CALIFORNIA UPDATE

January 9, 2026

Welcome to America's Physician Groups' *California Update*. Each week APG reports the latest on health care happenings in the Golden State.

Here's what you'll find in this week's edition:

- **A Question About The Implementation Of The SB 729 Fertility Services Mandate**
- **Governor Newsom Releases California's Proposed 2026-27 Budget**
- **APG California Policy & Advocacy 2026 Meeting Dates**
- **APG California Advocacy Member Resources**

A Question About The Implementation Of The SB 729 Fertility Services Mandate

Are you hearing from health plan partners on risk shifting for fertility services under the newly implemented coverage mandate? We are curious to know your experience. If you aren't familiar with the development of this new coverage mandate, the legislation was passed in 2024 and was implemented by DMHC regulation for all commercial large group contracts issued or renewed on or after July 1, 2025. SB 729 **fundamentally converts California's long-standing "mandate to offer" infertility coverage into a true coverage mandate** for most fully insured large group health plans, **adds IVF as a covered benefit**, modernizes the definition of infertility, and **prohibits discriminatory benefit design** for fertility services. The coverage mandate does not apply to small group or individual commercial coverage, or Medicare and Medi-Cal.

Diagnosis and Treatment of Infertility. Coverage must extend to the diagnosis and treatment of infertility using a modernized definition that is no longer limited to infertility arising from heterosexual intercourse. The definition applies equally to individuals and couples, regardless of marital status, sexual orientation, gender identity, or gender expression, and recognizes infertility as a condition that may exist for a person independently or in combination with a partner. Determinations of infertility may be based on a licensed physician's clinical judgment,

informed by the patient's medical, sexual, and reproductive history, age, physical findings, diagnostic testing, or any combination of these factors.

Fertility Services, Including In Vitro Fertilization (IVF). Coverage must include fertility services, including in vitro fertilization, with benefits that provide for up to three completed oocyte retrievals and unlimited embryo transfers. These services must be administered in accordance with the clinical guidelines of the American Society for Reproductive Medicine, including the use of single-embryo transfer when recommended and medically appropriate, and may not be subject to coverage limitations that differ from those applied to other covered medical services.

Regulatory Clarifications. In addition to the statutory requirements, the DMHC's regulatory implementation emphasizes that health plans must administer infertility and fertility benefits in a manner consistent with nationally recognized clinical standards and nondiscrimination requirements. Medical necessity determinations and utilization review criteria must be grounded in the clinical guidelines of the American Society for Reproductive Medicine and other nationally recognized authorities, rather than categorical or nonclinical exclusions. Plans may not deny coverage based solely on an enrollee's age, gender identity, sexual orientation, or a prior diagnosis of infertility where clinical evaluation supports the medical necessity of services. In addition, plans must ensure network adequacy and timely access to covered fertility services, including arranging care through out-of-network providers at in-network cost-sharing when timely in-network services are not available. Plans are also required to provide clear and understandable written notices to enrollees describing the scope of fertility coverage, applicable timelines, and the enrollee's rights to obtain covered services.

Governor Newsom Releases California's Proposed 2026-27 Budget

California Governor Newsom released his proposed 2026-27 California State Budget, which serves as the starting point for the budget negotiations with the California Legislature. Links to the Governor's Budget Documents can be found here: California Budget. California's Budget outperformed 2025 projections by several billion dollars, resulting in a milder projected budget shortfall of around $3 billion. However, multiple factors are causing the Governor to focus the 2026-27 Budget on preserving existing programs and not augmenting any new spending. And

future budgets are still projected to show significant deficits. The Governor and lawmakers are constitutionally required to pass a Budget by June 15th. Highlights from the Governor's 2026-27 Budget release include:

- The Budget forecast reflects General Fund revenues that are higher by more than $42 billion over the budget window, from 2024-25 through 2026-27, than projected at the 2025 Budget Act—an increase driven by higher cash receipts, higher stock market levels, and an improved economic outlook.
- At the same time, however, constitutional funding requirements, the need for an adequate discretionary budget reserve, and higher program costs are additional commitments that exceed the level of increased revenues, resulting in a modest projected shortfall of $2.9 billion.
- While the significant revenue increase since the 2025 Budget Act is encouraging, it is important to recognize that much of this surge is attributable to a relatively small number of technology companies that have experienced a substantial increase in their share prices due to investor enthusiasm in artificial intelligence.
- As a result, the Budget does not include new significant spending proposals. Instead, the Budget focuses on the continued implementation of previous investments.
- While the Budget is balanced in the 2026-27 fiscal year, with a discretionary reserve of $4.5 billion, it projects a deficit of roughly $22 billion in the 2027-28 fiscal year and shortfalls in the two years following.
- The Administration intends to build on this budget proposal in May with a revised plan—reflecting updated revenue and spending data—that balances the Budget in both the 2026-27 and 2027-28 fiscal years with adequate budget reserves.

Highlights From Proposed Health and Human Services Budget

The Governor's proposed Budget included highlights regarding the growing Health and Human Services budget. Highlights from the Budget release include:

- The Medi-Cal budget includes $196.7 billion ($46.4 billion General Fund) in 2025-26 and $222.4 billion ($48.8 billion General Fund) in 2026-27.
- Medi-Cal is projected to cover approximately 14.5 million members in 2025-26 and 14 million members in 2026-27—more than one-third of the state's population.

- The Budget includes increased Medi-Cal expenditures of approximately $2 billion General Fund in 2025-26 compared to the 2025 Budget Act. This increase is driven primarily by federal fund claiming changes, including a one-time retroactive state-only claiming repayment and federal fund claim deferrals, as well as increased Medicare costs.
- The Budget projects Medi-Cal expenditures of $48.8 billion General Fund in 2026-27, an increase of $2.4 billion General Fund compared to the revised 2025-26 expenditures. This increase is driven primarily by the Medical Provider Interim Payment loan ending in 2025-26 and a decrease in Managed Care Organization (MCO) Tax revenue available for Medi-Cal support.
- The Budget notes a significant amount of adjustments relating to the implementation of federal bill H.R. 1, including:
    - An estimated reduction of $373 million ($102 million General Fund) in 2026-27 and $13.1 billion ($3.6 billion General Fund) by 2029-30, resulting from the new work and community engagement requirements for the Affordable Care Act adult expansion;
    - A cost of $658 million General Fund in 2026-27 and $872 million General Fund by 2029-30 due to the federal match reduction from 90 percent to 50 percent for emergency services for Affordable Care Act adult expansion population members with unsatisfactory immigration status; and
    - A reduction of $463 million ($74 million General Fund) in 2026-27 and $3 billion ($474 million General Fund) by 2029-30 for decreased caseload resulting from the required federal eligibility redetermination frequency changing from once per year to every six months for this population.
- **Managed Care Organization (MCO) Tax**—$4.5 billion in 2025-26 and $2.5 billion in 2026-27 MCO Tax revenue to support the Medi-Cal program and $1.6 billion across 2025-26 and 2026-27 to support increases in managed care payments relative to calendar year 2024 in certain domains. The current MCO Tax is not consistent with H.R. 1 requirement that prohibits taxing Medicaid providers at higher rates than non-Medicaid providers. Under recent federal guidance, the state will receive a transition period through June 30, 2026, which would result in a General Fund cost of approximately $1.1 billion in 2026-27. However, the Budget assumes a transition period through December 31, 2026, as California will continue to evaluate options to receive a full transition period. Additionally, H.R. 1 and Proposition 35

requirements significantly limit the potential size of a future MCO Tax, resulting in a substantial reduction in ongoing funding to support the Medi-Cal program.

APG will be hosting a more detailed discussion over the potential impacts of the Governor's 2026-27 Budget on January 13th at its California Medi-Cal Forum Meeting.

2026 APG California Policy & Advocacy Meeting Dates

Members, please mark your calendars for APG's California Policy Forum and California Medi-Cal Forum meetings. You can download APG's 2026 events calendar here.

California Policy Forum
2:00 - 3:00 pm

- February 5
- April 9
- June 3
- December 3

California Medi- Cal Forum
4:00 - 5:00 pm

- January 13 - Register Here
- February 10
- March 10
- April 14
- May 12
- June 9
- August 11
- October 13
- November 10
- December 8

APG California Advocacy Member Resources

- 2025 Legislative Implementation Guide
- **Tracked Health Care** Bills 2025-26: bills we're following in the California State Legislature

- November 2025 IHA Provider Directory webinar recording
- **Office of Health Care Affordability** regulations and explanatory slide deck
- **DMHC Quality and Equity Reporting** program All Plan Letter

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For more news and resources, please visit APG's website or contact a member of APG's California advocacy team.

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