LEGISLATIVE UPDATE

Alliance of Catholic Health Care

Week of January 12, 2026

State Issues	
LAO Releases Budget Report	The Legislative Analyst's Office (LAO) released their analysis of the 2026-27 proposed State budget. With the budget being a "workload" budget as introduced, there is not much of a spending plan to analyze. So, they focus their review on the deficit numbers and the important differences between their assessment and those of Governor Newsom. This will be an important issue during budget discussions for this year and the next few years. You can access the report here. Here are a few highlights: **Governor's Budget Roughly Balanced on Higher Revenues.** The Administration projects the budget faces a roughly $3 billion deficit. This is lower than the November Fiscal Outlook estimate of an $18 billion deficit. This is due to the Administration not counting on a stock market downturn – and then using these higher revenue estimates for increased spending. **Stock Market Poses Serious Risk to Revenues.** Several historically-reliable signs suggest the stock market is overheated and at high risk of a downturn in the next year. Should this occur, income tax revenues would fall considerably. These risks are severe enough that not incorporating them into this year's budget, as the Governor proposes, would put the state on precarious footing. **Multiyear Budget Deficits Alarming**. Both the LAO and the Administration expect the state to face multi-year deficits, with estimates ranging from $20 billion to $35 billion annually. These deficits are concerning for three reasons: structural deficits have grown; our November outlook is the most negative forecast of the budget's position since the pandemic; and deficits have persisted even as the state's economy and revenues have grown. Taken together, these trends raise serious concerns about the state's fiscal sustainability. **Administration Acknowledges These Challenges, but Governor's Budget Does Not Materially Address Them.** In the budget summary, the Governor acknowledged the downside risk to the state's revenue picture and the multiyear challenges facing the budget. However, the Governor's budget does not include material actions to address either challenge.
State's MCO Advisory Panel Meets	This week, the Protect Access to Health Care Act Stakeholder Advisory Committee held a meeting to discuss the state's implementation of the Managed Care Organization (MCO) Tax. You can access the state's website with materials here. The panel was created by the State last year and is tasked with providing stakeholder feedback on how best to spend the MCO resources. The DHCS staff who lead the panel updated the panel on the recently-released CMS preliminary guidance to states on how they are viewing these kinds of programs. *(more)*

State's MCO Advisory Panel Meets *(continued)*	Under the November 14 guidance, California's MCO program will sunset effective June 30, 2026. An additional "transition period" may be available and would extend the program's funding, but more information won't be available until the federal rules are finalized. If no additional transition period is granted to the State, changes to state law would be required to make the MCO compliant as of July 1, 2026. The guidance gives California assurances that the MCO will remain in effect at least until June 30, 2026. But the State in the Governor's January proposal says that it hopes to work with the federal government and secure approval through the end of 2026. In the meeting, DHCS announced that it is proceeding with CY 2025 investments plan that align with the spending plan outlined last year. You can access the spending plan here. With this 2025 plan in place, the Administration has submitted for approval to CMS a State Plan amendment to augment the reimbursement rates for Ground Emergency Transportation and the Emergency Department Physician services. These rate increases pending approval are for July – December 2025. The State has not yet finalized the proposed spending plan for 2026. Stakeholders may offer written comments by submitting them to DHCSPAHCA@DHCS.ca.gov.
New Proposed Regulations for Psychiatric Facilities	On December 22, 2025, the California Department of Public Health (CDPH) released substantial proposed regulations that would require free-standing psychiatric inpatient facilities to adhere to new, stringent staffing ratios. They plan to implement these regulations on January 31, 2026 – just 6 weeks after their release. The draft regulations would require certain psychiatric facilities to change their staffing ratios to include more registered nurses, as opposed to the current staffing model that uses a multidisciplinary team approach, which has proven more effective for patients' recovery. The regulations will require these facilities to hire hundreds of Registered Nurses, which takes weeks if not months to recruit, conduct necessary background checks, and train – all while California is in a nursing shortage. The new draft regulations are concerning due to the speed with which the Administration expects implementation. Providers are warning of a pending access to care problem – as compliance is not possible in the next two weeks. It is estimated that if these regulations go through, more than 700 inpatient psychiatric care beds will have to come offline – displacing hundreds of patients overnight. Advocates, providers, and many stakeholders, including counties, are urging the Administration to delay the implementation of the regulations for one year to allow them the time to come into compliance. A good summary of the regulations can be found here.