Governor's May Revision 2026-27 Budget Proposal

Improved Revenues and Fiscal Outlook Allow Governor to Avoid Broad Health Care Cuts — Today, Governor Newsom released the May Revision to the 2026-27 state budget. The revised proposal reflects a significantly improved near-term revenue picture, driven primarily by stronger-than-anticipated personal income tax receipts and capital gains revenues. Compared to January, General Fund revenues from income, corporation, and sales taxes are projected to increase by $16.5 billion over the budget window. The Administration's proposal and related assumptions maintains positive General Fund reserves through out the multi-year window, including nearly $30 billion in combined reserves by the end of 2026-27. Whether state resources will be sufficient to cover existing and proposed spending commitments going forward will depend on the performance of the economy and markets.

Despite the stronger revenue outlook, the Administration continues to frame the state's fiscal condition as structurally challenged over the long term and therefore avoids major new ongoing commitments. Outside of several health care coverage proposals, the May Revision does not propose broad discretionary reductions to core health care programs but does include numerous Medi-Cal cost containment actions, eligibility changes, and financing adjustments intended to reduce projected out-year deficits. The legislature must act by June 15 to pass a legislative budget package. From there, the Senate, Assembly, and Governor must agree on a final budget agreement for the new state fiscal year which begins on July 1.

Federal Health Care Policy Changes Continue to Drive Significant State Costs and Coverage Reductions — Similar to the January proposal, the May Revision reflects major fiscal and operational impacts from federal One Big Beautiful Bill Act (OBBBA) policy changes that affect Medicaid programs across the nation. The budget assumes reduced federal funding, work requirements, more frequent eligibility determinations, and additional restrictions affecting immigrant populations. While the Administration revised several assumptions since January — including lower projected disenrollment levels due to updated exemptions and revised timelines — federal policy changes remain one of the largest drivers of future Medi-Cal changes.

Hospital Financial Distress Funding — The May Revision includes up to $50 million General Fund in 2026-27 through HCAI to provide short-term support for hospitals experiencing immediate and significant financial distress. The augmentation builds on the $25 million approved earlier this month and for which applications are due May 18, 2026. Eligibility for a grant, including under the new proposal, would be limited to not-for-profit and public hospitals that have less than 10 days cash on hand, have a government and uninsured payer mix greater than 50%, and have demonstrated best efforts to exhaust other financial options.

Medi-Cal — The May Revision includes $216.7 billion total funds ($44.9 billion General Fund) for Medi-Cal in 2026-27. Projected caseload is approximately 13.9 million, down from 14.9 million in 2024-25. While total Medi-Cal spending remains historically high, the revised proposal reflects lower General Fund costs than projected in January for 2026-27 due to proposed solutions, declining caseload assumptions, and other policy adjustments. But the Administration also identifies a larger-than-anticipated Medi-Cal shortfall in the current year of approximately $4.2 billion General Fund.

The administration indicates that current year increases are being driven by:

- Delayed federal approval of the Hospital Quality Assurance Fee (HQAF) program.
- Federal repayment obligations.
- Increased managed care and fee-for-service costs.
- Federal policy changes.

Managed Care Organization (MCO) Tax — The May Revision assumes continuation of an MCO tax beginning January 1, 2027. The proposal would raise $2.3 billion annually in 2027-28 and 2028-29. The Administration notes recent federal changes prohibit provider taxes that disproportionately burden Medi-Cal plans relative to commercial plans, requiring California to redesign the structure of the tax. The proposal would use the funds to support the General Fund portion of the Medi-Cal program and to fund the target rate increases for primary, maternal, and nonspecialty mental health care that implemented in 2024. There are a number of details outstanding, so we hope to have more information in the coming weeks.

Medi-Cal Enrollment and Eligibility Changes — The May Revision includes Medi-Cal coverage changes. Some of these are not new proposals, but changes to implementation timelines while others are more substantive. Changes include the following:

- Transitioning beneficiaries with unsatisfactory immigration status from managed care to fee-for-service effective January 1, 2027 and increasing premiums for adults with unsatisfactory immigration status from $30 to $50 monthly beginning July 1, 2027.
- Delaying the transition of certain qualified non-citizens to restricted-scope Medi-Cal until July 1, 2027.
- Implementing federal work and community engagement requirements beginning January 1, 2027.
- Implementing six-month eligibility redeterminations beginning in 2027-28.
- Reinstating Medi-Cal asset limits for seniors and disabled adults of $2,000 for an individual or $3,000 for a couple, effective January 1, 2027.
- Enhanced Care Management and Community Supports limitations include refining eligibility criteria, service definitions, utilization management criteria, and payment adjustments for the Medi-Cal enhanced care management benefit, effective January 1, 2027.
- New Medi-Cal efficiencies primarily within managed care, including utilization management for autism services and transportation and eliminating an incentive payment. (The administration notes that it continues to explore other Medi-Cal efficiencies, which may affect hospitals).
- Program of All-Inclusive Care for the Elderly (PACE) rate caps.
- Elimination of the optional adult acupuncture benefit.

Behavioral Health Funding and Proposition 1 Implementation — The May Revision significantly expands the use of Behavioral Health Services Fund (BHSF) resources in lieu of General Fund spending including $211.9 million BHSF in lieu of General Fund in 2026-27. The Governor did not change his January budget proposal to make the Medi-Cal mobile behavioral health crisis benefit a county option, rather than a statewide benefit.

Covered California Subsidies — The proposal includes $300 million ongoing from the Health Care Affordability Reserve Fund to expand state premium subsidies for Covered California enrollees up to 200% of the federal poverty level. This reflects a $110 million increase compared to the January proposal.

Other Health Care-Related Investments — Additional notable proposals include:

- $60 million one-time AIDS Drug Assistance Program Rebate Fund investments for HIV-related services and LGBTQ+ community centers.
- $30 million General Fund over five years for Sickle Cell Centers of Excellence.
- $3 million one-time General Fund for a statewide menopause awareness campaign.
- Additional county Medi-Cal administration funding to support implementation of federal eligibility changes and work requirements.