



Representing California's Catholic Health Systems and Hospitals



DISTRICT HOSPITAL LEADERSHIP FORUM



California's Community Safety Net Hospitals
Essential to Access, Essential to Health



CALIFORNIA CHILDREN'S HOSPITAL ASSOCIATION

June 9, 2026

Senator John Laird
Chair, Senate Budget Committee
1021 O St., Room 8720
Sacramento, CA 95814

Assemblymember Jesse Gabriel
Chair, Assembly Budget Committee
1021 O St., Room 8230
Sacramento, CA 95814

Senator Caroline Menjivar
Chair, Senate Budget Subcommittee No. 3
on Health and Human Services
1021 O St., Room 6630
Sacramento, CA 95814

Assemblymember Dawn Addis
Chair, Assembly Budget Subcommittee No. 1
on Health
1021 O St., Suite 4120
Sacramento, CA 95814

RE: FY 2026-27 Digital Sales Tax Trailer Bill: Request for Health Care provider exemption

Dear Chairs:

On behalf of hospitals and health care providers we respectfully request a targeted exemption for licensed health care providers from the May Revision budget proposal to extend the sales and use tax to prewritten software and software as a service, effective Jan. 1, 2027.

For hospitals, this proposal would tax the core tools used to provide patient care at the precise moment federal law is stripping billions of dollars out of the Medi-Cal system.

Health care software is not discretionary spending. Electronic health records, clinical decision support, pharmacy and medication safety systems, laboratory and imaging platforms, patient scheduling, telehealth, and cybersecurity tools now rely almost entirely on software. These systems are required and invaluable for patient safety, regulatory compliance, and data interoperability. Applying the full state and local sales tax rate to them functions as a new, recurring tax on the operational backbone of every health care provider in California, with no ability to substitute a cheaper alternative.

The timing also compounds the harm of the One Big Beautiful Bill Act (OBBBA), projected to reduce federal Medi-Cal support to California by as much as \$30 billion annually and to cause millions of Californians to lose their health care coverage.

Without a targeted exemption, health care providers will be asked to absorb a significant new operating cost at the same time as the largest Medi-Cal cuts in the nation's history shrink patient care resources to unsustainable levels.

The state is appropriating substantial General Fund and federal dollars to keep struggling providers solvent. Taxing their essential software negates that investment and would simply reclaim those state dollars — intended to support patients — through a back door, all while accelerating the financial distress the Legislature is working to prevent.

This request is consistent with the Legislative Analyst's Office recommendation that the Legislature consider exempting business-to-business sales from the expanded tax. A carve-out for software and SaaS purchased by licensed health facilities and providers is a narrow, administrable application of that principle, targeted to a sector the state has an abiding interest in stabilizing.

For these reasons, the organizations listed above requests that any final budget agreement exempt prewritten software and SaaS purchased by licensed health care facilities and providers from the expanded sales and use tax.

cc: Honorable Members Senate Budget and Fiscal Review Committee
Honorable Members Assembly Budget Committee
Scott Ogus, Deputy Staff Director, Senate Budget Committee
Patrick Le, Consultant, Assembly Budget Committee
Anthony Archie, Consultant, Senate Budget Republican Caucus
Eric Dietz, Consultant, Assembly Republican Caucus
Richard Figueroa, Deputy Cabinet Secretary, Governor's Office
Joe Stephenshaw, Director, Department of Finance