



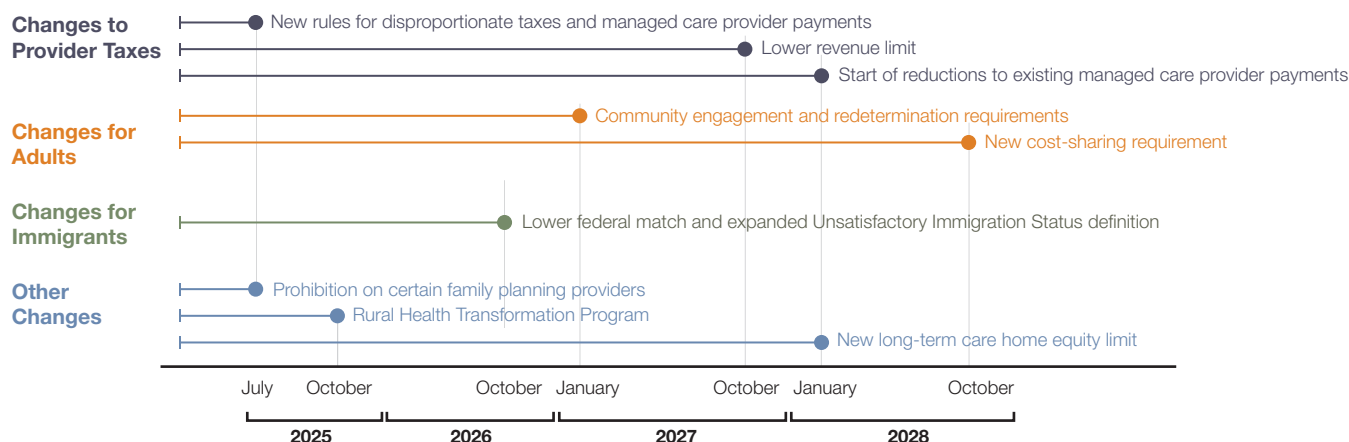
CONSIDERING **MEDI-CAL** IN THE MIDST OF A **CHANGING FISCAL AND POLICY LANDSCAPE**

Legislative Analyst's Office

How Is the Landscape Changing?

Following a decade of major expansions, Medi-Cal is changing. In June 2025, **the Legislature pulled back a number of expansions** due to a tightening state budget and rising Medi-Cal costs. Then in July 2025, **Congress passed H.R. 1**, which makes many changes to federal Medicaid policy over a staggered time line.

Key Federal Changes

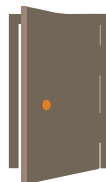


Note: Start date of some changes may differ from figure, depending on forthcoming federal guidance.

How Will These Changes Impact Medi-Cal?



Funding Sources: Notably **less funding from provider taxes**—a key way the state has funded Medi-Cal in the past.



Beneficiaries: Potentially as many as around **1 million people exiting Medi-Cal** primarily due to new community engagement (work) requirements.



Providers: Less funding and missed funding opportunities for **Medi-Cal providers** from payment reductions and lower Medi-Cal caseload.



State and Local Budgets: On net, **higher state and county costs** to backfill a portion of lost federal funding. Net cost to the state could be several billion dollars annually.

The precise magnitude and timing of many changes are uncertain and will depend in part on forthcoming federal guidance and state implementation decisions.

What Key Implementation Decisions Are Before the Legislature?



Whether to allow for a large, proportionate **tax on health plans**—preserving funds for Medi-Cal, but at a cost to private health insurance consumers.



How to adjust the **fee on private hospitals**—either maximizing it to support Medi-Cal or reducing it to limit the cost to certain hospitals.

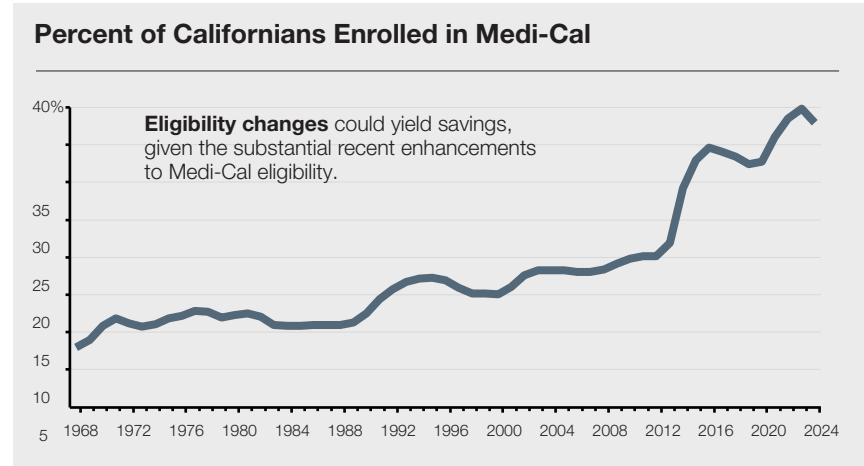


Whether to adopt more **exemptions to new eligibility rules** allowed under H.R. 1, preserving coverage for a few hundred thousand people but potentially with added complexity.

The Legislature can conduct early and ongoing **oversight** of the administration’s implementation decisions and provide **policy direction** through legislation.

What Should Be the Size and Scope of Medi-Cal Moving Forward?

Due to fiscal constraints, the state cannot backfill all of the lost federal funding resulting from H.R. 1. As such, the Legislature may need to rebalance its priorities for Medi-Cal.



Reductions in per-enrollee costs—such as benefit or provider rate reductions—also can reduce spending, with some limits. The Legislature also could explore **non-General Fund sources** to help cover Medi-Cal costs.

Examples of Mandatory and Optional Benefits in Medi-Cal

Mandatory	Optional
Hospital stays and visits	Prescription drugs
Physician services	Dental care
Safety net clinic visits	Hospice
Nursing facility stays	Physical and occupational therapy
Home health care	Private duty nursing

Can Those Who Leave Medi-Cal Find Other Sources of Coverage?

Many of the people who exit Medi-Cal likely will become uninsured—reversing some past state efforts to expand coverage. There are no simple state interventions that could restore health care coverage for these people.

County programs could be renewed, but would require substantial fiscal restructuring.

H.R. 1 bans many people who exit from Medi-Cal from accessing subsidies in **Covered California**.

Some will exit Medi-Cal because they do not work enough, also limiting their access to **employer-sponsored coverage**.

The Legislature likely will need to explore new approaches, pursue creative solutions, and rebalance its fiscal and programmatic priorities.