Policy At A Glance:

California's Budget Act of 2026 (SB 111)

The Budget Act of 2026 (SB 111) was signed into law on June 29, 2026, funding the state of California for another fiscal year beginning on July 1, 2026. This brief provides a snapshot of some of the health care related provisions in California's final budget for FY 26-27.

Introduction

Just one day before the deadline, Governor Gavin Newsom signed the Budget Act of 2026 (SB 111) and many other budget trailer bills into law on June 29, 2026, after reaching a balanced budget agreement with legislative leaders on June 26 to fund the California state government for FY 26-27.[1] The final budget provides $351.7 billion in total expenditures for 2026-27, including $251.5 billion from the General Fund.[2]

Before reaching this final budget, many negotiations and revisions took place. For example, the General Fund expenditure for FY 26-27 was estimated at $246.6 billion at the May Revision, which was $1.8 billion lower than the estimate in the January Governor's Budget.[3] With the higher than projected revenue from various taxes and over $5 billion in revenues expected from new sources such as a software tax, business tax credit limits, and federally compliant Managed Care Organization tax, the final budget includes a General Fund expenditure higher than the May Revise estimate.[2]

This brief provides a snapshot of some of the health care related provisions in California's final budget for FY 26-27.

Relevant Dates for SB 111[4]

01/23/2025	Introduced in the CA State Senate
02/05/2025	Referred to the Senate Committee on Budget and Fiscal Review
03/20/2025	Passed in the California State Senate
06/29/2026	Passed in the California State Assembly with amendments and ordered back to the Senate
06/29/2026	Amended version concurred in the Senate and passed
06/29/2026	Signed into law by Governor Gavin Newsom and chaptered

Delays in Previously Proposed Cuts to Medi-Cal

The final budget for FY 26-27 delays many of the Medi-Cal cuts adopted in last year's budget, pushing them out to July 1, 2027.[2] Such measures include the following:[2,5]

- Elimination of dental benefits in Medi-Cal (i.e. Denti-Cal) for beneficiaries with unsatisfactory immigration status (UIS)
- Elimination of prospective payment system reimbursement for community clinics for services provided to Medi-Cal beneficiaries with unsatisfactory immigration status
- Elimination of Prop 56 supplemental provider payments for dental services in Medi-Cal

These measures were all previously scheduled to go in effect on July 1, 2026. Collectively, these three delays cost the General Fund $1.619 billion but are important reprieve for the UIS population and the community clinics that take care of them.[2,5]

The final budget also delays until July 1, 2027, many of the Governor's newly proposed Medi-Cal cuts and restrictions, including the following:[2,5]

- Transition of certain immigrant populations (e.g., asylees, victims of human trafficking, etc.) to restricted scope Medi-Cal from full scope Medi-Cal
- Medi-Cal asset limit set at $21,000 for an individual and $31,000 for a couple for July 1, 2027, with agreement to work on a higher level next year

Transitioning UIS Beneficiaries to Fee-For-Service

The final budget adopts the Governor's proposal to transition the UIS population from managed care to fee-for-service (FFS) in Medi-Cal effective January 1, 2027, saving over $580 million in costs but raising some concerns for access and continuity for this popuation.[2,5,6] The savings stem from reduced administrative costs in shifting from monthly capitated managed care payments to a 60-day FFS billing cycles and lower utilization of Medi-Cal services. However, the whole-person-centered care coordination with emphasis on prevention that is a hallmark of managed care delivery will not be available to this population, leaving the individual members responsible for navigating a complex health care system. Although the budget allocates $39 million to support care coordination resources and community-based organizations to help UIS beneficiaries during this transition, it will likely have negative long-term effects on their access and health. This change will affect about 2 million members, including 38,000 children under 5 year of age.[6,7]

Funding for Various Programs and Entities

Distressed Hospital Funding Program

The final budget for FY 26-27 allocates $90 million in General Fund to support grants to distressed hospitals. It also authorizes the Department of Finance to augment the grant program by up to $50 million.[2,5] Of note, the Distressed Hospital Small Grant Program was first established through the Budget Act of 2025 (AB 108), which required the Department of Health Care Access and Information (HCAI) to provide grants to hospitals in immediate and significant financial distress to help prevent their closures.[8]

New Funding for Public Hospitals

The Budget Act of 2026 (SB 111) allocates $250 million in General Fund to the Department of Health Care Services (DHCS) to support designated public hospitals as these hospitals often serve disproportionately high share of low-income or uninsured patients.[2,5]

Funding for the PACE Program

The Program of All-Inclusive Care for the Elderly (PACE) provides a comprehensive medical and social services to eligible elderly 55 years and older using an interdisciplinary team approach in a PACE Center that provides and coordinates all needed preventive, primary, acute and long-term care services.[9] The Governor's initial budget proposed to cap Medi-Cal reimbursement rates for PACE. However, the final budget did not include this cut. In addition, the final budget allocates $400,000 in General Fund to DHCS to support application assistance for PACE beneficiaries.[2,5]

New Funding for Private Duty Nursing

SB 111 allocates a one-time $30 million in General Fund to support rate increases for private duty nursing in the Medi-Cal program.[2,5] Private duty nursing is a Medi-Cal benefit under the Early and Periodic Screening, Diagnostic, and Treatment (EPSDT) program for children under 21 who have full-scope Medi-Cal. It covers skilled nursing services provided on a shift basis in the patient's home or other community-based setting when medically necessary.[10]

Funding for Sickle Cell Centers for Excellence

The Budget Act of 2026 (SB 111) appropriates $30 million in General Fund over 5 years to the California Department of Public Health (CDPH) to support Sickle Cell Centers for Excellence.[2,5]

Funding for Gender Affirming Care

The final budget also allocates $10 million in General Fund for 2026-27 and $8 million in 2027-28 and 2028-29 (for a total of $26 million) to HCAI to support a gender affirming care provider network stabilization and uncompensated care grant program.[2,5]

Funding for Workforce

SB 111 also appropriates $5 million from the General Fund to HCAI to support physician access and workforce development in shortage areas.[2,5] It also allocates $197 million for Medi-Cal county eligibility workers to address increased workload related to implementation of provisions in HR 1.[2,5]

Conclusion

The final budget to fund the California government from July 1, 2026 to June 30, 2027, is a balanced budget resulting from countless hours of negotiation between the Governor and the Legislature. In terms of healthcare, some budget decisions are positive while others leave room for improvement. The delays in previously proposed cuts in Medi-Cal provide some reprieve for the affected population while the adoption of the Governor's proposal to transition the UIS population from managed care to fee-for-service in Medi-Cal pose some concerns. Funding for various programs and entities such as public hospitals, distressed hospitals, PACE and Sickle Cell Centers for Excellence are important investments into healthcare. Time will tell how these budget decisions will impact the health and wellbeing of various populations living in California and the safety net hospitals and community clinics that serve vulnerable members of our society.

Did you know?

On June 15, 2026, the CA State Legislature passed AB 109, which is the Legislature's Budget Act of 2026. SB 111 is a Budget Bill Junior that makes substantive changes to AB 109 to finalize the budget.[11]

References

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