

**May 15, 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:

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- California Governor Newsom Releases His [May Revision To The California State Budget](#)
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### **APG Submits Final Comment On The DMHC Draft APL On Downcoding Practices**

APG has [submitted comments](#) to the Department of Managed Health Care (DMHC) regarding the Department's proposed All Plan Letter governing health plan downcoding practices. In its letter, APG expressed support for the Department's goal of improving transparency and consistency in claims adjudication, while also urging DMHC to recognize the operational realities of California's delegated physician organization model. APG emphasized that delegated entities already maintain substantial compliance, audit, and coding integrity programs, and noted that APG member experience reflects a very low incidence of downcoding activity.

APG's comments focused on several key concerns with the proposed guidance. The association cautioned that mandatory disclosure of proprietary coding methodologies and algorithms could expose sensitive vendor-supported systems and undermine established claims integrity processes. APG also urged the Department to clarify that standardized coding edits, including CMS National Correct Coding Initiative (NCCI) edits and Medically Unlikely Edits (MUEs), should not be treated as

“downcoding” under the APL. In addition, APG warned that requiring manual medical record review prior to claims adjustment could significantly increase administrative burden, delay payment timelines, and create operational conflicts with California’s prompt payment framework.

Finally, APG encouraged DMHC to coordinate the proposed APL with broader state policy developments, including SB 306’s movement toward reduced prior authorization requirements. APG noted that the combined effect of limiting prospective utilization management tools while simultaneously constraining retrospective claims adjudication could impair the ability of delegated organizations to effectively manage cost and quality of care. The letter also urged DMHC to distinguish clinical utilization management determinations from retrospective claims downcoding and to ensure that the final guidance preserves the efficiencies and innovations associated with California’s longstanding delegated care model.



## **California Governor Newsom Releases His May Revision To The California State Budget**

California Governor Newsom has released the May Revision to his proposed California State 2026-27 Budget. A summary of the Governor’s May Revision can be found [here](#).

According to the Governor, his proposed state budget “fully eliminates California’s projected deficit through July 2028 while maintaining strong reserves and protecting core services amid economic uncertainty and federal attacks on healthcare and working families.” June 15<sup>th</sup> is the deadline for lawmakers to pass the 2026-27 budget.

### **I. Higher than Anticipated Revenues/Planning for the Future...**

According to the Governor:

- “Estimated General Fund revenues from the Big Three sources (Personal Income, Corporate, and Sales and Use Taxes) are \$16.5 billion higher than projected in January over the three-year budget window.”
- The May Revision does not propose any significant new ongoing expenditures and allocates some of the 2026-27 revenues to support the next 2027-28 Budget.

## II. Highlights Relating to the Health and Human Services Budget.

Most of the changes described in the May Revision regarding the Health and Human Services Budget relate to the impacts of H.R. 1 and changes to the managed care organization (MCO) tax.

Some of the more significant budget adjustments include:

- **Transition of Individuals with Unsatisfactory Immigration Status to Fee-for-Service:** The May Revision reflects a reduction of \$583.8 million (\$471.6 million General Fund) in 2026-27 and \$1.5 billion (\$1.2 billion General Fund) ongoing due to the new federal policy that prohibits states from covering federally-eligible emergency Medicaid services for individuals with unsatisfactory immigration status in risk-based managed care delivery systems. *To comply with this new federal requirement, Medi-Cal members with unsatisfactory immigration status will receive all covered Medi-Cal services through the fee-for-service delivery system effective January 1, 2027.*
- **H.R. 1- Work and Community Engagement Requirement:** An estimated reduction of \$357.6 million (\$90.3 million General Fund) in 2026-27 and \$9.6 billion (\$2.4 billion General Fund) by 2029-30, resulting from the new work and community engagement requirements for the Affordable Care Act adult expansion population, effective January 1, 2027.
  - Projected disenrollments are 43,000 in 2026-27 and 1.1 million by 2029-30, a decrease of 190,000 in 2026-27 and 337,000 by 2029-30 compared to the Governor’s Budget.
  - The May Revision reflects an increase in the number of individuals projected to retain Medi-Cal coverage by meeting specified exemption criteria, primarily for medical frailty and the CalFresh Able-bodied Adults Without Dependents requirements, which exempts these adults from Medi-Cal work requirements.
- **H.R. 1- Reduction of Federal Match for Emergency Services:** A General Fund cost of approximately \$669 million General Fund in 2026-27 and \$718 million 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 effective October 1, 2026.
- **H.R. 1- Restrictions on Immigrant Eligibility-** A General Fund cost of \$668.1 million in 2026-27 and savings of \$294 million in 2029-

30 and ongoing for a July 1, 2027 transition to restricted-scope Medi-Cal for individuals impacted by the federal eligibility change for qualified non-citizens. This population will be transitioning to the fee-for-service delivery system effective January 1, 2027.

- **H.R. 1- ACA Adult Expansion Six-Month Redeterminations:** The May Revision includes the impacts of the required federal eligibility redetermination frequency changing from once per year to every six months for this population beginning in 2027-28.
  - Compared to the Governor’s Budget, projected disenrollments have decreased to zero in 2026-27 and are estimated to be approximately 278,600 in 2029-30.
- **H.R. 1 - Increase Monthly Premium for Adults with Unsatisfactory Immigration Status (Aged 19–59) from \$30 to \$50:** A General Fund reduction of approximately \$427.3 million in 2027-28, decreasing to approximately \$314.3 million annually in 2029-30 to increase monthly premiums for adults with unsatisfactory immigration status to \$50, effective July 1, 2027.
- **H.R. 1 - Medi-Cal Asset Test Limits:** A General Fund reduction of \$278.3 million in 2026-27 and \$495.6 million ongoing, inclusive of IHSS impacts, to reinstate the Medi-Cal asset limit for seniors and disabled adults to \$2,000 for an individual or \$3,000 for a couple, effective no sooner than January 1, 2027.



### **Join Us For An Important California Policy Forum In San Diego – Wednesday, May 27**

APG members are invited to attend our upcoming California Policy Forum from **10:15 to 11:45 a.m. on Wednesday, May 27**. The session will take place in San Diego, and **attendance is complimentary for APG Annual Conference registrants**. Please register [here](#).

We are pleased to welcome **Mary Watanabe**, Director of the **California Department of Managed Health Care**, along with Deputy Director **Amanda Levy**. Director Watanabe will discuss emerging policy considerations related to menopause therapy coverage—an area of growing attention in California’s regulatory landscape.

We will also be joined by **Michael Valle** of the **California Department of Health Care Access and Information**, who will provide updates on the

state's all-payer claims database and the newly implemented Data Exchange Framework (DxF) Advisory Committee. HCAI has recently intensified compliance efforts around California's data exchange requirements, including new standards for verifying Data Sharing Agreement signatories. Mr. Valle will outline these developments and take questions from attendees.

In addition, former Assembly Health Committee Chair **Jim Wood** will offer insights into current political and legislative dynamics in Sacramento, including key trends shaping the legislative session and the evolving Governor's race.

Finally, **William Barcellona** and **David Gonzalez** will provide updates on priority legislation and regulatory issues impacting APG members.

This is an excellent opportunity to engage directly with California's health policy leadership and stay informed on the issues shaping our operating environment. We look forward to seeing you in San Diego.



## **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**

- June 3
- December 3

### **California Medi- Cal Forum**

**4:00 - 5:00 pm**

- May 12 - Register [here](#)
- 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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