

HEALTH AND HUMAN SERVICES

The Health and Human Services Agency includes departments and state entities that provide health and social services to the most vulnerable and at-risk Californians while providing public health services to Californians.

Like all states, California is challenged by House of Representatives (H.R.) 1, federal legislation passed last summer, which has reduced our federal revenue, increased state costs, and required program changes. The May Revision proposes General Fund solutions to help align program expenditures with available revenue to maintain a balanced budget and responsibly support California's core programs. The May Revision includes \$334.2 billion (\$90.4 billion General Fund) for health and human services programs in 2026-27.

DEPARTMENT OF HEALTH CARE SERVICES

Medi-Cal, California's Medicaid program, is administered by the Department of Health Care Services (DHCS). Medi-Cal is a public health care coverage program that provides comprehensive health care services at no or low cost for low-income individuals. The Department also administers programs for special populations and several other non-Medi-Cal programs, as well as county-operated community mental health and substance use disorder programs. The Medi-Cal budget includes \$194.4 billion (\$48.6 billion General Fund) in 2025-26 and \$216.7 billion (\$44.9 billion General Fund) in 2026-27. Medi-Cal is projected to cover approximately 14.4 million

Californians in 2025-26 and 13.9 million in 2026-27—more than one-third of the state's population.

MANAGED CARE ORGANIZATION TAX

The May Revision reflects Managed Care Organization (MCO) Tax revenue of \$4.5 billion in 2025-26 and \$2.5 billion in 2026-27 to support the Medi-Cal program. The May Revision also includes \$1.3 billion in 2025-26, \$2.4 billion in 2026-27, and \$150 million in 2027-28 to support increases in managed care and other payments relative to calendar year 2024, for hospital, community clinic, behavioral health, and other services for provider payments. This includes an increase of \$1.9 billion from excess MCO Tax revenues from calendar years 2025 and 2026, after fulfilling the provider payment increases as required in Proposition 35. The existing MCO Tax expires on December 31, 2026.

Proposition 35, approved by the voters in November 2024, requires that the state seek federal approval to continue an MCO Tax that complies with the structure of the existing MCO Tax and limits non-Medicaid tax liability of future taxes to \$36 million annually. Recent federal changes pursuant to H.R. 1 prohibit taxes that assess higher tax rates on Medi-Cal plans than commercial plans, or otherwise place a disproportionately high tax burden on Medi-Cal plans. In order to align to the applicable law, the May Revision proposes to seek renewal of an MCO Tax effective January 1, 2027. The May Revision includes \$575 million in 2026-27, \$2.3 billion each in 2027-28 and 2028-29, and \$1.7 billion in 2029-30 from this new tax to support the Medi-Cal program and maintain targeted rate increases for primary, maternal, and non-specialty mental health care implemented on January 1, 2024.

SIGNIFICANT BUDGET ADJUSTMENTS

- **2025-26 Budget Update**—The May Revision reflects a \$2.2 billion General Fund increase for Medi-Cal expenditures in 2025-26 compared to the Governor's Budget. This increase is driven primarily by a delay in federal approval for the 2025 Hospital Quality Assurance Fee program, federal funds repayment and deferrals for state-only populations, and increased health care costs for managed care, fee-for-service, and Medicare. The Medi-Cal shortfall in 2025-26 at the May Revision is estimated to be \$4.2 billion General Fund.
- **Year-Over-Year Comparison**—The May Revision projects Medi-Cal General Fund expenditures of \$44.9 billion in 2026-27, a decrease of \$3.7 billion compared with the

revised 2025-26 expenditures. The decrease is primarily driven by reduced costs resulting from budgetary solutions, lower managed care base costs associated with the projected decline in caseload, and revised timing assumptions for the Hospital Quality Assurance Fee and federal repayments.

- **Transition of Individuals with Unsatisfactory Immigration Status to Fee-for-Service**—The May Revision reflects a reduction of \$583.8 million (\$471.6 million General Fund) in 2026-27 and \$1.5 billion (\$1.2 billion General Fund) ongoing due to the new federal policy that prohibits states from covering federally-eligible emergency Medicaid services for individuals with unsatisfactory immigration status in risk-based managed care delivery systems. To comply with this new federal requirement, Medi-Cal members with unsatisfactory immigration status will receive all covered Medi-Cal services through the fee-for-service delivery system effective January 1, 2027.
- **H.R. 1 of 2025**—The May Revision reflects costs of approximately \$1.5 billion General Fund in 2026-27, an increase of \$363.1 million General Fund in 2026-27 compared to the Governor's Budget. The May Revision projects total H.R. 1 disenrollment of 44,000 in 2026-27 and 1.3 million by 2029-30, a decrease of 478,000 in 2026-27 and 446,000 by 2029-30 compared to the Governor's Budget.
 - **Work and Community Engagement Requirement**—An estimated reduction of \$357.6 million (\$90.3 million General Fund) in 2026-27 and \$9.6 billion (\$2.4 billion General Fund) by 2029-30, resulting from the new work and community engagement requirements for the Affordable Care Act adult expansion population, effective January 1, 2027. This is a General Fund increase of \$12 million in 2026-27 and \$1.2 billion in 2029-30. Projected disenrollments are 43,000 in 2026-27 and 1.1 million by 2029-30, a decrease of 190,000 in 2026-27 and 337,000 by 2029-30 compared to the Governor's Budget. The May Revision reflects an increase in the number of individuals projected to retain Medi-Cal coverage by meeting specified exemption criteria, primarily for medical frailty and the CalFresh Able-bodied Adults Without Dependents requirements, which exempts these adults from Medi-Cal work requirements.
 - **Medical Assistance Percentage for Emergency Services**—A General Fund cost of approximately \$669 million General Fund in 2026-27 and \$718 million due to the federal match reduction from 90 percent to 50 percent for emergency services for Affordable Care Act adult expansion population members with unsatisfactory immigration status effective October 1, 2026.

- **Restrictions on Immigrant Eligibility**—A General Fund cost of \$668.1 million in 2026-27 and savings of \$294 million in 2029-30 and ongoing for a July 1, 2027 transition to restricted-scope Medi-Cal for individuals impacted by the federal eligibility change for qualified non-citizens. The July 1, 2027 transition is a nine-month delay compared to Governor's Budget. This population will be transitioning to the fee-for-service delivery system effective January 1, 2027. Effective October 1, 2026, federal policy will exclude individuals with certain immigration statuses from being federally funded for full-scope Medi-Cal, which significantly reduces federal funding for this population. If the state were to otherwise continue to provide full-scope fee-for-service Medi-Cal to this population, the annual cost is estimated to be an additional \$1.3 billion General Fund.
- **Affordable Care Act Adult Expansion Six-Month Redeterminations**—Based on updated federal guidance, the May Revision assumes the impacts of the required federal eligibility redetermination frequency changing from once per year to every six months for this population beginning in 2027-28. The May Revision includes a reduction of \$747.3 million (\$186.4 million General Fund) in 2027-28 and \$2.5 billion (\$633 million General Fund) by 2029-30. Compared to the Governor's Budget, projected disenrollments have decreased to zero in 2026-27 and are estimated to be approximately 278,600 in 2029-30.
- **Reduced Retroactive Medi-Cal Timeframes**—A reduction of \$34.6 million (\$14.7 million General Fund) in 2026-27 and \$75.5 million (\$32.1 million General Fund) in 2029-30 and ongoing from the reduction of retroactive Medi-Cal coverage changes from three months before an individual's application date to one month for the Affordable Care Act adult expansion population and two months for all other members, effective no sooner than January 1, 2027.
- **Hospital Quality Assurance Fee**—The May Revision assumes \$84.7 million in 2025-26 and \$1.7 billion in 2026-27 to support children's coverage, which results in General Fund costs of \$1.2 billion in 2025-26 and General Fund savings of \$286.8 million in 2026-27 compared to the Governor's Budget. Based on the federal government's notification that California's tax waiver request would not be approved as submitted, the Administration submitted a modified waiver request to the federal government in March 2026 that is currently pending approval. The 2025 Hospital Quality Assurance Fee program is estimated to provide hospital net-benefit payments of \$5.5 billion.

- **County Medi-Cal Administration**—The May Revision reflects a one-time augmentation of \$262 million (\$74 million General Fund) in 2026-27, \$33 million (\$16.7 million General Fund) in each of 2027-28 and 2028-29 to support county workload for the implementation of Medi-Cal eligibility changes pursuant to H.R. 1. This augmentation for county administration includes optional surge staffing capacity to provide additional support to counties with workload such as application, renewal, call center, and work requirements. The May Revision includes a total of \$2.8 billion (\$705.3 million General Fund) for Medi-Cal county administration in 2026-27.
- **Medi-Cal Efficiencies**—The May Revision includes a General Fund reduction of \$68 million in 2026-27 increasing to \$552 million in 2029-30 to establish utilization management for applied behavioral analysis and transportation and eliminating the quality withhold incentive component of the quality withhold and incentive program for Medi-Cal managed care. The Administration is continuing to identify efficiencies in select areas of Medi-Cal.

SOLIDIFYING STRUCTURAL BALANCE

The May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Increase Monthly Premium for Adults with Unsatisfactory Immigration Status (Aged 19–59) from \$30 to \$50**—A General Fund reduction of approximately \$427.3 million in 2027-28, decreasing to approximately \$314.3 million annually in 2029-30 to increase monthly premiums for adults with unsatisfactory immigration status to \$50, effective July 1, 2027. The 2025 Budget Act included \$30 premiums for this group of adults effective July 1, 2027.
- **Medi-Cal Asset Test Limits**—A General Fund reduction of \$278.3 million in 2026-27 and \$495.6 million ongoing, inclusive of IHSS impacts, to reinstate the Medi-Cal asset limit for seniors and disabled adults to \$2,000 for an individual or \$3,000 for a couple, effective no sooner than January 1, 2027. The 2025 Budget Act included a partial reinstatement of the Medi-Cal asset limit that went into effect January 1, 2026.
- **Enhanced Care Management**—A General Fund reduction of \$41.4 million in 2026-27, and \$99.2 million ongoing to refine eligibility criteria, service definitions, utilization management criteria, and payment adjustments for the Medi-Cal enhanced care management benefit, effective January 1, 2027.

- **Community Supports**—A General Fund reduction of \$26.9 million in 2026-27, \$58.8 million in 2027-28, and \$51 million ongoing to refine referral pathways, eligibility criteria, service definitions, and utilization management criteria for select Medi-Cal community supports services, effective January 1, 2027.
- **Program of All-Inclusive Care for the Elderly Rate Cap**—A General Fund reduction of \$33.7 million in 2026-27 and \$80.9 million ongoing to implement a rate cap for Program of All-Inclusive Care for the Elderly (PACE) organizations, except for new entrants in their first two years, at the lower bound rate, effective January 1, 2027. The 2025 Budget Act included a rate cap at the mid-point effective January 1, 2027.
- **Medical Loss Ratio Remittances**—A General Fund reduction of \$25 million ongoing beginning in 2027-28 to redirect medical loss ratio remittances to the General Fund.
- **Eliminate Optional Adult Acupuncture Benefit**—A General Fund reduction of approximately \$5.4 million in 2026-27 and \$13.1 million ongoing, effective January 1, 2027.

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services (DSS) serves, protects, and supports the people of California experiencing need in ways that empower well-being. The Department's major programs include the California Work Opportunity and Responsibility to Kids (CalWORKs), CalFresh and Nutrition Programs, In-Home Supportive Services (IHSS), Supplemental Security Income/State Supplementary Payment (SSI/SSP), Child Welfare and Adult Protective Services, Community Care Licensing, Disability Determination Services, and Child Care. The May Revision includes \$59.1 billion (\$26 billion General Fund) for DSS programs in 2026-27.

CHILD CARE AND DEVELOPMENT

DSS administers child care and development programs including CalWORKs Stages One, Two, and Three; the Emergency Child Care Bridge Program; Alternative Payment Programs; Migrant Child Care; General Child Care; Child Care for Children with Severe Disabilities; and a variety of local supports for these programs, such as Resource and Referral and Local Child Care Planning Councils, in addition to quality improvement projects. Families can access child care subsidies through centers that contract directly with DSS, local educational agencies, or vouchers from county welfare departments

and Alternative Payment Programs. The May Revision includes \$7.5 billion (\$5 billion General Fund) for DSS administered child care and development programs.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Child Care Administrative and Support Cost Structure**—A total of \$65.1 million General Fund in 2026-27 to increase allowable in-contract administration costs for alternative payment program agencies by 1.5 percent of their total contract amount.
- **Child Care Infrastructure**—A one-time increase of \$28 million federal funds for child care facilities affected by the 2023 and 2024 natural disasters.

SOLIDIFYING STRUCTURAL BALANCE

The May Revision includes a General Fund solution to achieve a balanced budget.

- **Child Care Cost-of-Living Adjustment**—A 30-percent reduction to the revised 2026-27 child care cost-of-living adjustment (COLA), resulting in a 2.01 percent COLA for DSS administered child care programs. This maintains \$112 million General Fund for a COLA.

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS

The CalWORKs program, California's version of the federal Temporary Assistance for Needy Families (TANF) program, provides temporary cash assistance to low-income families with children to meet basic needs. It also provides welfare-to-work services to support economic mobility. Eligibility requirements and benefit levels are established by the state. Counties have flexibility in program design, services, and funding to meet local needs.

The May Revision assumes \$9.4 billion in total TANF and Maintenance of Effort expenditures (state, local, and federal funds) in 2026-27. This amount includes \$6.9 billion for CalWORKs program expenditures and \$2.4 billion for other programs such as Child Welfare Services, Foster Care, the Department of Developmental Services (DDS) programs, the California Statewide Automated Welfare System, California Community Colleges Child Care and Education Services, Cal Grants, and the Department of Child Support Services. The average monthly CalWORKs caseload is projected to be 344,310 families in 2026-27.

SIGNIFICANT BUDGET ADJUSTMENT

- **CalWORKs Grant Increase**—The May Revision reflects a 1.8-percent increase to CalWORKs Maximum Aid Payment levels, effective October 1, 2026, which is estimated to cost \$59.5 million in 2026-27. These increased grant costs are funded entirely by the Child Poverty and Family Supplemental Support Subaccount of the Local Revenue Fund.

FOOD AND NUTRITION

The CalFresh program, California's version of the federal Supplemental Nutrition Assistance Program (SNAP), provides federally funded benefits for eligible families to purchase food needed to maintain adequate nutrition. The May Revision includes \$3.7 billion (\$1.6 billion General Fund) in total CalFresh and nutrition expenditures. In addition, \$11.6 billion in food benefits is provided directly to recipients by the federal government. The total CalFresh caseload is projected to be 3 million households in 2026-27.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Able-bodied Adults Without Dependents County Administration Augmentation**—Due to changes made by the H.R. 1, CalFresh Able-bodied Adults Without Dependents recipients are limited to three countable months of benefits if they are not meeting the work requirements or do not qualify for an exemption. The May Revision includes an additional \$30 million one-time General Fund to support county administration workload in 2026-27. The planned triennial CalFresh reassessment in 2026-27 will inform county administrative needs for the 2027-28 Governor's Budget.
- **CalFresh State Administrative Expense Target**—The U.S. Department of Agriculture (USDA) Food and Nutrition Service sets the State Administrative Expense planning target each federal fiscal year. The state has exceeded and requested an increase to this target to claim additional federal funds, which is currently under review by the USDA. The May Revision includes an increase of \$37 million General Fund in 2025-26 and \$30.6 million General Fund in 2026-27 for costs that exceed the federal target.
- **CalFood**—An increase of \$30 million one-time General Fund for food banks in 2026-27. The one-time appropriation augments \$8 million ongoing General Fund for this purpose.

IN-HOME SUPPORTIVE SERVICES

The IHSS program provides domestic and related services such as housework and meal preparation, as well as personal care services, paramedical services, and protective supervision to eligible low-income individuals with disabilities, including children and adults, as well as low-income individuals who are ages 65 and over. These services are provided to assist individuals to remain safely in their homes and prevent more costly institutionalization. The May Revision includes \$33.7 billion (\$12.7 billion General Fund) for the IHSS program in 2026-27.

SIGNIFICANT BUDGET ADJUSTMENT

- **Conforming IHSS with Medi-Cal Immigrant Eligibility**—An increase of \$30.8 million General Fund in 2026-27 to conform IHSS to the delayed transition to restricted-scope Medi-Cal for individuals impacted by the federal eligibility change for qualified non-citizens to July 1, 2027.

SOLIDIFYING STRUCTURAL BALANCE

The May Revision includes a General Fund solution to achieve a balanced budget.

- **Medi-Cal Asset Test Limits**—A reduction of \$62.6 million General Fund in 2026-27 to conform IHSS with the reinstatement of the Medi-Cal asset limit for seniors and disabled adults to \$2,000 for an individual or \$3,000 for a couple, effective no sooner than January 1, 2027.

CHILDREN'S PROGRAMS

Child Welfare Services include family support and maltreatment prevention services, child protective services, foster care services, and adoptions. California's child welfare system provides a continuum of services to children who are either at risk of or have suffered abuse and neglect. Program success is measured in terms of improving the safety, permanence, and well-being of children and families served. The May Revision includes \$1.1 billion General Fund in 2026-27 for services to children and families in these programs. When federal and 1991 and 2011 Realignment funds are included, total funding for children's programs is in excess of \$10.5 billion in 2026-27.

SIGNIFICANT BUDGET ADJUSTMENT

- **Title IV-E Stipend Project One-Time Augmentation**—An increase of \$18.4 million one-time General Fund to provide continuity for those currently enrolled in Bachelor of Social Work/Master of Social Work programs. This funding will provide a bridge to adjustments of sharing ratios in the Title IV-E Stipend Project contract, so the training plans reflect the allowable reimbursement percentage for Title IV-E eligible foster youth.

OTHER SOCIAL SERVICES PROGRAM ADJUSTMENTS

- **Immigration Legal Services**—An increase of \$20 million one-time General Fund to support legal strategies that increase legal capacity to help Californians who are facing immigration court proceedings, particularly for individuals in civil immigration detention. This will be subject to the existing statute which prohibits state funded legal representation for Californians with certain criminal histories.
- **Adult Protective Services Expansion**—A reduction of \$70 million General Fund in 2026-27 and ongoing to revert the expansion of Adult Protective Services adopted in 2021-22, including changing the age of eligibility from 60 back to 65.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services (DDS) provides individuals with intellectual and developmental disabilities a variety of services that allow them to achieve their goals. The state's developmental services are designed to meet the needs and choices of individuals at each stage of their lives, and support them in their home communities, providing choices that are reflective of lifestyle, cultural and linguistic preferences.

The May Revision includes \$18.7 billion (\$11.9 billion General Fund) and estimates that 487,000 individuals will receive services in 2025-26. For 2026-27, the May Revision includes \$21.6 billion (\$13.5 billion General Fund) and estimates that over 527,000 individuals will receive services.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Center-Based Early Intervention Services**—An increase of \$15 million (\$12.4 million General Fund) to update the current rate model methodology for certain early intervention services delivered outside the home.
- **Equitable and Consistent Needs Assessment**—An increase of \$11.4 million (\$9.1 million General Fund) in 2026-27, \$9.4 million (\$7.1 million General Fund) in 2027-28, and \$2.8 million (\$2.4 million General Fund) ongoing to support the standardized intake process and develop a clinical needs assessment tool for use by regional centers statewide, with a focus on promoting consistency and improving equity within the system regardless of where an individual lives. The May Revision also proposes statutory changes authorizing this standardization.
- **Home and Community-Based Services Federal Access Rule: Resources for Regional Centers**—An increase of \$1.1 million (\$779,000 General Fund) to address increased workload at regional centers associated with the implementation of the Federal Access Rule new grievance process, which will be implemented in February 2027.

OTHER HEALTH AND HUMAN SERVICES

SIGNIFICANT BUDGET ADJUSTMENTS

- **Covered California State Subsidy Program**—\$300 million ongoing Health Care Affordability Reserve Fund, an increase of \$110 million Health Care Affordability Reserve Fund compared to the Governor's Budget, for Covered California to expand the state premium subsidy program to enrollees up to 200 percent of the Federal Poverty Level.
- **Proposition 1 Behavioral Health State Investments**—\$174.8 million Behavioral Health Services Fund for the Department of Public Health, \$131.1 million Behavioral Health Services Fund for the Department of Health Care Access and Information, and \$10 million Behavioral Health Services Fund for the Commission for Behavioral Health in 2026-27 for the allocations for these purposes as required in Proposition 1. Of these amounts, \$119.8 million is for the Department of Public Health and \$94.3 million for the Department of Health Care Access and Information to implement new behavioral health population-based prevention and workforce programs in 2026-27 and continue the BH-CONNECT Workforce Initiative. The May Revision includes \$211.9 million Behavioral Health Services Fund in lieu of General Fund in 2026-27 and \$229.1 million in 2027-28 decreasing to \$226.4 million in 2029-30.

- **AIDS Drug Assistance Program Investments**—\$60 million one-time AIDS Drug Assistance Program Rebate Fund in 2026-27, including \$50 million AIDS Drug Assistance Program Rebate Fund for the Department of Public Health to support services for those living with and at risk of HIV, especially services impacted by loss of federal funds, and \$10 million AIDS Drug Assistance Program Rebate Fund for LGBTQ+ community centers experiencing a loss of federal funds.
- **Statewide Menopause Campaign**—\$3 million one-time General Fund at the Department of Public Health for a statewide public awareness campaign to support greater understanding of perimenopause and menopause.
- **Hospitals in Immediate Financial Distress**—The May Revision allows for an augmentation of up to \$50 million General Fund in 2026-27 for the Department of Health Care Access and Information to provide short-term support for hospitals in immediate and significant financial distress. The Administration will continue to work with the Legislature on this issue.
- **Sickle Cell Centers of Excellence**—\$30 million General Fund, over five years, for the Department of Public Health to support Sickle Cell Centers of Excellence to provide treatment and health care for individuals with sickle cell disease.