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CALIFORNIA STATE SENATE

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Agenda

June 17, 2026

9:00 a.m. – 1021 O Street, Room 1200

<u>BILL</u>	<u>AUTHOR</u>	<u>SUBJECT</u>
AB 110	Gabriel	Budget Act of 2026
AB 122	Committee on Budget	Revenues
AB 125	Committee on Budget	Managed Care Organization Tax
AB 177	Committee on Budget	Fair Share from Big Corporations Act

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW

Senator John Laird, Chair

2025 - 2026 Regular

Bill No:	AB 110	Hearing Date:	June 17, 2026
Author:	Gabriel		
Version:	June 14, 2026 Amended		
Urgency:	No	Fiscal:	Yes
Consultant:	Elisa Wynne		

Subject: Budget Act of 2026

Summary: This is a budget bill junior that amends the 2026 Budget Act to identify budget related legislation, pursuant to Proposition 25 of 2010.

Proposed Law: This bill makes a technical amendment to the 2026 Budget Act, which is expected to be enacted in AB 109.

Proposition 25 of 2010 requires the budget bill to identify budget-related legislation (also known as trailer bills) for purposes of using Proposition 25 authority for the bill to take effect immediately. This bill amends the 2026 Budget Act to allow this provision to be in effect for AB/SB 122, AB/SB 125, and AB/SB 176.

Fiscal Effect: No Costs.

Support: None on File.

Opposed: None on File.

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SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW

Senator John Laird, Chair

2025 - 2026 Regular

Bill No:	AB 122	Hearing Date:	June 17, 2026
Author:	Committee on Budget		
Version:	June 12, 2026 Amended		
Urgency:	No	Fiscal:	No
Consultant:	Elisa Wynne		

Subject: Revenues

Summary: This bill is a revenue trailer bill for the 2026-27 Budget. This bill contains various statutory changes necessary to implement the Budget Act of 2026.

Proposed Law: This bill:

- 1) Extends Sales and Use taxes to the sale of electronically delivered pre-written software, commencing January 1, 2027.
 - a. Specifically, extends sales and use taxes on “tangible personal property” as defined in law to include digital products, except as provided, prewritten computer software transferred on tangible storage media, transferred electronically, or accessed remotely.
 - b. Prohibits a purchaser or retailer of a digital product that is transferred electronically or accessed remotely from entering into any form of agreement that would result, directly or indirectly, in the payment, transfer, diversion, or rebate of any tax revenue resulting from the imposition of a sales and use tax on digital products.
- 2) Extends temporary business tax credit cap for three additional years.
 - a. Business tax credits claimed under the Personal Income Tax Law and the Corporate Tax Law may not exceed \$5 million for each of taxable years 2024, 2025, and 2026. This bill extends those provisions for an additional three years, through tax year 2029.
 - b. For each of the 2027, 2028, and 2029 taxable years, this bill allows a taxpayer to make an irrevocable annual election to receive a refundable tax credit in the amount of the credit over the \$5 million cap.
 - c. Businesses who make the election can claim an annual refundable credit amount, beginning the third taxable year after the election is made, equal to 20 percent of the qualified credits that would have otherwise been available to the taxpayer but for the limitation.
- 3) Establishes a permanent business tax credit limitation commencing with the 2030 tax year.

- a. Limits business tax credit usage to \$5 million per company per year or 70 percent of a company's tax liability, whichever is greater.
 - b. Refundable credits generated under the limitations in 2024 through 2026 may continue to be claimed in addition to the credit cap and refundable credits generated under the limitations in 2027 through 2029 may be claimed in addition to the credit cap beginning in the 2030 tax year.
- 4) Establishes a 100 percent tax on settlement fund payments received by taxpayers during the taxable years 2026 through 2029 from the Anti-Weaponization Fund established by the federal Department of Justice and other specified funds resulting from legal action as detailed in the bill.
 - 5) Reduces the annual minimum franchise tax for Limited Liability Companies, Limited partnerships, and limited liability partnerships from \$800 to \$400 for the first year of operation, during the 2027 through 2029 tax years.
 - 6) Appropriates \$750,000 from the General Fund to the California Department of Tax and Fee Administration for the purposes of administering the changes to the sales and use tax to include pre-written software as detailed in this bill.

Fiscal Effect: The provisions of this bill result in a net General Fund benefit of approximately \$1.4 billion for the 2026-27 fiscal year.

- The extension of sales and use tax to pre-written software is estimated to increase General Fund revenues by \$450 million in 2026-27 and by \$900 million annually thereafter. This proposal is also estimated to increase revenues for local jurisdictions by \$560 million in 2026-27 (one-half year) and by \$1.1 billion per year thereafter.
- The reduction of the annual minimum franchise tax is estimated to reduce General Fund revenue by \$100 million for each of 2027, 2028, and 2029.
- The temporary business tax credit cap is estimated to increase General Fund revenues by \$1 billion in 2026-27, \$3.3 billion in 2027-28 and growing to over \$4.5 billion through 2029.
- State operations costs related to implementation of the sales and use tax changes are \$750,000 in 2026-27.

Support: None on file.

Opposed: None on file.

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SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW

Senator John Laird, Chair

2025 - 2026 Regular

Bill No:	AB 125	Hearing Date:	June 17, 2026
Author:	Committee on Budget		
Version:	June 12, 2026 Amended		
Urgency:	No	Fiscal:	Yes
Consultant:	Scott Ogus		

Subject: Managed care organization tax

Summary: This bill assesses a tax on managed care organizations to: 1) comply with the new requirements imposed by House Resolution 1; 2) support the General Fund shortfall and achieve a balanced budget; 3) support Medi-Cal investments to ensure access, quality and equity; and 4) prevent the need for additional reductions in the Medi-Cal program.

Background: Federal Medicaid regulations allow states to impose provider-related taxes on health care service providers as long as certain conditions are met. The revenue from these taxes may serve as the non-federal share of spending for health care services in a state's Medicaid program, which allows the state to draw down additional federal funding for those services. State Medicaid programs may receive federal financial participation (FFP) for expenditures using health care-related taxes, as long as the taxes are broad-based, uniformly imposed, and contain no hold-harmless provisions.

In November 2024, voters approved Proposition 35, which made permanent a tax on enrollment of managed care organizations, and authorized expenditures to increase reimbursement rates in the Medi-Cal program, among other investments.

House Resolution (HR) 1 imposes significant additional limitations on the use of provider taxes that will have a significant impact on the state's financing of the overall Medi-Cal program and specific programs supporting provider reimbursements. HR 1 includes the following restrictions on provider taxes:

- 1) Prohibits new or increased provider taxes after enactment of the bill (July 4, 2025).
- 2) Phases down the indirect hold-harmless threshold, which serves as a de facto maximum level for the tax to comply with hold-harmless provisions of federal Medicaid regulations, from six percent of total revenues to 3.5 percent.
- 3) Revises criteria for "generally redistributive" taxes to exclude taxes that impose a higher rate on Medi-Cal providers or plans than on other providers or plans, similar to the structure of the current MCO tax.
- 4) Provides the federal Health and Human Services Secretary with discretion to provide a transition period for noncompliant taxes of up to three years.

The current MCO tax implemented under Proposition 35 would violate two provisions of HR 1: 1) the size of the tax as a percentage of total revenue would exceed the indirect hold harmless threshold when it phases down beginning October 1, 2027; and 2) the tax would not be “generally redistributive” because it taxes Medi-Cal managed care plans at a higher rate than other plans. According to the Department of Health Care Services (DHCS), the current MCO tax has received approval to remain in effect until the expiration of its original federal approval period, on December 31, 2026.

Provisions of Proposition 35 further complicate the future of the MCO tax under HR 1. The initiative requires the imposition of a substantially similar MCO tax to the one currently in effect, on and after January 1, 2027, when the original tax is scheduled to expire. The initiative also caps the annual tax liability of non-Medi-Cal plans at \$36 million. Because HR 1 requires a uniform level of tax between Medi-Cal and non-Medi-Cal plans, the tax liability cap of Proposition 35 limits the overall size of any future MCO tax because the size of the tax levied on Medi-Cal plans would be similarly limited.

Proposed Law: This bill assesses a tax on managed care organizations that complies with the requirements of HR 1, with the following provisions:

- 1) For calendar years 2027, 2028, and 2029, assesses a tax of \$8.85 per enrollee per month on managed care organizations licensed by the Department of Managed Health Care (DMHC) under the Knox-Keene Health Care Service Plan Act of 1975, or a managed care organization contracted with DHCS to provide health care services to Medi-Cal beneficiaries.
- 2) Establishes the Medi-Cal Stability Fund in the State Treasury to receive revenues from the tax on managed care organizations.
- 3) Continuously appropriates funds deposited in the Medi-Cal Stability Fund to DHCS to support the following Medi-Cal expenditures:
 - a. DHCS administrative costs, not to exceed \$4 million annually
 - b. The nonfederal share of increased capitation payments to Medi-Cal managed care plans, accounting for their increased tax obligations under the new tax on managed care organizations
 - c. The nonfederal share of increased targeted reimbursement rate increases for primary care, obstetrics, and non-specialty mental health providers
 - d. The nonfederal share of Medi-Cal managed care capitation payments, in the amount of at least \$2 billion annually.
- 4) Requires DHCS to seek approval from the federal Centers for Medicare and Medicaid Services (CMS) for imposition of the tax on managed care organizations.
- 5) Makes assessment of the tax on managed care organizations operative on January 1, 2027, or the effective date of any necessary federal approvals, whichever is later.
- 6) Authorizes DHCS, after consultation with affected stakeholders, to discontinue some or all of the directed payment methodologies for targeted provider rate increases for

primary care services, obstetrics services, and non-specialty mental health services once the equivalent level of reimbursement has been achieved in the base capitation rates for Medi-Cal managed care plans.

7) Deletes obsolete provisions related to community health workers.

Fiscal Effect: The tax on managed care organizations imposed by this bill will support the non-federal share of expenditures in the Medi-Cal program, resulting in General Fund savings of \$575 million in 2026-27, \$2.3 billion in 2027-28 and 2028-29, and \$1.7 billion in 2029-30.

Support: None on file.

Opposed: None on file.

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