August 29, 2025

The Honorable Gavin Newsom
Governor of California
1021 O Street, Suite 9000
Sacramento, CA 95814

RE: Implementation of H.R. 1

Dear Governor Newsom:

On behalf of the California State Association of Counties (CSAC), the Urban Counties of California (UCC), the Rural County Representatives of California (RCRC), the County Welfare Directors Association (CWDA), the County Health Executives Association of California (CHEAC), the County Behavioral Health Directors Association (CBHDA), and the California Association of Public Hospitals and Health Systems (CAPH), we are writing to share the dramatic impacts to county health and human services programs that will occur because of H.R. 1. Thank you to your Administration for your work to begin examining the statewide impacts, including hosting recent webinars. Counties are eager to partner with you to mitigate the detrimental consequences of this legislation and preserve critical safety net services to the maximum extent possible.

As a result of the passage of H.R. 1, there will be clear and direct impacts on the low-income and vulnerable children, youth, families, and older adults that counties serve beginning right now and growing over the coming years.

Together, we will need to be mindful of the cascading impacts as we develop strategies to ensure the continuity of services. H.R. 1 affects counties and the communities that we serve in the following ways:

1. **Increased County Workload** – H.R. 1 expands work requirements for CalFresh, creates new work requirements for Medi-Cal, and increases the frequency and complexity of eligibility verifications for Medi-Cal. Counties are responsible for eligibility and enrollment in this state and are mandated to perform this work. Initial estimates indicate that the increased workload resulting from H.R. 1 will cost hundreds of millions of dollars annually within each program. Successful implementation will take additional staff resources, require new training, and depend on timely automation and IT changes.
2. **Direct Cost Shifts to Counties** – H.R. 1 reduces the federal share of CalFresh administration and Medi-Cal emergency services for certain patients, directly shifting these costs to the state and counties. For CalFresh administration, the federal share is reduced from 50% to 25% resulting in an increase of more than $200 million annually for counties. 1991 Realignment revenues are used to support county CalFresh administration costs, but this funding structure will not grow fast enough to assist counties with paying for these additional new administrative costs. Additionally, within the 1991 Realignment structure, CalFresh funding will also then compete for resources currently supporting other social services, health, and behavioral health programs. For Medi-Cal, H.R. 1 reduces the Federal Medical Assistance Percentage (FMAP) for emergency services for childless adults with unsatisfactory immigration status from 90% to the state's FMAP floor (50% for California). Public health care systems, many of which are operated by counties, provide the non-federal share for the emergency services they provide in Medi-Cal for fee-for-service. As a result, the FMAP reduction will likely result in a direct loss of $88 to $229 million annually for county public hospitals and health care systems.
3. **Indirect Impacts and Strain on the Safety Net** – H.R. 1 reduces eligibility for Medi-Cal and CalFresh while also increasing and complicating the paperwork and other requirements to stay enrolled in the programs even when individuals are eligible. While additional federal and state guidance is forthcoming, it is possible that millions of Californians will lose coverage because of these changes. As individuals and families lose Medi-Cal coverage, their need for prevention, health care, and specialty behavioral health care services will persist and uninsured community members are likely to then turn to other programs, such as county public health, indigent health, and behavioral health safety net programs. These programs are not funded to handle such a large increase in uncompensated care and new cost pressures. County indigent programs have dramatically shrunk in size since implementation of the Affordable

Care Act. Additionally, 1991 Realignment funds that were available for indigent care have since been redirected to other programs under AB 85 (Statutes of 2013). Counties will need time and resources to scale up and expand indigent programs. Public health clinics have also scaled down over the years, as services like vaccinations and STD services became more widely available through Medicaid and other coverage expansions. Rebuilding that infrastructure will be essential to meet increased demand. Additionally, county hospitals anticipate seeing an increase in uncompensated care as the number of uninsured Californians increases, which will occur as other federal revenue sources decline under H.R. 1.

4. **Health Care Financing Restrictions** – State Directed Payments (SDPs) play a critical role ensuring access to quality health care for persons covered by Medi-Cal by supplementing low reimbursement rates. H.R. 1 imposes a cap on future SDPs and incrementally reduces existing SDPs to meet 100% of Medicare rates. California's public hospitals and health care systems estimate this phase down will result in a $2.3 billion annual net loss by 2032. Further, restrictions on provider taxes in California, including the Managed Care Organization (MCO) tax, will also increase the fiscal pressures to Medi-Cal and other programs.

Simply put, counties do not have the ability to manage the increased workload, cost shifts, reduced funding, and new pressures on other county programs that will occur because of H.R. 1. The financial strain on counties will impact the people served by counties in our hospitals, clinics, behavioral health systems, public health departments, and social services safety net. Without additional resources, counties will be forced to drastically cut and eliminate programs and services, not just within health and human services, but across the full spectrum of county government including public safety, parks, and homelessness.

In addition to H.R. 1, counties are facing other fiscal and operational challenges. These include federal funding reductions and withholding of spending authority for various public health and behavioral health programs, significant reductions to Disproportionate Share Hospital (DSH) payments to safety net hospitals which are scheduled to take effect in October, looming federal regulatory changes that may have significant financing implications, and the state eligibility and payment changes to Medi-Cal recently enacted in the 2025 Budget Act.

Counties are the backbone of the safety net system in California, providing services to vulnerable individuals and families on behalf of the state. It takes adequate funding and time for counties to hire, support, and retain the workforce that ensures that those in need get health care and food assistance as effectively as possible. For example, investments from the state to adequately fund CalFresh administration will help counties ensure individuals can efficiently receive and retain their benefits. This becomes even more significant with the

implementation of H.R. 1's CalFresh benefit cost sharing provision, as this can help reduce errors and in turn the amount that the state will owe for benefits. Strategic state investments to update systems and maintain critical functions will help mitigate the harms of H.R. 1 and help preserve California's health and social services infrastructure.

While H.R. 1 will loom over and impact state budget decisions and bills for the foreseeable future, it's critical to mitigate these distinct and direct impacts on counties to maintain safety net services for low-income and vulnerable Californians. We urge you to consider county needs in any mid-year budget action as well as the development of next year's budget, and include counties in the creation of any implementation plans or designs for operational efficiencies.

We look forward to continued discussions and further dialogue as additional information and guidance becomes available so that the H.R. 1 impacts can be further estimated and defined. Thank you for your leadership.

Respectfully,

Graham Knaus
Chief Executive Officer
CSAC

Kelly Brooks-Lindsey
Legislative Representative
UCC

Sarah Dukett
Senior Policy Advocate
RCRC

Carlos Marquez III
Executive Director
CWDA

Michelle Gibbons
Executive Director
CHEAC

Michelle Cabrera
Executive Director
CBHDA

Erica Murray
President & CEO
CAPH

cc: Joe Stephenshaw, Director, Department of Finance
Kim Johnson, Secretary, California Health and Human Services Agency
Michelle Baass, Director, California Department of Health Care Services
Jennifer Troia, Director, California Department of Social Services