

May Revision Budget: Healthcare Impacts

Prepared by Chapman Consulting on May 18, 2026

Overview

On May 14, Governor Gavin Newsom released the May Revision Budget (May Revise) for 2026-27, updating the state's fiscal outlook since January and reflecting continued pressure on California's health care system. The California Health and Human Services Agency budget totals \$343.6 billion (\$94.4 billion General Fund), with Medi-Cal remaining the largest driver at \$196.7 billion (\$48.8 billion General Fund) and enrollment projected at approximately 14.5 million members.

The May Revision includes proposals intended to address rising Medi-Cal costs, federal policy changes under H.R. 1, and ongoing uncertainty in Medicaid financing. The proposal relies on a mix of cost-containment actions, financing shifts, and Managed Care Organization (MCO) Tax revenues to support Medi-Cal and offset General Fund costs. A central focus is implementation of H.R. 1, which introduces new eligibility and work requirements, changes affecting individuals with unsatisfactory immigration status, and increased operational demands on county and state systems. In response, the budget proposes adjustments to eligibility processes, delivery system changes, and specific program efficiencies, while continuing to maintain targeted provider payment investments through mechanisms such as the MCO Tax and Proposition 35 funding.

Key Healthcare-Related Budget Themes

MCO Tax: Medi-Cal Financing and Sustainability

The May Revision continues to rely heavily on the MCO Tax as a core financing mechanism supporting the Medi-Cal program and maintaining recent provider rate increases. The budget assumes \$4.5 billion in MCO Tax revenue in 2025-26 and \$2.5 billion in 2026-27, along with additional funding for managed care and other payment increases for hospitals, community clinics, behavioral health, and other services after required Proposition 35 provider payment increases are fulfilled.

However, H.R. 1 significantly limits state flexibility to use health care-related taxes by prohibiting taxes that assess higher rates on Medi-Cal plans than commercial plans or otherwise disproportionately burdens Medi-Cal plans. The existing MCO Tax expires on December 31, 2026, and the Department of Health Care Services (DHCS) indicates that Proposition 35 also requires the state to seek federal approval for a substantially similar tax beginning January 1, 2027, while capping annual non-Medicaid tax liability under that tax.

In response, the May Revision proposes renewing the MCO Tax effective January 1, 2027, using a new structure intended to comply with both H.R. 1 and Proposition 35. The Administration estimates the renewed tax will generate \$575 million in 2026-27, \$2.3 billion annually in 2027-28 and 2028-29, and \$1.7 billion in 2029-30 to support the Medi-Cal program and maintain targeted rate increases for primary care, maternal care, and non-specialty mental health services.

H.R. 1 Impacts on California Healthcare Programs

The May Revision reflects significant policy and programmatic adjustments in response to federal changes enacted under H.R. 1. DHCS estimates H.R. 1-related impacts will result in an additional \$1.5 billion in General Fund costs in 2026-27.

H.R. 1 Provision	H.R. 1 Impact and May Revision Proposal	Estimated Fiscal Impact
Work and Community Engagement Requirements	Requires ACA adult expansion population to comply with federal work and community engagement requirements beginning January 1, 2027, which is expected to reduce enrollment over time; the May Revision assumes implementation, updates enrollment projections based on higher exemption rates, and provides county administrative funding for eligibility and compliance.	Reduction of \$357.6 million total funds (\$90.3 million General Fund) in 2026–27; projected disenrollment of 1.1 million by 2029–30
Reduced Federal Match for Emergency Services	Reduces the federal medical assistance percentage for emergency services for ACA expansion adults with unsatisfactory immigration status from 90% to 50% effective October 1, 2026; the May Revision reflects this change and assumes General Fund backfill of the reduced federal share.	Approximately \$669 million General Fund cost in 2026–27
Restrictions on Immigrant Eligibility	Limits federal eligibility for certain non-citizens and eliminates federal financial participation for full-scope Medi-Cal coverage; the May Revision delays shifting impacted populations to restricted-scope Medi-Cal until July 1, 2027, and assumes earlier transitions to fee-for-service (FFS) delivery.	\$668.1 million General Fund cost in 2026–27; projected savings of \$294 million annually beginning in 2029–30
Six-Month Eligibility Redeterminations	Requires ACA expansion adults to undergo eligibility redeterminations every six months beginning in 2027–28 instead of annually; the May Revision incorporates updated federal guidance and revised disenrollment assumptions.	Reduction of \$747.3 million total funds (\$186.4 million General Fund) in 2027–28
Reduced Retroactive Coverage Periods	Shortens retroactive Medi-Cal coverage from three months to one month for ACA expansion adults and two months for other populations beginning no earlier than January 1, 2027; the May Revision reflects this policy change.	Reduction of \$34.6 million total funds (\$14.7 million General Fund) in 2026–27
County Administrative Workload	Creates substantial county workload related to eligibility processing, renewals, work requirements, and enrollee communications; the May Revision provides one-time and limited-term funding to support counties with eligibility redeterminations, renewals, and outreach activities.	\$262 million total funds (\$74 million General Fund) one-time in 2026–27; total county Medi-Cal administration funding of \$2.8 billion in 2026–27

Delivery System and Program Changes

Transition to FFS Delivery

The May Revision proposes transitioning Medi-Cal members with unsatisfactory immigration status from managed care into FFS beginning January 1, 2027, in response to new federal restrictions that prohibit states from covering federally eligible emergency Medicaid services for this population through risk-based managed care delivery systems. This proposal includes a reduction of \$583.8 million total funds (\$471.6 million General Fund) in 2026–27 associated with the shift. It represents one of the most operationally significant delivery system changes in the budget and will require substantial implementation work by DHCS, counties, and providers.

County Administrative Impacts

The May Revision recognizes that implementation of H.R. 1 will create significant new administrative pressures for counties, particularly related to increased eligibility redeterminations, implementation of federal work requirements, higher call center and application processing volumes, and necessary systems and staffing changes. To support these operational demands, the budget includes a total of \$2.8 billion for county Medi-Cal administration in 2026–27, along with one-time surge staffing flexibility and additional funding through 2028–29 to assist counties with implementation and ongoing workload increases.

Proposed Medi-Cal Program Changes

The May Revision includes several ongoing cost containment proposals intended to address near-term budget pressures and support long-term fiscal sustainability.

Proposal	Description	General Fund Impact
Reinstate Lower Medi-Cal Asset Test Limits for Seniors and Disabled Adults	Reinstates Medi-Cal asset limits for seniors and individuals with disabilities, reducing allowable assets to \$2,000 for individuals and \$3,000 for couples effective January 1, 2027. The policy reintroduces an asset test previously eliminated to expand coverage and is intended to reduce eligibility and program costs, including In-Home Supportive Services (IHSS) impacts.	\$278.3 million General Fund reduction in 2026-27; \$495.6 million ongoing
Increase Premiums for Adults with Unsatisfactory Immigration Status	Increases Medi-Cal monthly premiums for adults ages 19–59 with unsatisfactory immigration status from \$30 to \$50 beginning July 1, 2027.	Approximately \$427.3 million General Fund reduction in 2027-28, decreasing to approximately \$314.3 million annually by 2029-30
Enhanced Care Management (ECM) Refinements	Refines ECM eligibility, service definitions, utilization management, and payment methodologies to improve targeting and reduce costs. ECM provides intensive care coordination	\$41.4 million General Fund reduction in 2026-27; \$99.2 million ongoing

Proposal	Description	General Fund Impact
	for high-need Medi-Cal populations under CalAIM.	
Community Supports Program Refinements	Modifies CalAIM Community Supports by updating eligibility, referral pathways, service definitions, and utilization standards to improve efficiency and consistency. Services include housing supports, medically tailored meals, and recuperative care.	\$26.9 million General Fund reduction in 2026-27; \$51 million ongoing
Program of All-Inclusive Care for the Elderly (PACE) Rate Cap Adjustments	Lowers the reimbursement rate cap for PACE organizations beginning January 1, 2027, shifting plans to the lower-bound rate rather than the midpoint, with a two-year exemption for new entrants.	\$33.7 million General Fund reduction in 2026-27; \$80.9 million ongoing
Redirect Medical Loss Ratio (MLR) Remittances to the General Fund	Redirects health plan MLR remittance payments to the General Fund beginning in 2027-28. These payments occur when plans do not meet required thresholds for medical spending and quality investment.	\$25 million ongoing beginning in 2027-28
Eliminate Optional Adult Acupuncture Benefit	Eliminates the optional adult acupuncture benefit in Medi-Cal effective January 1, 2027. The benefit currently covers certain chronic pain and related conditions.	Approximately \$5.4 million General Fund reduction in 2026-27; \$13.1 million ongoing

Hospital Quality Assurance Fee (HQAF)

Following federal notification that California’s original HQAF waiver request was not approved, the Administration is revising the proposal to meet federal requirements while preserving the underlying financing structure. The May Revision Budget includes \$1.3 billion General Fund to support children’s coverage, a decrease of about \$652 million from the 2025 Budget Act, while continuing to support hospital payments through a modified HQAF approach.

Support for Covered California

The Governor’s revised budget proposed \$300 million ongoing from the Health Care Affordability Reserve Fund to expand state premium subsidies for Covered California enrollees with incomes up to 200% of the federal poverty level, an additional \$110 million compared to the January Budget.

In-Home Supportive Services

The May Revision maintains proposed adjustments to the IHSS program, which provides in-home personal care and domestic services to seniors, individuals who are blind, and people with disabilities to support independent living. The proposal continues to shift additional costs associated with IHSS service hour growth to counties by modifying the state’s funding approach, resulting in a \$233.6 million General Fund reduction beginning in 2027-28. It also maintains the elimination of the IHSS Backup Provider

System, which facilitates access to substitute caregivers when regular providers are unavailable, reflecting a \$3.5 million General Fund reduction beginning in 2026-27.

Behavioral Health Initiatives

The May Revision largely maintains existing behavioral health initiatives and continues implementation of Proposition 1, including prior multi-year funding for the Children and Youth Behavioral Health Initiative (\$4.2 billion), Behavioral Health Bridge Housing and Continuum Infrastructure (\$2.9 billion), Mobile Crisis Response (\$1.4 billion), and BH-CONNECT (\$8 billion total funds over five years). The revised budget shifts certain behavioral health workforce and prevention costs from the General Fund to the Behavioral Health Services Fund, including \$211.9 million in 2026-27, \$229.1 million in 2027-28, and \$226.4 million in 2029-30.

Additional Health Care Investments

The May Revision includes several targeted investments intended to sustain access to services for vulnerable populations and support system stability amid broader fiscal constraints and policy changes. These proposals include one-time funding for reproductive health care providers, HIV-related services and LGBTQ+ community centers experiencing funding losses, a statewide menopause awareness and education campaign, and short-term support to financially distressed hospitals, Sickle Cell Centers of Excellence, and federal Rural Health Transformation Program funding for rural and frontier communities as administered by the Department of Health Care Access and Information.

Key Takeaways for Healthcare Stakeholders

The May Revision reflects a period of continued change and fiscal pressure within California's health care system, particularly for Medi-Cal and the broader delivery infrastructure that supports coverage and care statewide. The proposal includes efforts to maintain core provider investments and targeted rate increases while addressing ongoing budget constraints, federal policy changes, and uncertainty related to Medicaid financing and waiver approvals. At the same time, implementation of federal requirements and state cost containment strategies may increase administrative complexity and contribute to changes in enrollment, coverage, and care delivery across counties, managed care plans, providers, and community-based organizations.

May Revise Resources

Primary State Budget Materials

- Department of Finance
 - [California Budget](#) May Revise Summary
 - [California Budget](#) May Revise Detail
- DHCS Budget Highlights: [DHCS-FY-2026-27-May-Revise-Highlights.pdf](#)
- DHCS Trailer Bill Language: Full DHCS Trailer Bill Language can be found here: [Governor's Budget Proposal - DHCS - CA.gov](#)

Additional Budget Analysis

- Nonpartisan Legislative Analyst's Office: [The 2026-27 Budget: Initial Comments on the Governor's May Revision](#)
- California Budget & Policy Center: [First Look: Understanding the Governor's 2026-27 May Revision - California Budget & Policy Center](#)