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Key Impacts of H.R. 1 on Medi-Cal and CalFresh

PRESENTED TO: Senate Committee on Budget and Fiscal Review
Hon. John Laird, Chair

LEGISLATIVE ANALYST'S OFFICE

Order of Presentation

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Background

Medi-Cal and CalFresh

- Medi-Cal is California's Medicaid program. It provides health care for more than 14 million low-income people (around one-third of all Californians). The Governor's budget estimates total Medi-Cal spending will be nearly $197 billion in 2025-26, including over $46 billion from the General Fund.
- CalFresh is California's version of the Supplemental Nutrition Assistance Program (SNAP). It provides federally funded food assistance to about 5.4 million low-income Californians. The state provides state-funded food assistance to about 60,000 additional low-income legally present noncitizens who do not qualify for federal CalFresh benefits. Most CalFresh enrollees (about 90 percent) are also enrolled in Medi-Cal. The Governor's budget estimates total CalFresh food assistance spending to be $13.3 billion ($122 million General Fund) in 2025-26, with an additional $2.6 billion ($959 million General Fund) for program administration.

H.R. 1 (2025)

- H.R. 1—also known as the One Big Beautiful Bill Act—was signed by the President in July 2025. H.R. 1 introduces multiple significant changes to Medi-Cal and CalFresh. These changes generally aim to reduce the federal government's costs in these programs.
- Changes are phased in over time, with some changes already in effect and others to take effect in the future.
- Most H.R. 1 changes to Medi-Cal and CalFresh fall under the following categories:
  - Work requirements for "able-bodied adults."
  - Other eligibility changes.
  - Program financing.

Work Requirements for Able-Bodied Adults

- H.R. 1 imposes new or expanded work requirements in both Medi-Cal and CalFresh. At a high level, the requirements focus on able-bodied, working-age adults without certain challenges to working the required number of hours, such as disabilities or responsibility to care for younger children. The detailed requirements differ slightly by program, as do the definitions of the affected populations.

Medi-Cal: New Community Engagement Requirement

- Medi-Cal currently does not require beneficiaries to work to be eligible for coverage.
- Beginning January 2027, H.R. 1 requires most able-bodied, childless adults in Medicaid (generally 19-64 year olds who received coverage through the 2014 Affordable Care Act expansion) to complete at least 80 hours per month (50 percent of full-time work) of work, education, or community service. This requirement does not apply to certain exempt groups, and states can provide additional exceptions for short-term hardship such as living in high-unemployment counties.
- After exemptions, the requirement is estimated to apply to around 3.5 million people. We estimate the policy change could result in disenrollments of around 1 to 2 million people, both from insufficient hours of engagement as well as administrative burden.

Work Requirements for Able-Bodied Adults

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CalFresh: Expanded Work Requirement

- Able-bodied adults without dependents generally are limited to three months of CalFresh assistance in a three-year period unless they work or participate in qualifying activities for at least 20 hours per week. Until recently, California has had a statewide waiver exempting all CalFresh enrollees from the requirement based on economic conditions in the state.
- H.R. 1 expands the work requirement by:
  - Applying it to adults through age 64, rather than 54.
  - Limiting a dependent-child exemption to adults caring for children under 14, rather than under 18.
  - Eliminating exemptions for former foster youth, veterans, and homeless individuals.
  - Tightening rules for waivers based on economic conditions, ending California's statewide waiver. (The state is seeking waivers under the tighter rules on a county-by-county basis and has obtained waivers in some counties.)
- With these changes, the administration estimates that about 840,000 individuals will become subject to the work requirement beginning June 2026 and will not qualify for an exemption. Of these, about 660,000 are estimated to not meet the requirement, becoming at risk of losing food assistance.

Other Eligibility Changes

Medi-Cal and CalFresh: Narrowed Eligibility for Noncitizens

- Under federal law, some legally present noncitizens currently qualify for federal funding in Medi-Cal and CalFresh assistance. Other groups—most notably, undocumented immigrants—are not eligible for federal funding, except in limited cases (such as emergency and pregnancy-related care in Medi-Cal).
- H.R. 1 disqualifies additional noncitizen groups from being eligible for assistance with federal funding, including asylees, refugees, parolees, battered noncitizens, and trafficking victims, among others. This change is effective immediately in CalFresh (though yet to be implemented) and effective October 2026 in Medi-Cal.
- An estimated 200,000 individuals enrolled in Medi-Cal and an estimated 72,000 individuals enrolled in CalFresh are expected to lose benefits due to narrowed eligibility.

Medi-Cal: More Frequent Renewals for Childless Adults

- Medi-Cal generally renews eligibility for beneficiaries every 12 months.
- Beginning January 2027, the state will have to renew eligibility for childless adults (4.9 million people estimated in 2025-26) in Medi-Cal every six months.

Medi-Cal: New Share of Cost for Childless Adults

- Federal Medicaid law currently allows, but does not require, states to impose copays and other forms of cost sharing for some services, within certain limits. Currently the state imposes no share of cost on Medi-Cal members.
- H.R. 1 requires states to impose cost sharing (up to $35 per service) for some services, for childless adults with incomes above 100 percent of the federal poverty level.

Program Financing

Medi-Cal: More Restrictive Provider Tax Rules

- Like most states, California uses taxes on health care providers (such as health plans and hospitals) to help pay for Medi-Cal. States often use provider taxes to draw down more federal Medicaid funding, while imposing only limited costs on the providers themselves. This funding mechanism requires federal approval, which is conditioned on specific rules.
- H.R. 1 prohibits states from adopting new provider taxes or increasing existing ones. In addition, it tightens some of the rules on existing provider taxes. The new rules generally aim to ensure that all providers bear the cost of these taxes more proportionately and to limit the size of these taxes.
- In California, the new rules will primarily lower the size of a tax on health plans (the Managed Care Organization Tax) and a fee on private hospitals (the Hospital Quality Assurance Fee). This increases state costs to backfill portions of lost funding from the tax and fee. The administration projects the cost to be around $650 million General Fund in 2026-27. We project costs in future years to be a few billion dollars General Fund each year.

Medi-Cal: Lower Federal Share for Emergency Services

- In Medicaid, undocumented immigrants qualify for federal funding for emergency care. Childless adults generally have a larger federal share of cost (90 percent) than other groups (50 percent in most cases).
- Beginning in October 2026, federal funding for emergency services provided to undocumented childless adults will fall to the share for most other populations (50 percent). The administration estimates this change to cost $658 million General Fund in 2026-27.

Program Financing

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CalFresh: Lower Federal Share for Administrative Costs

- Currently, the federal government covers 50 percent of CalFresh administrative costs, with the state and counties covering the remaining 50 percent.
- Effective October 2026, H.R. 1 reduces the federal government's share of administrative costs to 25 percent, increasing the nonfederal share to 75 percent. Consistent with current law, the state and counties each take a portion of this increased nonfederal share as shown below.

CalFresh Administration Funding Responsibilities

	Current	Beginning October 2026
Federal	50.0%	25.0%
State	35.0	52.5
Counties	15.0	22.5

- This shift increases ongoing annual costs by approximately $480 million General Fund for the state and $190 million for counties.

Program Financing

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CalFresh: Shift of Benefit Costs to State

- Today, federal CalFresh benefits are solely funded by the federal government. Beginning October 2027, H.R. 1 imposes a state share of cost on states with a payment error rate of 6 percent or higher. The payment error rate measures the extent to which actual benefit payments are higher or lower than they should be.
- As shown below, the required state share of cost will depend on the state's error rate. California's most recent measured rate (for the 2023-24 federal fiscal year) was nearly 11 percent. If this error rate continues, the state will be at the maximum possible cost, approximately $2 billion in new annual General Fund costs.

State Shares of CalFresh Benefit Costs for Different Payment Error Rates

Payment Error Rate	State Share of Benefit Costs	Approximate Annual California Cost
Less than 6%	—	—
From 6% to less than 8%	5%	$650 million
From 8% to less than 10%	10	$1.3 billion
10% or greater	15	$2 billion

Summary of Key H.R. 1 Impacts on Medi-Cal and CalFresh

	Medi-Cal	CalFresh
Work Requirements	• New community engagement requirement for able-bodied adults.	• Expanded work requirement for able-bodied adults.
Other Eligibility Changes	• Certain legally present noncitizens no longer eligible for federal funding or assistance.[a] • More frequent renewals for childless adults. • New share of cost for childless adults.	• Certain legally present noncitizens no longer eligible for federal funding or assistance.[a]
Program Financing	• More restrictive provider tax rules. • Lower federal share for emergency services.	• Federal share of administrative spending reduced from 50 percent to 25 percent, shifting costs to the state and counties. • New costs for states with payment error rates of 6 percent or greater.

[a] Affected populations include asylees, refugees, parolees, battered noncitzens, and trafficking victims, among others.

Issues for Legislative Consideration

- ***H.R. 1 Heightens Difficult Trade-Offs in Constrained State Fiscal Environment.*** The state faces significant structural budget deficits. Addressing these will require difficult trade-offs. In view of these challenges, it will not be possible for the state to backfill all the losses created by H.R. 1 absent significant other budget actions. Doing so would require the identification of billions of dollars in increased revenues and programmatic reductions elsewhere in the state budget.
- ***Three Key Issues for Supporting Successful Implementation.***
  - ***Mitigating Risk of Disenrolling Eligible Individuals.*** In particular, work requirements will require new processes to monitor and verify compliance. Processes that are manual or require interaction with enrollees increase administrative complexity and can result in eligible individuals losing enrollment. Linking to existing data sources and automating verification processes will be important to minimize the risk of disenrolling eligible individuals.
  - ***Coordinating With Counties.*** Counties are responsible for front-line implementation of H.R. 1, with significant impacts for county workflows, systems, and finances. Counties also have a key role to play in efforts to reduce payment error rates and mitigate increased state costs. Considering how to best support initial and ongoing county responsibilities will be important.
  - ***Providing Direction Over State Implementation Decisions and Ensuring Oversight.*** Some implementation decisions will require weighing trade-offs of key policy issues. Legislative direction will be key to ensure that decisions align with legislative priorities. For example, the administration proposes to end comprehensive Medi-Cal coverage for noncitizens facing eligibility changes under H.R. 1. We recommend the Legislature take steps to ensure implementation aligns with its priorities—including enacting key decisions in statute and adopting mechanisms to ensure ongoing legislative oversight, especially in cases where federal guidance is forthcoming.

Issues for Legislative Consideration

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- ***Barriers Exist to Connecting Disenrolled People to Other Sources of Support.*** While some other sources of support exist for individuals affected by H.R. 1, in general they are limited and do not replace all benefits now provided in Medi-Cal and CalFresh. For example, counties are responsible for providing indigent health services to individuals with no other coverage, but such coverage is generally not as comprehensive as Medi-Cal; the state has also redirected much of the realignment funds originally supporting indigent health to other purposes. Food banks and other community organizations provide additional food assistance, but their capacity is limited by the funding they receive from federal, state, and private sources.