From Sacramento to Washington: Financial Policy Updates (cont.)

Budget Pressures and Politics

Mark Farouk, Vice President, State Advocacy
Adam Dorsey, Group Vice President, Financial Policy

California General Fund: Budget Pressures

Rising program costs and federal uncertainty may offset stronger revenues.

Federal funding exposure

Potential federal reductions could increase state funding demands for health care, nutrition, social services, and hospitals.

Workforce compensation

State employees and childcare providers may seek higher pay, adding pressure to future General Fund spending.

Higher education

Public universities may pursue renewed multiyear funding commitments with the next administration.

Education, Housing, & Climate Commitments

Core programs may require additional resources even as budget capacity remains limited.

K–12 education

Proposition 98 funding pressures, declining enrollment, and district fiscal distress could drive requests for state assistance.

Housing & homelessness

Further General Fund support may be requested; a housing bond could provide near-term relief but add future debt-service costs.

Climate programs

Lower cap-and-trade auction proceeds may require changes to Greenhouse Gas Reduction Fund spending commitments.

Emerging Costs & Unfunded Commitments

Events and policy decisions could create substantial unplanned obligations.

Natural disaster response

Storms, floods, wildfires, and gaps in federal disaster aid could increase state costs.

2028 Los Angeles Olympic & Paralympic Games

Shortfalls in anticipated federal transportation or security funding could shift significant costs to California.

Film & television tax credits

Proposals to expand the state tax credit impact general fund.

Revenue Risks & Overall Outlook

Voter decisions could materially affect the state's long-term fiscal position.

Proposition 40

Approval could produce an ongoing reduction in state income tax revenue.

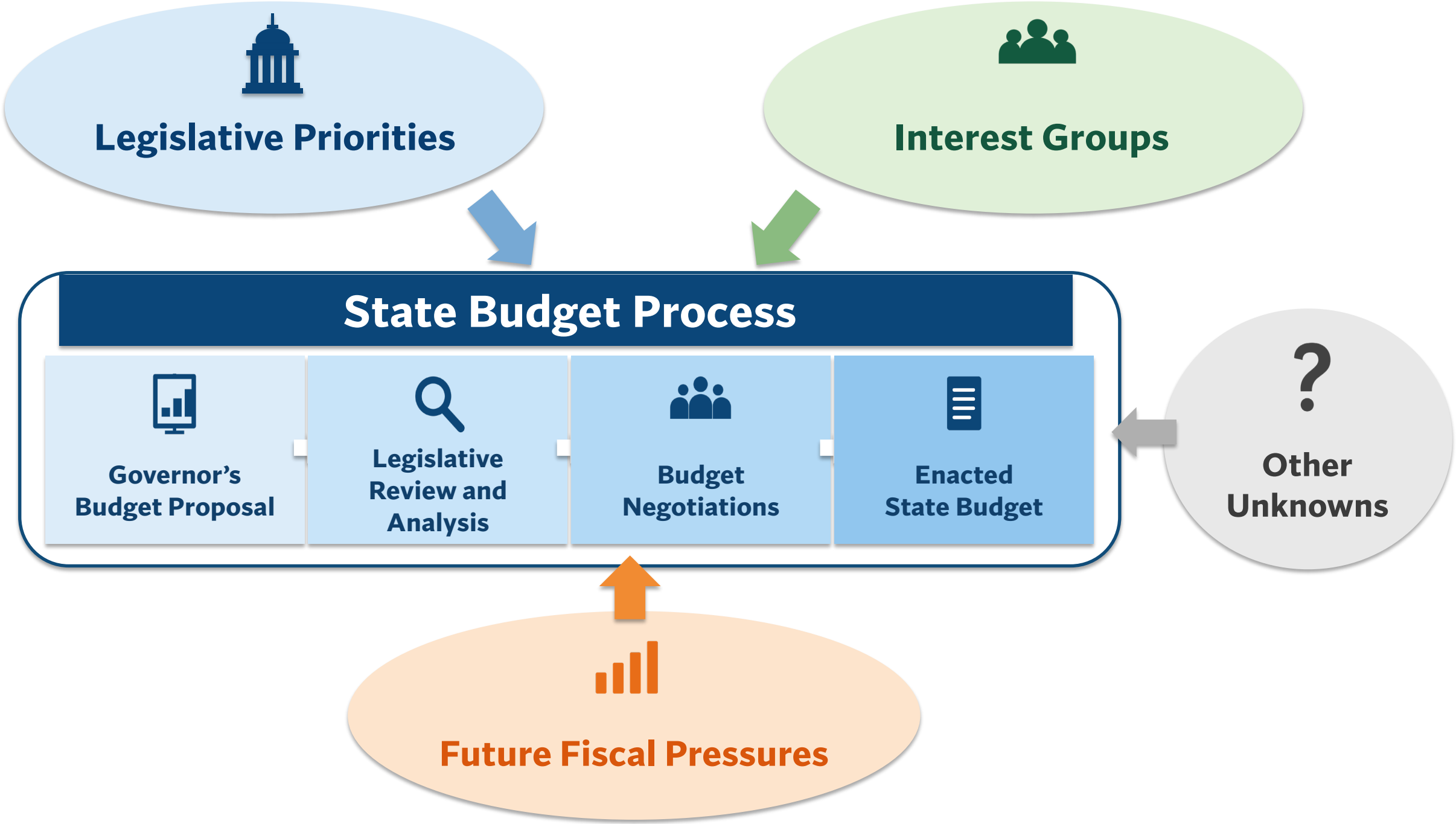
Proposition 3

Rejection could increase projected annual General Fund deficits by billions of dollars after 2030.

Structural budget imbalance

Existing spending commitments, debt and reserve requirements, and projected deficits constrain the use of revenue gains.

Bottom line: Higher revenues would not necessarily create more discretionary spending capacity.


Legislative Priorities
Interest Groups
State Budget Process
Governor's Budget Proposal
Legislative Review and Analysis
Budget Negotiations
Enacted State Budget
?
Other Unknowns
Future Fiscal Pressures

Distressed Hospital Grant Program

Eligibility:

– Be a not-for-profit or public hospital.
– Operate as a standalone facility or be part of an integrated health care system with not more than two separately licensed hospital facilities. (Hospitals in systems with more than two licensed facilities are not eligible.)
– Demonstrate a government and uninsured payor mix of at least 60% of gross revenue.
– Submit a viable Strategic Initiative Plan that includes financial projections, an explanation of how grant funds will be used, and the governing body's strategies to regain financial viability and continue operating.
– Demonstrate best efforts to exhaust other financial options, including (but not limited to) resolving revenue-timing issues or requesting forgiveness or deferral of other short- and long-term debt.

Applications are due November 9, 2026, at 5:00p.m.

Awards are disbursed in two payments:

50% – Upon grant award determination.

50% – Six months post award, subject to progress of strategic initiatives.

Why Create a Provider Tax?

California Hospital Association

California State Budget "Problem" by Fiscal Year

- **2008-09: $24 Billion Gap** (Total annual budget: $103 billion)
  - $165 million in Medi-Cal cuts
- **2009-10: $60 Billion Gap** (Total annual budget: $86 billion)
  - Medi-Cal: Trigger cut to reduce reimbursement rates for public hospitals by 10%
- **2010-11: $19 Billion Gap** (Total annual budget: $87 billion)
  - $86 million cut to freeze daily per diem hospital inpatient rates and $14 million reduction to radiology rates

The State Fiscal Picture

California Hospital Association

The state budget is in structural deficit despite a strong revenue outlook.

The State Fiscal Picture

Unprecedented Good Fortune

S&P 500 Annual Returns	
2026 (ytd)	13.13%
2025	16.39%
2024	23.31%
2023	24.23%
2022	-19.44%
2021	26.89%
2020	16.26%
2019	28.88%

Average S&P 500 annual returns over first 7 years of the Newsom administration:

- +16.65%

Average S&P 500 annual returns historically:

- +8.11%

State General Fund revenue has grown from $140 billion to over $238 billion during the Newsome administration.

The State Fiscal Picture

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The State Fiscal Picture

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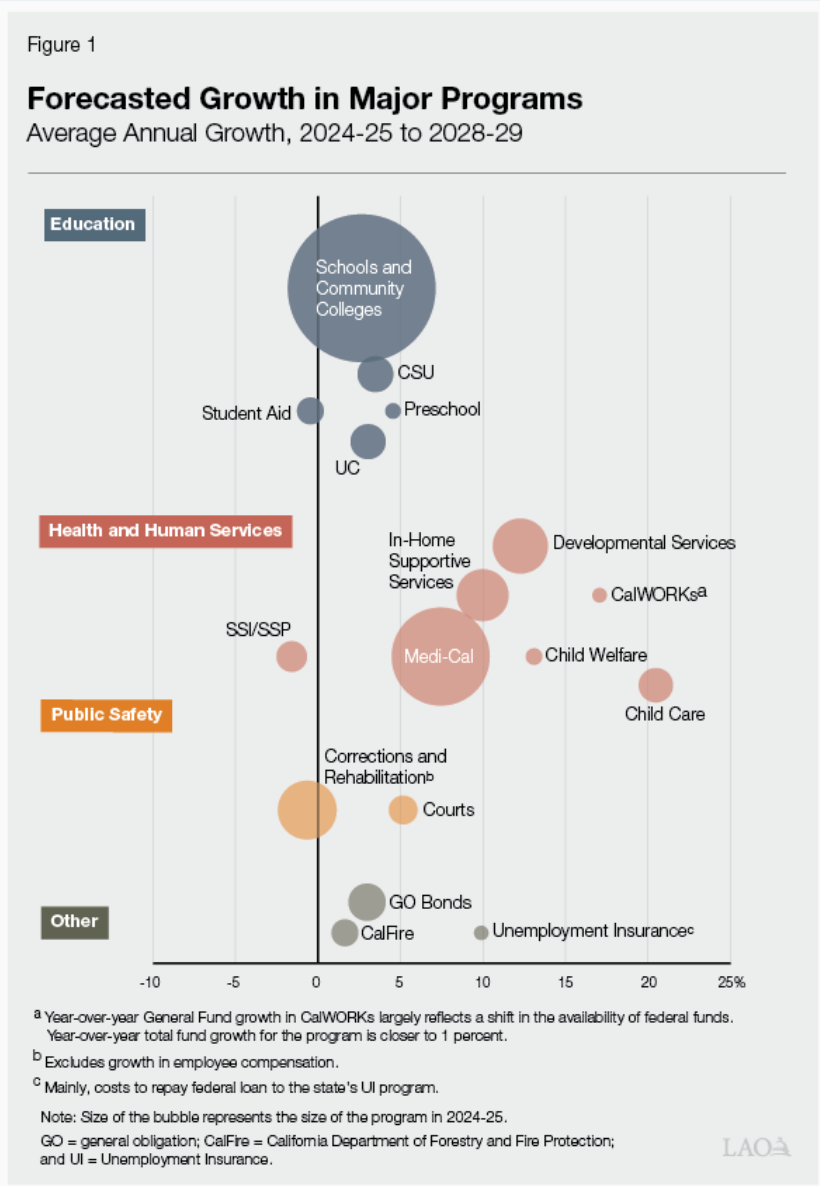
What drives state spending?

In 2020-21, General Fund spending in Medi-Cal was less than **$21.5 billion**. Medi-Cal spending was $**48.6 billion** last year.

- More than a 126% increase in 5 years.



The State Fiscal Picture

Despite record reserves, revenues, and spending reductions in the 2025-26 Budget Act, the state spending plan assumes an operating deficit into the future.

Total General Fund Reserves 2026-27 Budget Act					
	2025-26	2026-27	2027-28	2028-29	2029-30
Governor's January Budget					
Operating Surplus/(Deficit)	514	(18,335)	(10,485)	(8,643)	(8,430)
Total General Fund Reserves	49,914	28,765	28,064	22,543	16,981
Source: California Department of Finance					