California Hospital Association

June 5, 2026

The Honorable Jesse Gabriel
Chair, Assembly Budget Committee
1021 O Street, Suite 8230
Sacramento, CA 95814

The Honorable John Laird
Chair, Senate Budget and Fiscal Review Committee
1020 N. Street, Room 502
Sacramento, CA 95814

SUBJECT: Final Budget Agreement Should Uphold Voter Intent and Maintain Access to Medi-Cal

Dear Chairs Gabriel and Laird:

On behalf of nearly 400 hospitals, the California Hospital Association (CHA) offers the following feedback and perspective on implementation of Proposition 35 and the administration's proposals affecting Medi-Cal provider investments.

California voters overwhelmingly approved Proposition 35 with a clear expectation: revenues generated through the managed care organization (MCO) tax would be dedicated to strengthening Medi-Cal by improving provider payments and expanding access to care for the millions of Californians who rely on the program. Hospitals supported Proposition 35 because it established a framework to protect these investments and ensure they are directed to providers so they can better serve Medi-Cal beneficiaries.

While the administration's efforts to respond to evolving federal requirements and support full funding of key hospital allocations are appreciated, significant concerns remain that several aspects of the current proposal depart from both the intent and structure of the proposition approved by voters and the law as it stands today.

First, Proposition 35 funds should be used to produce meaningful provider payment improvements that strengthen access to care. However, portions of the proposed spending plan instead redirect these resources to support existing state obligations, reducing the direct benefit to providers and patients. At a time when hospitals are facing unprecedented financial pressures and significant federal funding reductions, California should, at a minimum, aim to maintain Proposition 35 investments in 2026 at the same level as 2025.

Second, any modifications to the MCO tax beginning in 2027 should preserve the voter-approved commitment to Medi-Cal provider investments. Proposition 35 anticipated the possibility of federal policy changes and provides mechanisms to adapt the tax structure while maintaining its core purpose. Policymakers should pursue all available options to preserve the greatest possible level of funding for providers to care for Medi-Cal enrollees and avoid reverting to approaches that use MCO tax revenues primarily to offset General Fund obligations.

Finally, California's behavioral health system continues to face a severe shortage of inpatient psychiatric capacity (new regulations that just went into effect this week have reduced capacity in some counties by more than 25%). Hospitals across the state struggle to maintain psychiatric services due to chronic underfunding and inadequate reimbursement. To make good on its commitment to Californians facing behavioral health crises, the state should dedicate a meaningful portion of behavioral health-related Proposition 35 investments to strengthening inpatient psychiatric reimbursement and expanding capacity. Doing so would improve access to care, reduce emergency department patient boarding, and support broader statewide behavioral health goals.

California hospitals are committed partners to strengthen Medi-Cal and improve access to care. To fulfill the promise made to voters through Proposition 35, implementation should remain focused on increasing resources to providers for patient care, preserving dedicated Medi-Cal investments, and addressing critical gaps in the health care delivery system.

We appreciate your leadership and look forward to working with you to ensure Proposition 35 is implemented in a manner that advances access to care for California's most vulnerable residents.

Sincerely,

Mark Farouk
Vice President, State Advocacy

cc: Honorable Members Senate Budget and Fiscal Review Committee
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