject to the annual state budget process.

The Commission is tasked with using the IPF to award grants to public, private, and nonprofit partners to support the development and evaluation of innovative mental health and substance use disorder programs and practices. Funded projects must aim to improve outcomes for underserved, low-income, or other communities experiencing behavioral health disparities.

As presented in this subcommittee's May 4 hearing, the Commission has already released request for application for its first round of funding on March 20, 2026, with hundreds of entities engaging in the process. It is unclear why the Administration has decided to reduce funding midway through the RFA process. The subcommittee may wish to ask for the rationale behind this funding reduction.

Community Advocacy Grants

According to the Commission, the Mental Health Services Act, now the BHSA, requires that a transparent and collaborative process be used to determine behavioral health needs, priorities, and services at both the state and local level, with existing law requiring the inclusion of "funds to assist consumers and family members to ensure the appropriate state and county agencies give full consideration to concerns about quality, structure of service delivery, or access to services."

The Commission explains that its Community Advocacy Program is how California operationalizes that requirement, by funding organizations that provide advocacy, training and education, and outreach and engagement on behalf of specific communities. This May Revision proposal would eliminate the program entirely. The Commission notes that this elimination would impact nine populations and 16 contracts currently supporting statewide and local engagement.

4265 California Department of Public Health

Issue 6: CDPH May Revision Proposals

Background on the California Department of Public Health (CDPH)

The California Department of Public Health is the state department responsible for protecting the public health in California. Its core responsibilities include infectious disease control and prevention, food safety, environmental health, laboratory services, patient safety, emergency preparedness, chronic disease prevention and health promotion, family health, health equity and vital records and statistics.

CDPH activities and services include protecting people in California from the threat of preventable infectious diseases like Zika virus, HIV/AIDS, tuberculosis and viral hepatitis, and providing reliable and accurate public health laboratory services and information about health threats. Other core services include providing nutritional support to low-income women, infants and children, and screening newborns and pregnant women for genetic diseases. CDPH also works to ensure the safety of food and bottled water, helps reduce smoking and its impacts and works to prevent chronic diseases and conditions such as diabetes, cardiovascular disease, cancer, asthma and obesity.

The Department is also responsible for the regulatory oversight of licensed health care facilities, such as hospitals and skilled nursing facilities; as well as the regulatory oversight of certain health care professionals, such as nurse assistants, home health aides, and hemodialysis technicians.

The Department is comprised of eight “centers,” whose responsibilities are outlined below:

- **Center for Preparedness and Response:** Responsible for overall statewide planning, preparedness and response for public health disasters and emergencies, distributing and monitoring funding for disaster planning at the local level, funding resource allocation and management during an emergency.
- **Center for Healthy Communities:** Tasked with eliminating commercial tobacco use, reducing substance use and problem gambling. The center also conducts disease surveillance, promotes healthy nutrition, physical activity, and oral health, and investigates diseases associated with toxic exposures such as lead and other chemicals in the environment.
- **Center for Infection Diseases:** Charged with preventing and controlling infectious diseases, such as Human Immunodeficiency Virus (HIV) / Acquired Immunodeficiency

Syndrome (AIDS), COVID-19, viral hepatitis, influenza and other vaccine preventable illnesses, sexually transmitted diseases, tuberculosis, emerging infections, and foodborne illnesses.

- **Center for Family Health:** Manages programs aimed at improving the health and wellbeing of pregnant people, children and youth as well as reducing disparities in perinatal health outcomes. Key programs include the Genetic Disease Screening Program; the Maternal, Child and Adolescent Health; and the Special Supplemental Nutritional Program for Women, Infants, and Children.
- **Center for Environmental Health:** Administers programs that protect and manage food, drug, medical device, and radiation sources; regulate the generation, handling, and disposal of medical waste; oversee the disposal of low-level radioactive waste; provide laboratory support that ensures the public's safety from unsafe drinking water, food outbreaks and recalls.
- **Center for Health Care Quality:** Regulates public and private health facilities, clinics, and agencies; licenses nursing home administrators, and certifies nurse assistants, home health aides, and hemodialysis technicians; and oversees the prevention, surveillance, and reporting of healthcare-associated infections in California's health facilities.
- **Center for Laboratory Sciences:** Provides laboratory testing services, technical consultation, and training for the State's Public Health Laboratory System. The center is also responsible for the oversight of clinical and public health laboratory operations and clinical and public health laboratory personnel and is responsible for issuing laboratory licenses and certificates.
- **Center for Health Statistics and Informatics:** Manages information systems and facilitates the collection, validation, analysis, and dissemination of health statistics and demographic information on California's population.

This subcommittee reviewed the California Department of Public Health's proposed 2026-27 budget at its April 27, 2026 hearing.

CDPH May Revision Proposals

For 2026-27, the May Revision provides \$5.4 billion for the support of CDPH's programs and services, an increase of 5.6 percent from the 2026-27 Governor's Budget. Of the total May Revision proposal, \$2.1 billion is for State Operations and \$3.3 billion is for Local Assistance.

The Governor's May Revision includes the following proposals for CDPH:

- 1- Public Health Information Technology Systems.** Provides \$55,206,000 in 2026-27, to be decreased by \$18,487,000 in 2027-28 and \$3,749,000 ongoing to support the development, implementation, and maintenance and operation of public health information technology systems. This item also include an increase of \$5 million one-time in 2026-27 from the Clinical Laboratory Improvement Fund, \$8 million one-time in 2026-27 from the Health Statistics Special Fund, \$2 million one-time in 2026-27 Licensing and Certification Program Fund, and reappropriates up to \$16.6 million General Fund from the 2025 Budget Act until June 30, 2027 to support these efforts. These investments plan to support the California Immunization Registry (CAIR), the Future Disease Surveillance System (FDSS), the California Vaccine Management System (CA-VMS), Enterprise Architecture, the Surveillance and Public Health Information Reporting and Exchange (SaPHIRE), and the California Confidential Network for Contact Tracing (CalCONNECT).
- 2- Statewide Perimenopause and Menopause Campaign.** Allocates \$3 million one-time General Fund in 2026-27 with extended encumbrance or expenditure authority until June 30, 2028, for the development of a perimenopause and menopause public health educational campaign.
- 3- Los Angeles County Contract Extension.** Appropriates \$24,186,000 ongoing from the Licensing and Certification Program Fund to extend and augment the Los Angeles County Department of Public Health contract for updated indirect cost and employee benefit rates, personnel costs, and lease costs.
- 4- Behavioral Health Services Act State Allocation: Population-Based Prevention Programs.** Enacts various adjustments to implement population-based behavioral health prevention programs as required in Proposition 1. According to the CDPH estimate, these adjustments include an increase of \$174.8 million, of which \$119.8 million expenditure authority from the Behavioral Health Services Fund is available in 2026-27 to support implementation of the Department's Behavioral Health Services Act (BHSA) population-based prevention funding and needed operations and administrative infrastructure and capacity to implement the BHSA population-based prevention program. \$55 million is available to support existing behavioral health programming currently supported by General Fund, of which \$5.6 million is within CDPH's budget. The May Revision also reflects a reversal of the General Fund placeholder of \$50 million to capture updated expenditure authority. This item is also discussed in Issue 4 of this agenda.
- 5- Sickle Cell Centers for Excellence.** Provides \$6 million General Fund annually between 2026-27 and 2031-32 to support Sickle Cell Centers for Excellence facilities.
- 6- Center for Health Care Quality, Internal Department Quality Improvement Miscellaneous Projects.** Allocates \$450,000 one-time in 2026-27 from the Licensing and Certification Program Fund and \$1,765,000 in 2026-27 and \$74,000 ongoing from the

Internal Departmental Quality Improvement Account for information technology improvement projects to streamline training and data collection. Includes provisional language to authorize expenditure upon approval by the California Department of Technology through the Project Approval Lifecycle.

- 7- **Patient Safety Reporting Systems Reappropriation.** Reappropriates \$1,112,000 from the Licensing and Certification Program Fund in the 2025 Budget Act until June 30, 2027 to support the development of a patient safety reporting system in alignment with the requirements of Chapter 4, Statutes of 2025 (AB 3161). Includes provisional language making resources available upon Stage 2 Alternatives Analysis or Project Delegation Request approval.
- 8- **Lesbian, Bisexual, and Queer Women’s Health Operational Support.** Shifts \$2,495,000 in General Fund from local assistance to state operations to support the administration of lesbian, bisexual and queer focused women’s health grants until June 30, 2028.
- 9- **Special Deposit Fund Transfer to Various Special Funds.** Effectuates the conversion of special deposit sub-funds to special funds that were approved in the 2025 Budget Act.

May Revision Trailer Bills

The Governor’s May Revision includes the following trailer bills:

- 1- Home Health Agencies Moratorium
- 2- AIDS Drug Assistance Program - Disease Intervention Specialists
- 3- Composite Distinct Part Skilled Nursing Facilities
- 4- SB 669 Technical Cleanup

May Revision Estimates Adjustments

- 1- **Proposition 99 Expenditure Adjustments.** Enacts various Proposition 99 expenditure adjustments to reflect updated cigarette tax revenue estimates from specified Cigarette and Tobacco Products Surtax Funds.
- 2- **AIDS Drug Assistance Program Estimate.** Enacts various adjustments to the ADAP program, and includes \$69,336,000 in 2026-27 and \$7,336,000 ongoing to reflect updated program costs.

3- Women, Infants, and Children Estimate. Decreases federal funding authority by \$84,836,000 ongoing and provides \$13,133,000 ongoing from the WIC Manufacturer Rebate Fund to reflect updated expenditure estimates that are primarily driven by a decrease in projected participation from declining birthrates.

4- Genetic Disease Screening Program Estimate. Decreases the Genetic Disease Testing Fund by \$2,979,000 ongoing to reflect lower costs associated with the Genetic Disease Screening Program due to lowered birth and participation rates.

Panel

- California Department of Public Health
- Department of Finance
- Legislative Analyst's Office

Staff Comments

Staff recommends that the Administration provides additional information on the following May Revision issues:

- 1- Public Health Information Technology Systems
- 2- Statewide Perimenopause and Menopause Campaign
- 3- Los Angeles County Contract Extension
- 4- Behavioral Health Services Act State Allocation: Population-Based Prevention Programs
- 5- All trailer bills related to CDPH, many of which were not available for review at the time of the agenda's publication

The subcommittee has also received stakeholder feedback that the Proposition 99 adjustments will reduce funding for the California Cancer Registry, a statewide population-based cancer registry that collects information about nearly all cancers diagnosed in California.

4140 Department of Health Care Access and Information

Issue 7: HCAI May Revision Proposals

Background on the Department of Health Care Access and Information

HCAI was established to expand equitable access to health care by supporting the state's health workforce needs, ensuring the safety and reliability of health care facilities, and analyzing health care data and information. The Department administers a wide variety of programs across four areas:

- **Facilities:** monitor the construction, renovation, and seismic safety of California's hospitals and skilled nursing facilities, and provide loan insurance for nonprofit healthcare facilities to develop or expand services.
- **Workforce:** expand and diversify California's health workforce for underserved areas and populations.
- **Affordability:** improve health care affordability through data analysis, spending targets, and measures to advance value. Enforce hospital billing protections, and provide generic drugs at a low, transparent price.
- **Data:** collect, manage, analyze and report information about California's healthcare landscape.

This subcommittee heard the Department of Health Care Access and Information's proposed 2026-27 budget at its April 20, 2026 hearing.

HCAI May Revision Proposals

The Governor's May Revision includes the following proposals for HCAI:

1. **Distressed Hospital Grant Program.** Includes provisional language to authorize an augmentation of up to \$50 million General Fund for grants to hospitals in immediate and significant financial distress to help prevent the closure of those hospitals.
2. **Diaper Access Initiative Provisional Language.** Includes provisional language to exempt the Diaper Access Initiative from the Public Contract Code.

3. **Behavioral Health Services Act State Allocation:** Workforce Programs. Makes various General Fund and Behavioral Health Services Fund adjustments to implement behavioral health workforce programs as required in Proposition 1.
4. **CalRx Biosimilar Insulin Initiative Reappropriation.** Reappropriates \$105,000 in state operations and \$18.3 million in local assistance resources from the 2022 Budget Act until June 30, 2029 to continue the development of low-cost, biosimilar insulin.
5. **Rural Health Transformation Program Implementation.** Increases federal funding for state operations by \$11,396,000 one-time and federal funding for local assistance by \$114,968,000 one-time to administer and implement the federal Rural Health Transformation Program. Includes provisional language to authorize exemption from the Public Contract Code and use of a third-party administrator to for program implementation.
6. **Opioid Settlements Fund Reversion.** Reverts \$19,629,000 in Opioid Settlement Fund in the 2023 Budget Act.

Panel

- Department of Health Care Access and Information
- Department of Finance
- Legislative Analyst's Office

Staff Comments

Staff recommends that the Administration provides additional information and program updates on all HCAI May Revision proposals.

4800 Covered California

Issue 8: Covered California May Revision Proposals

Background on Covered California

Covered California is the state's health benefit exchange, established under the federal Affordable Care Act and created by California statute in 2010. It is a marketplace through which eligible Californians can shop, compare, and enroll in private health insurance plans and access federal and state financial assistance to help pay for coverage. Covered California is primarily designed to serve low-to-middle income individuals and families who do not have access to affordable employer-sponsored insurance.

Covered California does not provide health care directly: it contracts with private health insurance plans, negotiates prices on behalf of consumers, and ensures that participating plans meet quality standards. All plans offered through Covered California must cover the ten essential health benefits required under the ACA, including preventive care, hospitalization, prescription drugs, and mental health services.

This subcommittee heard various issues related to Covered California at its March 25 and April 20, 2026 hearings.

Covered California May Revision Proposals

- 1- **Gender Affirming Care Program Augmentation.** Includes \$26,848,000 in 2026-27 and \$13,424,000 in 2027-28 and going from the Health Care Affordability Reserve Fund augment the Gender Affirming Care program beginning in the 2026 coverage year, to align program funding with projected per-member-per-month costs.
- 2- **One-Dollar Premium Subsidy Program.** Provides \$20,350,000 in 2026-27 and ongoing from the Health Care Affordability Reserve Fund to support the One-Dollar Premium Subsidy Program to provide payments to qualified health plan issuers for reproductive health services. Includes provisional language to provide an additional year of encumbrance authority and to authorize augmentation of this appropriation for the 2027 coverage year.
- 3- **State Premium Subsidy Program Augmentation.** Provides \$110 million in 2026-27 and ongoing and includes provisional language to expand eligibility for the State Premium Subsidy Program.

Panel

- Covered California
- Department of Finance
- Legislative Analyst's Office

Staff Comments

Staff recommends that the Administration provides additional information on all Covered California May Revision proposals.

4260 State Department of Health Care Services

Issue 9: DHCS May Revision Proposals

Background on the State Department of Health Care Services

The Department of Health Care Services (DHCS) is the state agency responsible for financing and administering the state's Medicaid program, known as Medi-Cal, which provides health care services to low-income persons and families who meet defined eligibility requirements. Medi-Cal is authorized and jointly funded through a federal-state partnership, and covers physical health, mental health, substance use disorder, services, pharmacy, dental, and long-term services and supports.

This subcommittee heard DHCS' proposed 2026-27 budget at its March 9, April 6, and May 4 hearing. In addition, this subcommittee heard additional issues related to DHCS in a Joint Subcommittee 1 and Subcommittee 2 hearing held on March 25, 2026.

DHCS May Revision Proposals

For 2026-27, the May Revision proposes a total of \$223.2 billion and 4,749.5 positions for the support of DHCS programs and services. Of that amount, \$1.4 billion funds state operations (DHCS operations), while \$221.8 billion supports local assistance (funding for program costs, partners, and county administration).

The Governor's May Revision includes the following items for DHCS:

Major Proposals

- 1- Transitioning Individuals with Unsatisfactory Immigration Status from Managed Care to Fee-for-Service.** According to the Administration, pursuant to federal guidance, DHCS must discontinue federally-funded coverage of Medicaid emergency services for members with unsatisfactory immigration status through the managed care delivery system. To meet this new federal requirement, DHCS proposes to transition members with unsatisfactory immigration status (approximately 2 million individuals) from the managed care delivery system to the fee-for-service system effective January 1, 2027. This shift is anticipated to result in decreased General Fund costs associated with not paying managed care plans for administration and underwriting gain, and impacted members no longer being eligible for certain benefits under managed care, such as Enhanced Care Management and Community Supports. The May Revision includes a reduction of \$583.8 million (\$471.6 million General Fund) in 2026-27 and \$1.5 billion (\$1.2 billion General Fund) ongoing due to this proposal.

The Administration note that if the state was to provide emergency Medi-Cal services to this population in a state-only managed care program, the cost is estimated to be \$6 billion General Fund annually.

- 2- Limited-Time Full-Scope Coverage for Certain Qualified Non-Citizens.** Effective October 1, 2026, HR1 will exclude individuals with certain lawfully present immigration status from receiving federally funded full-scope Medi-Cal. This includes refugees, asylees, and certain victims of trafficking. The Administration proposes using state funds to delay coverage losses for those individuals from October 1, 2026 to July 1, 2027. This proposal is estimated to cost \$668.1 million General Fund in 2026-27 and savings of \$294 million in 2029-30.

The Administration notes that if the state were to otherwise continue to provide full-scope fee-for-service Medi-Cal to this population, the annual cost is estimated to be an additional \$1.3 billion General Fund.

- 3- 2024, 2025 & 2026: Managed Care Organization Tax.** The May Revision reflects Managed Care Organization (MCO) Tax revenue of \$4.5 billion in 2025-26 and \$2.5 billion in 2026-27 to support the Medi-Cal program. The May Revision also includes \$1.3 billion in 2025-26, \$2.4 billion in 2026-27, and \$150 million in 2027-28 to support increases in managed care and other payments relative to calendar year 2024, for hospital, community clinic, behavioral health, and other services. This includes an increase of \$1.9 billion from excess MCO Tax revenues from calendar years 2025 and 2026, after fulfilling the provider payment increases as required in Proposition 35. The existing MCO Tax expires on December 31, 2026.

- 4- 2027: Managed Care Organization Tax:** The May Revision proposes the renewal of an MCO Tax effective January 1, 2027, that conforms with the new and stricter H.R. 1 federal requirements. H.R. 1 significantly constrains state options to impose health care-related taxes and prohibits taxes that assess higher tax rates on Medi-Cal plans than commercial plans or otherwise place a disproportionately higher tax burden on Medi-Cal plans.

Proposition 35 requires that the state seek federal approval to continue an MCO tax on and after January 1, 2027, that is substantially similar to the current MCO tax and caps the annual non-Medicaid tax liability under that tax to \$36 million.

In order to comply with applicable law, the Administration proposes to seek federal approval of a 2027 MCO tax with two components:

- (1) A substantially similar tax authorized by Prop. 35 that complies with, and is governed by, Prop. 35.

- (2) A substantially dissimilar tax authorized by the Legislature that is not subject to Prop. 35.

The May Revision includes \$575 million in 2026-27, \$2.3 billion each in 2027-28 and 2028-29, and \$1.7 billion in 2029-30 from this renewed tax to support the Medi-Cal program and maintain targeted rate increases for primary, maternal, and non-specialty mental health care.

- 5- County Medi-Cal Administration.** The May Revision includes a one-time augmentation of \$262 million (\$74 million General Fund) in 2026-27 and \$33 million (\$16.7 million General Fund) in each of 2027-28 and 2028-29 to support county workload for the implementation of Medi-Cal eligibility changes pursuant to H.R. 1. This augmentation for county administration includes optional surge staffing capacity to provide additional support to counties for activities such as verifying completeness of application and renewal materials data entry, call center general inquiries, and new activities relating to work requirements.

General Fund Solutions

- 1- Increase Monthly Premium for Adults with Unsatisfactory Immigration Status (Aged 19–59) from \$30 to \$50.** The May Revision proposes to implement increased monthly premiums of \$50 for adults, aged 19 to 59, effective July 1, 2027. The 2025 Budget Act included \$30 premiums for this group of adults effective July 1, 2027. Estimated General Fund savings of approximately \$427.3 million in 2027-28, decreasing to approximately \$314.3 million annually in 2029-30.
- 2- Lower Medi-Cal Asset Test Limit Threshold.** The May Revision proposes to reinstate the Medi-Cal asset limit to consider resources, including property and other assets 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. The 2025 Budget Act included a partial reinstatement of the Medi-Cal asset limit (\$130,000 for an individual, \$195,000 for a couple) that went into effect January 1, 2026. Estimated General Fund savings of \$94 million in 2025-26, \$278.3 million in 2026-27 and \$495.6 million ongoing, inclusive of IHSS impacts.
- 3- Eliminate Optional Adult Acupuncture Benefit.** The May Revision proposes to eliminate the optional adult acupuncture benefit effective January 1, 2027. Estimated General Fund savings of approximately \$5.4 million in 2026-27 and \$13.1 million ongoing.
- 4- Further Cap Program of All-Inclusive Care for the Elderly (PACE) Rates.** The May Revision proposes to implement a rate cap for Program of All-Inclusive Care for the Elderly (PACE) organizations, except for new entrants in their first two years, at the

actuarially sound lower bound rate, effective January 1, 2027. The 2025 Budget Act included a rate cap at the mid-point effective January 1, 2027. Estimated General Fund savings of \$33.7 million in 2026-27 and \$80.9 million ongoing.

- 5- Community Supports.** The May Revision proposes to refine referral pathways, eligibility criteria, service definitions, and utilization management criteria for select Medi-Cal Community Supports services, effective January 1, 2027. Estimated General Fund savings of \$26.9 million in 2026-27, \$58.8 million in 2027-28, and \$51.0 million ongoing.
- 6- Enhanced Care Management.** The May Revision proposes to refine eligibility criteria, service definitions, utilization management criteria, and payment adjustments for the Medi-Cal Enhanced Care Management benefit, effective January 1, 2027. Estimated General Fund savings of \$41.4 million in 2026-27 and \$99.2 million ongoing.
- 7- Medical Loss Ratio Remittances.** The May Revision proposes to redirect medical loss ratio remittances to the General Fund. Estimated General Fund reduction of \$25 million ongoing beginning in 2027-28.
- 8- Behavioral Health Services Fund General Fund Offset.** The May Revision proposes several maneuvers to offset General Fund costs. This item is discussed in more detail in Issue #4 of this agenda. The offset include:
 - a. *Qualifying Community-Based Mobile Crisis Services:* \$20.1 million GF offset from Behavioral Health Services Fund in 2026-27
 - b. *Drug Medi-Cal Organized Delivery Systems (DMC-ODS):* A total \$135.4 million GF offset consisting of \$100 million Behavioral Health Services Fund and \$35.4 million Opioid Settlements Fund in 2026-27.
 - c. *Children and Youth Behavioral Health Initiative (CYBHI):* Wellness Coach Benefit - \$5.1 million GF offset from the Behavioral Health Services Fund.
 - d. *CYBHI Services and Platform:* \$56.5 million GF offset from the Behavioral Health Services Fund in 2026-27.

Other May Revision Proposals

- 1- 2027 Medi-Cal Waiver Planning and Implementation.** Includes \$8,750,000 in 2026-27, \$2,431,000 in 2027-28, and \$2,772,000 ongoing from the General Fund, and \$8,750,000 in 2026-27, \$2,431,000 in 2027-28, and \$2,771,000 ongoing in federal funds, to support planning and implementation of the California Advancing and Innovating Medi-Cal initiative.

- 2- **Ensuring Access to Medicaid Services (Access Rule) – Technical Adjustment.** Provides \$882,000 in 2026-27 through 2029-30 in General Fund to reflect technical adjustment to align resources as proposed in the 2026-27 Governor’s Budget.
- 3- **Addressing Backlogs and Delays in Waiver Personal Care Services (WPCS).** Includes \$451,000 in 2026-27 and \$370,000 in 2027-28 from the General Fund and \$450,000 in 2026-27 and \$370,000 in 2027-28 in federal funds to support administration of the Waiver Personal Care Services benefit.
- 4- **Narcotic Treatment Program and Driving-Under-the-Influence Program Licensing Trust Fund Authority.** Appropriates \$1 million in 2026-27 and ongoing from the Narcotic Treatment Program Licensing Trust Fund and \$1 million in 2026-27 and ongoing Driving Under-the-Influence Program Licensing Trust Fund to support the licensing of Narcotic Treatment Programs and Driving-Under-the-Influence Programs
- 5- **Healthcare Payments Data Program Long-Term Funding.** Provides \$207,000 and 1 position in 2026-27 and \$198,000 ongoing from the California Health Data and Planning Fund and \$622,000 and 3 positions in 2026-27 and \$595,000 ongoing in federal funds to support 4 positions for utilization of the Healthcare Payments Data program for the Medi-Cal Program.
- 6- **Centers for Medicare & Medicaid Services Grant.** Includes \$20,453,000 in 2026-27 in federal funds to support administrative and eligibility system costs associated with the implementation of federal work and community engagement requirements.
- 7- **Breast Cancer Control Account, Breast Cancer Fund Adjustments.** Enacts a transfer of \$2,975,000 in 2026-27 and ongoing within the Breast Cancer Control Account, Breast Cancer Fund to support the Every Woman Counts program.
- 8- **H.R. 1 Navigators for Clinics Program.** Includes provisional language to establish authority for the HR1 Navigators for Clinics Program
- 9- **Medi-Cal Estimate.** Makes several one-time adjustments to reflect caseload and other miscellaneous adjustments outlined in the Medi-Cal Estimate.
- 10- **Family Health Estimate.** Makes several one-time adjustments to reflect multiple updates outlined in the Family Health estimate.
- 11- **Behavioral Health Transformation: Behavioral Health Services Act Ongoing Implementation, Oversight, and Monitoring.** Allocates \$25,858,000 in 2026-27 and \$920,000 ongoing from the Behavioral Services Fund, \$15,958,000 in 2026-27 and

\$919,000 ongoing in federal funds to support the continued implementation of Proposition 1 and Behavioral Health Services Act requirements.

12-Behavioral Health Services Act Allocation: Population-Based Prevention Programs. Decreases General Fund expenditures by \$44.6 million in 2026-27 and \$98 million ongoing and increases reimbursements by \$44.6 million in 2026-27 and \$98 million ongoing.

13-Behavioral Health Services Act Allocation: Workforce Programs. Decreases General Fund expenditures by \$17 million in 2026-27 and \$77.2 million ongoing and increases reimbursements \$77.2 million ongoing,

H.R.1 Implementation: Revised Assumptions

The Administration includes the following revised assumptions related to HR1 implementation:

- 1- H.R. 1: Federal Work & Community Engagement Requirement.** H.R.1 introduced new work and community engagement requirements for the ACA Adult Expansion population, effective January 1, 2027. Under this new policy, eligible individuals will need to meet minimum participation hours or qualify for exemptions to maintain Medi-Cal coverage. Savings in 2026-27, resulting from this population losing their Medi-Cal eligibility, are estimated to be \$357.6 million TF (\$90.3 million GF), a GF savings decrease of \$12.1 million from Governor's Budget based on assuming more members will qualify for exemptions.
- 2- H.R. 1: ACA Adult Expansion Group Six-Month Redetermination.** As part of H.R.1, the Department will increase the eligibility redetermination frequency for the ACA Adult Expansion from once per year to every six months. At Governor's Budget, the Department assumed savings of \$463.3 million TF (74.1 million GF). However, based on recent CMS guidance (discussed above), impacts of this policy are not assumed to occur until FY 2027-28. This results in a GF increase of \$74.1 million for FY 2026-27 from Governor's Budget.
- 3- H.R. 1: Reduced Retroactive Medi-Cal Timeframes.** As a result of H.R.1, there would be a federally mandated reduction of retroactive Medi-Cal coverage from three months before an individual's application date to one month for the ACA Adult Expansion population (M1 aid code) and two months for all other eligible groups. This policy assumed implementation no sooner than January 1, 2027. Estimated savings in 2026-27 are \$34.6 million TF (\$14.7 million GF), a GF savings increase of \$5.1 million from Governor's Budget based on updated claims data.

- 4- H.R. 1: Death Master File Automation.** As part of H.R.1, the Department is mandated to use the Death Master File to automatically disenroll deceased MediCal members without needing further verification. For 2026-27, this result in savings of \$32.7 million TF (\$9.9 million GF), a GF savings increase or \$9.9 million from Governor's Budget,

May Revision Trailer Bills

The Governor's May Revision includes the following trailer bills:

- 1- H.R. 1 Implementation
- 2- County Administration
- 3- Medi-Cal Premiums
- 4- Reinstate Medi-Cal Asset Test Limits
- 5- Managed Care Organization Tax
- 6- Medical Loss Ratio Remittances
- 7- Medi-Cal Provider Oversight
- 8- Adult Acupuncture Services Elimination

Panel

- State Department of Health Care Services
- Department of Finance
- Legislative Analyst's Office

Staff Comments

Staff recommends that the Administration provides additional information on Medi-Cal's major proposals, General Fund solutions, and HR1 revised assumptions.

This agenda and other publications are available on the Assembly Budget Committee's website at [Sub 1 Hearing Agendas | California State Assembly](#). You may contact the Committee at (916) 319-2099. This agenda was prepared by Patrick Le.