Summary of Governor's January 2026-27 Budget Proposal

Higher Assumed Revenues and Reserves Allow Governor to Propose Balanced 2026-27 Budget Without Significant Discretionary Cuts – Today, Governor Newsom released the final January budget proposal of his term in office. The $248 billion General Fund budget includes very few discretionary proposals, either in the form of higher taxes, new spending, or budget cuts. The budget is balanced based on higher projected General Fund revenues of $42 billion over the budget window (2024-25 and 2026-27). While revenues are up substantially over the window, contributing to an improved structural fiscal position, expenditures are also higher, leading to continued spend down of the state's reserves. The proposal maintains last year's Medi-Cal coverage reductions, primarily affecting immigrant populations, and puts forward several additional reductions in response to federal policy changes. CHA remains vigilant regarding these impending losses in coverage and is working closely with policymakers and stakeholders on solutions.

Budget Assumes No Economic Downturns or Stock Market Corrections – The governor's revenue estimate assumes a positive outlook for the state economy and continued strong performance of the stock market. This stands in contrast to projections from the Legislative Analyst's Office, which forecasted roughly $30 billion in lower revenues than the Administration over the same period. Should the economy or equity markets turn south in the coming months, major spending cuts or new revenues would likely be needed to balance the budget.

Spending Continues to Outpace Revenues – General Fund expenditures for the current fiscal year are $9.3 billion (4.1%) higher than projected since the current Budget Act was signed in July 2025. From these higher spending levels in 2025-26, General Fund spending is expected to grow by yet another $10.7 billion (4.5%) in the budget year. Despite the improved revenue outlook, the state projects annual operating deficits over $20 billion starting next year and through 2029-30.

Medi-Cal – For Medi-Cal, the budget incorporates early impacts from recent federal health care policy changes, including limits on provider taxes, the implementation of work requirements, other restrictions in coverage and reduced federal financial participation for immigrant populations. Medi-Cal General Fund expenditures are projected to increase by $2.2 billion (4.9%) in 2025-26, and an additional $2.4 billion (5.2%) in 2026-27 from current year levels.

- **Hospital Fee Program –** The budget specifically plans for a smaller Hospital Quality Assurance Fee (HQAF) than previously proposed for 2025 and a resulting decrease in the amount available to support Medi-Cal program expenditures. Based on the budget proposal, the state appears to be planning for the next iteration of the HQAF to come in at roughly the current Program 8 levels (more details in this week's CHA News).
- **Managed Care Organization Tax –** The budget assumes the managed care organization tax will expire at the end of 2026, marking an additional six months of transition compared to what was communicated in recent federal guidance. The budget largely retains the Department of Health Care Service's prior spending plan for MCO tax proceeds, except for relatively modest proposed investments for transitional rent and community-based mobile crisis benefits (subject to stakeholder consultation).
- **Enrollment Reductions –** Medi-Cal caseload is projected to decline from 14.88 million in 2024-25 by 2.4% in 2025-26, and an additional 3.5% in 2026-27 with budget year Medi-Cal caseload ultimately projected to drop to 14.02 million. These estimates reflect the impact of changes to coverage for beneficiaries with unsatisfactory immigration status that were included in last year's budget act, as well as enrollment reductions attributable to the One Big Beautiful Bill Act. The OBBBA reductions include a transition to eligibility redeterminations every six months, limits on coverage for certain qualified immigrant populations, and work requirements.

Adjustments to Other Health Care Programs – The proposed budget includes adjustments to other health-related items. Major actions include:

- **Federal Rural Health Transformation Program –** $233.6 million federal funds in federal fiscal year 2026 to expand access to care, strengthen the workforce, and enhance infrastructure in rural and frontier communities via the Department of Health Care Access and Information. The funds received are from the state's application to the federal Rural Health Transformation Program, as authorized by the One Big Beautiful Bill Act. Details about initiatives to be funded in the program are forthcoming.

- **Surge in County Behavioral Health Funding –** Counties receive revenues from a 1% tax on incomes over $1 million through the Behavioral Health Services Fund (formerly the Mental Health Services Fund). These revenues support state and local behavioral health care prevention, workforce, and treatment programs,

including treatment of substance use disorders, housing, and treatment for people experiencing or at risk of homelessness. The budget projects annual revenues of $3.9 billion in 2024-25, $4.6 billion in 2025-26, and $4.7 billion in 2026-27 for this fund. Over this window, these revenues are higher by nearly $2.2 billion compared to last year's budget estimates.

- **Behavioral Health Funding –** A placeholder of a $150 million Behavioral Health Services Fund in lieu of General Fund resources for workforce and prevention programming at the Department of Health Care Access (HCAI) and Information and the California Department of Public Health; details of the proposal will be released through the May Revision.
- **Reproductive Health Grant Program –** $60 million one-time General Fund in 2025-26 for the HCAI to provide grants to reproductive health care providers. This is in addition to the $90 million in MCO Tax funds and a $56 million Abortion Access Fund in 2025-26 to support reproductive health care providers.