

DEPARTMENT OF HEALTH CARE SERVICES PROPOSED TRAILER BILL LEGISLATION

County Administration FACT SHEET

Issue Title: County Administration. The Department of Health Care Services (DHCS) proposes to: 1) Modify DHCS' authority to impose financial sanctions on counties that do not meet Medi-Cal eligibility processing performance standards for three consecutive months in any year in which DHCS allocates funds to the counties in excess of the annual base funding amounts; and 2) Update and clarify county performance standards, and include six-month redeterminations in the performance standards.

Background: Existing law outlines California's county performance standards related to Medi-Cal applications and annual redeterminations (Welfare and Institutions Code Section 14154 and MEDS alert processing (WIC Section 14154.5)).

In 2025–26, DHCS initiated a formal monitoring framework to measure county compliance with performance standards for timely and accurate eligibility determinations and redeterminations. Counties not meeting required thresholds were issued Corrective Action Plans (CAPs), consistent with the standardized CAP workflow maintained within the Department. Despite these efforts, early performance results suggest that a subset of counties continue to face challenges meeting performance standards.

DHCS has the authority to impose a financial penalty—specifically, a two-percentage point reduction in county administrative allocations—when counties fail to meet performance standards. However, current statute prohibits DHCS from imposing this financial penalty in any year in which a cost-of-doing-business increase is suspended (WIC Section 14154.5(g)(2)).

The federal H.R. 1 makes significant changes to Medi-Cal eligibility and enrollment for the Affordable Care Act (ACA) Modified Adjusted Gross Income (MAGI) New adult group, non-disabled adults ages 19-64, including the introduction of six-month eligibility redeterminations. These semi-annual redeterminations are not included as part of the existing performance standards.



H.R. 1 also amended the federal Centers for Medicare & Medicaid Services (CMS) oversight and enforcement of eligibility-related administrative errors in Medicaid, which has implications for state compliance and federal oversight. The federal law reduces the United States Health and Human Services Secretary's authority to waive repayments for eligibility-related administrative error rates above three percent. Historically, CMS has had discretion to provide "good-faith waivers" for such repayments when error rates exceed the three percent allowable threshold. Under the new law, that authority is removed, meaning states will be more directly accountable for eligibility-related administrative error rates without the same flexibility to avoid repayment. The law also requires CMS to use a more expansive set of audits and reviews to calculate repayments than CMS has historically used.

As of July 1, 2024, DHCS implemented the Newborn Gateway for individuals enrolled in Medi-Cal or the Medi-Cal Access Program who give birth in participating hospitals or clinics. Hospitals and clinics who participate in the Newborn Gateway are required to enroll babies born to these members within 72 hours of birth.

Justification for the Change: Given the increased risk of significant federal repayment requirements, DHCS must strengthen county performance and accountability. The most effective lever available is enforcement of the existing incentive and penalty structure under state law. The changes proposed would delink the imposition of those financial penalties from the cost-of-doing-business increase for county administration and instead allow DHCS to impose financial penalties in any year in which the Department allocates funds to the counties in excess of the base funding. These changes increase the state's ability to drive sustained performance improvements and provide financial incentives for a stronger accountability framework, mitigating the risk of significant ongoing federal repayments.

To support timely and accurate service for Medi-Cal members and to reduce the risk of federal audit findings leading to costly repayments, DHCS is proposing trailer bill language that would:

Allow DHCS to impose financial sanctions

- Authorize DHCS to impose financial sanctions on counties that do not meet their performance measures over the course of three consecutive months in any period of time in which DHCS allocates funds to the counties in excess of the base funding amounts, delink financial penalties from the cost-of-doing business adjustment for county administration, and remove legislative intent language that references this link (WIC Sections 14154(c)(1), (g)(2), and 14154.5(g)(2)).

- Allow DHCS to impose financial sanctions in the quarter for each performance measure, as appropriate, following a finding that the county is out of compliance, to more closely link the identified errors to the penalty (WIC Sections 14154(g)(1) and 14154.5(g)(1)), until DHCS determines county performance has improved.

Update and clarify county performance standards

- Clarify definition of county base allocation as defined in WIC Section 14154(a). (proposed WIC Section 14154(g)(2))
- Remove the requirement that any changes to WIC Section 14154 must be made by no later than the 2011-2012 fiscal year (WIC Section 14154(a)(4)).
- Remove references to hospital presumptive eligibility and expedited enrollment for newborns, as those requirements are not tied to performance measures due to the implementation of Newborn Gateway (WIC Sections 14154(a)(1) and (d)(2)).
- Adjust county performance standard related to redeterminations to account for H.R. 1's six-month eligibility redetermination requirement for the ACA MAGI New adult group, non-disabled adults ages 19- 64 (proposed WIC Section 14154(d)(2)).
- Replace out-of-date reporting requirements to require DHCS, no later than January 31, 2027, to publish fiscal county performance data on its website (proposed WIC Sections 14154(f)).
- Clarify that if a county does not process worker alerts which affect eligibility and share of cost, the county will be out of compliance with performance standards (WIC Section 14154.5(f)(1)).
- Authorize the Department to reduce the county's allocation by 2 percent for each quarter and by performance measure, as appropriate, in which sufficient improvement has not been made to meet the performance standards, if the county continues not to meet the performance standards (WIC 14154(g)(1)).
- Remove the requirement and specificity regarding the Department imposing corrective action plans on counties for timely enforcement of performance standards (WIC Sections 14154(g) and WIC Section 14154.5(f)(2)).

BCP or Estimate Issue # and Title: TBD