CALIFORNIA UPDATE

July 1, 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:

- **Senate Health Committee Unanimously Advances AB 2594 (Lowenthal)**
- **Governor Signs 2026-27 Budget; Health Care Implementation Work Continues**
- **Attend APG's Innaugural Women's Health Summit**
- **APG California Policy & Advocacy 2026 Meeting Dates**
- **APG California Advocacy Member Resources**

Senate Health Committee Unanimously Advances AB 2594 (Lowenthal)
The Senate Health Committee voted **11-0 on June 24** to advance **AB 2594 (Lowenthal),** APG-supported legislation extending the California Schools VEBA direct contracting pilot administered by the Department of Managed Health Care (DMHC). The Committee also adopted a series of amendments strengthening the Department's oversight authority while preserving the pilot. The bill now advances to the **Senate Appropriations Committee**, where it is expected to be heard on **August 8**.

AB 2594 will allow the pilot to continue long enough for policymakers to evaluate its performance using standardized statewide cost and quality measures. California Schools VEBA has reported approximately **$10 million in cumulative savings** generated through the pilot, with those savings reinvested into lower premiums and enhanced employee health benefits for participating school employees. APG members participating in the pilot include Sharp HealthCare, Rady Children's Hospital, and UC San Diego Health.

The amendments adopted by the Senate Health Committee extend the pilot through **December 31, 2030**, continue the statutory authority until **January 1, 2031**, reaffirm DMHC's authority to oversee and, if necessary, terminate the pilot should significant enrollee protection concerns arise, and preserve the reporting framework needed to evaluate the pilot's long-term performance.

The timing of the extension is particularly significant. The **Integrated Healthcare Association (IHA)** is expected to release new analyses within

the coming week summarizing the VEBA pilot's **2024-2025** utilization and Total Cost of Care performance. These independent results will provide policymakers with an important assessment of the pilot using IHA's standardized measurement methodology and represent a significant milestone in evaluating the pilot's effectiveness.

Equally important, DMHC Director Mary Watanabe has emphasized that statewide HEDIS quality data may require up to two years to mature before meaningful benchmarking can occur. Extending the pilot will therefore provide sufficient time to evaluate both cost and quality using objective, standardized measures. As those statewide benchmark data become available, policymakers will be better positioned to compare the pilot's performance against the broader California commercial market, rather than limiting their evaluation to comparisons within VEBA's own portfolio of HMO and PPO coverage options. APG believes this evidence-based approach will provide the Legislature with the information necessary to determine whether this advanced payment model should be expanded following completion of the pilot.

APG appreciates the Senate Health Committee's unanimous bipartisan support for AB 2594 and thanks Assemblymember Josh Lowenthal for his leadership on this important legislation. We will continue working with the author, California Schools VEBA, DMHC, participating provider organizations, and other stakeholders as the bill advances through the Senate Appropriations Committee.

L to R: Betsy Radelow, Area VP, VEBA; Assm. Josh Lowenthal; Bill Barcellona, Exec. VP Gov. Affairs, APG; Troia Reyes-Stone, Leg. Asst. to Assm. Lowenthal

Governor Signs 2026-27 Budget; Health Care Implementation Work Continues

Governor Gavin Newsom has signed California's 2026-27 Budget Act, concluding months of budget negotiations but beginning what promises to be another active phase of health care policy implementation. For APG members, the final package reflects a combination of immediate policy decisions and unresolved issues that are likely to return through budget trailer bill negotiations later this year and again during the 2027 budget cycle. As APG has observed throughout the budget process, significant implementation details remain outstanding—particularly regarding the Managed Care Organization (MCO) tax, the transition of the Undocumented Immigrant Seniors (UIS) population, and several other Medi-Cal financing provisions—suggesting that additional legislative and administrative action remains ahead.

The enacted budget authorizes **$351.7 billion** in total state expenditures for 2026-27, including **$251.5 billion from the General Fund**, while maintaining record reserve levels. Although the budget relies on new revenues and targeted reductions to achieve balance, lawmakers largely protected Medi-Cal and other core health care programs from many of the deeper reductions proposed earlier this year.

One of the most significant revenue provisions is enactment of a **federally compliant Managed Care Organization (MCO) tax**, included as part of more than **$5 billion in ongoing new revenues** approved by the Legislature. **Notably, the Governor and Legislature did not adopt the alternative MCO financing proposal advanced by California's health plans, which APG supported because it would have directed additional federal funding toward strengthening Medi-Cal reimbursement and provider payments.** Instead, the enacted budget retains the Administration's approach while leaving many operational details concerning implementation, federal approvals, and funding allocations to subsequent administrative and legislative actions.

The budget also formally adopts **a fundamental restructuring of Medi-Cal delivery** for the Undocumented Immigrant Seniors (UIS) population by transitioning beneficiaries from managed care into the fee-for-service system. To support the transition, the budget appropriates **$39 million** for care coordination activities, clinic assistance, and community-based organization navigators intended to help members move between delivery systems. **APG remains concerned that this appropriation addresses only a small portion of the resources necessary to implement the transition. It does not account for the much larger costs associated with replacing the care coordination, utilization management, provider**

network administration, and CalAIM infrastructure currently delivered through Medi-Cal managed care. Based on the scope of the affected population and the operational changes required to establish a comparable fee-for-service delivery system, APG believes the total implementation cost could ultimately approach $6 billion. At the same time, the Legislature delayed several previously approved UIS-related reductions until **July 1, 2027**, including implementation of monthly premiums, elimination of adult dental benefits, and reductions in clinic reimbursement. APG has consistently expressed concern that removing this population from managed care could jeopardize access to coordinated CalAIM services and create administrative challenges because those services were specifically designed to operate through California's managed care delivery system. **APG will continue working with the Administration and Legislature to minimize disruption for beneficiaries and providers while advocating for solutions that preserve the coordinated, value-based care model that has long been the foundation of California's Medi-Cal managed care program.**

The Legislature likewise postponed many other Medi-Cal reductions that had been scheduled to take effect this year. The enacted budget delays reductions affecting clinic payments, Proposition 56 dental supplemental payments, and several additional Medi-Cal eligibility changes until July 1, 2027. It also rejects several of the Governor's proposed reductions outright, including cuts affecting Programs of All-Inclusive Care for the Elderly (PACE) organizations and elimination of acupuncture benefits. These decisions preserve important provider funding streams while giving policymakers additional time to evaluate the long-term fiscal outlook.

Another noteworthy provision begins implementation of the proposed **Fair Share from Big Corporations Act**. Rather than immediately imposing new employer assessments, the budget directs the Administration to develop one or more options by **April 1, 2027**, for holding California's largest corporations accountable for the taxpayer costs associated with employees enrolled in Medi-Cal. The proposal will rely upon data from DHCS, the Employment Development Department, and other state agencies and will require separate legislation before any new financing mechanism can be implemented.

The budget also includes several targeted health care investments, including **$300 million** to enhance Covered California premium assistance, **$250 million** for designated public hospitals, **$90 million** for distressed hospitals, continued funding for the Mobile Crisis benefit through July 2027, and **$197 million** for county Medi-Cal eligibility

workers responding to increased workload associated with recent federal Medicaid changes.

Finally, the Legislature preserved funding to implement California's recently enacted **menopause care requirements**, allowing the new coverage standards to move forward despite significant budgetary pressures elsewhere.

Although the Budget Act establishes the broad framework for California's 2026-27 health care spending, many important implementation decisions remain ahead. APG expects continued legislative and administrative activity through budget trailer bills this fall, particularly regarding implementation of the MCO tax, the transition of the UIS population, and other Medi-Cal financing provisions where the enacted budget leaves significant operational details unresolved. **APG will continue advocating for policies that strengthen physician organizations, preserve coordinated care, expand investment in value-based care, and maximize federal funding opportunities for California's Medi-Cal program.**

Attend APG's Innaugural Women's Health Summit
APG's inaugural Women's Health Summit on July 23 is just around the corner.

APG's Women's Health Summit, exclusively for APG members, will be held on Thursday, July 23, at UCLA Health in Los Angeles. The main program runs from 9:00 AM to 4:00 PM.

Space is limited, so register now to secure your spot.

Noted scholar and researcher Cat Bohannon, PhD, will deliver the opening keynote, **Understanding the Big Background Behind Women's Health,** drawing on her best-selling book *Eve: How the Female Body Drove 200 Million Years of Human Evolution.* Dr. Bohannon will also sign copies of her book beginning at 8:00 AM.

The Summit also features these sessions:

- Heart Disease Across a Woman's Lifespan
- Key Issues in Managing Perimenopause and Menopause
- Women's Use of GLP-1 Drugs for Weight Management and Beyond
- A New Name for PCOS: Polyendocrine Metabolic Ovarian Syndrome
- Autoimmune Diseases in Women

- Mood and Anxiety Across the Female Life Cycle

Visit the APG Women's Health Summit page for full speaker information and event details. View the full agenda here.

For more information or to ask about sponsorship opportunities, please contact Lura Hawkins.

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
- December 3

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

---

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

William Barcellona, EVP of Government Affairs..... wbarcellona@apg.org
David Gonzalez, Senior Legislative Advocate..... dgonzalez@apg.org
Norma Springsteen, Administrative Coordinator.... nspringsteen@apg.org