2026-27 Budget Act

Department of Health Care Services Highlights

July 1, 2026

Governor Gavin Newsom
State of California

Secretary Kim Johnson
California Health and Human Services Agency

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Department of Health Care Services

DHCS
CALIFORNIA DEPARTMENT OF
HEALTH CARE SERVICES

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This document provides a summary of the Department of Health Care Services (DHCS or Department) enacted Budget for fiscal year (FY) 2026-27, including related statutory changes. The Department's budget builds on the Administration's previous investments, within a responsible budgetary structure, and enables DHCS to continue to transform Medi-Cal (California's Medicaid program) to create a more coordinated, person-centered, and equitable health system that works for its millions of members and California as a whole. The Department's programs include Medi-Cal, county-operated community mental health and substance use disorder programs, and several programs for special populations. The Budget supports the Department's purpose to provide equitable access to quality health care leading to a healthy California for all.

GENERAL BUDGET OVERVIEW

For 2026-27, the Budget includes a total of $226.3 billion and 4,765.5 positions for the support of DHCS programs and services. Of that amount, $1.5 billion funds state operations (DHCS operations), while $224.8 billion supports local assistance (funding for program costs, partners, and county administration). These expenditures are consistent with the final Budget Act of 2026, as reflected in Chapter 19, Statutes of 2026 (Assembly Bill (AB) 109) and the amending Budget Bill Jr., as reflected in Chapter 21, Statutes of 2026 (Senate Bill (SB) 111).

Total DHCS Budget

(Includes non-Budget Act appropriations)

Fund Source*	FY 2025-26 Enacted Budget	FY 2025-26 Revised Budget	FY 2026-27 Enacted Budget
Local Assistance (LA)			
LA General Fund	$45,283,036	$48,969,644	$47,272,964
LA Federal Funds	$120,075,811	$117,476,295	$133,872,668
LA Special Funds	$32,965,030	$30,096,968	$36,521,768
LA Reimbursements	$3,061,014	$3,368,520	$7,102,392
Total Local Assistance	**$201,384,891**	**$199,911,427**	**$224,769,792**
State Operations (SO)			
SO General Fund	$320,641	$386,937	$409,477
SO Federal Funds	$642,738	$667,275	$700,460
SO Special Funds	$371,583	$373,486	$362,693
SO Reimbursements	$26,367	$30,189	$29,838
Total State Operations	**$1,361,329**	**$1,457,887**	**$1,502,468**
Total Funds			
Total General Fund	$45,603,677	$49,356,581	$47,682,441
Total Federal Funds	$120,718,549	$118,143,570	$134,573,128
Total Special Funds	$33,336,613	$30,470,454	$36,884,461
Total Reimbursements	$3,087,381	$3,398,709	$7,132,230
Total Funds	**$202,746,220**	**$201,369,314**	**$226,272,260**

** Dollars in Thousands*

MAJOR BUDGET ISSUES AND PROPOSALS

Managed Care Organization Tax—The Budget reflects Managed Care Organization (MCO) Tax revenue of $2.5 billion in 2026-27 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 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.

The Budget reflects the renewal of an MCO Tax effective January 1, 2027, that conforms with new, stringent 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.

The Budget 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 MCO tax to support the Medi-Cal program and maintain targeted rate increases for primary, maternal, and non-specialty mental health care.

H.R. 1 of 2025—The Budget reflects costs of approximately $1.3 billion General Fund in 2026-27. The Budget projects total H.R. 1 disenrollment of 44,000 in 2026-27 and 1.3 million by 2029-30.

- **Work and Community Engagement Requirement**—The Budget includes a reduction of $357.6 million ($90.3 General Fund) in 2026-27 and $9.6 billion ($2.4 billion General Fund) by 2029-30, resulting from the new work and community engagement requirements for the Affordable Care Act adult expansion population, effective January 1, 2027. Projected disenrollments are 43,000 in 2026-27 and 1.1 million by 2029-30.
- **Federal Medical Assistance Percentage for Emergency Services**—The Budget includes a net savings of $51.5 million ($669 million General Fund cost) annually beginning in 2026-27 due to the federal match reduction from 90 percent to 50 percent for emergency services for Affordable Care Act adult expansion population members with unsatisfactory immigration status effective October 1, 2026.
- **Restrictions on Immigrant Eligibility**—A cost of $365 million General Fund in 2026-27 and savings of $359.8 million in 2029-30 and ongoing for a delayed July 1, 2027, transition to restricted-scope Medi-Cal for individuals impacted by the federal eligibility change for qualified non-citizens. The Budget projects 148,000 individuals will be impacted by this change.
- **Affordable Care Act Adult Expansion Six-Month Redeterminations**—The Budget includes a reduction of $747.3 million ($186.4 million General Fund) in 2027-28 and $2.5 billion ($633 million General Fund) by 2029-30 related to projected disenrollments. Projected disenrollments are estimated to be zero in

2026-27 and approximately 278,600 in 2029-30.

- **Reduced Retroactive Medi-Cal Timeframes**—The Budget includes a reduction of $34.6 million ($14.7 million General Fund) in 2026-27 and $75.5 million ($32.1 million General Fund) in 2029-30 and ongoing from the reduction of retroactive Medi-Cal coverage changes from three months before an individual's application date to one month for the Affordable Care Act adult expansion population and two months for all other members, effective no sooner than January 1, 2027.
- **County Medi-Cal Administration**—The Budget reflects a one-time augmentation of $709 million ($196.8 million General Fund) in 2026-27 to support county workload for the implementation of Medi-Cal eligibility changes pursuant to H.R. 1. The Budget includes a total of $3.3 billion ($828.2 million General Fund) for Medi-Cal county administration in 2026-27.

Transition of Unsatisfactory Immigration Status (UIS) Members to Fee-for-Service—The Budget includes a reduction of $637.1 million ($524.9 million General Fund) in 2026-27 and $1.6 billion ($1.3 billion General Fund) ongoing due to discontinuing federal funded coverage of Medicaid emergency services for members with unsatisfactory immigration status through the managed care delivery system. The Budget includes $39 million General Fund in 2026-27 to provide care coordination and navigation services to this population.

Hospital Quality Assurance Fee—The Budget includes $1.7 billion in 2026-27 to support children's coverage, which results in General Fund savings of $286.8 million in 2026-27 compared to the Governor's Budget. The federal government approved California's tax waiver request for the 2025 Hospital Quality Assurance Fee program which is estimated to provide hospital net-benefit payments of $5.5 billion.

Medi-Cal Efficiencies—The Budget includes a General Fund reduction of $68 million in 2026-27 increasing to $552 million in 2029-30 to strengthen utilization management controls for applied behavioral analysis and transportation in the Medi-Cal program and eliminating the incentive component of the quality withhold and incentive program for Medi-Cal managed care.

Qualifying Community-Based Mobile Crisis Services—The Budget includes $42.2 million General Fund to support extension of the community-based mobile crisis response services benefit in the Medi-Cal program until June 30, 2027.

General Fund Solutions—To address the projected statewide budget shortfall, the Budget includes General Fund solutions to achieve a balanced budget. The Budget includes:

- **Increase Monthly Premium for Adults with Unsatisfactory Immigration Status (Aged 19–59) from $30 to $50**—The Budget includes General Fund savings of approximately $427.3 million in 2027-28, decreasing to approximately $314.3 million annually in 2029-30 from increasing monthly premiums for adults with unsatisfactory immigration status to $50, effective July 1, 2027, subject to a determination in the 2027-28 May Revision.
- **Enhanced Care Management**—The Budget refines eligibility criteria, service

definitions, utilization management criteria, and payment adjustments for the Medi-Cal Enhanced Care Management benefit, effective January 1, 2027. The Budget includes General Fund savings of $41.4 million in 2026-27 and $99.2 million ongoing.

- **Community Supports**—The Budget refines referral pathways, eligibility criteria, service definitions, and utilization management criteria for select Medi-Cal Community Supports services, effective January 1, 2027. The Budget includes General Fund savings of $26.9 million in 2026-27, $58.8 million in 2027-28, and $51.0 million ongoing.

- **Medical Loss Ratio Remittances**—The Budget redirects medical loss ratio remittances to the General Fund. The Budget includes General Fund reduction of $25 million ongoing beginning in 2027-28.

- **Medi-Cal Asset Test Limits**—The Budget maintains the current Medi-Cal asset limit that went into effect January 1, 2026. The Budget also reinstates the Medi-Cal asset limit for seniors and adults with disabilities to $21,000 for an individual or $31,000 for a couple, effective no sooner than July 1, 2027, and includes General Fund savings of $215.7 million in 2026-27.

OTHER MAJOR ADJUSTMENTS

The Budget includes increased costs due to the delay of the following 2025 Budget Act General Fund solutions:

- **Delayed Prospective Payment System (PPS) Payments to Federally Qualified Health Centers and Rural Health Clinics**—The Budget delays elimination of PPS rates to clinics for state-only funded services provided to UIS populations from July 1, 2026 to July 1, 2027. The Budget includes General Fund costs of approximately $1 billion in 2026-27 and a General Fund reduction of $1 billion in 2027-28 and ongoing.

- **Delay Elimination of Dental Benefits for UIS and Dental Supplemental Payments**—The Budget delays elimination of dental benefits for UIS adults 19 and over and the elimination of dental supplemental payments from July 1, 2026 to July 1, 2027. The Budget includes General Fund costs of approximately $619 million in 2026-27 and $28.4 million in 2027-28.

The following May Revision proposals were not included in the final budget:

- **Eliminate Optional Adult Acupuncture Benefit**—The Budget does not eliminate the optional adult acupuncture benefit.

- **Cap Program of All-Inclusive Care for the Elderly Rates**—The Budget maintains the current rate cap for Program of All-Inclusive Care for the Elderly (PACE) organizations, effective January 1, 2027.

- **Support for Designated Public Hospitals**–The Budget includes $250 million one-time General Fund in 2026-27 for grants to California's designated public hospital system to support health care expenditures.

- **Proposition 36 funding**-The Budget includes $20 million one-time General Fund over three-years to provide non-competitive grants to county behavioral health departments to continue implementation of Proposition 36.

- **Private Duty Nursing Rate Increases**–The Budget includes $30 million one-time General Fund in 2026-27 to support rate increases for private duty nursing.

- **Anosognosia Pilot Program–**The Budget includes $5 million one-time General Fund in 2026-27 for a one-time direct payment to CenCal Health for the purposes of establishing a behavioral health pilot program on the treatment of severe schizophrenia, or anosognosia, in the Managed Care Plan's service region.

TRAILER BILL LANGUAGE

SB 125 (Committee on Budget and Fiscal Review, Chapter 24, Statutes of 2026) authorizes the federally compliant Managed Care Organization Tax.

SB 164 (Committee on Budget and Fiscal Review, Chapter 27, Statutes of 2026), the health omnibus budget trailer bill legislation, enacts the following related to DHCS:

- Behavioral Health Services Act Revenue and Stability
- Breast Cancer Control Fund and Breast Cancer Research Account Technical Clean-up
- Aligning Evidence-Based Standards for Substance Use Disorder Treatment
- California Advancing and Innovating Medi-Cal (CalAIM) Renewal
- HR 1 Implementation
- Medi-Cal Provider Oversight
- County Administration
- Reinstate Medi-Cal Asset Limit
- Medical Loss Ratio Remittances
- Medi-Cal Premiums
- Delay Dental Elimination for Individuals with Unsatisfactory Immigration Status
- Delay Elimination of Prospective Payment System for Individuals with Unsatisfactory Immigration Status

SB 165 (Committee on Budget and Fiscal Review, Statutes of 2026) enacts the Skilled Nursing Facility Financing Extension trailer bill language.

STATE OPERATIONS AND NON-ESTIMATE LOCAL ASSISTANCE BUDGET ADJUSTMENTS

The Budget includes additional expenditure authority of $225.6 million total funds ($87 million GF) for 180 positions (60 permanent positions (Perm), 4 limited-term (LT) to Permanent, and 116 LT-funded).

Detailed budget change proposal narratives can be found on the Department of Finance website at this link. To view Department requests, select the appropriate budget year (2026-27) and search for org code 4260 in the search bar located in the middle of the website.

Budget Change Proposal (BCP) Title	BCP Number	Positions	Total Funds**	GF**
2027 Medi-Cal CalAIM Waiver Planning and Implementation	4260-263-BCP-2026-MR		$17.5	$8.7
988 and the Behavioral Health Crisis Continuum Implementation	4260-061-BCP-2026-GB	8 Perm	$25.9***	$0.0
Additional Support for Implementation of the Children and Youth Behavioral Health Initiative	4260-462-BCP-2026-L		$2.0	$2.0
Advancing Interoperability and Improving Prior Authorization Final Rule (CMS-0057-F Interoperability Compliance)	4260-066-BCP-2026-GB****	18 LT	$3.5	$0.5
Behavioral Health Transformation: Behavioral Health Services Act Ongoing Implementation, Oversight, and Monitoring	4260-260-BCP-2026-MR		$41.8	$0.0
California Community Transitions (CCT) Program Federally Funded Limited-Term Position	4260-065-BCP-2026-GB****	1 LT	$0.2	$0.0
California Health and Human Services Data Exchange Framework (SB 660)	4260-145-BCP-2026-GB	1 Perm	$0.2	$0.1
Ensuring Access to Medicaid Services (Access Rule)	4260-068-BCP-2026-GB****	22 LT	$6.4	$0.9
Ensuring Access to Medicaid Services (Access Rule) - Technical Adjustment	4260-264-BCP-2026-MR		$0.9	$0.9
H.R. 1 Planning and Implementation	4260-070-BCP-2026-GB****	29 LT	$33.0	$15.5
Human Resources Plus Modernization (HR+Mod)	4260-072-BCP-2026-GB	3 Perm	$4.5	$2.3

Managed Care Final Rule: Implementation and Operations	4260-075-BCP-2026-GB****	6 LT	$12.3	$6.0
Managed Care Operations	4260-077-BCP-2026-GB	4 LT to Perm	$0.6	$0.2
Medi-Cal Provider Enrollment and Revalidation	4260-460-BCP-2026-L		$10.4	$5.2
Medi-Cal: Field Medicine (AB 543)	4260-149-BCP-2026-GB	4 Perm	$0.7	$0.4
Medi-Cal: Graduate Medical Education Payments (SB 246)	4260-146-BCP-2026-GB	1 Perm	$0.2	$0.0
Narcotic Treatment Program and Driving-Under-the-Influence Program Licensing Trust Fund Authority	4260-267-BCP-2026-MR		$2.0	$0.0
Program of All-Inclusive Care for the Elderly Beneficiary Applicant Assistance	4260-439-BCP-2026-L	4 Perm	$0.8	$0.4
Medi-Cal Solutions and Legislative Adds	4260-459-BCP-2026-L	12 Perm	$8.8	$4.4
Transition Individuals with Unsatisfactory Immigration Status to Fee-For-Service	4260-465-BCP-2026-L		$39.0	$39.0
Value Strategy for Hospital Payments in Medi-Cal Managed Care	4260-089-BCP-2026-GB****	23 Perm; 3 LT	$10.7	$0.0
Addressing Backlogs and Delays in Waiver Personal Care Services (WPCS)	4260-265-BCP-2026-MR****	4 LT	$0.9	$0.5
Joint BCP				
Healthcare Payments Data Program Long-Term Funding (Joint with HCAI)	4260-270-BCP-2026-MR	4 Perm	$0.9	$0.0
Long-Term Care Payment Transparency Final Rule Extension (Joint with Department of Health Care Access and Information or HCAI)	4260-074-BCP-2026-GB		$2.5	$0.0
Total		**60 Perm; 4 LT to Perm; 116 LT**	**$225.6**	**$87.0**

*Chart totals may differ from the BCP totals within an individual BCP due to rounding.
**Dollars in millions.
***Resources include Non-Estimate Local Assistance Items
**** BCPs include resources equivalent to limited-term positions