California Budget 2025-26 May Revision Summary with CHC Impact

Earlier this month, Governor Newsom released his 2025-26 May Revision state budget ("May Revise"). While the January budget proposal was roughly balanced with a "modest" surplus, and state tax collections have continued to exceed projections, the May Revision now projects a deficit of $12 billion for FY 2025-26, with significant on-going deficits looming in the out-years.

Expectations for a deficit budget have been building over the past couple of months due to several compounding factors: the introduction of new tariffs leading to ongoing economic volatility and uncertainty under the new federal administration; increased threats of federal funding cuts; higher-than-expected expenditures, including a $6.2 billion Medi-Cal shortfall in the current year; and early action budget bills to address recovery efforts from the January Los Angeles wildfires. Details on priority proposals impacting community health centers and clinics (CHC) are below.

COMMUNITY HEALTH CENTER TOP BUDGET PRIORITIES

Health Center Budget Priority: Medi-Cal

Healthcare spending has risen dramatically, reflecting both overall trends and as a result of coverage and benefit expansions over the past few years. DHCS has identified a few key areas driving higher health care costs including higher than anticipated enrollment and utilization of services (including among the adult full-scope Medi-Cal expansion population); pharmaceutical costs, and services for older adults. To address the immediate and multi-year projected budget deficit, the following reductions were proposed in the May Revision:

Rollback of Coverage and Services for Immigrant Communities:

Enrollment Freeze for Full-Scope (State-Only) Medi-Cal Expansion, Adults 19 and Older

This proposal would freeze new full-scope Medi-Cal enrollments for undocumented adults aged 19+ beginning no sooner than January 1, 2026. This proposal *excludes* Qualified Non-Citizens (also referred to as "Newly Qualified Immigrants") under the five-year bar, individuals claiming Permanently Residing Under Color of Law and pregnant individuals. DHCS staff has confirmed that if an individual becomes disenrolled from the program once this policy goes into effect, they would be barred from re-enrolling in full-scope coverage (except for certain circumstances such as pregnancy, and one-year of coverage post-partum).

Proposals Impacting (State-Only) Adults 19 and Older with Unsatisfactory Immigration Status

Each of these proposals include individuals ages 19+ with Unsatisfactory Immigration Status (UIS), which *includes* Qualified Non-Citizens (also referred to as "Newly Qualified Immigrants") under the five-year bar – individuals who receive state-only Medi-Cal funded services, and no federal matching funds.

- Implement state-only $100 monthly premiums for individuals with unsatisfactory immigration status aged 19 and older, effective January 1, 2027.
- Eliminate state-only long-term care benefits for individuals with unsatisfactory immigration status, effective January 1, 2026.

- Eliminate full-scope state-only dental coverage for Medi-Cal members with unsatisfactory immigration status aged 19+, effective July 1, 2026. This population will continue to have access to restricted-scope emergency dental coverage.

Elimination of (State-Only) Prospective Payment System Rates to Federally Qualified Health Centers and Rural Health Clinics for Individuals with Unsatisfactory Immigration Status

This proposal seeks to eliminate Prospective Payment System rates to clinics for state-only-funded services provided to individuals with unsatisfactory immigration status including undocumented individuals of ***all*** ages; Qualified Non-Citizens (also referred to as "Newly Qualified Immigrants") under the five-year bar; and individuals claiming Permanently Residing Under Color of Law (PRUCOL).

If implemented, clinics would receive reimbursement at the applicable Medi-Cal Fee Schedule rate in the fee-for-service delivery system and at the applicable negotiated rate between a Medi-Cal managed care plan and the clinic in the managed care delivery system. DHCS would seek to update their payment systems to eliminate the "wrap" payment for FQHC/RHCs for UIS populations. They have not determined how clinics would be able to identify which of their patients have UIS, because clinics do not gather immigration status data, and managed care plans are not allowed to share this information. DHCS stated that they intend to make this information accessible at the provider level.

Proposals Impacting All Medi-Cal Enrollees, Regardless of Immigration Status:

- Eliminate acupuncture as an optional benefit resulting in estimated General Fund savings of $5.4 million in 2025-26 and $13.1 million ongoing.
- Medi-Cal Asset Test Limits – Reinstate the Medi-Cal asset limit to consider resources, including property and other assets, when determining Medi-Cal eligibility for applicants or members whose eligibility is not based on modified adjusted gross income financial methods. This would reverse a policy implemented in January 2024, applying *only to seniors and people with disabilities* to limit their assets to $2,000 for individuals and $3,000 for couples. The policy would be effective no sooner than January 1, 2026.

Medi-Cal Pharmacy Benefit Proposals:

To control costs in the pharmacy space, the following proposals were included in the May Revision:

- Prior Authorization for Continuation of Drug Therapy – Eliminate the continuing care status for pharmacy benefits under Medi-Cal Rx. The policy, effective January 1, 2026, requires members to obtain drugs no longer on or removed from the Medi-Cal Rx contracted drug list (CDL) through the prior authorization process rather than allow continuing care based upon prior drug usage.
- Implement a step therapy strategy – This is a process that requires patients to try and fail on one or more medications chosen by their insurer before they can access the optimal treatment recommended and prescribed by their healthcare provider, to promote utilization management and control prescription drug costs.
- Implement utilization management and prior authorization for prescription drugs.
- End coverage for GLP-1 drugs used for weight loss and optional OTC drugs (including COVID-19 antigen tests, over-the-counter vitamins, and certain antihistamines including dry eye products).

Other Proposals Impacting Medi-Cal

- Medi-Cal Minimum Medical Loss Ratio – Increase the minimum medical loss ratio for managed care plans to a required 90/10 ratio (90% on direct medical costs / no more than 10% administrative costs) up from the current 85/15 ratio. This proposal would commence January 1, 2026, and would be applicable to downstream delegated entities (including clinic-led IPAs) who are currently required to adhere to and report their MLR.
- Program of All-Inclusive Care of the Elderly (PACE) Organization Capitation Payments – Limit the payments for PACE providers to the midpoint of actuarial rate ranges, except for newly enrolled providers receiving enhanced rates for the first two years.

CHC Impact: *The proposals to freeze enrollment for full-scope Medi-Cal for undocumented adults ages 19+, introduce substantial Medi-Cal premiums, eliminate long-term care and dental coverage for individuals with unsatisfactory immigration status (UIS), and eliminate PPS payments for these populations are deeply concerning. Health care needs will not disappear with the loss of coverage; instead, they will return as higher-cost emergency care, shifting the burden to counties and community providers. The infrastructure that once served uninsured populations has largely been dismantled due to the success of Medi-Cal expansion. These cuts would undo that progress and leave communities more vulnerable. We know that providing quality primary care saves our state money in the long-run and helps our communities stay healthy. For fiscal and policy reasons, maintaining care for all is the best outcome.*

Health Center Budget Priority: Prop 35/Prop 56

The May Revision proposed a series of changes to voter directed spending imposed by two ballot initiatives: Proposition 56 (tobacco tax approved by voters in November 2016) and Proposition 35 (MCO tax passed November 2024).

In relation to Prop 35, the Governor's May Revision preserves the following spending plans, as outlined in the proposition:

- Community Clinic Directed Payment Program ($50M) – DHCS spend plan intends funds to be used to augment the non-federal share of the Community Clinic Directed Payment Program.
- Graduate Medical Education ($75M) – DHCS proposes to allocate $75 million in CY 2025 and $75 million in CY 2026 to the University of California to expand graduate medical education programs (through CalMedForce)
- Medi-Cal workforce investments ($75M) – DHCS proposes to allocate $75 million in CY 2025 and $75 million in CY 2026 to the Department of Health Care Access & Information (HCAI) to support Medi-Cal workforce initiatives run through Labor Management Cooperation Committees (LMCC).

Proposed Changes to the use of Prop 35 Revenues Include:

- Redirects $1.3 billion (2025-26) and $264 million (2026-27) in MCO tax revenues to cover Medi-Cal cost increases (General Fund loan to DHCS)

- Primary & Specialty Care: Rather than using funding for new and increased investments into the Medi-Cal program, the May Revision uses Prop 35 funds in this category to continue covering 2024 targeted rate increases (TRIs), cover increased managed care capitated base rate increases in 2025 (already in place for the higher cost of services. No additional payments would flow to providers in 2025); and limited term add-on payments in CY 2026. DHCS has confirmed that their intention is for FQHC/RHCs to continue to be excluded from retaining any increased payments, as increased managed care payments to FQHC/RHCs are being made from General Fund dollars, rather than Prop 35 revenue.
- Repro Health: DHCS directs funding to HCAI for investments addressing "emergent needs in reproductive health;" focusing on midwifery practitioner loan repayments and scholarships and expansion of education capacity for nurse midwives. Prop 35 stakeholders have advocated for these dollars to go towards increasing Medi-Cal reimbursement rates for abortion services ($70 million) and strengthening access to comprehensive family planning services ($20 million).

Prop 56 Supplemental Payments:

- Eliminate approximately $504 million in 2025-26 and $550 million ongoing for Proposition 56 supplemental payments to dental, family planning, and women's health providers. Due to declining tobacco sales, Prop 56 supplemental payments are no longer covered in full by tobacco tax revenues, and a sizable portion of the funding for these supplemental payments comes from the General Fund. However, many of these payments, including family planning and reproductive health payments receive a 90% federal match, bringing significant additional dollars into the state for these services, and are heavily relied on by reproductive health providers to maintain these services.

CHC Impact: *While we appreciate the May Revision's preservation of funding for the Community Clinic Directed Payment Program and Graduate Medical Education, we are alarmed by the decision to redirect Prop 35 and Prop 56 funds away from their intended purpose—raising provider rates—to backfill general fund obligations. This redirection undermines the voter mandate to increase access through fair provider compensation. Eliminating Prop 56 payments and repurposing Prop 35 reproductive health funds will result in drastic provider cuts and drastically impact CA's reproductive health clinics. Additionally, DHCS' decision to explicitly exclude FQHCs and RHCs from rate increases for primary and specialty care by using budget mechanisms that circumvent the initiative's intent not only shortchanges the state's core primary care network but, in combination with PPS cuts, threatens the financial viability of the very providers serving the highest-need populations.*

Health Center Budget Priority: 340B Supplemental Payment Program

The Governor's May Revise continues to support non-hospital 340B Clinics through the $105M Supplemental Payment Program.

CHC Impact: *CPCA Advocates will monitor these funds to ensure they remain in the final budget.*

Health Center Budget Priority: Medi-Cal Health Enrollment Navigator Services

Funding to continue Medi-Cal Health Enrollment Navigation services (set to expire June 30, 2025) was not included in the Governor's May Revision.

CHC Impact: *With looming eligibility changes at both state and federal levels, these workers are more vital than ever. CPCA Advocates will continue to urge the Legislature to reject policies aimed at restricting enrollment and ensuring coverage loss and include funding for Health Enrollment Navigators in the final budget agreement.*

Health Center Budget Priority: Behavioral Health

The May Revision includes $1.9 billion ($143 million Behavioral Health Services Fund, $808 million Designated State Health Program Funding, and $950 million federal funds) for the Department of Health Care Access and Information to implement the Behavioral Health Workforce Initiative beginning in January 2026.
The May Revision includes $17.5 million one-time 988 State Suicide and Behavioral Health Crisis Services Fund to support suicide and crisis lifeline center contact volume capacity.

CHC Impact: *Some health centers host the 988 call centers and will benefit from the funding increase. For BH-Connect funds, CHCs are eligible for funding under the five statewide workforce programs.*

Health Center Budget Priority: Access to Affordable Food

The May Revise includes $115.8 million ($57.5 million General Fund) in 2025-26 for transactions costs and outreach to allow California to provide an estimated $815.9 million in federal food assistance to children through the SUN Bucks program. The program provides food benefits to children who lose access to free and reduced-price meals during the summer school closure period. Disappointingly, the May Revise includes statutory language that would make the expansion of the California Food Assistance Program (CFAP) to adults 55 and over (Food4All), regardless of immigration status, subject to a trigger-on, based on the availability of General Fund in spring 2027.

CHC Impact: *The addition of a trigger for the CFAP expansion is concerning and weakens our state's commitment to ensuring all Californians have access to food, regardless of immigration status. Requiring additional funding requirements may result in future delays if revenues are not met. Additionally, it is disappointing that there was not a commitment made to include all ages in the CFAP expansion. This is yet another proposal that fails to meet the needs of immigrant patients.*

Health Center Budget Priority: Immigrant Services

The May Revise proposes a reduction of $158.8 million General Fund in 2025-26 and ongoing to eliminate IHSS benefits for undocumented immigrants aged 19 and older. IHSS services are vital to low-income seniors and people who are blind and/or disabled. This proposal is both harmful and xenophobic, potentially pushing immigrant families deeper into poverty.

The May Revise maintains $75 million in ongoing immigration services funding but fails to include the proposal by immigrant rights advocates for an additional $60 million one-time investment to support the growing need for immigration legal aid.

CHC Impact: *No direct impact on CHCs; however, health center patients rely on these vital services.*

CPCA Advocates will continue to share additional details as they become available on these and other health center budget priorities.