

From Sacramento to Washington: Financial Policy Updates

Federal and State Medicaid Policy Updates

Ben McGowan, Vice President & Legal Counsel, CHA

One Big Beautiful Bill Act (OBBBA) – Pub. Law 119-21

- Largest federal cuts to health care spending ever enacted: **over \$1 trillion**
- Wide-ranging Medicaid reforms spanning across key areas of program administration
 - Focus today: Financing, payment, and enrollment changes in Medi-Cal
- Latest CHA estimate:
 - **2.2 million losing coverage by 2030** (includes both Medi-Cal and Covered CA)
 - **\$2.6 billion in additional uncompensated care costs**
- Commonly referred to by CMS as the “**Working Families Tax Cut Legislation**”

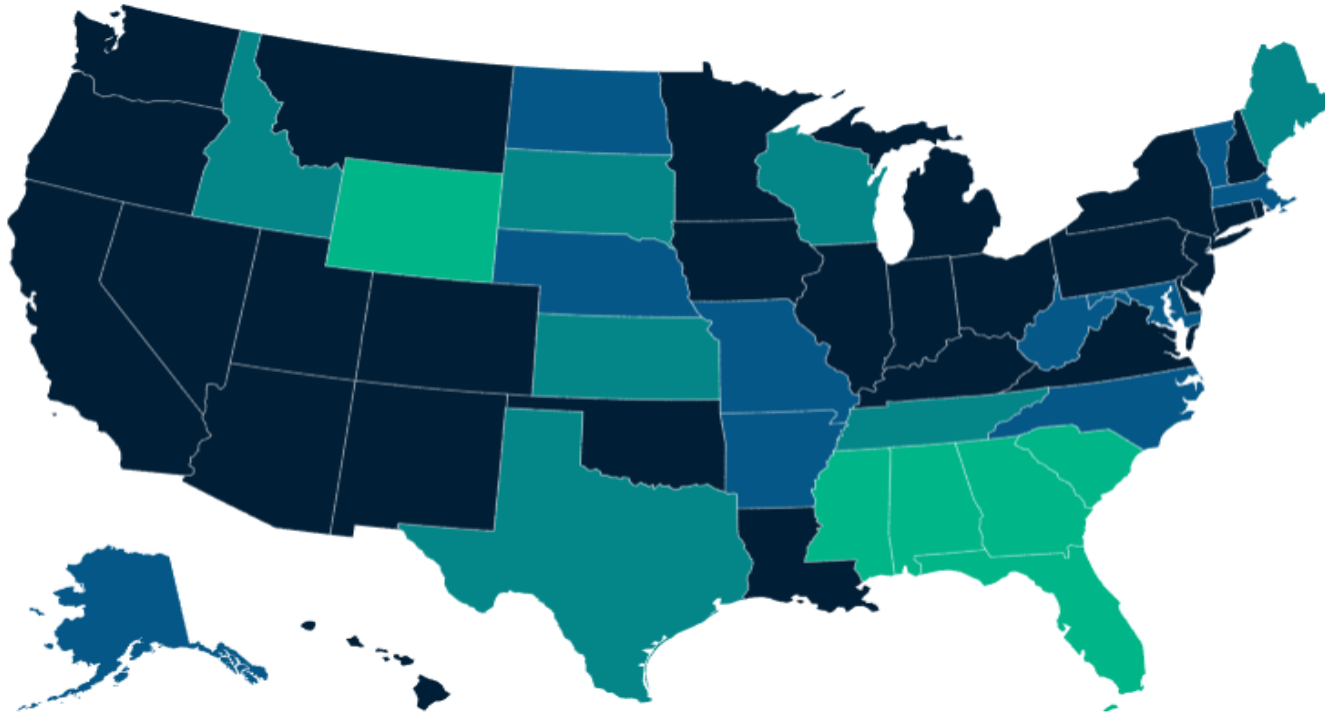
Resources: [Tracking Federal Policy Impacts on Medi-Cal | DHCS](#); [Securing Hospitals - California Hospital Association](#);
[Working Families Tax Cut Legislation | Medicaid](#); [California H.R.1 Implementation Plan - DHCS \(1-29-2026\)](#);

One Big Beautiful Bill Act (OBBBA) – Pub. Law 119-21

Federal Medicaid Cuts in the Enacted Reconciliation Package, By State

As a % of 10-year baseline federal spending (2025-2034)

■ < 7% ■ 7%–10% ■ 10%–13% ■ ≥ 13%



Note: \$911 billion in federal Medicaid spending cuts over the 10-year period is allocated across states, including \$79B in estimated Medicaid spending interactions. See Methods in "Allocating CBO's Estimates of Federal Medicaid Spending Reductions Across the States: Enacted Reconciliation Package" for more details.

Source: [KFF analysis of CBO estimates of the enacted reconciliation package](#) • [Get the data](#) • [Download PNG](#)

KFF

Reduced federal Medicaid spending in CA: **\$112–187 billion** over 10 years

\$911 billion nationally over 10 years

OBBBA Provider Tax Provisions – Uniformity

- Prohibits structures that **tax Medicaid utilization at a higher rate than non-Medicaid**, tax **higher-volume Medicaid providers more than lower-volume**, or rate differentials with the **same effect**
- [Final rule](#) published on February 2, 2026
- **Generally, no surprises and welcomed longer runway for hospital fee** to come into compliance
- **Following transition period, impact to 2 of 4 CA provider taxes** (others already tax Medicaid utilization of ground ambulance and nursing facilities uniformly)

OBBBA Provider Tax Provisions – Uniformity

Hospital Quality Assurance Fee	Managed Care Organization (MCO) Tax
Transition period through June 30, 2028 Uniformity waiver approved for Program 9 (2025) and same non-uniform structure proposed for Programs 10/11 (2026-2027) Once applicable, requires significant changes to HQAF structure producing re-distributional effects in net benefit Open question post-transition: how will CMS treat tax differentials under the same effect test?	Transition period through December 31, 2026 2026-27 Budget established replacement MCO tax for 2027 which assesses a uniform rate of \$8.85 per enrollee per month If approved by CMS, replaces Prop. 35 spending plan and funding for hospital-specific payment increases; proceeds to fund existing Medi-Cal obligations and maintain targeted rate increases only for primary care, non-specialty mental health, and maternal care.

OBBBA Provider Tax Provisions – Indirect Hold Harmless Threshold

- **Prohibits states/local governments from imposing new provider taxes** (date of enactment) or from **increasing existing taxes** above the 2025 “enacted and imposed” level (effective 10/1/26)
- Allowable size of tax measured by indirect hold harmless threshold (**total tax collected/net patient revenue**)
- For expansion states, maximum threshold reduced from **6% to 3.5% by 2032 – annual .5% reduction starting in FFY 2028** until 3.5% is reached

3 of 4 CA tax programs implicated:

- Hospital Quality Assurance Fee
- Managed Care Organization Tax
- Ground Emergency Ambulance Fee

(nursing facility taxes exempted by Congress)

OBBBA Provider Tax Provisions – Indirect Hold Harmless Threshold

- [Proposed rule](#) published on July 23, 2026
- Codified definition for **“enacted and imposed”** (*Hospital fee qualifies*)
- Proposed revamp of **how threshold is calculated and compliance is enforced** notwithstanding OBBBA’s silence
 - Shift from **projected tax collections and revenue to actuals**, with all tax revenues disallowed in event threshold is exceeded
 - Net patient revenue limitation
- Other notable provision: proposed removal of 75/75 test
- **CHA principal asks:** (1) retain the same methodologies used to calculate and approve a tax in the 2025 base year, and (2) limit penalties to only those amounts in excess of the threshold

Resources: [CHA comment letter](#); [Multi-state AG comment letter](#)

OBBBA Medicaid Provisions

- **Reduction of Federal Medical Assistance Percentage (FMAP) for emergency services** associated with ACA expansion adults with UIS (10/1/2026)
- **Reduced Retroactive Medicaid Eligibility** (1/1/27)
 - ACA expansion adults limited to one month; all other populations receive two months
- **Actuary Certified Budget Neutrality for Section 1115 Demonstrations** (1/1/27)
- Required **copayments for upper-income ACA adults for certain services** (10/1/28)
- **Rural Health Transformation Program** (\$233.6 million awarded to CA for FFY 2026)

Resources: [DHCS Retro Eligibility Guidance](#); [Rural Health Transformation \(RHT\) Program | Medicaid](#); [California Rural Health Transformation \(CalRHT\) – HCAI](#);

OBBBA Medicaid Directed Payment Reductions

- For expansion states, **caps total payment rate of certain state directed payments (SDPs) at 100% of Medicare** for rating periods beginning on or after 7/4/25
 - Non-expansion states capped at 110% of Medicare
 - Where no Medicare rate, capped at State Plan rates
 - Applies to inpatient/outpatient hospital services, nursing facility services, and qualified practitioner services at academic medical centers previously authorized to go to average commercial rates
- **Time-limited grandfathering** for qualifying SDPs
 - Approved or completed preprint submitted before 7/4/25
 - All CA public and private hospital SDPs preliminarily grandfathered (subject to final rule)
- **Gradual phasedown of grandfathered SDP** total payment amounts starting 1/1/28
 - Annual 10% reduction to SDP total payment pool until Medicare level reached

Resources: [Directed Payments Program | DHCS](#)

Proposed Medicaid Payment Rule

- [Proposed rule](#) published on 5/22/26
- **Recurring theme:** CMS proposals go well beyond OBBBA's relatively targeted SDP changes
- **Raises significant legal and policy questions** re: exceeding statutory authority and states' ability to promote access/quality through payment policies

Resources: [Multi-state AG comments to payment rule](#); [Forthcoming Policy Changes to Medicaid State Directed Payments | KFF](#)

CMS estimates reduced federal Medicaid spending of ~ **\$510B over 10 years**

More than 3X CBO score for OBBBA Section 71116

Proposed Medicaid Payment Rule

Notable SDP provisions

- **Codifies definition for grandfathered SDP**
 - Open question: level of changes allowed before grandfathering status lost?
- **Phasedown to OBBBA Medicare limits**
 - Fixed 10% annual reduction applied to the total payment grandfathered until Medicare is reached
 - Open question: ability to shift funds from inpatient to outpatient pool?
- **Eliminates Uniform Rate/Dollar Add-On SDPs**
 - Prohibits non-grandfathered uniform increase SDPs for rating periods on or after 1/1/28
 - Time-limited extension proposed for grandfathered SDPs during phasedown
 - Allowable SDPs limited to min/max fee schedules and lesser used value based and delivery system reform
- **Separate payment terms/Prospectively-set add-on amounts**
 - Maintains 2024 Final Rule provisions but allows time-limited extension for grandfathered SDPs

Resources: [CY 2025 Private Hospital Directed Payment Approval Package](#)

Proposed Medicaid Payment Rule

Notable SDP provisions continued

- **Medicare-based total payment limits for all SDPs**
 - **Service code specific basis** as opposed to **aggregate** Medicare comparisons used today
 - **Extensive state monitoring and documentation** requirements
 - Obligates the state to provide a list of all eligible providers by NPI and **ensure payment to each individual provider does not exceed** the Medicare limits
 - Proposed to apply to **all SDPs instead of the 4 OBBBA-specified service categories**
 - **Timing** (if finalized):
 - For new or non-grandfathered SDPs in the 4 OBBBA-specified service categories: effective now
 - For grandfathered SDPs: effective once the Medicare limit is reached
 - For all other SDPs: effective for rating periods on or after 1/1/29 (no grandfathering allowance)

Proposed Medicaid Payment Rule

FFS payment provisions

- Provider specific payment limits at OBBBA Medicare ceilings (expansion/non-expansion) when **payments targeted to a subset of providers furnishing a covered service**
- **Would not apply to payments already subject to a statutory limit**, e.g., upper payment limits for inpatient/outpatient/nursing facilities
- Would **apply at individual provider level**, thereby precluding ability to average across class
- If finalized, **effective first SFY beginning on or after Jan. 1, 2029**
- **Not authorized or contemplated by OBBBA**

Major Medicaid Coverage Changes

New Requirements on ACA Adult Expansion Group	Immigration Related Eligibility Changes
• Community Engagement (1/1/27) • Six-month redeterminations (3/1/27) • Copayments for higher income new adult members (10/1/28)	• OBBBA immigrant eligibility changes (10/1/26) • Recent CA budget changes affecting Unsatisfactory Immigration Status (UIS) populations (timing varies) • Transition of Individuals with UIS to Fee-For-Service (FFS) delivery system (1/1/27)

Resources: [Medi-Cal Changes](#) | [Medi-Cal](#)

Major Medicaid Coverage Changes

Community Engagement Requirements

- Requires certain ACA expansion adults to complete and document **a minimum of 80 hours per month of qualifying community engagement activity**
 - Employed, enrolled in education or work program, community service, or combination thereof; OR
 - Have monthly income not less than federal minimum wage multiplied by 80 hours
- **Variety of mandatory exceptions, exclusions, and optional short term hardship exceptions**
 - Notable: exemption for medically frail individuals; state option to except individuals experiencing a short term hardship such as receipt of inpatient hospital or nursing facility services or residing in a county experiencing a requisite level of unemployment
- **Effective on January 1, 2027** (unless unlikely good-faith waiver secured)

Resources: [Community Engagement | Medicaid](#)

Major Medicaid Coverage Changes

Community Engagement Requirements

- [Interim final rule](#) (IFR) published on 6/3/26 (correction published 6/29/26)
- **Significantly departs from initial CMS implementation guidance**
 - Extensive documentation, verification, and reporting requirements
 - IFR allows for self-attestation only in the first year (when data N/A)
- CE compliance/exceptions must be screened in **Hospital Presumptive Eligibility**
- **Multi-state lawsuit** led by CA Attorney General ongoing
 - Focus on the IFR's restrictive approach in implementing the medical frailty exemption

Resources: [Community Engagement | Medicaid](#); [Hospital Presumptive Eligibility Program | DHCS](#)

Major Medicaid Coverage Changes

Six-month Redeterminations

- Pre-OBBA: **annual redeterminations** for virtually all populations
- OBBA requires states to **redetermine eligibility for certain adults once every 6 months**, starting with renewals initiated on or after January 1, 2027
 - Applies to ACA expansion adults (19-64 years, nonpregnant, non-Medicare)
 - Certain American Indian and Alaska Natives eligible through new adult group exempt; not applicable to any other eligibility categories
- **Applies to renewal dates starting March 1, 2027**, based on CA election to not reschedule previously set renewal dates for existing enrollees

Resources: [Section 71107: Implementation of “Eligibility Redeterminations”](#) (CMS); [Updated Guidance on Six-Month Renewal Requirements for New Adult Group](#) (DHCS)

Major Medicaid Coverage Changes

OBBBA Policy Change	DHCS Estimated Coverage Loss by 2027-28	DHCS Estimated Coverage Loss by 2029-30
Community Engagement	~ 728,000	~ 1.06 million
Six-Month Renewals	~ 87,000	~ 279,000
Combined	~ 815,000	~ 1.3 million

Source:[sub-7-august-5-agenda.pdf](#)

Major Medicaid Coverage Changes

OBBBA Immigrant Eligibility Changes

- Effective 10/1/2026, OBBBA **narrows qualified non-citizens (QNCs) eligible for federally funded full scope Medi-Cal**
- Removes most refugee and asylee categories that previously could enroll in full scope
- Initial increase to state spending (\$364.9M) to maintain full scope; **based on current law, will move to restricted scope as of July 1, 2027** (with reduction in state spending of \$381.8M by 2029-30)

Going forward, full scope eligibility limited to:

- US citizen/national
- Lawful admitted for permanent residence
- Cuban/Haitian entrant
- Compact of Free Association (COFA) migrant

Resources: [Section 71109: Implementation of “Alien Medicaid Eligibility” \(CMS\)](#); [Immigration Status and Changes to Medi-Cal Eligibility | DHCS](#)

Major Medicaid Coverage Changes

Recent State Budget Changes Impacting Eligibility

- **Enrollment freeze** for UIS adults (1/1/26)
- Based on current state law, the following spending reductions are slated to begin 7/1/27:
 - **Required monthly premiums** for certain UIS adults: \$30 to \$50 per month (to be set at 27 May Revision)
 - An individual failing to pay only eligible for restricted scope
 - **QNCs transitioned to restricted scope**
 - **Elimination of adult dental benefit** for UIS adults
 - **Reduced UIS reimbursement** for federally qualified health centers and rural health clinics
 - **Reduced asset allowance** for older and/or disabled beneficiaries

Resources: [Medi-Cal Changes | Medi-Cal](#) ; [Immigration Status and Changes to Medi-Cal Eligibility | DHCS](#); [Governor's Budget | DHCS](#)

Major Medicaid Coverage Changes

Transition of Individuals with Unsatisfactory Immigration Status (UIS) to Fee-For-Service (FFS)

- Prompted by CMS interpretation change of existing statute (unaffected by OBBBA)
- Federal funds for **actual emergency care rendered; prohibits capitated risk-arrangements**
- Medi-Cal UIS members **transitioning from managed care to FFS effective January 1, 2027**
- Most recent DHCS estimate: **approximately 1.93 million members (~251,000 children and youth)**
- **Most benefits will remain available (for now)** but for CalAIM managed care offerings

Resources: [Transition to Medi-Cal Fee-for-Service | DHCS](#); [Medicaid Managed Care and Emergency Medicaid SMDL 9-30-25](#)

Medicaid Policy Developments to Watch

- **Negotiation/approval of next Hospital Fee program periods**
 - **Program 10 (2026)**
 - Revised SDP preprint submitted 10/2/26: **\$8.8 B total pool size** (including \$111.3M in MCO tax)
 - Revised model TBD
 - **Program 11 (2027)**
 - **Pass-through** payment authority expires 7/1/27 (psych and subacute)
 - Continued push to **remove the network provider limitation**
- **Provider taxes: Direct hold harmless arrangements**
 - [Biden-era guidance](#) prohibiting **private payment arrangements** CMS views as unlawful redistributions of Medicaid payments
 - CMS appeal to [Texas' district court victory](#) ongoing
 - **Enforcement delay until 2028:** Preliminarily secured in [Program 9 tax approval](#)

Medicaid Policy Developments to Watch

- **Finalization of pending tax and payment rules**
- **Notable areas for upcoming rulemaking:**
 - Strengthening Integrity of Medicaid Managed Care, Financing and Access
 - Comprehensive Regulations to Uncover Suspicious Healthcare (CRUSH)
 - Strengthening Integrity of Section 1115 Demonstrations
 - Mental Health Parity and Addiction Equity Act
- Continued CMS **program integrity** push and state audit/disallowance exposure
 - Emergency services/UIS claiming
 - In-home services

Resources: [Agency Rule List – 2026](#) (HHS)

Medicaid Policy Developments to Watch

- Impact of coverage changes to **uncompensated care and county indigent programs**
- **Nonfederal share financing** in Medi-Cal:
 - Replacement MCO tax outcome: [SB 125](#) vs. Prop. 35
 - [Prop. 40](#) (Billionaire Tax) outcome
 - Fair Share from Big Corporations Act ([SB 177](#))
- **[CalAIM](#) 1115 Demonstration and 1915(b) Waiver** (expire 12/31/26)
 - [Renewal application](#) submitted in May 2026; likely to operate on short term extension(s) into 2027
- **Legal challenges:** multiple ongoing suits challenging select OBBBA provisions and related CMS policy shifts with more expected once pending rules finalized and applied to future program approvals