

March 13, 2026

Honorable John Laird, Chair  
Joint Legislative Budget Committee  
Senate Budget and Fiscal Review Committee

Honorable Jesse Gabriel, Chair  
Assembly Budget Committee

Honorable Sabrina Cervantes, Chair  
Senate Appropriations Committee

Honorable Buffy Wicks, Chair  
Assembly Appropriations Committee

**Section 28.00—Department of Health Care Access and Information, Fiscal Year 2025-26  
Budget Adjustment, Rural Health Transformation Program**

Pursuant to the provisions of Section 28.00, Budget Act of 2025, the following report is respectfully submitted.

The Department of Finance has received the attached Section 28.00 application from the Department of Health Care Access and Information (HCAI) for the purpose of increasing expenditure authority in Program 3861-Rural Health Transformation of Item 4140-001-0890 by \$8,216,000 and in Program 3861-Rural Health Transformation of 4140-101-0890 by \$99,060,000 to expend funds for the federal Rural Health Transformation Program grant received by California. California was awarded an initial one-time \$233.6 million in federal fiscal year 2026 to establish initiatives that expand access to care in rural communities, strengthen rural health workforce, modernize rural facilities and technology, and support innovative models as outlined in the state's federal award. HCAI is required to fully encumber the awarded funds by October 30, 2026. If the department is unable to meet this deadline, any unencumbered funds are subject to claw back and federal reallocation, and future awards may be at risk. Additional awards for California, totaling approximately \$800 million, may be available over the next four years.

The initial award of \$233.6 million was announced on December 25, 2025. HCAI received the official Notice of Award on February 27, 2026, following the Centers for Medicare and Medicaid Services approving the department's budget for planned expenditures.

This request meets the following criteria, as required in subdivision (b) of Section 28.00:

- The funds will be expended to support the following: professional services contracts, department staff, stakeholder engagement and outreach, grants to sub-awardees, third-party administrator for grant sub-awards, technical assistance to recipients of grant subawards, and other administrative costs.

- The funds are made available to the state under conditions permitting their use only for the specified purpose, and the additional expenditure proposed would apply to this specified funding purpose.
- Acceptance of the additional funding does not impose on the state any requirement to commit or expend new state funds for any program or purpose.
- The need exists to expend the additional funding during the current fiscal year because the Centers for Medicare and Medicaid Services (CMS) has established expedited timelines for the department to encumber and begin expending the awarded funds. The department must encumber the entire amount of the award by October 30, 2026; not doing so may result in a claw back of awarded funds and may jeopardize future awards, which CMS intends to start awarding as early as fall 2026. The department needs this expenditure authority to implement and encumber all federal funding by the deadline.

Finance concurs with the necessity of this change to the approved budget and requests a waiver of the 30-day review period from the above date so that the department may begin to encumber the funds in the current year in order to meet the expedited encumbrance deadline.

If you have any questions or need additional information regarding this matter, please call Joseph Donaldson, Principal Program Budget Analyst, at (916) 445-6423.

JOE STEPHENSHAW

Director

By:



ERIKA LI

Chief Deputy Director

Attachment

cc: On following page

cc: Honorable Dawn Addis, Chair, Assembly Budget Subcommittee No. 1  
Honorable Caroline Menjivar, Chair, Senate Budget and Fiscal Review  
Subcommittee No. 3  
Honorable Roger W. Niello, Vice Chair, Senate Budget and Fiscal Review  
Committee  
Honorable David Tangipa, Vice Chair, Assembly Budget Committee  
Gabriel Petek, Legislative Analyst (3)  
Elisa Wynne, Staff Director, Senate Budget and Fiscal Review Committee  
Kirk Feely, Fiscal Director, Senate Republican Fiscal Office  
Christopher W. Woods, Budget Director, Senate President pro Tempore's Office (2)  
Christian Griffith, Chief Consultant, Assembly Budget Committee  
Joseph Shinstock, Fiscal Director, Assembly Republican Caucus, Office of Policy  
and Budget  
Paul Dress, Chief of Staff, Assembly Republican Caucus  
Dylan Gray, Chief of Staff, Assembly Republican Leader's Office  
Jason Sisney, Budget Director, Assembly Speaker's Office (2)  
Mark McKenzie, Staff Director, Senate Appropriations Committee  
Jay Dickenson, Chief Consultant, Assembly Appropriations Committee  
Elizabeth Landsberg, Director, Department of Health Care Access and Information  
Scott Christman, Chief Deputy Director, Department of Health Care Access and  
Information  
Jennifer Sanford, Deputy Director of Administrative Services, Department of Health  
Care Access and Information  
Melissa Gear, Deputy Director of Legislative and Governmental Affairs, Department  
of Health Care Access and Information  
Kim Johnson, Secretary, California Health and Human Services Agency  
Corrin Buchanan, Undersecretary, California Health and Human Services Agency  
Samantha Lui, Deputy Secretary for Program and Fiscal Affairs, California Health  
and Human Services  
Darci Delgado, Assistant Secretary, California Health and Human Services

*Please report dollars in thousands.*

<b>DEPARTMENT</b> Department of Health Care Access and Information	<b>ITEM NO./ FISCAL YEAR</b> 2025-26	<b>NOTIFICATION LETTER TO LEGISLATURE:</b> <input type="checkbox"/> 30-DAY NOTICE <input checked="" type="checkbox"/> REQUEST WAIVER OF 30-DAY NOTICE
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**PROGRAM TITLE PER GOVERNOR'S BUDGET:**  
 Rural Health Transformation

<b>FUNDING (SPECIFY FUND)</b>	<b>CURRENTLY BUDGETED</b>	<b>REQUESTED CHANGE (+) OR (-)</b>	<b>TOTAL</b>
4140-001-0890	1,269,000	8,216,000	9,485,000
4140-101-0890	1,625,000	99,060,000	100,685,000

(Check appropriate boxes)

- The funds will be expended for a purpose that is consistent with state law (explain use of funds in Part A below).
- The funds are made available to the state under conditions permitting their use only for a specified purpose, and the additional expenditure proposed under this section would apply to that specified funding purpose (as supported by explanation for the purpose of the funds).
- Acceptance of additional funding does not impose on the state any requirement to commit or expend new state funds for any program or purpose.
- The need exists to expend the additional funding during the current fiscal year (explain in Part B below).
- This application is provided to Finance within 45-days of official notice of receipt of funds.
- Explanation of delayed notification to Finance is attached (required if 45-day notification period is exceeded).
- A copy of the official notice of fund availability is attached to this application.
- One-time expenditure.
- Ongoing commitment from this source (if checked, explain under Program Proposal).
- Matching funds required (if checked, explain under Program Proposal).
- Expenditure either supplements or supplants an existing state-funded program (if checked, explain under Program Proposal).

**PART A: For what purpose will the funds be expended?**

The requested funding will enable the Department of Health Care Access and Information (HCAI) to begin implementation of the federal Rural Health Transformation Program (RHTP), in order to meet federal spending requirements from the Centers for Medicare and Medicaid Services (CMS). This funding will support the following: professional services contracts and departmental staff recruitment, stakeholder engagement and outreach, third-party administrator for RHTP grant sub-awards, technical assistance to recipients of grant subawards, and other administrative costs.

**PART B: Explain the need to expend the funds in the current fiscal year, including the consequence of waiting until budget year to expend the funds:**

CMS has awarded California one-time \$233.6 million federal funds for the first year of the five-year initiative. Federal guidance requires all funding to be encumbered by October 30, 2026. If HCAI fails to do so, any unencumbered funding is subject to claw back and reallocation by CMS, as well as jeopardizing any future awards from the federal government. Given the complexity and scale of the RHTP, HCAI cannot design, implement, select, award and encumber all \$233.6 million by October 2026 unless implementation work begins immediately.

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**PROGRAM PROPOSAL** (Attach additional information as necessary)

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**TITLE:**  
**RURAL HEALTH TRANSFORMATION PROGRAM**

**STATUTORY AUTHORITY:** (state, federal, as appropriate)  
Control Section 28.00, Budget Act of 2025 (SB-101)

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**DESCRIPTION:**

The federal RHTP is a five-year initiative designed to strengthen health care in rural communities where access, workforce shortages, and infrastructure gaps create unique challenges. HCAI's application focused on workforce, improving access to technology and data infrastructure, and developing regional partnerships to improve access to health care in rural areas of the state. California was awarded one-time \$233.6 million in federal fiscal year 2026. Additional funding may be awarded through the program, pending further award notification and guidance from CMS.

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**JUSTIFICATION:**

CMS has established short timelines for HCAI to encumber and expend the awarded funds. HCAI must encumber the entire amount of the first-year award by October 30, 2026; failure to do so may result in a clawback of awarded funds and may jeopardize future awards which CMS intends to start awarding as early as fall 2026.

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**SUBMITTED BY:**

**BUDGET OFFICER:**

*Deshai Knight*

**DATE:**

02/25/2026

**APPROVED BY DEPARTMENT OF FINANCE:**

**DATE SUBMITTED TO LEGISLATURE:**

3/13/26

**DIRECTOR:**

*J. Scott Christman*

**DATE:**

02/25/2026

**PPBA:**

*Joseph Donaldson*

**DATE:**

2/26/26

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