



CWDA

Advancing Human Services
for the Welfare of All Californians

State Budget Update #3 Legislature's 2026-27 Budget Plan

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Yesterday evening, the Assembly and Senate announced and released their Two-Party Budget Agreement. The plan is reflected in [AB 109](#) and will be enacted by both houses prior to the June 15 constitutional deadline for passage of the Budget Bill. In the coming days, the Legislature and Governor will continue negotiations to finalize a three-party budget agreement no later than June 30. CWDA will continue to keep members updated as additional details emerge and budget actions are taken. In the meantime, the following summarizes the major health and human services proposals and developments reflected in the Legislature's budget plan.

Please note this update focuses on budget investments and changes in funding relative to May Revision. Most trailer bill language items, even if adopted in placeholder form, are subject to negotiations over the coming weeks and some are expected to be deferred to end-of-legislative-session negotiations.

Overall Budget Agreement

The Legislature's budget plan generally adopts the Governor's major revenue proposals and similarly maintains a balanced budget and healthy reserves through FY 2027-28, with no new significant ongoing spending commitments. The Legislature's plan includes total expenditures of approximately \$355.9 billion, including \$253 billion General Fund (\$6.4 billion higher than May Revision). The Legislative framework continues to include an operating reserve of \$4.5 billion at the end of Fiscal Year (FY) 2026-27. The agreement approves the Governor's proposed \$5 billion in ongoing revenue solutions, including the sales tax expansion to certain software products, limitations on business tax credits, and the federally compliant Managed Care Organization (MCO) tax.

By adopting the Governor's revenue proposals and proposing new revenue-raising concepts, the Legislature's agreement places greater emphasis on developing longer-term structural solutions to support health and human services programs. Notably, the agreement establishes the framework for a "Fair Share from Big Corporations" proposal, directing the Administration to develop options by April 2027 for requiring large employers whose workers rely on Medi-Cal to contribute more toward the cost of coverage.

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The Legislature's budget plan also continues to rely on several budgetary strategies that help preserve program investments in the near term while recognizing ongoing fiscal challenges in future years. For example, the agreement provides significant up-front funding for CalFresh administration associated with H.R. 1 implementation and grants counties multi-year expenditure authority for those resources. This approach acknowledges that implementation activities and workload will extend beyond FY 2026-27 while also reflecting the Legislature's recognition that the State continues to face structural budget deficits in future years.

One of the most significant differences between the Legislature's plan and the Governor's May Revision is the treatment of health and human services reductions proposed by the Administration. The Legislature rejects or delays many of the Governor's proposed Medi-Cal reductions, for instance. The Legislature also rejects proposed IHSS cost shifts and program reductions and provides additional funding to address county administrative workload associated with implementation of federal H.R. 1 requirements.

Of particular importance to counties, the Legislature's plan significantly increases funding for county administration associated with H.R. 1 implementation. The agreement provides \$441.8 million General Fund for county Medi-Cal and CalFresh administrative workload, representing an increase of approximately \$354.6 million above the May Revision funding level (see Medi-Cal and CalFresh sections below for further detail).

As negotiations continue toward a final three-party agreement, key issues for counties will include the final level of county administrative funding, support to address imminent funding cliffs, the treatment of Medi-Cal eligibility policies, and implementation resources associated with H.R. 1.

MEDI-CAL AND HEALTH CARE SERVICES

The May Revision introduced a series of budget proposals affecting Medi-Cal. The summary below outlines how the Legislature has responded—modifying, accepting, or rejecting key elements of the Administration's plan.

County Administration Funding for H.R. 1 Implementation

The Legislature's Two-Party Agreement increases the General Fund investment by \$139.6 million in FY 2026-27 for eligibility workload related to the H.R. 1 implementation. With this General Fund investment, counties should be able to draw down a total of nearly \$560 million total funds (as a result of this increased General Fund) due to the available enhanced federal match.

This is in addition to the \$228.8 million total funds (\$57.2 million General Fund) that was

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already included in the May Revise, bringing the total General Fund investment in FY 2026-27 to \$196.8 million General Fund, with \$787.2 million total funds available inclusive of federal match. At this time there is no multi-year spending authority and funds are appropriated in FY 2026-27. Moreover, the Legislature appears to reject the State’s surge staffing proposal, an item still under our review, in the amount of \$33 million total funds (\$16.7 million General Fund) but does not appear to have redirected these funds to county administration funding.

Premiums for Adults with Unsatisfactory Immigration Status (UIS)

The 2025 Budget Act included premiums of \$30 for adults aged 19-59 with Unsatisfactory Immigration Status, effective July 1, 2027. The May Revise proposed to increase this premium to \$50, effective July 1, 2027. The Legislature’s Two-Party Agreement made changes to the May Revise proposal. The start date is maintained at July 1, 2027 in the Two-Party Agreement, but the increase from \$30 to \$50 per month for adults aged 19-59 with Unsatisfactory Immigration Status is now contingent on the Governor issuing authorization to implement the policy between January 10, 2027 and April 1, 2027.

Reinstatement of Asset Limit

The Legislature’s Two-Party Agreement maintains existing asset limits until July 1, 2027. Effective July 1, 2027, the agreement establishes a lower asset limit, setting it at \$21,000 for individuals and \$31,000 for couples, rather than the previously proposed \$2,000 per individual and \$3,000 per couple from the May Revise.

Restriction on Immigrant Eligibility

The Legislature’s Two-Party Agreement adopts the May Revise policy changes to transition individuals impacted by the amended definition of non-qualifying immigration status (refugees, asylees, etc.) to restricted scope as of July 1, 2027, a nine-month delay from Governor’s Budget. The Two-Party Agreement includes \$668.1 million General Fund in FY 2026-27 to provide full-scope Medi-Cal coverage to these populations through July 1, 2027.

Transition of Individuals with Unsatisfactory Immigration Status to Fee-for-Service

The Legislature’s Two-Party Agreement appears to generally adopt the transition but includes a placeholder framework to explore alternatives before moving forward with the UIS fee-for-service transition, including maintaining access to CalAIM benefits (Enhanced Care Managements and Community Supports) following the transition. As additional details are released, we will update counties.

STATE BUDGET UPDATE #3 | LEGISLATURE TWO-PARTY BUDGET AGREEMENT**Medi-Cal Benefit Levels**

The Legislature's Two-Party Agreement delays the elimination of dental benefits for individuals with Unsatisfactory Immigration Status until July 1, 2027 (previously scheduled for July 1, 2026). It also rejects the May Revise proposal to eliminate acupuncture as a service.

Be Home Soon Proposal

The Legislature's Two-Party Agreement includes a new proposal, "Be Home Soon", which aims to expand opportunities for Medi-Cal beneficiaries to transition from skilled nursing facilities to home- and community-based settings. The proposal would leverage existing waiver authorities and policy changes to support transitions to in-home care services, with the stated goal of improving consumer outcomes while reducing long-term Medi-Cal costs. CWDA is continuing to review the proposal and evaluate the potential, fiscal, programmatic, and administrative impacts on counties, including that county resources would be needed for IHSS administration due to increased IHSS caseload. The proposal, which would require federal approval, results in \$100 million General Fund savings in 2026-27 and \$600 million ongoing.

Managed Care Organization Tax and Provider Payment Increases

The May Revision included Managed Care Organization (MCO) Tax revenue of \$4.5 billion in FY 2025-26, and \$2.5 billion in FY 2026-27 to support the Medi-Cal program. This included \$1.9 billion from excess MCO Tax revenues in 2025 and 2026. The current tax expires on December 31, 2026. Pursuant to H.R. 1, that restricts taxes that are higher on Medi-Cal plans than commercial plans, the May Revise sought to renew the MCO tax effective January 1, 2027. The Legislature authorized the department to establish and seek federal approval to continue an alternative, federally compliant MCO tax effective January 1, 2027, and adopts the Administration's proposed MCO tax trailer bill at the Two-Party Agreement.

Indigent Care and Public Hospital Systems

The Two-Party Agreement includes \$125 million General Fund in FY 2026-27 to establish an emergency services-only county indigent care program. Additionally, the Legislature included \$250 million General Fund in FY 2026-27 to support California's public hospital system.

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CALWORKS

CalWORKs Rate of Homelessness

The Two-Party Agreement approves Trailer Bill Language that would require CDSS to conduct ongoing analysis on homelessness and housing instability among CalWORKs families, including utilization of existing CalWORKs homeless and housing services.

CalWORKs Mental Health and Substance Abuse Program (MHSA)

The Governor’s Budget proposed restoring funding to \$126.6 million in FY 2026-27 for MH/SA. Instead, the Two-Party Agreement reduces funding by \$26 million one-time, maintaining funding at \$100.6 million, which is equivalent to the level of funding in FY 2025-26. The Agreement also allows the redirection of up to \$20 million in unspent FY 2024-25 MHSA funds to help make up the difference in FY 2026-27.

CHILD CARE AND EARLY EDUCATION

Child Care Slots

The Governor’s Budget and May Revision proposed a reduction in child care slots by 4,400 and 6,798 slots, respectively. The Two-Party Agreement rejects this reduction and instead adds 22,770 new slots for the General Child Care program, with a priority for children ages 0-3.

CHILD WELFARE / FOSTER CARE / ADOPTION ASSISTANCE

Emergency Response Funding

The Legislature adopted \$20 million one-time General Fund in FY 2026-27 to continue the Emergency Response Enhancement Program. The funds are proposed to be available for two years through June 30, 2028.

Flexible Family Support Extension

The two-party budget agreement adopts an extension of the availability of Flexible Family Supports for Home-Based Care to June 30, 2028. The extension applies to both the FY 2022-23 and FY 2023-24 allocations of \$50 million Flexible Family Supports funds that were provided to counties in each of those fiscal years.

STATE BUDGET UPDATE #3 | LEGISLATURE TWO-PARTY BUDGET AGREEMENT**Title IV-E Stipend Program**

The two-party budget agreement approved an additional \$4.5 million on a one-time basis from the Behavioral Health Services Act (BHSA) to the Department of Health Care Access and Information (HCAI) to supplement the Administration's proposed \$18.4 million General Fund for the Title IV-E Stipend Program, which provides educational stipends to Masters and Bachelors of Social Work students in exchange for a commitment to work in a child welfare agency upon graduation. The \$18.4 million General Fund in the May Revision would have only supported existing student enrollments. The additional funding will fill a gap in funding to enable new students to receive stipends and prevent a disruption to new enrollments.

Foster Family Agency Insurance

The two-party budget agreement did not include a proposal to continue to offset higher insurance costs to foster family agencies (FFAs). CWDA continues to support a broad coalition request, led by the California Alliance of Child and Family Services, that has requested \$30 million in one-time funding in FY 2026-27.

Adoption Assistance Program (AAP) and Wraparound

The Administration proposed trailer bill language (TBL) to enact changes to the use of AAP funding for adoptive children residing within California. Specifically, the TBL would limit AAP payments in two ways: by capping payments to Short-Term Residential Treatment Facilities (STRTPs) to no more than a 12-month cumulative period, allowing for a 60-day transition, and authorize use of AAP funds for Wraparound services for up to 12 months, and for additional time if there is continued need to resolve an adoptive child's specific conditions provided that those providers meet California's Wraparound standards and provider certification requirements. The two-party budget agreement defers action on the TBL to the end of this legislative session.

Transition Support for AAP Youth Returning from Out-of-State: Additionally, CWDA and the Youth Law Center submitted a joint proposal to ensure former foster children supported through the AAP program, who are returning from out-of-state residential care facilities as a result of the passage of TBL in 2025 ([AB 118](#)), receive transition support from the State. The Two-Party Budget Agreement adopts this joint proposal and one-time funding of \$5 million from unspent Child-Specific Complex Care funding from FYs 2023-24 and 2024-25, and Complex Care Capacity Building funding that expires on June 30, 2026, after all county invoices are reconciled.

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The Two-Party Agreement includes placeholder trailer bill language that is pending release that includes the following elements as proposed by CWDA and YLC:

1. **Direct Services and Transition Supports to Adoptive Families:** Requires CDSS to ensure adoptive families have access to coordinated, intensive transition support, by requiring CDSS to directly, or through contract with one or more service providers, to support families through case management and linkage to direct services.
2. **Access to Disability-Based Advocacy:** Requires placing agencies to refer adoptive families to appropriate legal services and advocacy resources to support them with independent advocacy to ensure children receive the services to which they are entitled including Medicaid-funded services and requires CDSS to provide guidance to counties to facilitate such referrals.
3. **Root Cause Analysis, Outcome Tracking, and Addressing Service Gaps:** Requires CDSS to undertake a root cause analysis to understand why families utilized out-of-state facilities and to provide recommendations to build capacity for in-state services

Tribal Foster Care Prevention Program

The two-party budget agreement adopts \$2.4 million General Fund to establish a Tribal Foster Care Prevention Program, for allocation to tribes and tribal organizations to design and implement culturally-relevant prevention programs to serve Native American children to prevent foster care entry.

IN-HOME SUPPORTIVE SERVICES

Cost Shift for Growth in Assessed Hours

The May Revision proposed a reduction of \$360.6 million General Fund in FY 2026-27 and \$414.7 million General Fund on an annualized basis, to shift costs for the growth in assessed hours to counties, distributing the county share of cost based on caseload. The Legislature rejects this proposal.

IHSS Backup Provider System (BUPS)

The May Revision proposed a reduction of \$3.2 million General Fund in FY 2026-27 and ongoing to eliminate funding for BUPS. The Legislature rejects the May Revision proposal, maintaining the program.

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IHSS Residual Program - Conformity with Medi-Cal Coverage

The May Revision included a reduction of \$56.3 million General Fund in FY 2026-27, growing to \$141.1 million in FY 2027-28, \$200 million in FY 2028-29, and \$215.3 million in FY 2029-30, to conform IHSS program coverage with the timing of Medi-Cal coverage, resulting in automatic termination of IHSS recipients when their Medi-Cal is discontinued due to failure to complete the annual redetermination process. The Legislature rejects the May Revision proposal, maintaining the status quo, thus allowing IHSS recipients to move into the IHSS-Residual program when their Medi-Cal is discontinued. The Legislature also adopts no-cost trailer bill language to make improvements to retention for Medi-Cal beneficiaries that also receive IHSS.

Medi-Cal Asset Test Limits

See Medi-Cal section; the action in IHSS conforms with the broader action in Medi-Cal.

Community First Choice Option (CFCO) Late Penalties

The May Revision included a reduction of \$14.3 million General Fund in FY 2026-27 to maintain the proposal to shift the full cost of the CFCO penalties to counties. Beginning July 1, 2026, counties would be responsible for the full cost of those penalties, as required by the 2025 Budget Act. The Legislature adopts the May Revision proposal and did not take action on CWDA’s proposal to maintain the existing 50/50 cost split between the State and counties. CWDA has requested that the 50/50 cost split be maintained should the home and community-based waiver program, Be Home Soon, be enacted.

For-Profit Advocacy Organization Rules Trailer Bill Language

The May Revision proposed language that would have defined rules for for-profit advocacy organizations including establishing a maximum fee IHSS recipients and applicants are charged, and permitting the state to suspend and penalize organizations for malpractice. The Legislature does not adopt this language and defers this language to the policy process.

Collective Bargaining Trailer Bill Language

The May Revision proposed language clarifying counties have 90 days to reach agreements with employee organizations after the release of recommended settlement terms by a fact-finding panel. If an agreement is not reached, penalties would be imminently imposed after 90 days. The language appears to address a gap in existing law intended to support collective bargaining. The Legislature approves the adoption of placeholder language.

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ADULT PROTECTIVE SERVICES (APS)

Elimination of the AB 135 APS Expansion

The May Revision proposed a reduction of \$70 million General Fund in FY 2026-27 and ongoing to revert the expansion of APS adopted in the Budget Act of 2021, including changing the age of eligibility for APS from 60 to 65. This proposed change in eligibility would have also applied to the Home Safe program. The Legislature rejects this proposal.

HOUSING AND HOMELESSNESS

CDSS-Administered Housing Programs

The Two-Party Agreement provides an additional one-time General Fund amount of \$100 million, with multi-year spending authority, for three of the four CDSS housing programs: the Bringing Families Home (BFH) program, the Home Safe program, and the Housing and Disability Advocacy Program (HDAP).

The agreement allocates \$25 million for BFH, \$50 million for Home Safe, and \$25 million for HDAP, with spending authority for all three programs through June 30, 2028

CALFRESH

CalFresh County Administration

The May Revision proposed a one-time General Fund augmentation of \$30 million (for county administrative funding for implementation of ABAWD requirements resulting from H.R. 1. The Legislative Two-Party Agreement provides an additional one-time \$215 million General Fund augmentation in FY 2026-27, with multi-year spending authority, through June 2029. This brings the total General Fund investment for CalFresh County Administration to \$245 million for FY 2026-27.

Note, \$119 million General Fund of the investment is intended to hold counties harmless for a net reduction in baseline CalFresh administration funding from Governor’s Budget to May Revision. At the May Revision, the Administration’s budget reflected a \$119 million General Fund decrease associated with a projected 6% caseload reduction between FY 2025-26 and FY 2026-27; this translated into a net reduction from FY 2025-26 base allocation to projected FY 2026-27 base allocation of nearly \$50 million General Fund. CWDA advocated for a hold-harmless due to concerns the reduction was premature, given all the unknowns and uncertainty with regard to H.R. 1 and the data being partially based on a period that included the government shutdown.

Lastly, the Legislature approved the Administration’s proposal for cash flow authority for

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the CalFresh State Administrative Expense (SAE) adjustment proposal, requesting \$52.9 million (\$37 million General Fund) in FY 2025-26 and \$43.7 million (\$30.6 million General Fund) in FY 2026-27 for cash flow purposes to maintain CalFresh operations while the state requests additional federal funding above the federal SAE target. At this time, the Legislature has not weighed in regarding the county share of costs for the overage. CWDA anticipates continued discussions through next year on the issue.

CalFresh County Match Waiver

The Two-Party Legislative Agreement approves placeholder trailer bill language for a CWDA-sponsored, no-cost proposal not included in the May Revision. The proposal responds to H.R. 1 changes shifting SNAP administrative funding from a 50/50 federal/state split to 25/75 beginning October 1, 2026. Under the new structure, the 75 percent non-federal share would be split 52.5 percent state and 22.5 percent counties, increasing county costs. The match waiver allows counties to continue accessing their full General Fund allocation even if they cannot meet the higher 22.5 percent contribution, protecting the state's investment and avoiding loss of federal funds.

CalFresh Performance Measurement County (PMC) Payment Error Rate Hold Harmless

The Legislative Two-Party Agreement approves placeholder trailer bill language for a CWDA-sponsored, no-cost proposal to hold counties harmless for performance errors that are outside of their control, as it relates to pre- H.R. 1-financial sanctions for PMC counties.

This proposal is intended to reduce the administrative burden on counties by minimizing the need to go through the appeals process for errors tied to statewide or systemic issues.

CalFood

The May Revision proposed a \$30 million one-time General Fund augmentation on top of the \$8 million ongoing General Fund base for the CalFood program. The Two-Party Agreement adds an additional \$70 million one-time General Fund investment in CalFood. Total funding for FY 2026-27 is \$108 million General Fund (\$100 million one-time, \$8 million ongoing) for the program. CalFood supports California food banks providing emergency food assistance.

AUTOMATION

The Two-Party Agreement approves funding proposals from the May Revision (covered in CWDA Budget Update #2) where the key automation projects appear to be funded at the levels needed to proceed as expected, with significant changes as noted below, based on the information currently available.

STATE BUDGET UPDATE #3 | LEGISLATURE TWO-PARTY BUDGET AGREEMENT**California Food Assistance Program (CFAP) Changes, called CFAP Plus (CFAP+)**

The Two-Party Agreement approves \$5 million General Fund one-time for automation of California Food Assistance Program (CFAP) changes, called CFAP Plus (CFAP+), allowing for a state-only option to provide food benefits to people losing CalFresh under H.R. 1, if benefits are funded in a future state budget. The Agreement includes placeholder trailer bill language to codify the CFAP+, contingent on automation and subject to an appropriation for benefits, and placeholder trailer bill language that includes legislative intent, guiding principles, and maximization of exemptions as H.R. 1 is being implemented for CalFresh.